

Tourism

PACIFIC POSSIBLE BACKGROUND PAPER NO.4.



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Pacific Island countries face unique development challenges. They are far away from major markets, often with small populations spread across many islands and vast distances, and are at the forefront of climate change and its impacts. Because of this, much research has focused on the challenges and constraints faced by Pacific Island countries, and finding ways to respond to these.

This paper is one part of the Pacific Possible series, which takes a positive focus, looking at genuinely transformative opportunities that exist for Pacific Island countries over the next 25 years and identifies the region's biggest challenges that require urgent action.

Realizing these opportunities will often require collaboration not only between Pacific Island Governments, but also with neighbouring countries on the Pacific Rim. The findings presented in Pacific Possible will provide governments and policy-makers with specific insights into what each area could mean for the economy, for employment, for government income and spending.

To learn more, visit www.worldbank.org/PacificPossible, or join the conversation online with the hashtag #PacificPossible.



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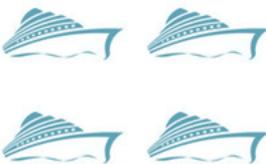
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In 2040, transformational tourism opportunities could bring an additional US\$1.7 billion in revenue and 116,000 jobs to Pacific Island Countries

Opportunity	→ →	Additional Impact
 <p data-bbox="209 719 501 797">Increasing the Chinese Market</p>		 <p data-bbox="624 584 983 640">660,000 tourists</p>  <p data-bbox="592 763 959 815">US\$947m receipts</p>  <p data-bbox="1062 584 1326 640">65,200 jobs</p>  <p data-bbox="1023 763 1366 815">\$36.9m airport taxes</p>
 <p data-bbox="220 1099 496 1189">Home-basing 4 Cruise Ships</p>		 <p data-bbox="635 999 994 1055">266,000 tourists</p>  <p data-bbox="624 1178 954 1229">US\$67m receipts</p>  <p data-bbox="1094 999 1318 1055">4,700 jobs</p>  <p data-bbox="1078 1167 1334 1218">\$9.2m port fees</p>
 <p data-bbox="217 1487 504 1621">Expanding the High-end Resorts Market</p>		 <p data-bbox="639 1397 994 1453">139,000 tourists</p>  <p data-bbox="608 1581 970 1632">US\$487m receipts</p>  <p data-bbox="1070 1397 1334 1453">32,500 jobs</p>  <p data-bbox="1046 1570 1366 1621">\$7.8m airport taxes</p>
 <p data-bbox="220 1906 501 1995">Capturing the Retiree Market</p>		 <p data-bbox="655 1805 978 1861">10,000 retirees</p>  <p data-bbox="608 1995 970 2047">US\$200m receipts</p>  <p data-bbox="1078 1805 1334 1861">13,800 jobs</p>  <p data-bbox="1034 1995 1378 2047">\$0.56m airport taxes</p>

Tourism in 2040: Bringing an additional one million visitors per year to paradise

Executive Summary

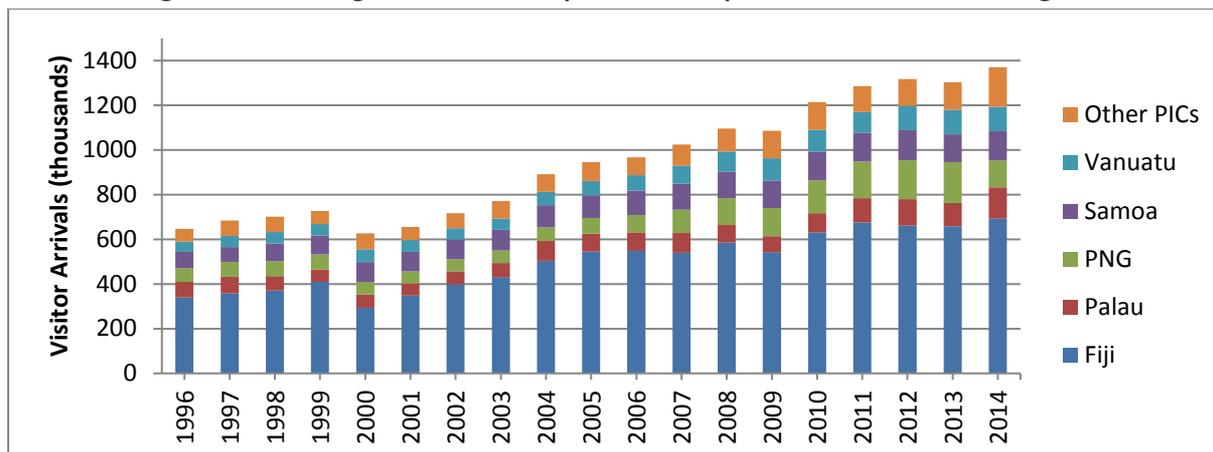
1. **Tourism offers Papua New Guinea (PNG), Solomon Islands, Vanuatu, Fiji, Tonga, Samoa, Kiribati, Palau, Marshall Islands (RMI), Federated States of Micronesia (FSM) and Tuvalu, hereafter referred to as the PIC11, significant opportunities for economic growth and shared prosperity.** These opportunities derive from the comparative advantage of their resource endowments suited to tourism: pristine natural environments and cultural diversity. While pristine natural environments are not the exclusive domains of PIC11, competing island destinations in the Indian Ocean and the Caribbean also have them, the PIC11's unique and diverse cultural heritages are what differentiates them in the global market. Further, tourism presents the chance to preserve the environment and cultural heritage through sustainable development practices. Tourism represents a unique opportunity because it is less subject to—and can actually benefit from—factors that are barriers to other forms of economic growth: small and dispersed populations, small land areas, remoteness from markets, and limited natural resources (UNWTO 2012).

2. **The PIC11 received 1.37 million overnight visitor arrivals in 2014, a record number.** The five most popular destinations in order of visitor arrivals were Fiji, PNG, Palau, Samoa and Vanuatu. Fiji received 100,000 more than the other 10 countries combined. Two thirds of the market for the PIC11 is visitors from Australia and New Zealand. The United States, China, Japan and Europe are relatively small but still very important markets as they have the potential to generate much more growth in arrivals given the size of their populations.

3. **Tourism already plays an important role in the economies of Palau, Fiji, Samoa and Vanuatu.** Tourism is an important source of export earnings for many PICs. In Samoa and Vanuatu, tourism generates the majority of export earnings. In Tonga it is the largest single source, about five times as that of agriculture and fisheries combined. For Fiji it has replaced sugar as the primary export earner. Tourism is also a tax base, which generates revenue from targeted taxes, like Fiji's service turnover tax on hotels and restaurants. Targeted taxes also give governments another means to influence visitor arrivals numbers by affecting prices, like Palau's efforts to limit arrivals via increased departure and hotel taxes. Tourism is a significant employer in those PIC11 where tourism is a major industry. South Pacific Tourism Organization (SPTO) estimates indicate the highest levels of employment in Tonga, 15 percent, Samoa, 18 percent, and Palau, 50 percent.

4. **Compared to global average annual growth of 3.9 percent from 2005 to 2014, PIC11 visitor arrivals have grown by 4.5 percent.** While long-term growth is positive for PIC11s, performance varies between countries and short-term decreases have resulted from political instabilities, natural disasters and global market conditions. The average annual growth rate for the five top destinations from 1995 to 2014 was 5.5 percent, while the other six only averaged 2.5 percent.

Long-term tourism growth has been positive, but performance varies among PICs



Source: UNWTO

5. **The PIC11 countries are significantly underrepresented in international brand name hotels.** This is largely due to the very small average size of hotels in the region. Research by the International Finance Corporation (IFC) shows that there are fewer than 60 hotels in the PIC11 with more than 100 rooms and less than 60 percent of these carry an international brand. In terms of large international hotel groups, Accor (France), Starwood (US) and InterContinental Hotel Group (UK) dominate the region with 60 percent of the branded properties. The absence of a critical mass of international brand names limits recognition in international markets.

6. **Analysis of individual source markets and market trends suggest that in order to ensure long-term, balanced and manageable visitor growth, the Pacific will need to work on several fronts** to maintain its strong position in the short haul markets of Australia and New Zealand, capture a share of the emerging Asian markets while at the same time significantly improving penetration into the traditional, but slower growth long haul markets of Europe and North America.

Learning from the Seychelles and the Maldives

7. **Tourism has transformed many emerging economies in the last 50 years including Seychelles and the Maldives.** In 1995, the Maldives received 315,000 international arrivals and US\$211 million in tourism receipts. By 2014 arrivals exceeded 1.2 million and tourism receipts were US\$2,645 million. In 2013, tourism accounted for 27.9 percent of GDP (Ministry of Tourism 2014). Maldives has successfully attracted the Chinese market through a combination of marketing and easing direct flight access. China grew from nearly zero to over 30 percent of the market in an eight-year period making it the top source market since 2010. Tourist arrivals in the Seychelles increased from 120,716 in 1995 to 231,857 in 2014, an increase of 92 percent. The Seychelles was quick to change strategy when the 2008 financial crisis hit the main European source market and diversified its source markets.

8. **Under the assumption of long-term visitor growth of three percent, tourism will continue to be important to PIC11 economies. However, long-term growth at this level will not generate significant changes in economic performance of the PIC11s.** For this, it will be necessary to significantly expand demand in selected segments. Significant growth in visitor arrivals above trend is possible.

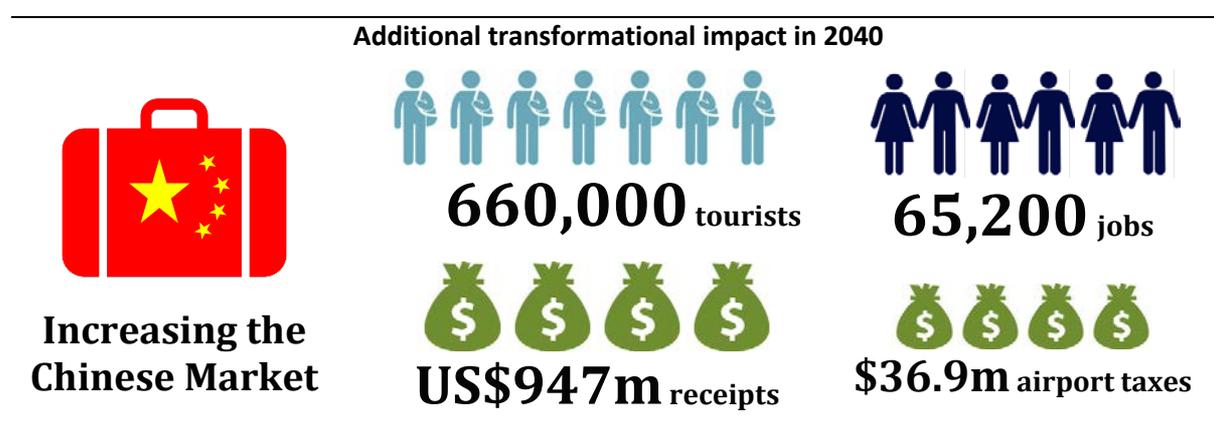
Transformational Opportunities

9. **Based on long-term performance, emerging market trends, specific product opportunities and the natural attractions and selling points, the Pacific has opportunities that hold the potential to generate transformational change.** These opportunities include aggressively targeting the Chinese visitor market, engaging more directly in the rapidly growing Pacific cruising product, expansion of the high-end resort market and capitalizing on the aging population in key origin markets by developing a long-stay visitor opportunity for retirees. These opportunities have the potential to deliver substantially higher revenues but will also bring impacts that will need to be managed.

Capturing the Chinese Market

10. **The market share of Chinese tourists can be increased substantially beyond its current seven percent.** Between 2009 and 2014, Chinese visitors to PIC11 grew by an average of 27 percent per annum, and now represent seven percent of the inbound market. Based on the experience of other destinations that implemented well-targeted policy interventions that facilitated improved access, such as aviation and visa policies, together with targeted marketing, the annual growth rate of Chinese arrivals could continue to grow at 20 percent for the next 10 to 20 years in most PIC11. Limitations on carrying capacity and absorption rates would act to reduce the growth of Chinese visitors to PIC11s over time.

11. **The PIC11 can attract nearly one million Chinese tourists in 2040.** Chinese visitors could represent a 26 percent share of total PIC11 tourism, resulting in a figure of approximately 965,000 visitors by 2040. At that time the PIC11 would welcome nearly 3.7 million international tourists. Compared to a long term growth rate of around five percent for most PIC11, the additionality of the transformational scenario estimates the economic potential of the Chinese market opportunity in 2040 at over 660,000 additional tourists, which bring nearly US\$950 million in tourism receipts, and generate nearly 65,200 additional jobs.



Source: Author's estimations

Home-basing cruise ships

12. **Home-basing cruise ships in the Pacific can generate multiplier effects in the hosting country, and open up new destinations.** The growth of the Australian market has transformed cruising in the Pacific. Since 2004, cruising to all destinations by Australians has grown at an annual rate of 20 percent, reaching 1 million passengers in 2014. One way to increase both the number of visitors to the PIC11 and the socioeconomic impact of cruising is by basing large cruise ships in the islands. Not only would this bring benefits to the homeport country, but it would also bring more cruise arrivals to PICs that are too far from Australia to reach on the most popular 7-10 day-length cruises. In 2040, the economic potential of the home-basing cruise ships market opportunity is estimated at nearly 266,000 tourists, which bring nearly US\$67 million in tourism receipts, and generate nearly 4,700 jobs. The country hosting the cruise ship can earn over two thirds of these benefits.



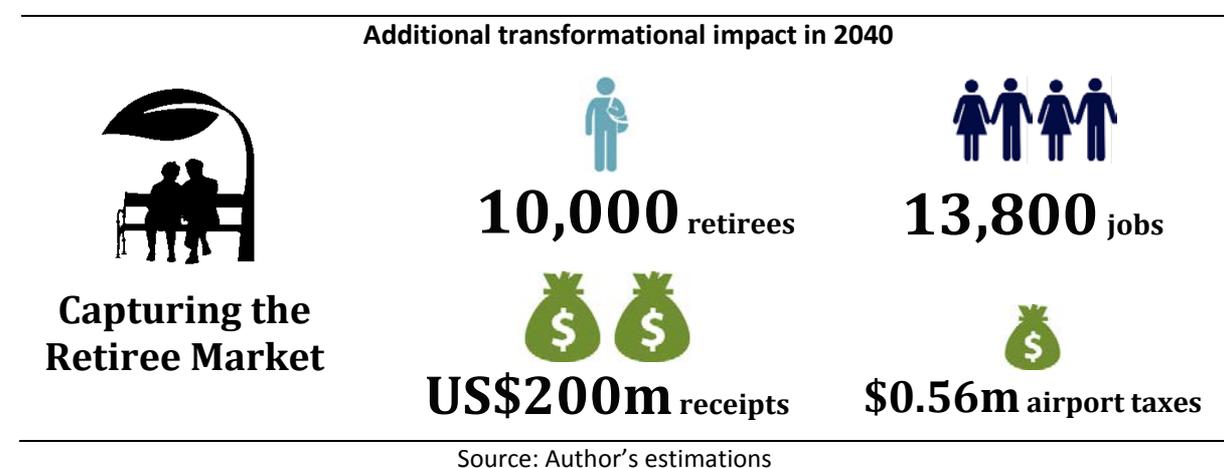
Increasing the presence of Luxury Resorts

13. **Developing high-end luxury properties can bring an extra 139,000 high-yield tourists.** For PIC11s, with limited ability to serve mass markets of the scale emerging globally, it will also be important to pursue strategies that increase yield. Achieving yield, however, requires properties that meet the demands of discerning international travelers, with either international standard resorts or specialty resort products. There is an opportunity to develop 98 rooms in first-tier exclusive resorts, 200 rooms in second-tier luxury hotels and 700 rooms in third-tier luxury hotels by 2030. In 2040, the economic potential of the luxury market opportunity is estimated at nearly 139,000 additional tourists, which bring over US\$487 million in total tourism receipts, and generate nearly 32,500 additional jobs.



Capturing the Retiree Market

14. **The largely increasing retiree market has the potential of bringing over 300 million dollars to the PIC11 in 2040.** The number of Australians over the age of 65 is projected to increase by 75 percent over the next 20 years, from 3.3 million in 2012 to 5.8 million in 2032, and post-retirement assets will grow from around US\$300 billion to US\$1.3 trillion by 2032. Moreover, the number of New Zealanders over 65 is expected to double by 2036. The current senior tourism market is disaggregated into three segments by length of stay: leisure travelers, long-stay travelers and home owners or permanent stay. For the home owners and permanent-stay segment, long term certainty of residency, access to high quality medical care, ease of communication, and ease of visa and immigration process are critical factors. In addition, affordability, safety, ease of international and local connectivity, tax status and property ownership rights, including disposal on death or departure with repatriation of assets, are also important to this segment. Based on the experience of other destinations and with appropriate conditions, it is plausible for the PIC11 to target a total of 5,000 retirees by 2025. The growth is likely to slow after 2025 and it is reasonable to assume that retirees would only stay for a period of up to ten years. Growth is likely to continue beyond 2025 and PIC11s could potentially have 10,000 resident foreign retirees by 2040. These 10,000 retirees could bring US\$200 million in receipts and generate nearly 14,000 jobs.



Capturing the Opportunities for Transformational Growth

15. The Pacific faces challenges which constrain growth. These include difficulties in access; declining competitiveness with dated facilities; limited demand, particularly from long haul markets and constrained marketing. This is coupled with a lack of effective data for decision making. It will be necessary for the Pacific to address these underlying fundamentals in order to build a stronger platform for growth.

16. Realizing the potential growth of tourism in the Pacific requires a strategy of improving yields and developing markets. It means being less dependent on Australia and New Zealand markets. To achieve this requires a four part strategy:

- *Improving connectivity with growing and established markets.* The first step is improving access to long-haul markets, which has declined over the last decade as demand from northern hemisphere markets was constrained by the Global Financial Crisis. It requires direct connections between those markets and PIC11s, avoiding the hubs of Australia, Fiji, New Zealand and Guam.

- *Attracting more and higher yielding tourists.* Overcoming dependence on Australia and New Zealand as the principal markets for PIC11s will require concerted, long-term market development that emphasizes yield, rather than volume.
- *Improving the investment climate and the effectiveness of public sector participation in the sector.* There are a number of issues to be managed in ensuring that PIC11 Governments and regional agencies are equipped to manage the future demands of a fast growing tourist industry, including the business enabling environment, the quality of the labor force, the effectiveness of public institutions to attract visitors, and the capacity of regional destination marketing.
- *Improving the efficiency of the tourism sector.* This would include improving linkages between tourism and the local economy such as food supplies and services to hotels, improved destination management and strategy, pooling of private sector resources such as cold storage and access to warehousing financing for this purpose, and regional training facilities. The Caribbean tourism strategy now incorporates a number these initiatives designed to improve efficiency. Fiscal revenues from the sector can also be better managed.

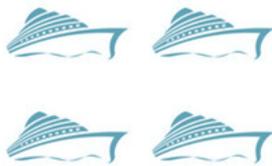
17. In addition to building a stronger platform for growth, PIC11s need to adopt a series of specific actions in order to capture the four transformational opportunities.

Opportunity	Actions Required
 <p data-bbox="236 1301 501 1384">Increasing the Chinese Market</p>	<ul style="list-style-type: none"> • Negotiate new air routes between PIC's and Chinese cities with frequencies to fit with limited holiday opportunities, price points to match competitive destinations and minimal stops. Scheduled routes may initially be developed by charters or supplemented by charters at times of high demand. • Upgrade airports and provide support to attract new carriers, to cater for larger aircraft and volume traffic, to minimize processing delays on arrival and departure and facilitate transfers to their destination. • Tailor offerings to Chinese tourists, such as providing translators, improving service standards, installing Chinese signage and coverage of Wi-Fi. Prioritize market segments and understanding the preferences of these segments. Develop information for independent travelers which minimizes uncertainty, and provides clarity from the point of product selection to destination arrival. • Build relationships with major Chinese outbound operators, wholesalers and China-based agents selling the Pacific to develop concrete sales and distribution channels for marketing efforts. • Implement a fully-resourced, long-term targeted promotion campaign, covering all cities, including travel trade, public relations and a major on-line presence through leading booking and trading websites.

- Identify specific segments of the Chinese market which match PIC11 offerings, including soft adventure, diving, weddings, incentives, overnight cruising etc.
- Increase the efficiency of visa application processes across all PIC's targeting the Chinese market where visas are a barrier.
 - Improve the communication of visa requirements to intending Chinese tourists.
 - Streamline and simplify the visa application process as much as possible.
 - Introduce multiple entry electronic visas (e-visa) and extend the allowed duration.
 - Promote regional visa scheme or visa waiver programs to facilitate travel among PIC11s, eliminating individual visa requirements for each destination.
 - Introduce no-cost Visa on Arrival where possible.
- Improve the shopping product in key destinations and at resorts through a retail development program.
- Implement a major campaign through Chinese media to raise awareness of the Pacific.

Opportunity

Actions Required



Increasing the PIC-based cruise ship market

- Work with the cruise lines and the Fiji Government to ensure the formal procedures, authorities and rights for Fiji-based cruise operations are in place and that essential services are provided.
- Work with Fiji Ports to bring Lautoka Wharf up to the necessary standard for alongside berthing and passenger embarking-disembarking, including pre-departure assembly, baggage handling and coach loading areas.
- Work with Fiji Roads to ensure the Nadi-Lautoka Road is at a standard for large volume coach traffic.
- Work with Airports Fiji Limited to ensure terminal capacity can meet the needs of multiple arrivals and departures of cruise passengers to coincide with scheduled cruise vessel movements.
- Build relationships directly with cruise companies and airlines to ensure that charter flights to and from main source markets can operate in coordination with cruise ship schedules.
- Assist the development of existing and new destination ports in PIC's including safe navigation, adequate services and the development of ground operations where not already in place.
- Negotiate with cruise companies for sector fares to enable multi-stop, alternative fly-in fly-out, or extended shore breaks for example Samoa, Tonga, Fiji, Vanuatu to increase yield.

	<ul style="list-style-type: none"> • Encourage the use of smaller cruise vessels (less than 500 passengers) for remote island cruising, enabling low impact visits to sensitive communities. These already exist in some locations including Fiji, PNG and the Solomon Islands. Tonga has potential in the Ha’apai and Vava’u groups. • Upgrade ports to improve the visitor experience with weather protected markets close to the wharf and control over local tour operations. • Assist agencies operating potential new cruise ports to attract cruise vessels through financial or in-kind subsidies where economic impact from cruise traffic is sufficient to meet the goals of the destination. • Promote the Pacific as a fly-cruise destination in both Pacific Rim and global markets.
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Opportunity	Actions Required
 <p data-bbox="231 1115 502 1249">Attracting investments in high-end resorts</p>	<ul style="list-style-type: none"> • PIC Governments to develop an exclusive accommodation policy and implementation strategy at a national level to minimise concerns of elitism. • Support by governments to assist the purchase or lease of land under conditions acceptable to investors but ensuring full protection and benefits to traditional land owners. • Identify prospective locations, their characteristics and suitability for development as well as accessibility. • Identify a Pacific champion to lead, guide and assist in the development of a regional strategy, an individual respected by his or her peers and who can, with assistance, bring investors and opportunities together. • Develop a Pacific luxury marketing strategy similar to Tourism New Zealand’s Premium Strategy and, if possible, establish links to enhance the South Pacific offering. • Increase availability of private jet aircraft facilities at gateway airports.

Opportunity	Actions Required
 <p data-bbox="239 1809 494 1899">Attracting the Retiree Market</p>	<ul style="list-style-type: none"> • Establish visa and taxation regimes to attract long stay retirees • Invest in high quality and affordable health care offerings that are crucial to the retiree market including private hospitals and aged-care homes. • Invest in infrastructure and provide incentives to attract the private sector to develop accommodation options for foreign retirees. Provide policy incentives for foreign retirees to own and dispose of properties in PIC11s. • Determine rights of individuals to import personal effects duty free, and vehicles for their own use either duty free (with a claw-back on sale) or at a minimal charge.

- Determine rights of retirees to import capital and receive income from their home country, and to remit capital on sale or to beneficiaries in the event of death.
- Establish a system of licensed immigration agents to assist and guide intending immigrants, with an agreed scale of fees and specific skill requirements.
- Enhance targeted marketing efforts to potential foreign retirees. Develop annual targets for participant numbers. Given Australia and New Zealand are both top destinations for retirement, PIC11s need to develop a strategic plan to attract retirees from these two potential markets with a roll-out to wider markets in the future.
- Develop a communication plan and provide clear guidance to retirees through a dedicated government website.
- Introduce training through authorized providers for aged-care support services.
- Determine the interest of Australian and New Zealand aged-care providers to establish facilities in PICs and encourage the development of retirement complexes close to major centers.

Table of Contents

Executive Summary.....	i
Table of Contents.....	x
1 Importance of Tourism in Pacific Island Countries	1
1.1 The Scale of Tourism	1
1.2 Impacts of Tourism	3
1.3 Tourism Policy.....	6
1.4 Tourism Performance and Attractions.....	7
1.5 Source Market Trends.....	15
1.6 Growth potential for tourism in PICs.....	17
2 Successful Tourism Transformations	20
2.1 Maldives: From least developed to middle income through tourism	20
2.2 Seychelles: From rapid growth to broad growth	27
3 Transformational Opportunities	29
3.1 Addressing the Underlying Fundamentals for Growth	29
3.2 Targeting Opportunities for Transformational Change	31
3.2.1 The Chinese Market	31
3.2.2 The Cruise Ship Market	37
3.2.3 High-End Resorts.....	44
3.2.4 The Retiree Market	48
4 Capturing Transformational Change.....	53
5 Works Cited.....	57
Appendix 1: International Arrivals in PICs.....	61
Appendix 2: PIC Source Markets Trends.....	66
Appendix 3: Use of Subsidies in Pacific Islands Air Transport.....	78
Appendix 4: Development of air services between China and the Pacific Islands - The of role of charters and the experience of other small island states.....	84

List of Tables

Table 1. In 2013, tourism brought 1.3 million visitor arrivals and US\$1.4 billion.....	2
Table 2. Tourism is an important source of employment	5
Table 3. Oceania represents only 1.2 percent of the world’s tourism market share	7
Table 4. The PIC11 offer a wide range of tourist activities	13
Table 5. Top Ten Tourism Spending Countries, 2012-2014	15
Table 6. Travel Propensity of major outbound markets	16
Table 7. Oceania has experienced a 2.4 percent growth in tourist arrivals	17
Table 8. Long term CAGR for key origin regions to PICs 1995 - 2013	18
Table 9. Chinese households are getting wealthier, and so their demand for travel will increase	32
Table 10. Improving travel policy toward China can generate significant growth in Chinese inbound travel.....	35
Table 11. Recent US, Australia and UK Visa Reforms have targeted Chinese tourists	35
Table 12. The Chinese market has a potential of bringing an additional one billion dollars by 2040..	37
Table 13. Home-basing cruise ships in the South Pacific can bring over 133,000 tourists per year in by 2040	43
Table 14. The high end market has a potential of bringing nearly half a billion dollars by 2040.....	48
Table 15. Population Aged 60+ in Top Source Markets will increase significantly by 2050	49
Table 16. The retiree market has a potential of bringing US\$320 million in 2040	52

List of Figures

Figure 1. The direct contribution of travel and tourism to GDP has increased in most PICs	3
Figure 2. Long-term tourism growth has been positive, but performance varies between PICs.....	8
Figure 3. Visitor numbers to most PICs have been growing, while competing pacific island states have been flat or in long-term decline	9
Figure 4. Cruise Visitor Arrivals in Member PICs, 2014.....	15
Figure 5. Total tourist arrivals to PICs from key generating markets 2014*	16
Figure 6. Asia and the Pacific will gain the most arrivals by 2030	18
Figure 7. An annual growth of 3 percent will double arrivals in the PIC11 by 2040.....	19
Figure 8. In the Maldives, the share of Chinese tourists grew from nearly zero to over 30 percent in eight years.....	24
Figure 9. The Maldives has successfully diversified its source markets	24
Figure 10. Chinese arrivals to Maldives normally peak during Chinese New Year and the summer months	25
Figure 11. Tourism started a new era of growth in 2005	27
Figure 12. Chinese Spending has grown substantially during the last 10 years	31
Figure 13. Island Holiday is the most popular travel experiences of Chinese ‘Super Tourists’	33
Figure 14. Travel spending by Chinese outbound travel will triple in Oceania and in other destinations.....	34
Figure 15. Chinese arrivals are concentrated in Palau, Fiji, and PNG	36
Figure 16. Australian Cruise Departures to the South Pacific are experiencing double digit growth ..	38
Figure 17. New Caledonia and Vanuatu are the most popular cruise destinations in the South Pacific	39
Figure 18. MM2H Participant Approvals Declined Recently After Steady Growth, 2002-2015	51
Figure 19. China dominates the top ten MM2H approval countries, 2002-2015.....	51

1 Importance of Tourism in Pacific Island Countries

1. Tourism is one of the few economically viable sectors for the 11 World Bank member-Pacific Island Countries (PIC11) of Papua New Guinea (PNG), Solomon Islands, Vanuatu, Fiji, Tonga, Samoa, Tuvalu, Kiribati, Palau, Marshall Islands (RMI), and Federated States of Micronesia (FSM). Being very small, and very remote, severely constrains the countries' areas of international competitiveness and growth potential. The key economically viable growth areas are those that draw on PICs' natural and human resource endowments.

2. The pristine environment is the PIC11's main tourist attraction, bringing 1.37 million tourists in 2014. The other top demands for tourism are the range of recreation opportunities and cultural diversity. Two thirds of the market for the PIC11 is visitors from Australia and New Zealand. The United States, China, Japan and Europe are relatively small but still very important markets as they have the potential to generate much more growth in arrivals given the size of their populations. However, other destinations strongly compete with the PIC11, including the Maldives and Bali.

3. Tourism offers the PIC11 significant opportunities for economic growth and shared prosperity. These opportunities derive from the comparative advantage of their resource endowments suited to tourism: pristine natural environments and cultural diversity. While pristine natural environments are not the exclusive domains of PIC11s, competing island destinations in the Indian Ocean and the Caribbean also have them, the PIC11's unique and diverse cultural heritages are what differentiates them in the global market. Further, tourism presents the chance to preserve the environment and cultural heritage through sustainable development practices. Tourism represents a unique opportunity because it is less subject to—and can actually benefit from—factors that are barriers to other forms of economic growth: small and dispersed populations, small land areas, remoteness from markets, and limited natural resources (UNWTO 2012).

4. Tourism already plays an important role in the economies of Palau, Fiji, Samoa and Vanuatu as a contributor to GDP. Solomon Islands, PNG, Tonga, and FSM have all seen significant growth in arrivals since 2000. With over two thirds of tourist arrivals to the PIC11 originating from Australia and New Zealand, both relatively small markets, large markets in China and other rapidly growing Asian countries present substantial growth opportunities. Smaller, more established long-haul markets in Europe and North America could be boosted through product diversification targeting retiree and high-end markets. Cruising can also provide an opportunity for port cities and small islands to benefit from the Pacific's fastest growing tourism sector. PIC11s all have potential for tourism to make a greater economic contribution through growth in visitor numbers and an emphasis on higher yielding segments. Achieving transformational change, however, will require improving access from emerging and existing source markets, improving the investment climate and increasing the effectiveness of public-sector participation in the tourism sector.

1.1 The Scale of Tourism

5. The PIC11 received 1.37 million visitor arrivals in 2014, a record number. The five most popular destination countries in 2013 were also the top five in 2014 (Table 1). The only change was Palau jumped from fifth to third due to a rapid increase in Chinese visitors. Fiji was overwhelmingly the most popular destination, having received more visitors in 2013 than all of the other countries combined. The same was true for 2014, although arrivals data were not available for Kiribati and

Marshall Islands. These two countries combined received 11,258 arrivals in 2013. Nevertheless, for 2014 international arrivals to Fiji totaled 100,000 more than all of the other countries combined. None of the other destinations grew as quickly as Fiji. In fact, declines were recorded for Vanuatu, Solomon Islands and FSM. Initial reports of arrivals for 2015 show very strong growth since 2014 for Fiji and Palau, at 9 percent and 19.3 percent, respectively. Tonga continued to grow steadily with a 6.6 percent increase. As anticipated, Vanuatu saw a decrease of 17.2 percent in the wake of Tropical Cyclone Pam.

Table 1. In 2013, tourism brought 1.3 million visitor arrivals and US\$1.4 billion

	Receipts 2013 (US\$, million)	Receipts per Capita 2013 (US\$)	Receipts per Arrival 2013 (US\$)	Arrivals 2013	Arrivals 2014	Population 2014
Fiji	722.0	820	1098	657,706	692,630	886,450
PNG	3.6	0.49	21	170,199	184,563	7,463,577
Samoa	136.0	714	1091	124,673	130,653	191,845
Vanuatu	287.0	1134	2607	110,109	108,656	258,883
Palau	113.0	5402	1076	105,066	140,784	21,097
Tonga	45.0	428	934	48,188	50,436	105,586
FSM	24.0	231	570	42,109	35,440	104,044
Solomon Is	61.0	109	2497	24,431	20,070	572,171
Kiribati	3.3	30	562	5,868	n/a	110,470
RMI	4.1	78	761	5,390	n/a	52,898
Tuvalu	2.4	243	1843	1,302	1,416	9,893
Maldives	2,338.0	6,776	2,078	1,125,202	1,204,857	401,000
Seychelles	344.0	3,858	1,496	229,609	231,857	91,400
Mauritius	1,447.0	1,117	1,393	993,106	1,038,968	1,261,000

Source: National Statistical Offices or National Tourism Offices, UNWTO and SPTO

6. Total tourism receipts for PICs in 2013 were US\$1.4 billion with an average expenditure of just over US\$1,000 per arrival. There are wide variations in reported per arrival expenditure across the countries and collection methods are not always comparable. Tourism receipts can give a clearer picture of how the tourism sector is performing within an economy. In ecologically sensitive destinations such as PICs, low volume-high yield tourism is preferred because it can be less damaging to the environment. More arrivals do not necessarily coincide with higher receipt totals. Assuming the data are accurate and collected based on similar indicators, the relationships between arrivals and receipts can highlight market distinctions among PICs.

7. While PNG ranked second in terms of arrivals, their tourism receipts lagged considerably compared to the other countries. This mainly resulted from differing data collection methods that undercount tourism receipts. Another factor was a large proportion—30 percent—of arrivals for employment purposes.

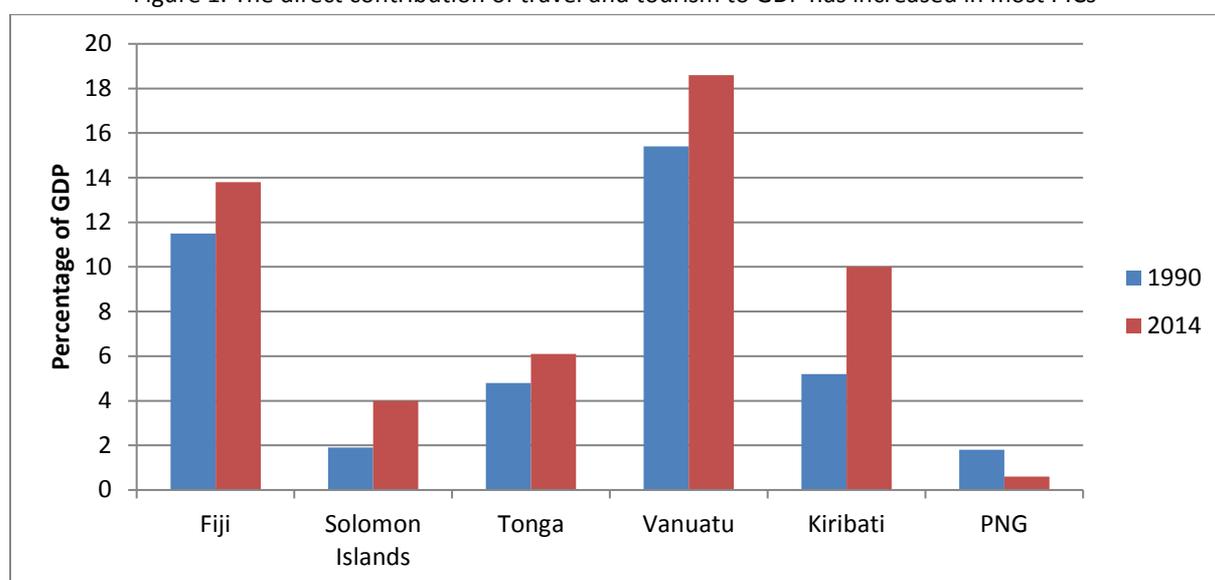
8. When comparing Samoa and Vanuatu, Samoa received 10 percent more visitors but earned just over half of Vanuatu's tourism income. For Samoa this reflects regional visitors from American Samoa and Visiting Friends and Relatives (VFR) traffic from Australia, New Zealand and the US—less than 40 percent of 2013 arrivals reported holiday as purpose of visit. Vanuatu's main source markets were Australia and New Zealand, and holiday visitors were over 80 percent. Generally, regional visitors stay shorter, while VFR visitors are more likely to stay with friends or relatives and spend less during their stay.

9. Tourism receipts in the Solomon Islands were more than twice those for FSM, but arrivals were about 60 percent of FSM. While the US was the main source for FSM, the second source market was the Philippines. As in PNG, Philippines arrivals are most likely for business or employment purposes. The main source market for Solomon Islands is Australia and surveys have shown that the majority of Australian visitors come for leisure purposes.

1.2 Impacts of Tourism

10. Tourism’s share of GDP reflects the sector’s relative importance in an economy. Estimates by WTTC are only available for some PICs, and their methods have been criticized for overestimating tourism’s role. Their data are therefore most valuable for making comparisons over time and between countries (Figure 1). Between 1990 and 2014, Fiji, Solomon Islands, Tonga, Vanuatu and Kiribati all saw increases in tourism’s share of GDP, with the share essentially doubling in Solomon Islands and Kiribati. However, PNG saw a 60 percent decrease, due to faster growth in other sectors of the economy. Arrivals to PNG grew by over 400 percent during the same period and were the second highest among PICs at 184,563 in 2014.

Figure 1. The direct contribution of travel and tourism to GDP has increased in most PICs



Source: WTTC

11. Separate estimates from SPTO indicate that, in 2011, tourism’s share of GDP was 20 percent in Samoa, 50 percent in Palau and 3 percent in Tuvalu. According to the IMF, tourism activities in Palau made up about 75 percent of economic growth in 2012. Tourism-related industries like hotels, food services and transportation accounted for 4.5 percentage points of the 5.5 percent growth in real GDP (IMF 2014).

12. By comparison, tourism makes a significant economic contribution in Indian Ocean Island States that have successfully engaged the industry. Tourism represents 28 percent of GDP for the Maldives and 21 percent for the Seychelles (Ministry of Tourism 2014).

13. The services sector, which includes direct tourism activity, has been the largest sector in PIC economies—except in PNG where the industrial sector dominates thanks to natural resources extraction. The agricultural sector, which includes fisheries and farming, was smaller than tourism in Fiji, Palau and Samoa. By comparison the Maldives had a services sector contributing 78.4 percent of GDP and in the Cook Islands 83.5 percent (ADB 2015).

14. Tourism is an important source of export earnings for many PICs. In Samoa and Vanuatu, tourism generates the majority of export earnings. In Tonga it is the largest single source, about five times as that of agriculture and fisheries combined. For Fiji it has replaced sugar as the primary export earner. When looking only at services exports, tourism's role is even more significant. In 10 of the 11 PICs, tourism is the primary services export sector, with PNG the only exception.

15. The values of tourism earnings in nominal terms vary greatly among PICs, but illustrate the strength of each country's industry over time (Table 1). Fiji, Palau, PNG, Samoa, Solomon Islands, Tonga and Vanuatu have seen significant growth in receipts from 2010 to 2014, while others have stagnated or declined. However, comparisons may be hindered by different methods of data collection and definitions of tourism spending within the economy. The very low levels of receipts in PNG relative to arrivals indicate a need for improved data collection processes to capture actual revenues from tourism.

16. Tourism receipts per arrival offer a more useful figure for comparing performance between countries (Table 1). More spending per arrival indicates that a destination has achieved a higher yield per arrival. This is especially important in PICs where limited resources and sensitive environments make mass tourism unsustainable. Receipts per arrival can also highlight the price competitiveness of a destination, allowing higher-cost destinations like Solomon Islands to tailor marketing campaigns or investigate measures to lower costs.

17. Another useful measure is tourism receipts per capita, which allows for easier comparisons across countries with vastly different population sizes (Table 1). These data emphasize the relatively large impact of tourism in Palau, Maldives and Seychelles, and would indicate that opportunities exist to increase receipts in other PIC11s.

Tourism and Government Revenue

18. Tourism is also a tax base. Fiji changed their tax regime in November 2015, reducing VAT from 15 percent to 9 percent but extending the base to previously zero-rated products including food. The service turnover tax, which applies directly to hotels and food service, among other areas, was increased from 5 percent to 10 percent and a new environmental levy of 6 percent was introduced. The net effect is that the tax on tourism-related turnover has increased from 20 percent to 25 percent. This coincided with the increase in funding for Tourism Fiji.

19. For other PICs, tourist related taxes—hotel, departure and service taxes—have enabled governments to directly benefit from tourism. There are two main direct taxes related to tourism in Palau, the traveler's departure tax and the hotel occupancy tax. Both were increased recently in an effort to contain the number of tourist arrivals and preserve the environment. The share of these two taxes to total tax revenue has increased from nearly 9 percent in FY2003 to around 15 percent in FY2013 (IMF 2014).

Employment and Tourism

20. Tourism is a significant employer in those PIC11s where tourism is a major industry. South Pacific Tourism Organization (SPTO) estimates indicate the highest levels of employment in Tonga, 15 percent, Samoa, 18 percent, and Palau, 50 percent. According to the IMF (2014), "More than 40 percent of total employment in Palau is occupied in tourism-related activities, including a large number of foreign workers, who, by comparison, make up around 50 percent of total employment." Tourism in Tuvalu employs less than 1 percent of total employment. The Government of Samoa's 2010

employment survey estimated that tourism’s direct contribution to employment was at 7 percent, significantly less than the SPTO estimate. Interesting to note was that while males and females were equally represented as employees in the tourism sector, females dominated the management level with 54 percent of total management staff while males dominated the supporting staff level with 51 percent of total supporting staff (STA 2015).

Table 2. Tourism is an important source of employment

	Direct jobs	Percent of total employment	Direct jobs per visitor
Fiji	41,500	12.3	0.06
Kiribati	2,200	8.2	0.37
PNG	24,000	0.8	0.13
Solomon Islands	6,500	3.4	0.32
Tonga	2,000	6.1	0.04
Vanuatu	10,500	14.6	0.10

Source: WTTC and SPTO. 2014 figures.

21. Two of the three Indian Ocean destinations—Maldives, with 32.2 percent, and Seychelles with 22.9 percent—generate a significantly greater proportion of employment through tourism. The dependence of small-population tourism economies on foreign workers continues to challenge policy-makers in Maldives and Cook Islands, but also can offer lessons to PIC11s.

Tourism and Poverty Reduction

22. According to the World Tourism Organization (UNWTO) (2014), tourism development has been central to the graduation from Least Developed Country (LDC) status of the Small Island Developing States (SIDS) of Samoa, Cape Verde and the Maldives in recent years. In Cape Verde, the poverty rate dropped from 37 percent to 27 percent between 2000 and 2010—a period that saw tourism increase from 7 percent to 18 percent of GDP and annual arrivals increase from 115,000 to 336,000. Individual islands within the Cape Verde group with the highest tourism Foreign Direct Investment (FDI) also had the lowest poverty rates, at 10 percent and 11 percent, and saw poverty reductions larger than the national average. Further, households linked to the tourism sector nationwide had lower poverty incidence rates, averaging 12 percent (Garcia 2013). The Maldives achieved even greater poverty reduction during spectacular tourism growth, decreasing poverty rates from 43 percent in 1998 to 15 percent in 2010 (ADB 2015).

23. However, tourism sector growth does not automatically lead to poverty reduction. In order to more effectively reduce poverty, tourism growth should provide equal opportunities and be inclusive. UNWTO and Netherlands Development Organization (SNV) (2010) advocate seven approaches for poverty reduction through tourism:

- a. Employment of the poor in tourism enterprises;
- b. Supply of goods and services to tourism enterprises by the poor;
- c. Informal selling of goods and services to tourists by the poor;
- d. Developing micro, small or community-based tourism enterprises or joint ventures;
- e. Tax or charge on tourists or enterprises with proceeds benefiting the poor;
- f. Voluntary giving by tourists or enterprises that benefits the poor;
- g. Collateral benefits to the poor from tourism investment and activity.

24. While some of these approaches can occur outside purposeful interventions, the poverty reducing effects of tourism can be increased through targeted policies by tourism enterprises, governments and local destination management groups.

1.3 Tourism Policy

25. The role of tourism as a driver of economic growth is recognized by all PICs and all have National Tourism Organizations (NTOs) and a direct interest in the South Pacific Tourist Organisation (SPTO). It is a major foreign exchange earner and a revenue source through tourism-related taxes.

26. As one of the region's main economic drivers, it is a principal area of public policy. All PICs have a Tourism Minister, although not all see it as a high-ranking portfolio. Samoa is an exception; it includes tourism as one of five key economic development outcomes in the Strategy for the Development of Samoa 2012-2016. It recognizes the leading role of tourism in achieving foreign exchange earnings and sets a target of 5-7 percent annual growth in arrivals. Average annual growth from 2010 to 2014 was only 0.2 percent. Until recently, the Prime Minister was also Minister for Tourism. Over the past decade they have created a favorable investment environment, including concessions for development and the use of Government-controlled land for new hotels.

27. In 2010 IFC undertook tourism diagnostic reviews of several PICs, using the methodology developed by IFC Sydney. In Vanuatu, the study found that tourism was housed within a broad industry portfolio and not specifically recognized within the Government's medium-term development strategy. Tourism suffered from a lack of Government resources and inadequate coordination and prioritization. There was no implementation process for the Vanuatu Tourism Masterplan 2004-2010 or for the Vanuatu Tourism Action Plan 2008. There was also a lack of coordination and dialogue with the private sector (IFC 2010).

28. In Tonga the review found that while tourism was one of only three sectors targeted within the National Strategic Planning Framework (NSPF) for "promoting sustained private sector led growth," in practice tourism was afforded only a moderate level of priority by the Government (IFC 2010).

29. Similar findings for the Solomon Islands identified an apparent lack of coordination and prioritization of tourism development across key government agencies, an inadequately resourced national tourism agency and weak policy and legislative frameworks for tourism (IFC 2009).

30. Since its establishment in 1993, the PNG Tourism Promotion Authority (PNGTPA) has been the primary developer and implementer of tourism policy. Current policy was set in 2006 in the Tourism Master Plan 2007-2017. The principle goal of the plan is to double arrivals every five years. In pursuit of this, PNGTPA has launched an effective marketing campaign and raised its profile on social media. PNGTPA has also improved data collection and analysis systems and established a national accommodation classification and accreditation system. The government also established tax incentives to promote investment, training and market development. The National Development Bank has set up a tourism credit facility to provide loans to local start-ups and existing small- and medium-sized tourism enterprises ranging from a few hundred to nearly half a million USD. By removing the visa requirement for cruise passengers, reducing pilotage fees and improving infrastructure, PNG attracted P&O Cruises to begin visiting in 2013 (PNGTPA 2014).

31. Fiji has provided major assistance to the tourism sector through significant tax concessions, including the Short Life Investment Plan, which have been a significant driver of new hotels. The Plan was extended several times and has been a major contributor to the development of international

hotels, which are at the core of Fiji’s tourism growth. Infrastructure support, including the provision of access roads, has also opened areas for development. Tourism Fiji received USD14 million in government funding in the 2016 budget, a 27.7 percent increase over 2015.

1.4 Tourism Performance and Attractions

32. At the global level, international tourism achieved a new record in 2014 with 1.133 billion arrivals, an increase of 4.3 percent compared to 2013. This was the fifth year of consecutive growth since the global financial crisis in 2008. International tourism receipts reached US\$1,245 billion worldwide in 2014, up from US\$1,197 billion in 2013. Europe remained in 2014 the world’s most visited region. France, the US, Spain and China are the top most visited countries in the world. Travel for holidays, recreation and other forms of leisure accounted for just over half of all international tourist arrivals in 2014. About 14 percent of international tourists reported traveling for business and professional purposes, and another 27 percent travelled for other reasons such as visiting friends and relatives (VFR) or religious reasons.

33. Europe is still the largest source region followed by the Asia Pacific. China has been the top tourism source market since 2012 and increased their tourism expenditure abroad by 27 percent in 2014 reaching a total of US\$165 billion. The other top five largest tourism spenders are the US, Germany, the UK and Russia. In 2014, about four out of five worldwide arrivals originated from within the same region (UNWTO 2015).

34. Tourism plays a large and growing role in the world economy. The World Tourism Organization (UNWTO) estimates that direct, indirect and induced impacts of tourism generated 10 percent of global GDP, one in eleven jobs and 30 percent of global services exports. International tourism has experienced long term growth. From 1995 to 2010 international tourist arrivals saw average annual growth of 4.1 percent, while for emerging economies the growth rate was 5.7 percent. Emerging economies also saw their share of international tourist arrivals increase from 32 percent to over 50 percent between 1990 and 2015.

Table 3. Oceania represents only 1.2 percent of the world’s tourism market share

	2005	2010	2013	2014	Market share 2014 (%)
World	809	949	1,087	1,133	100
Advanced economies	466	513	585	618	54.5
Emerging economies	343	436	502	515	45.5
<i>By region</i>					
Africa	34.8	49.5	54	55	4.9
Americas	133.3	150.1	167.5	181.6	16.0
Asia and the Pacific	154	205.4	249.7	264	23.3
North-east Asia	85.9	111.5	127	136.1	12.0
South -east Asia	49	70.5	94.5	97.3	8.6
Oceania	10.9	11.4	12.5	13.2	1.2
South Asia	8.1	12	15.8	17.4	1.5
Europe	453.2	489.4	566.9	580.6	51.2
Middle East	33.7	54.7	48.8	51.8	4.6

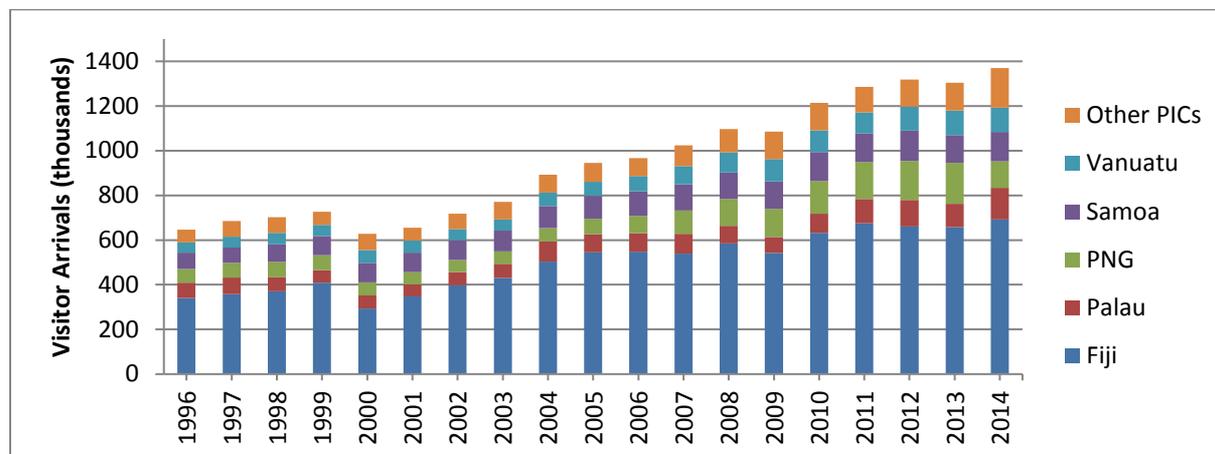
Source: UNWTO Barometer October 2015

Arrivals Trends in the Pacific

35. Annual overnight visitor arrivals to Oceania, which also includes primary destinations Australia and New Zealand, grew on average 0.2 percent for the period 1995-2010, the lowest growth of any of

the 17 regions identified. In contrast, the Caribbean grew at 0.4 percent and North-east Asia, the fastest growing region, at 4.7 percent. Compared to global average annual growth of 3.9 percent from 2005 to 2014, PIC11 visitor arrivals have grown by 4.5 percent, or close to the UNWTO forecast for emerging economies 2010-2030.

Figure 2. Long-term tourism growth has been positive, but performance varies between PICs



Source: UNWTO

36. While long-term growth is positive for PIC11s, performance varies between countries and short-term decreases have resulted from political instabilities, natural disasters and global market conditions. The average annual growth rate for the five top destinations from 1995 to 2014 was 5.5 percent, while the other six only averaged 2.5 percent. PNG saw the strongest growth over the period at 8.5 percent, largely due to growth in the natural resources sector. Fiji’s dramatic drop in arrivals in 2000 was a result of instability following a coup, which led to travel advisories imposed in origin markets. However, Fiji was able to rebound strongly by 2005 through government and private sector support for a series of marketing campaigns, as well as deep airfare and accommodation discounts once order was restored. Another coup in 2006 led to further restrictions by source markets and the temporary diversion of travelers to other destinations.

37. Natural disasters have also affected short-term patterns. The Samoa tsunami of 2009 affected arrivals for three years during the rebuilding process. Cyclone Pam, which hit Vanuatu in 2015, has damaged many accommodation properties and will affect 2015-2016 visitor arrivals. Data available for 2015 shows a contraction of approximately 17 percent. Climate change may be increasing the frequency and intensity of tropical storms in the region, and rising sea levels will threaten coastal communities and tourism products.

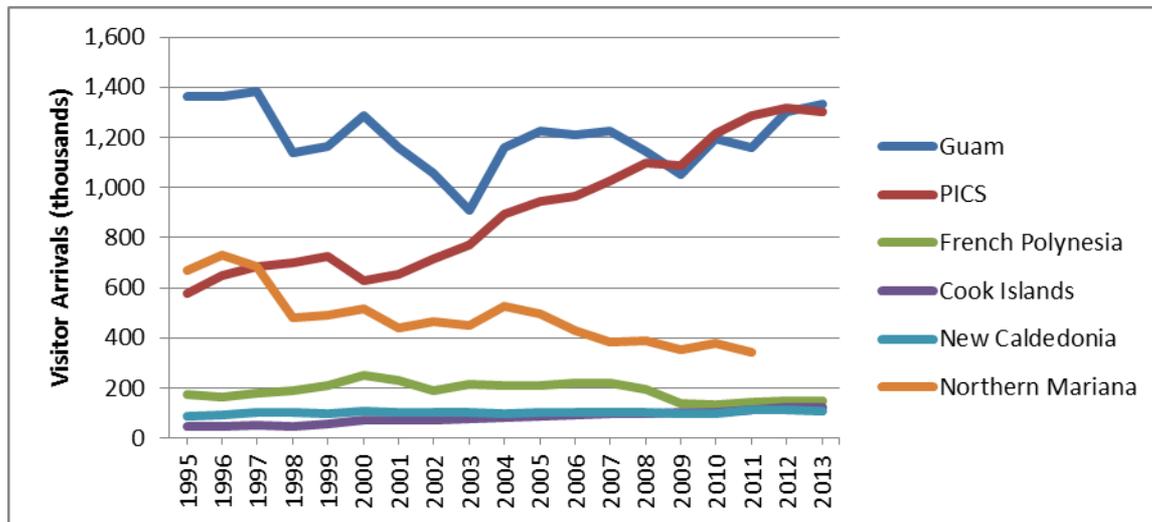
38. Global market conditions have both positive and negative effects on arrivals. Fiji has been negatively affected by the high Australian dollar, which diverted some of this major market to alternative destinations. Palau, the primary driver of regional growth in 2014, has experienced a rapid increase in arrivals from China. For PNG, the increase in arrivals is largely due to high business and worker arrivals—65 percent in 2014—linked to major natural resource projects. There has been a decline since the 2008 Global Financial Crisis in the numbers of Europeans—and in some markets North Americans—visiting the PICs.

Performance of Regional and Global Competitors

39. Visitor numbers to most PIC11s have been growing, whereas other competing Pacific regional small island states Guam, French Polynesia and New Caledonia have been flat or in long-term decline.

In 2014 arrivals to the PIC11 totaled 1.37 million, driven by the five top countries, with Fiji generating 50 percent of total PIC11 arrivals (Figure 3).

Figure 3. Visitor numbers to most PICs have been growing, while competing pacific island states have been flat or in long-term decline



Sources: UNWTO 2015, SPTO

40. PIC11s compete with a number of destinations in their main markets. Australian outbound travelers to Bali in 2014 exceeded one million, compared to 350,000 to Fiji. The strong Australian dollar, resulting from the now-fading mining boom, made travel to North America and Europe more viable alternatives. The three top Indian Ocean destinations, Maldives, Mauritius and Seychelles, are major destinations for China, Southeast Asia and Europe. Of the regional competitors—French Polynesia, New Caledonia, Cook Islands, American Samoa, Guam, Niue and Northern Marianas—the Cook Islands compete effectively with their Polynesian neighbors, but arrivals have been static for the last three years, while the French territories have been declining in importance.

Arrivals Trends for PICs

41. While the majority of PIC11s are dependent on Australia and New Zealand as their main generating markets there are changes occurring in other markets. A detailed analysis of arrivals for each PIC is shown at Appendix 1. The key characteristics of demand are summarized below.

Fiji

42. International visitors traveling for a holiday represent over 75 percent of all international arrivals to Fiji. Australians have consistently provided 50 percent of visitor arrivals in Fiji over the past five years. The New Zealand share of the Fiji market has increased from 15 percent in 2010 to 18 percent in 2014. The US market to Fiji is particularly strong, and is attracted by the range of high-end resorts and secluded smaller luxury properties, particularly in the northwestern islands of Fiji. There have been significant falls in the volume of UK and European visitors since the Global Financial Crisis. Japanese visitor numbers began falling dramatically in the late 1990s. Chinese visitors have been increasing and direct charter flights are now operating at selected periods of the year. There are strong seasonal patterns of visitor arrivals to Fiji, with Australian and New Zealand arrivals peaking in the southern winter months through to September, while northern hemisphere markets primarily arrive in the northern winter. This new year-round pattern has significantly improved the financial viability

of the Fiji tourist industry, and operators are using Chinese New Year as a prime opportunity to access that market.

Vanuatu

43. Vanuatu shares the pattern of dependence on the Australian market—50 percent of all arrivals—but the pattern of Australian arrivals is static. Over 80 percent of overnight visitors in 2013 were on holiday. It is a major cruise destination with cruise visitors outnumbering overnight visitors by more than 2 to 1 and increasing by 15 percent annually. The introduction of low cost carriers in 2005 has opened the market to Australia and New Zealand packaged visitors, and there is a range of resorts primarily on the principal island of Efate. Arrivals from New Zealand have increased steadily, averaging 8.1 percent annual growth 2010-2014. Arrivals from Europe have also seen steady growth, averaging 3.4 percent a year over the same period. Vanuatu, as a nearby Francophone country, has significant numbers of visitors from New Caledonia. While arrivals from China are still small in comparison, they have increased over 500 percent from 2011 to 2014.

Palau

44. The quality of the dive experience in Palau generates visitors from across the globe and Palau has one of most diverse source markets of all PIC11s. 95 percent of visitors are on a holiday. China, China Taiwan, Japan and Korea are the largest generating markets, with the first three generating 30,000 to 40,000 arrivals each and Korea nearly 15,000 arrivals. The introduction of charter flights from China has driven rapid growth over the past two years. There have been fluctuations in total annual arrivals, but the Chinese market grew exponentially in 2014 and the first months of 2015, with year on year growth rates of over 300 percent in the second quarter of 2015, creating significant pressures on facilities and natural attractions and impacting on visitors from other established origin markets.

Samoa

45. Samoa has a high proportion of VFR arrivals—up to half of visitors from New Zealand, Australia and the US (American Samoa and continental). New Zealand is the dominant market to Samoa, generating 41.8 percent of arrivals in 2014, but there is consistent visitor traffic from American Samoa (14.0 percent) as Apia provides a transfer point to Australia and New Zealand. Australia has become the second most important market, generated by lower cost carrier direct flights and competitive pricing as well as direct Government support. However, the withdrawal of direct flights to the US has impacted the development of long haul markets. Connectivity between Polynesian PICs is limited, with Fiji and New Zealand as the airline hubs for PIC visitors. The strong influence of VFR is a major driver of arrivals. Visitors from the US include both holiday and VFR.

Papua New Guinea

46. In 2014, only 26.5 percent of arrivals were on holiday, compared with 34.8 percent on business and 30.4 percent for employment. The high proportion of business and short-term employment arrivals to Papua New Guinea includes a wide spectrum of nationalities. Australians dominate, both on holiday and business, while Philippines arrivals are primarily contract workers.

47. When looking only at holiday visitors, a different pattern emerges. While Australia still ranks first, it is then followed by the US, the UK, Germany and Indonesia. The Australian holiday market has increased since 2005 when the PNG Tourism Promotion Authority (PNGTPA) office opened in Sydney. The close relationship between the two countries, the short distance and the frequency of flights

make PNG a convenient destination for Australians. In 2011, PNG received 3,452 US holiday travelers and by 2014 this had increased to 6,233. Marketing efforts in the US have helped create awareness and the unique natural and cultural attractions receive strong interest from the US niche markets. Australian holiday arrivals are probably affected by a restrictive visa regime, although this is now being modified.

48. Holiday arrivals from Europe have increased sharply over the last years as well. Arrivals from the UK increased from 1,679 in 2001 to 3,087 in 2014. Arrivals from Germany increased from 1,626 (2011) to 2,572 (2014). PNGTPA opened an office in London in 2013 and arrivals from the UK increased by 35 percent since. In 2010, Japan was the third largest market (2,350 holiday arrivals) for PNG but arrivals have dropped since then. This has been partly caused by a decline in the number of flights to Tokyo and a change in Japanese travel patterns. Holiday arrivals from China are low, 916 arrivals in 2014, despite PNG having “Approved Destination Status” since 2006.

Tonga

49. Tonga depends on New Zealand as its principal source of visitors, which includes a significant proportion of VFR, which is also an important factor in arrivals from the US and Australia. In 2013, 42 percent of arrivals stated they were visiting friends and relatives, but the actual proportion is probably higher. Northern Europe visitors have continued to decline, a pattern shared by other PICs. New Zealand, which is frequently a shared destination with PICs, also experienced a significant decline in Northern Europe in the period following the Global Financial Crisis. There are also low numbers of visitors from other PICs, constrained by lack of transport links. Cruise arrivals have become increasingly important since 2008, bringing 13,733 visitors during 2014.

Solomon Islands

50. Australia dominates arrivals into the Solomon Islands in every segment. Business and Conference arrivals are the largest share of all visitors with 37 percent, and holiday arrivals make up 27 percent, followed by 13 percent for VFR. However, the diversity of diving and natural experiences draws a much wider market and, although numbers are small, European visitors are increasing. Inter-PIC traffic among the Melanesian PICs is much greater than in Polynesia, with better linkages and shorter distances. Australia has been operating a peacekeeping operation in the Solomon Islands for more than ten years, which generates visitor and service personnel arrivals.

Federated States of Micronesia

51. The US is FSM’s largest source market, for total arrivals and for all segments. Unfortunately, FSM does not distinguish between holiday and VFR segments within their ‘Tourism & Visitors’ purpose of arrival, which accounts for 39 percent of the total. Japan is the second largest contributor to this category of arrivals, followed by Europe. Business and Employment arrivals make up 15 percent.

Republic of the Marshall Islands

52. Like Micronesia, RMI’s largest source markets are the US and Japan. However, just 20 percent of the 4,000-5,000 annual arrivals are on a holiday.

Kiribati

53. With two distinct destinations, the capital Tarawa and Kiritimati (Christmas Island), Kiribati has two distinct source markets. Australia is the largest source for Tarawa, which reflects the high shares of business and VFR arrivals, 35 percent and 25 percent, respectively. Holiday visitors make up

75 percent of arrivals to Kiritimati and the US is the largest source market, accounting for over 40 percent of arrivals.

Tourism Assets and Attractions in PICs

54. Fiji is the aviation hub for the South Pacific and the entry point for long-haul passengers traveling to many other Pacific destinations. This role has increased as a result of changes in connectivity amongst other PICs. It is the region's administrative center, with international organizations and regional institutions, and a strong meetings and business base. Fiji has been the leading destination in the Pacific, with a market attracted by beaches, coastal resort products, and small island resorts that provide the signature destination experience. The visitor activity base includes diving, surfing, cruising, fishing, touring, cultural tourism and eco-tourism, but visitor surveys show an emphasis on beach and water activities. There are also strong wedding and honeymoon markets. Fiji is a major cruise destination with 87,641 cruise visitors in 2014, and there are current studies to base a large cruise vessel in Fiji. The sun, sand and sea experience attracts young travelers and there is a strong backpacker market.

55. Vanuatu has strong soft adventure products, an active volcano and a rich culture attracting mostly younger people. The destination has a high number of repeat visitors at 29 percent although recent research by IFC suggests this could be as high as 40 percent. Much of Vanuatu remains undeveloped for tourism and offers considerable potential, both for cultural and environmental experiences, as well as beach and dive opportunities.

56. Palau, the closest PIC to Asia, has developed a significant tourist industry based on beaches, and the exploration of its superb marine environment through swimming/snorkeling and diving. Shopping is also favorite activity particularly among Asian visitors. Many other types of natural, cultural and adventure activities are undeveloped for tourism. As one of the world's leading dive destinations it already faces sustainability challenges with overcrowding on sensitive sites. The visitor experience in Palau is of exceptional quality but finite.

57. In Samoa, holiday visitor demand is primarily for beach and marine activities, with a beach *fale* (traditional hut) product providing a unique experience. The cultural assets of Samoa complement the beach product, but Samoa is still under-developed as a tourist destination.

58. PNG has the most diverse visitor experience of any PIC, with world-class diving, surfing, rich cultural experiences, major walking tracks, nature and adventure products, as well as World War II historical sites. But leisure tourism is a minor contributor to visitor arrivals. PNG is diversifying its product, opening additional airports to tourism and developing a cruise product that captures the variety of its island and river destinations. PNG has the greatest potential of any PIC through a range of niche markets, like bird watching and walking, but distance, visitor security and pricing remain barriers to growth.

59. Tonga has a strong culture, historic sites, surfing and an outstanding yachting environment in the islands of Vava'u. It is one of only three places in the world where swimming with whales is permitted. Internal transport issues have diminished the scale of diving and sailing markets, but Tonga has potential that could be realized with improved access and products more closely aligned to market expectations.

60. Solomon Islands have outstanding dive and World War II historic sites, and a culture differentiated from other PICs. The chain of islands has potential for tourism, but is restricted by

access. The range of nature experiences provides an opportunity for eco-tourism, but facilities are limited. A 2014 visitor survey showed swimming/snorkeling most popular with 38 percent taking part, followed by shopping at 31 percent, then sightseeing/cultural tours at 30 percent. Visiting war relics at 22 percent and diving at 20 percent were the other main activities.

61. The four remaining PIC11 countries, FSM, Tuvalu, Marshall Islands and Kiribati, have less developed tourism assets. FSM has, at Chuuk, one of the world’s leading wreck dive sites, and other nature-based experiences like sport fishing and surfing are popular among visitors. Tuvalu, a country at serious risk from the effects of climate change, has been unable to capitalize on its beach and marine assets. Only 25 percent of the 1,232 arrivals in 2011 were on holiday. The Marshall Islands has diving potential yet to be realized, including Bikini Atoll where the former testing site has become a world-class wreck diving site. Surfing and sport fishing are other potential activities.

62. Kiribati has different assets at its two main destinations. Kiritimati (Christmas Island) has a major market from the US for sport fishing, with 65 percent of arrivals reporting that as the purpose for visiting. On Tarawa, sightseeing and cultural tours are most popular, reflecting the large shares of business and VFR visitors. Its Phoenix Islands Marine Reserve is the world’s largest, but has yet to attract significant visitors.

63. Table 4 below summarizes the main activities undertaken by tourists in each of the 11 PICs. Some countries might have potential to develop activities that are not being offered or do not have wide appeal.

Table 4. The PIC11 offer a wide range of tourist activities

Activity	Adventure	Surf	Beach	Cruise	Cultural	Diving & Snorkeling	Eco-tourism	Fishing	Romance	Historical Sites	Spa & Well-ness
Fiji		X	X	X	X	X			X		X
FSM						X					
Kiribati								X		X	
Marshall Islands						X		X			
Palau			X			X					
PNG	X	X		X	X	X	X			X	
Samoa		X	X	X	X	X					X
Solomon Islands		X	X		X	X				X	
Tonga		X	X	X	X	X	X	X		X	
Tuvalu							X				
Vanuatu	X		X	X	X	X	X	X			

Source: Author’s assessment

Accommodation in PICs

64. The PIC11 countries are significantly underrepresented in international brand name hotels. This is largely due to the very small average size of hotels in the region. Research by IFC shows that

there are fewer than 60 hotels in the PIC11 with more than 100 rooms and less than 60% of these carry an international brand. In terms of large international hotel groups Accor (France), Starwood (US) and InterContinental Hotel Group (UK) dominate the region with 60% of the branded properties. The absence of a critical mass of international brand names limits recognition in international markets.

65. In Fiji, there has been major international investment—supported by local institutions—over the period 1970-1990, with a second wave of international investment 2000-2010. As a result there is a strong inventory of high standard resorts, large and small, independently run and internationally branded, as well as a depth of mid-range and budget accommodations, both coastal and urban, catering to a wide variety of travelers. There is increasing development of timeshares and second homes as part of integrated resort developments, ensuring a return visitor market. International hotel chains have made major commitments to Fiji, which has strengthened market perceptions particularly in North America. Fiji has a number of small high-end resorts that attract high-net-worth individuals, many located on private islands. 75 percent of rooms available are located on the largest island of Viti Levu.

66. The majority of hotels in Vanuatu are located in Port Vila. There are a few larger hotels catering to the demands of the young Australian travelers. There are two internationally branded hotels, a Holiday Inn and a Warwick Hotel. In Samoa, most resorts are small and family operated, although Starwood Hotels now manage the largest resort. For Solomon Islands, Honiara has international hotels, but there are no major destination experiences within the outer islands. Palau offers a number of hotels catering to the international dive market. There are three large hotels (each over 160 rooms) but only one international brand present: Nikko Hotels' International's Palau Royal Resort. There are plans to build the country's largest hotel—the 400-room Palau Pacific Star Resort—mainly to cater to the Chinese market. Tonga does not have any internationally branded hotels, but there are some boutique resorts offering a thatched-roof beach bungalow experience.

67. There has been some growth in breadth and depth of accommodation offerings in PNG over the last few years. The luxury segment is still under represented. However, there are some boutique resorts in the main tourist areas as well as niche products such as village home stays. Internationally branded hotels in PNG are limited to the Holiday Inn and Crowne Plaza.

68. Marshall Islands, Kiribati, FSM and Tuvalu have a limited number of small hotels and B&Bs offering basic facilities. Marshall Islands also has one 149-room resort formerly operated by Outrigger Hotels of Hawaii.

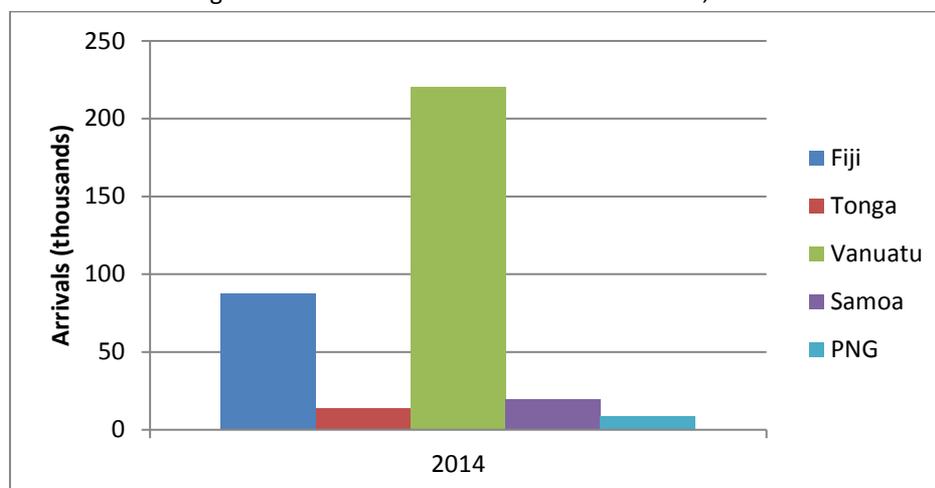
Cruise Tourism

69. The cruising industry brings hundreds of thousands of visitors—many for the first time—and millions in revenue to the Pacific every year. Cruising offers visitors opportunities to affordably visit multiple islands in a single vacation and to travel easily between countries. It also opens up destinations that lack tourism infrastructure or are difficult to access by air or land. This allows the benefits of tourism to reach isolated communities.

70. The entire South Pacific region, which includes PNG, Vanuatu, Solomon Islands, Fiji, Samoa, Tonga, and non-member states New Caledonia, French Polynesia, American Samoa and Cook Islands, received 413,126 cruise passengers from the two top source markets of Australia and New Zealand in 2014 (CLIA Australasia 2014). A few thousand additional arrivals come from trans-Pacific and Round-the-World cruises originating in North America, Europe and Asia, but precise numbers were not

available. Fiji, PNG, Samoa, Tonga and Vanuatu received 350,197 cruise passengers in 2014, with the greatest share going to Vanuatu (Figure 4). Unfortunately, not all member countries track cruise arrivals. Solomon Islands likely received 3,000 visitors, based on 2014 scheduled port calls. Palau, FSM, Kiribati and RMI each likely saw less than 1,000 arrivals from trans-Pacific and Round-the-World cruises.

Figure 4. Cruise Visitor Arrivals in Member PICs, 2014



Sources: National Statistical Offices

1.5 Source Market Trends

71. Over the past decade there has been a major change in travel patterns. China has emerged as a global force in world tourism, with spending increasing 27 percent year on year and expenditure per capita lower than any other major travel-generating nation.

Table 5. Top Ten Tourism Spending Countries, 2012-2014

Rank	Country	International Tourism Expenditures (US\$ billion)			Change (percent)	Expenditures per capita (US\$)
		2012	2013	2014	2014/13	2014
1	China	102	128.6	164.9	27	121
2	US	83.5	104.1	110.8	6	347
3	Germany	81.3	91.4	92.2	1	1,137
4	UK	51.3	62.7	67.6	4	893
5	Russian Federation	42.8	63.5	60.4	-5	361
6	France	39.1	42.9	47.8	11	747
7	Canada	35	36.2	33.8	3	961
8	Italy	26.4	27	28.8	7	481
9	Australia	28	28.6	26.3	-2	1,114
10	Brazil	22.2	26	26.6	2	126

Source: UNWTO 2015

72. Eleven countries outside the top ten showed double-digit growth in expenditures: Saudi Arabia, Norway, Sweden, Spain, India, China Taiwan, the Philippines, Qatar, Thailand, the Czech Republic and Colombia. China now generates 13 percent of global tourism receipts. International tourism expenditures by the US increased by 6 percent and Germany by just 1 percent (UNWTO 2015). Australia's high travel expenditure per capita reflects that the majority of preferred destinations involve medium or long haul travel, which encourages longer stays.

73. The propensity to travel (international outbound as a proportion of total population), gauges the relative importance of travel within the top tourism spending countries. Australia, the US, Russia and Japan have potential to continue to grow as other outbound markets have. The potential of China, however, is the opportunity that can change global tourism. Doubling propensity to 0.14 would add nearly 100 million new tourists. The high travel propensities of Germany and the UK make these markets with long-term potential.

Table 6. Travel Propensity of major outbound markets

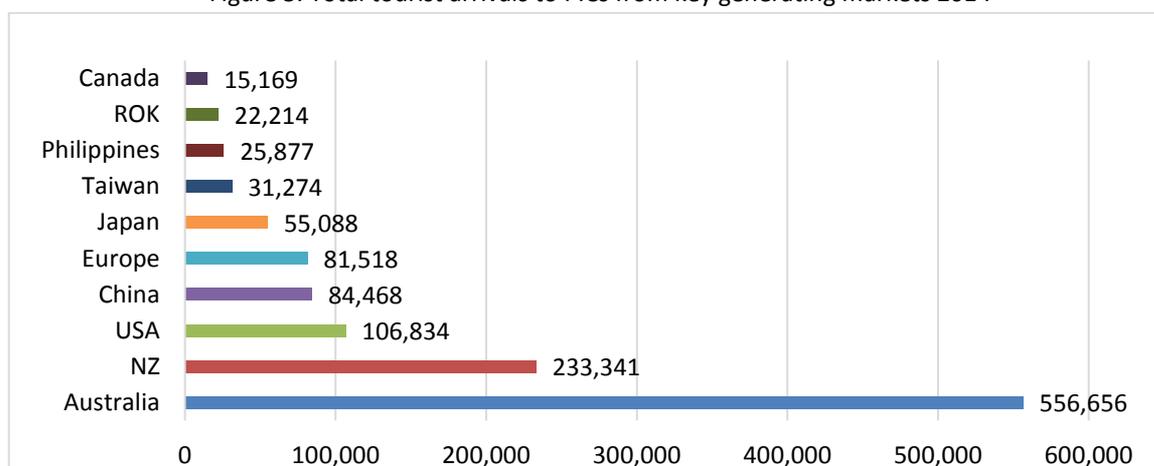
	Outbound travelers	Population	Travel Propensity
Australia	8,768,000	23,125,868	0.38
New Zealand	2,193,000	4,442,100	0.49
US	61,900,000	316,497,531	0.20
China	98,185,000	1,357,380,000	0.07
Japan	17,473,000	127,338,621	0.14
UK	57,792,000	64,106,779	0.90
China Taiwan	11,053,000	23,000,000	0.48
ROK	14,846,000	50,219,669	0.30
Russia	54,069,000	143,500,000	0.38
Germany	87,459,000	80,645,605	1.08
France	26,243,000	26,243,000	0.40

Source UNWTO and World Bank

PIC11 Source Markets

74. In the past decade the global financial crisis, the UK travel tax, reductions in flights to the US and Japan, as well as the rise of China have created shifts in the pattern of arrivals in the Pacific. Inter-island connectivity has declined, there have been major, well reported natural disasters and global competition has intensified. Long haul markets have declined in importance and PICs have become increasingly dependent on Pacific Rim markets.

Figure 5. Total tourist arrivals to PICs from key generating markets 2014*



*Data from FSM, Kiribati and Solomon Islands is 2013, Marshall Islands 2012. Arrivals from key generating markets only and does not reflect total tourist arrivals.

Source UNWTO 2015

75. Two thirds of tourists are visitors from Australia and New Zealand. The US, China, Japan and Europe are relatively small markets, but still very important as they have the potential to generate much more growth in arrivals than Australia and New Zealand. Outbound travelers from the US are already more than double the combined populations of Australia and New Zealand, at half the travel

propensity. A detailed analysis of trends in all major source markets for the PIC11s is shown in Appendix 2.

1.6 Growth potential for tourism in PICs

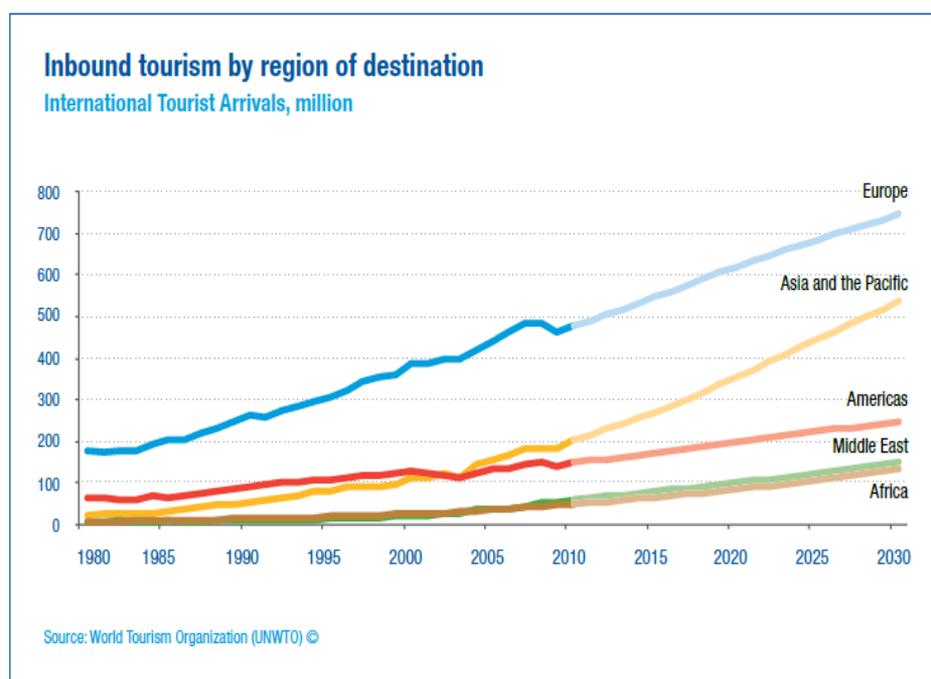
76. The UNWTO expects the number of international tourist arrivals worldwide to increase by an average of 3.9 percent a year over the period 2005 to 2030. International tourist arrivals worldwide are expected to reach 1.4 billion by 2020 and 1.8 billion by the year 2030. Over the twenty years 2010-2030 UNWTO forecasts emerging economies annual tourism growth, at 4.4 percent, will be double that of advanced economies (UNWTO 2011). Asia and the Pacific will gain most of the new arrivals over that period. Arrivals in Oceania (including Australia and New Zealand) are expected to grow at the slower rate of 2.4 percent, of which 2.9 percent between 2010 and 2020 and 2.0 percent between 2020 and 2030. International arrivals in Oceania are expected to increase from 11.6 million in 2010 to 19 million in 2030. Australia will receive the largest share of this market.

Table 7. Oceania has experienced a 2.4 percent growth in tourist arrivals

	International Tourist Arrivals (millions)				Percent Average Annual Growth
	2005	2010	2020	2030	
Advanced economies	453	498	643	772	2.7
Emerging economies	345	442	717	1037	5.7
By region					
Africa	35.4	50.3	85	134	6.7
Americas	133.3	149.7	199	248	2.1
Asia and the Pacific	153.6	204	355	535	6.3
North-east Asia	85.9	111.5	195	293	6.8
South -east Asia	48.5	69.9	123	187	6.2
Oceania	11	11.6	15	19	2.4
South Asia	8.1	11.1	21	36	6.6
Europe	438.7	475.3	620	744	3
Middle East	36.3	60.9	101	149	4.5
World	797	940	1,360	1,809	3.9

Source: UNWTO Tourism Towards 2030

Figure 6. Asia and the Pacific will gain the most arrivals by 2030



Tourism growth in PICs

77. Total arrivals in the 11 PICs in 2014 are estimated at 1.375 million. Recent growth in PICs has been 5.0 percent annually, driven by the rapid growth of Chinese visitors to Palau and strong growth in visitors to Fiji in 2014 and 2015. Chinese visitors to PIC 11 have grown at 27 percent annually since 2010. While this strong growth will not continue indefinitely, it can be expected that China will become a significant market for PICs in the future.

78. UNWTO projections for future regional demand for travel tend to aggregate effects across several markets. This is also true in the case of the PICs as they are included in the Oceania category along with markets with significantly different behavior such as Australia and New Zealand. Historically the PICs have performed closer to the global growth rate for visitor arrivals than for that of Oceania. In addition the UNWTO forecasts were carried out shortly after the GFC and before the recent rapid discovery of the Pacific by China and India. Thus the UNWTO forecasts may require more close scrutiny.

79. Further analysis of demand for travel to the PICs from the key regional sources of visitors shows that long term average growth rates have been in decline as shown in the table below.

Table 8. Long term CAGR for key origin regions to PICs 1995 - 2013

	1995-2000	2000-2005	2005-2010	2010-2013
Australia and New Zealand	0.3	15.6	12.0	2.5
Europe	-1.2	5.7	-1.8	-16.1
Asia	5.0	7.9	6.5	3.6
North America	9.1	2.0	1.9	0.4
TOTAL for four regions	2.5	10.6	8.8	1.5

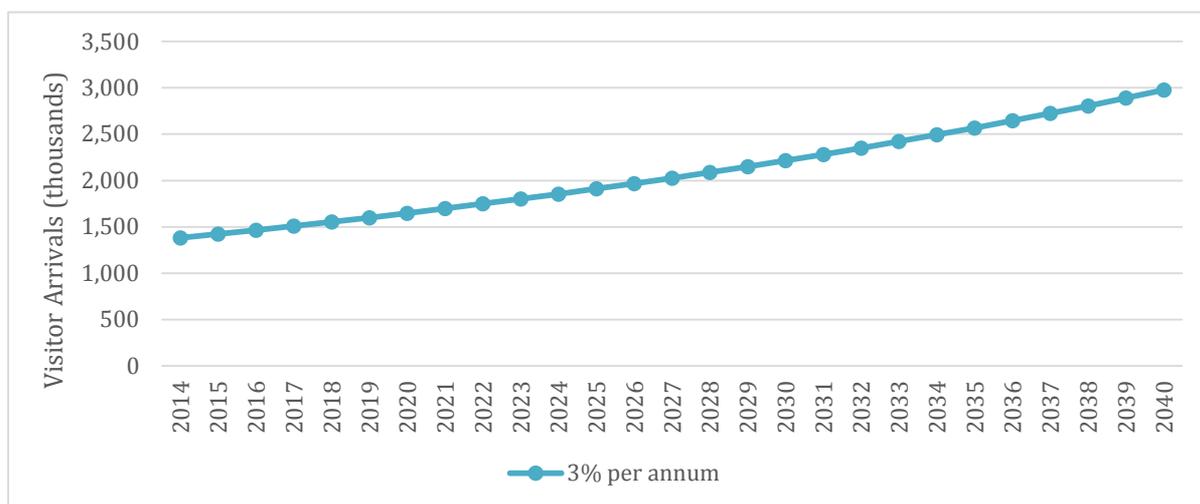
Source: Analysis of UNWTO data

80. Detailed country source data for each region is only available up to 2013, which is before the rapid expansion of Chinese travel to Palau and Fiji. While travel from these two markets alone has

the potential to dramatically impact the long-term trends, historic patterns cannot be ignored in the development of possible scenarios for long-term growth in demand.

81. Annual growth of 3 percent across the 11 PICs, based on total arrivals of 1.375 million in 2014, would result in 1.9 million visitors in 2025 and effectively double total arrivals by 2040, to 3.0 million. This growth rate is achievable and is likely to be exceeded if market changes occur. This is greater than the UNWTO predicted growth of 2.9 percent through to 2020, falling to 2 percent thereafter and is closer to the long term projections for emerging markets as a whole. Current indications are that the UNWTO growth rate is conservative.

Figure 7. An annual growth of 3 percent will double arrivals in the PIC11 by 2040



82. The foregoing analysis of individual source markets and the trends above suggest that in order to ensure long-term, balanced and manageable visitor growth, the Pacific will need to work on several fronts to maintain its strong position in the short haul markets of Australia and New Zealand, capture a share of the emerging Asian markets while at the same time significantly improve penetration into the traditional, but slower growth long haul markets of Europe and North America.

83. As different Pacific island destinations are driven by different origin markets, each with their own growth patterns and varying buyer behavior, increased long term growth will require more strategic evaluation of segmented opportunities in the key origin markets, improved differentiation of the offer across the individual PIC11s and a careful rebalancing of long haul versus regional market development strategies.

84. While earnings from tourism should follow growth in arrivals, there is evidence that this is not always the case, particularly where high volume markets can reduce earnings per visitor and turn away higher yielding markets such as reported by tourism authorities in Palau and the Maldives. Managing growth in the Pacific will require careful balancing of high growth markets and higher yielding markets at the same time.

85. Under the assumption of long-term visitor growth of 3 percent, tourism will continue to be important to PIC11 economies. However, long-term growth at this level will not generate significant changes in economic performance of the PIC11s. For this, it will be necessary to significantly expand demand in selected segments. As is shown in the following section, significant growth in visitor arrivals above trend is possible.

2 Successful Tourism Transformations

86. The Maldives and the Seychelles are two examples of remote small island states, which have developed the tourism sector through transformative interventions. Both countries have adjusted their strategies, and are now attracting visitors from the new markets, especially Chinese visitors.

2.1 Maldives: From least developed to middle income through tourism

87. The Maldives is made up of low-lying coral islands scattered across the Indian Ocean, located just north of the equator and southwest of the Indian peninsula, with about 402,071 in resident population (National Bureau of Statistics 2015). Stretching for more than 800 kilometers from north to south and covering a total area of 90,000 square kilometers, the Maldivian Archipelago comprises a total of 1,192 coral islands—of which only about 290 are inhabited—formed around a double chain of 26 atolls that are formally grouped into 20 administrative atoll groups (JLL Hotels & Hospitality Group 2014). The history of tourism dates back to 1972 when the first resort opened. Since then, the government has made tourism a main priority and arrivals have grown substantially. The sector has become the largest economic activity and a main source of foreign exchange earnings.

88. While a premium destination, the country presents an attractive value proposal and visitors enjoy a high level of privacy, secluded beaches and excellent service and food—an all-round high-quality offering. The quiet monsoon season offers year-round potential, and the country's offering is largely about beach, sun, water sports, restaurants and relaxation. Each resort is on its own island, a policy dubbed “one island, one resort,” which showcases some of the world's best over-water villas, innovative resort features and first-class spa facilities. Resorts have been creative in building a truly unique offering including facilities such as underwater restaurants and spa treatment rooms, underground wine cellars, over water villas with pools, treetop dining venues, observatories and more.

89. This prestigious image of the Maldives has sustained solid demand from European source markets, and more recently from China and other Asian countries. According to information from surveys, tourism has grown catering to three main segments that constituted more than 90 percent of demand: i) “beach relaxers” made up mostly of couples and family groups; ii) honeymooners/anniversary celebrants; and iii) divers and other specialist water sports. Additional residual segments include business and MICE, cruise ship tourism and free and independent travelers (Ministry of Tourism, Arts & Culture 2013).

90. While the upper end of the resort market has been the staple of Maldives tourism, the country is attempting to grow the “affordable luxury” segment—high quality, though not necessarily 5-star service, priced between US\$150-300—in order to attract more visitors from European and Asian markets, including would-be repeat visitors. The Government is also promoting locally-run guesthouses, as a way to increase involvement of SMEs in the accommodation sector, and live-aboard vessels, seen as a growth area and a natural link for the economic integration of less developed islands.

91. Tourism has helped transform the Maldives from one of the poorest countries in the world in the 1980's to a middle-income country in 2011. The relative role of tourism in the economy has declined since its peak of 33.3 percent of economic output in 2000 due to a diversifying economy. Tourism now stands at 25.3 percent of the estimated 2014 economic output (National Bureau of Statistics 2015). However, when including both direct and indirect effects of tourism spending, it accounts for nearly three quarters of output. The difference between direct and indirect GDP

contributions demonstrates how tourism is a cross-sectoral industry, and the primary driver of the economy—it serves as a link and stimulus to most sectors of the economy such as transport, construction, trade and financial services (MOTAC 2013).

Transformation to a High-End Destination

92. The Tourism Act of 1979 set the foundation for tourism development. This legislative act defined the pillars for a competitive investment climate including: no foreign exchange restrictions, the possibility of legally backed investment guarantees, unrestricted repatriation of earnings and capital proceeds, and a right to 100 percent foreign ownership. The Maldives has also maintained a peg with the US Dollar in some form since 1981¹, thus adding to investment certainty.

93. Following the opening of the first resort in 1972, tourism developed mostly through individual, uncoordinated initiatives until the advent of the First Tourism Master Plan (FTMP) in 1983. The FTMP laid the foundation for sustainable development of tourism, emphasized environmental protection and called for integration of tourism into the social and economic development of the country. Policies set out in the FTMP limited built-up space on resorts, required building heights to be compatible with the natural vegetation of the islands and included measures for environment and reef protection that are still adhered to in current resort development. Rules introduced also set guidelines for the quality of services and facilities provided to tourists (Kundur 2012). The FTMP established the “one island one resort” principle and limited the built-up area of a resort to 20 percent of the total land area of an island. This regulation contributed to creating peaceful and quiet environments on resort islands—now a key feature of the Maldives’ exclusive tourism brand and a trademark of the luxury resorts there.

94. Under these rules, resort development expanded and 16 resorts were built from 1989 to 1997. The Second Tourism Master Plan, covering 1996 to 2005, sought to expand and develop tourism into more regions across the country, with the aim of decentralizing tourism from the central atoll of Male’ and spreading the benefits of tourism among more regions, particularly the southern and northern atolls. It was during this phase that international resort brands began to establish themselves in the Maldives. Resorts based on a spa concept were also launched with the aim of introducing higher quality tourism.

95. As tourism grew, the original 1979 Tourism Act was amended to better address new realities. It now supports regulations on the lease of islands or land for resorts, hotels and marinas, the development of guesthouses, and the management of these facilities. In 2006, 35 islands were designated for tourism development under a competitive bidding process where islands are leased from the government on fixed-term contracts for a period of up to 50 years. The new system also allowed developers to secure plots on a sublease model, allowing more than one developer per island on inhabited islands—an attempt to increase local investor participation and link tourism benefits more closely to communities. The Third Tourism Master Plan (2007-2011) aimed to place tourism within a broader sustainable development framework.

¹ Since a devaluation in April 2011, Maldives has retained a de facto stabilized exchange rate regime. Although the band is wide at 20 percent either side of Maldivian rufiyaa (Rf) 12.85 per dollar, the exchange rate has remained at the weakest end of the band (Rf 15.42 per dollar) and operates like a de facto peg.

96. As a result, tourism foreign direct investment expanded significantly and over 100 islands have been developed as tourist resorts, with a total capacity of some 31,569 beds² as of 2014. The Fourth Tourism Master Plan (2013-2017) seeks to maintain the Maldives' position in the market, manage environmental and conservation issues and engage more Maldivians in a tourism career. During the initial tourism master plans, resorts and hotels grew in concentration around Male' (the capital and main transport hub) due to a pragmatic approach by private investors seeking to develop around existing infrastructure. The challenge remains creating secondary transport hubs in northern and southern atolls, currently one of the priorities.

97. Accessibility also played a key role. The Maldives has bilateral air service agreements with 29 countries (Civil Aviation Authority 2016) and is very welcoming and even inviting to foreign airlines, both charter and regular schedule services. In addition, the Maldives has a liberal visa policy, not requiring pre-arrival visas for any nationality, provided that inbound visitors can present a valid passport and proof of means of stay or a hotel reservation.

98. Investments in transportation infrastructure are also part of the success story, including improvements to the primary international airport, Ibrahim Nasir, near the capital Male', and development of three new international airports: Hanimaadhoo in the north, Gan in the south, and Maamigili in the center of the country, a privately-owned airport home to the carrier FlyMe. Also, new domestic airports are being developed to further the smooth transfer of tourists to far-away resorts. The Maldives also boasts the world's largest seaplane fleet serving the tourism industry with over 40 aircraft, a major factor in accessing more distant, underdeveloped and secluded atolls.

Attracting Non-Traditional Source Markets

99. The main pre-conditions for growth in arrivals from non-traditional source markets are the maintenance of a solid quality brand and ease of access. Introducing new air routes and increasing capacity on existing routes can facilitate rapid growth in arrivals. The Maldives is served by 32 air carriers, compared to other destinations in the Indian Ocean such as Mauritius with 19 air carriers and Seychelles with 7 air carriers.

100. In 2010, a special decree of the President established the Maldives Marketing & Public Relations Corporation (MMPRC) to carry out all promotional activities and branding. The marketing budget in 2012 from the government was US\$4 million. Private sector members pay an annual enrollment fee of US\$1,000 plus US\$25 per bed for resort operators. This amounted to approximately US\$500,000 in 2012.

101. In terms of developing China as a key emerging and then a leading source market, access and targeted marketing proved critical. While direct flights from Mainland China to the Maldives were rare in the past, there are now direct flights from seven cities on five airlines. Mega Maldives Airlines, a US-Maldives private joint venture carrier setup exclusively to cater to Chinese tourists, began flying regular charter flights in 2011 to Hong Kong, Shanghai and Beijing. In 2015, Xian and Changsha were added and plans have been revealed to add a route to Shenyang, capital of northeast China's Liaoning province. Maldivian Airlines also introduced a once-weekly flight from Wuhan that began in June 2014 (Haveeru Online 2016).

² Per type of accommodation, 23,917 beds were in resort/marinas, 1,704 in hotels, 3,209 in guesthouses and 2,739 in live-aboard safari vessels.

102. The marketing strategy of the MMPRC for China has been based on a solid online presence featuring ticket giveaways and fare discounts via social media, in response to the fact that 70 percent of bookings in China are made online. Marketing to the travel industry has been through participation in trade fairs in China. Specifically, Maldives has been represented at the China Outbound Travel & Tourism Market (COTTM) held in Beijing—one of the country’s leading outbound travel exhibitions. The MMPRC together with 62 representatives from 30 Maldives tourism companies participated in the COTTM 2015 aiming to boost promotion of the Maldives to China’s outbound tour operators.

Tourism Performance

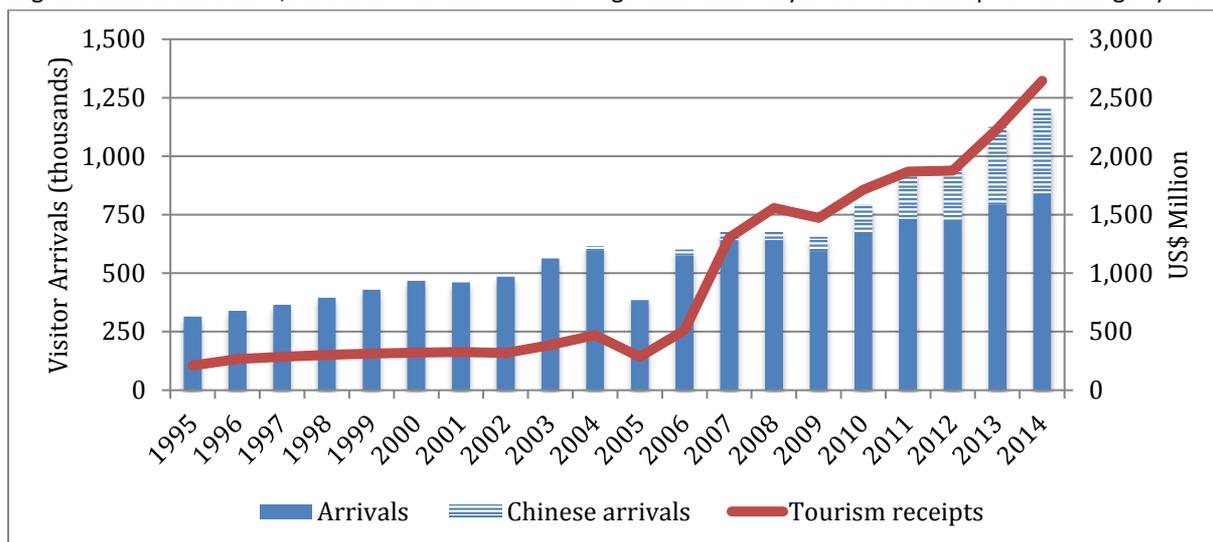
103. International arrivals have increased from 315,000 in 1995 to 1,204,857 in 2014. Arrivals dropped in 2005 due to effects of the Indian Ocean tsunami and in 2009 due to the global financial crisis. While other high-end destinations in the Caribbean were suffering long after 2009, the Maldives was able to diversify away from the traditional European market and tap into other Asian source markets. Arrivals quickly recovered in 2010 and reached a new milestone in 2013 of over 1 million total international visitors.

104. While visitors from Europe represented 70 percent of all arrivals in 2009, this share dropped to 43.9 percent by 2014. In contrast, Asia and the Pacific source markets showed substantial growth—arrivals from these markets grew at an average rate of 22 percent in 2013, and market share increased from 23 percent in 2008 to 48.9 percent in 2014.

105. The Maldives receives higher numbers of arrivals from October to April and lower volumes during the monsoon season from June to August. This is mostly due to Europeans preferring to visit during their winter. Yet, with the growing significance of arrivals from Asia and especially from China, the Maldives is experiencing less seasonality—Chinese arrivals are strong from July to October. In addition, Chinese arrivals are highest in February due to the Chinese New Year holidays. However, Chinese and Indian tourists favor a shorter than average length of stay³, which has led to an overall decrease in the average duration of stay—from 7.6 days in 2011 to 6.1 in 2014. Overall occupancy rates have nonetheless remained robust over the past five years, even registering an increase from 69.5 percent in 2010 to 74.3 in 2014.

³ The Maldives Visitor Survey of 2015 shows that Asian tourists, especially Chinese and Indians, stay for a period of 3 to 4 days, while European visitors tend to stay longer with an average of 7 to 11 days.

Figure 8. In the Maldives, the share of Chinese tourists grew from nearly zero to over 30 percent in eight years



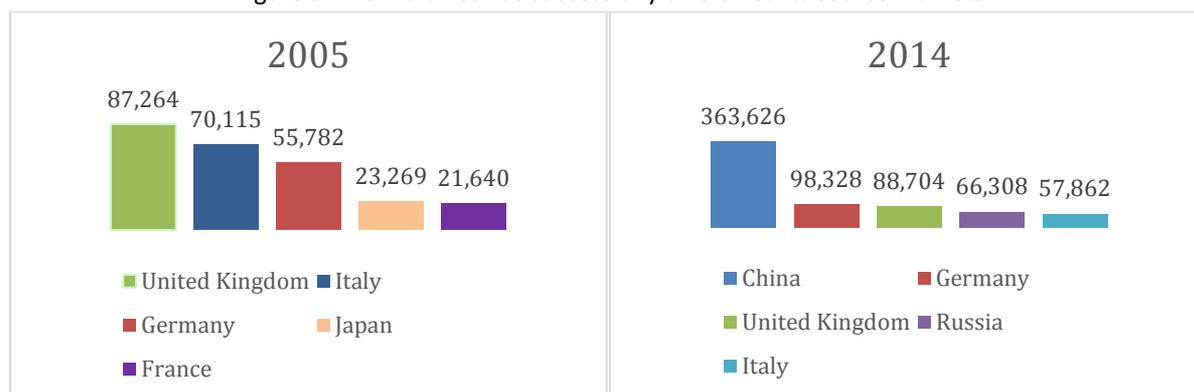
Source: Maldives Ministry of Tourism 2015

106. Tourism receipts have shown a similar upward trend. While the Maldives received US\$211 million in tourism receipts in 1995, they increased to US\$2,645 million in 2014. These figures may be however underestimated as the official methodology is based on extrapolations from tax revenue and does not capture additional expenditures along the value chain. The IMF (2015) estimates that annual tourism revenues could be as high as US\$4 billion based on a survey of spending habits approach and an additional 10 percent higher based on a Balance of Payments approach. According to a Maldives Visitor Survey, 32 percent of respondents spend US\$1,000 to 5,000 for their holiday; an additional 30 percent spend US\$5,000 to 10,000. Russian and Chinese visitors spend the most per visit. Further, 90 percent of Chinese arrivals to the Maldives were first time visitors and their main purpose of visit was rest and relaxation (Ministry of Tourism 2015).

Growth of China

107. Arrivals from China have seen a remarkable evolution (Figure 9). It has become the top source market to the Maldives since 2010, further strengthening its position in recent years. In 2014, China's 363,626 arrivals represented 30.2 percent of total market share, considerably more than second and third place source markets Germany with 8.2 percent and the United Kingdom with 7.4 percent. The strongest growth rate was from 2010 to 2013. Since 2014, Chinese arrivals are showing signs of a slowdown.

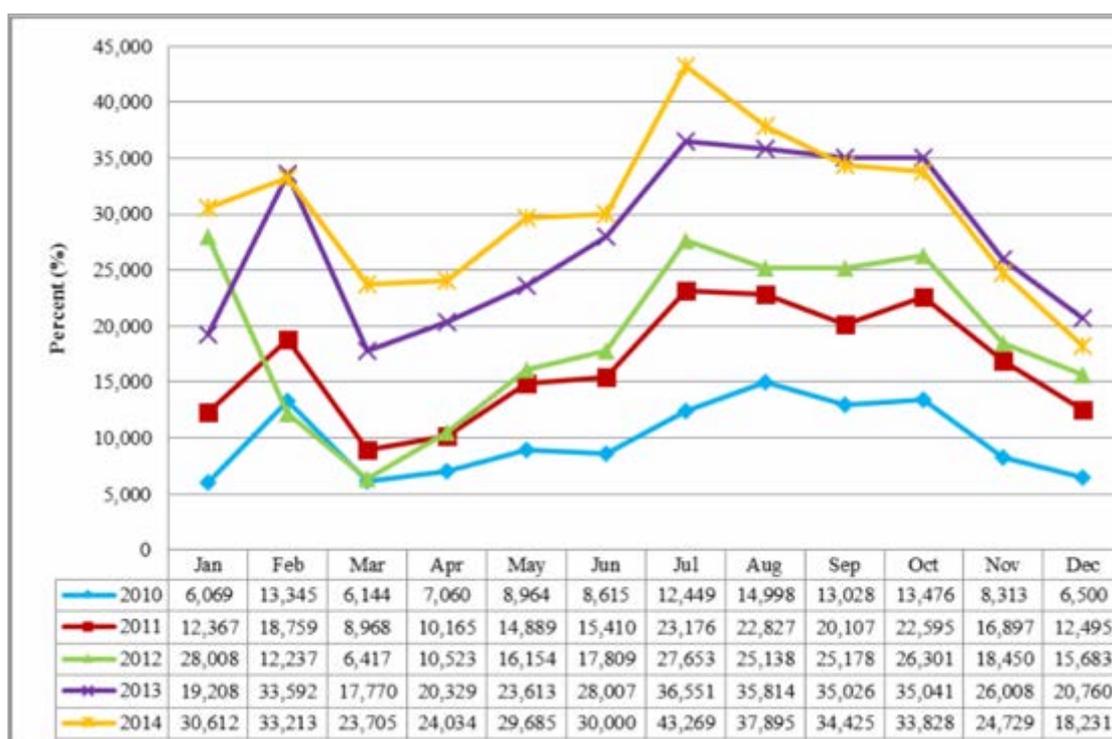
Figure 9. The Maldives has successfully diversified its source markets



Source: Maldives Ministry of Tourism

108. While China’s volume and share of arrivals continued to increase in 2014—by 9.6 percent and 0.7 percent, respectfully—these are the smallest gains since 2006. Considering that overall Chinese outbound tourism still showed robust growth of 12 percent in 2015 (Travel China Guide 2016), the driving factor for this slowdown appears to be associated with heightened competition. The five destinations identified in a Visitor Survey as the main competitors to the Maldives—Seychelles, Thailand, Mauritius, Indonesia, Fiji—have seen robust growth rates, some in the double digits, above the global average of 11 percent in the two-year period 2009-2011. Thailand especially has shown dynamic growth in both the mass-market resort segment in Phuket and in some high-end resort destinations like Koh Samui (MOTAC 2013).

Figure 10. Chinese arrivals to Maldives normally peak during Chinese New Year and the summer months



Source: Maldives Ministry of Tourism 2015

109. The seasonal pattern in Chinese arrivals over the last five years is fairly constant (Figure 10); arrivals increase during February—except in 2012—with Chinese New Year holidays, and then peak during July. The fewest arrivals are typically during March, then decreasing again towards the end of the year. Provisional numbers for the first three quarters of 2015 show continued growth, although at a slower rate, just 2 percent year-on-year growth for the third quarter of 2015 (Ministry of Tourism 2015).

Impact of Tourism

110. Tourism is the largest contributor to the Maldives economy. According to Maldives Government figures, tourism’s direct contribution to GDP was 25.3 percent in 2014 and has been 25 percent since 2010. The next largest sector, Transport and Communication, accounts for 17.6 percent. Tourism spending has increased from US\$1.9 billion in 2011 to US\$2.6 billion in 2014. However, tourism’s share of GDP has gradually declined from one-third of the total since the early 2000s as the Maldives economy has diversified (National Bureau of Statistics 2015). Adding the estimated indirect

effects of tourism within the economy increases tourism's contribution to 75 percent of GDP (IMF 2015).

111. Tourism is also the largest contributor to government revenue. The share of tourism revenue to total government revenue has increased significantly, from 26.9 percent in 2009 to 39.8 percent in 2014. Nearly two-thirds of tourism revenue is from taxes on tourism goods and services, while a quarter is from land rent (Ministry of Tourism 2015).

112. The impact of tourism on the labor market is complex in Maldives, due to the large number of foreign workers involved. The Accommodation and Food sector is the largest employer, with over 20 percent of workers. Resort workers alone account for a greater share of employment than manufacturing, the second largest sector. While the unemployment rate is low at 5.2 percent and has improved from 5.5 percent in 2006, 29 percent of all workers are foreigners (National Bureau of Statistics 2015). Estimates for the tourism sector put the share of foreign workers at 50 percent. Women are critically underrepresented in the sector, making up only 7 percent, and Maldivian women are only 2 percent of tourism workers.

113. The heavy presence of foreign workers and low numbers of women is largely due to two factors. First, the "one island, one resort" policy isolated resorts away from communities, so local staff had to spend extended periods away from their families, a nearly impossible task for women. Second, Maldivians lacked the skills and qualifications for many categories of employment required by the sector. The government has made various efforts to address these and other factors that limit national employment in tourism since the Second Tourism Master Plan in 1995, but the share of foreign workers has only grown with the industry (MOTAC 2013).

Impact of Non-Traditional Markets

114. While Europe still accounted for 43.9 percent of arrivals to Maldives in 2014, Asia and the Pacific became the largest source market for the first time with 48.9 percent. The Chinese market has been the driving force behind the rise of Asian arrivals, with 30.2 percent of all arrivals. Russia and India have not reached that level of dominance, although they are well established in the top ten of source markets. Russia was the 4th largest source country with 5.5 percent of arrivals. India ranked 7th with 3.8 percent.

115. Russia has been one of the top five source markets to the Maldives since 2011, growing at an annual average rate of 12 percent from 2010 to 2011. However, Russia has been losing market share over the last two years. Though arrivals from Russia posted strong growth rates in 2010, 2011 and 2013, they dropped significantly in 2014, down 13.3 percent. According to UNWTO (2015), this was due to sluggish economic growth and currency depreciation against the US Dollar and the Euro—exogenous factors not directly related to Maldives. The monthly arrival pattern of this market remained consistent from 2010 to 2014: January was the peak month, while June was the weakest.

116. Although recording a small and somewhat constant market share, Indian arrivals have grown consistently from 2010 to 2014, averaging 25 percent annual growth, and increasing from 25,756 to 45,587. The Indian market has shown irregular monthly patterns, but December has remained the peak month. It is expected that this market can develop further considering the continuing strong growth in Indian arrivals to the whole of the Asia Pacific region (PATA 2015).

117. Projections for tourism growth under the standing Fourth Tourism Master Plan place these source markets as significant drivers for growth in arrivals, with a goal to have 1.4 million arrivals from

Asia Pacific by 2021. These estimates, although not disaggregated by country, imply significant growth in arrivals from the four Asia Pacific markets in the top ten: China, Russia, India and Korea. Their combined arrivals were 510,417 in 2014.

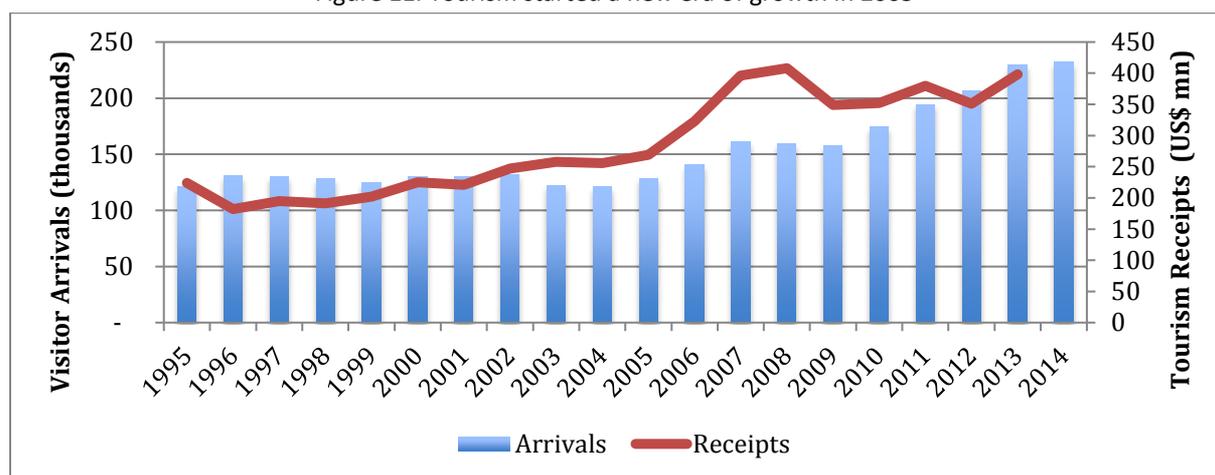
2.2 Seychelles: From rapid growth to broad growth

118. Located in the heart of the Indian Ocean, the Seychelles is mainly known for high-end luxury hotels and resorts, and is a favorite destination for honeymooners and couples. The tourism industry is the main contributor to GDP, the main employer, and the main source of foreign exchange earnings. Due to limited carrying capacity, the tourism strategy follows a low-density, high-yield approach.

Tourism Performance

119. Tourist arrivals in the Seychelles increased from 120,716 in 1995 to 231,857 in 2014, an increase of 92 percent. Arrivals started to decline in 2003 after the 9/11 attacks in 2001 and an outbreak of Chikungunya fever, and did not recover until 2006. In 2008 and 2009 the sector suffered from the global financial crisis. The country worked hard to diversify tourist source markets as well as the range of products when the economic crisis hit the main European markets and has experienced growth in arrivals since 2010. While Europe represented 80 percent of all arrivals in 2005, in 2014 this share had dropped to 66 percent. Meanwhile, Middle East and Asian markets have become more prominent. The combined Middle East/Asia market share increased from 6.8 percent in 2005 to 18.2 percent in 2014. The largest growth has come from the United Arab Emirates and China. In 2014, Germany was the largest market representing 15.4 percent of all arrivals followed by France (13.9), Italy (8.5), Russia (6.4), UAE (6.0), China (5.7) and South Africa (5.4).

Figure 11. Tourism started a new era of growth in 2005



Source: Seychelles National Statistics Bureau/World Bank

120. Tourism is the Seychelles' main source of income. Tourism receipts reached US\$ 398 million in 2013. The sector employs one third of the workforce and contributes 70 percent of total foreign exchange earnings. Tourism contributes an estimated 26 percent to GDP (World Bank, 2013). There are two major sources of revenue leakage in the Seychelles; most supplies need to be imported and most hotels are foreign-owned and managed. A 2010 value chain analysis estimated that of the amount spent on materials/goods in the tourism sector, 88 percent was used for imports.

Growth Strategy

121. During the 2000's the Seychelles tourism strategy was to attract developers and open five-star hotels and resorts. The Tourism Incentive Act 2008 was instrumental in achieving that. Hilton, Le

Meridien, Banyan Tree, Shangri-La and Four Seasons all have properties in the country. Now that the Seychelles has a firm luxury brand, the country has diversified their strategy. The Seychelles Strategy 2017 set an objective to *“attain self-sustaining economic growth by securing targeted increases in the number of tourist visits to the country and the amount spent by each tourist. In order to achieve these advances the degree of direct and indirect local participation in all elements of the sector will be increased”*. The rate of expatriate employment in the tourism sector had increased from 8 percent to 23.4 percent between 2001 and 2010. The current growth strategy is then also to ensure the Seychellois will benefit from tourism as much as possible and that tourism should not negatively impact the well-being of the population. There is no carrying capacity number attached to this strategy but there are now restrictions on ownership and size of tourism businesses with a “Seychellois First” policy as an alternative to high growth and foreign investment. Following the dip in arrivals from Europe caused by the economic crisis, the government has also focused on a market diversification strategy. The strategy of sustainable, high yield and inclusive growth as detailed in the 2012-2020 Tourism Plan has been translated into the following policies and strategies:

Seychelles Accommodation Policy

122. This policy was updated September 2015 and sets specific requirements on size and ownership for new accommodation establishments in each of the islands. No new large-scale development will be approved, with limits varying from 10 to 24 rooms. In North Mahe on the main island, only Seychellois developers are allowed and they can propose small establishments that exceed limits. Projects already approved are allowed to proceed. This policy has not only involved a greater number of Seychellois, but also increased the number of more affordable accommodations and supported the market diversification strategy.

123. A similar policy has also been used for tour operators, which must be 66.66 percent owned by Seychellois, and yacht and dive operators—those with 4-5 boats must be at least 51 percent owned, while there are no restrictions on those with six or more. Effectively, growth through small businesses has been prioritized for Seychelles.

Small Establishments Enhancement Program (SEEP)

124. This marketing initiative has been developed to help promote the country’s smaller establishments under the brand name “Seychelles Secrets”. Owners of these small hotels and guesthouses have received capacity building support and are being promoted by the Seychelles Tourism Board.

Restructuring of Ministry of Tourism and Culture

125. After reshuffling of portfolios, the current Ministry of Tourism and Culture (MTC) was created in March 2012. The Seychelles Tourism Board (STB) is now overseen by MTC but continues to report to its Board, which is made up of members from the public and private sectors. In 2013, MTC had an annual budget of US\$2.5 million while STB had an annual budget of US\$10.8 million. The current Minister of Tourism and Culture, Alain St Ange was previously the CEO of the Seychelles Tourism Board and the vice-president of the hotel association. The budgets reflect the important role of the private sector and there are good working relationships between the private sector and government. The MTC and STB have been able to leverage their budget through aggressive promotion and public relations.

Tourism Marketing Act of 2013

126. The Tourism Marketing Tax (TMT) was introduced in January 2013 and is applicable to all tourism businesses, banks, insurance companies and telecoms with an annual turnover of 1 million rupees (approximately US\$85,000). The rate is 0.5 percent of the annual turnover. Through the new tourism-marketing levy, STB estimates that it will receive an additional 30 million SCR (US\$2.7 million) to add to its current budget of 120 million SCR (US\$10.8 million). The new funding mechanism has been created with the understanding that STB will need to broaden its efforts in order to improve occupancy rates and attract new markets.

127. The STB launched the 'Affordable Seychelles' campaign in 2010 to move the perception away from the idea that the country "only exists for the rich and famous". Under this campaign, the STB has started offering packages for a safari in Kenya combined with a beach vacation in the Seychelles. This sub-campaign, From the Big Five to the BEST Five, takes visitors from the 'Big Five' of the African continent to the 'Best Five' of the Seychelles Islands. The Seychelles diversification strategy has also been successful in attracting the growing South African market.

Human Capacity Building

128. An important step towards addressing the tourism sector capacity gap and low local participation on tourism employment was taken in 2007 with the creation of Seychelles Tourism Academy (STA) which replaced the Seychelles Hospitality and Tourism Training College and was moved from the Ministry of Education to be managed by STB. The STA has MoU's with a number of hotel companies in the Seychelles and the region and had over 600 students enrolled in 2015. There is an effective partnership between the STA and the private sector.

3 Transformational Opportunities

129. Historically PICs have achieved higher than average long-term growth. This can be expected to continue if the current strategies are maintained. However, this level of growth will not be sufficient to generate transformational change. Significant change is possible as the Maldives and Seychelles cases demonstrate.

130. Based on long-term performance, emerging market trends, specific product opportunities and the natural attractions and selling points, the Pacific has opportunities that hold the potential to generate transformational change. These opportunities include aggressively targeting the Chinese visitor market, reconfiguring the rapidly growing Pacific cruising product, expansion of the high-end resort market and capitalizing on the aging population in key origin markets by developing a long-stay visitor opportunity for retirees. These opportunities have the potential to deliver substantially higher revenues but will also bring impacts that will need to be managed.

3.1 Addressing the Underlying Fundamentals for Growth

131. The Pacific faces challenges which constrain growth. These include difficulties in access; declining competitiveness with dated facilities; limited demand, particularly from long haul markets and constrained marketing. This is coupled with a lack of effective data for decision making. It will be necessary for the Pacific to address these underlying fundamentals in order to build a stronger platform for growth.

132. Realizing the potential growth of tourism in the Pacific requires a strategy of improving yields and developing markets. It means being less dependent on Australia and New Zealand markets. To achieve this requires a four-part strategy:

- Improving connectivity with growing and established markets.
- Attracting more and higher yielding tourists.
- Improving the investment climate and the effectiveness of public sector participation in the sector.
- Improving efficiency of tourism to deliver higher returns to governments and communities.

Improving connectivity

133. While connectivity is improving, here is a priority for improving to access to medium and long haul markets, opening up new routes, improved connections between PICs and upgrading ground facility standards to ensure safety, security, passenger handling for an increase in passenger services. This may include financial support for airlines to open up new routes, possibly through a regional market development fund to evaluate and develop new routes and services. A brief examination of the possible role of subsidies as a form of support for expansion of airline services is presented in Appendix 3. There has already been some success in using charter flights as a way of building demand, particularly between China and both Fiji and Palau. Appendix 4 provides further detail on the role of charters in developing air services between China and the Pacific islands.

Attracting more, higher-yielding tourists

134. Overcoming dependence on Australia and New Zealand as the principal markets for PICs will require concerted, long-term market development that emphasizes yield, rather than volume. The environment and resources of the Pacific are less suited to high volume low-yield traffic enjoyed by the Caribbean, with major markets within easy reach. Applying a research-based approach to identifying the opportunities for expanding high-yield markets such as weddings; the MICE market; diving and surfing (including live-aboard); super yachts and private aircraft; game fishing and other niche markets which match the PIC product offerings, can grow higher-yield sectors. In parallel, re-establish the Pacific as a destination of choice, through media, the travel trade and contemporary reservation systems.

Improving the investment climate and the effectiveness of public sector agencies in supporting the development of tourism

135. The examples of Maldives and Seychelles demonstrate the effectiveness of sound public policy in driving the growth of tourism. For PICs this requires a greater degree of intervention in creating the business environment which will make the proposed transformation agenda achievable. This involves improving the investment environment to overcome the shortage of domestic capital and provide confidence for investors; the development of a business enabling environment which makes investment easier to implement, including minimizing legal and administrative impediments which affect the tourism sector. It also requires greater intervention in physical planning and land management, as well as ensuring a future labor force has the skills necessary to meet future demand. Marketing capability and improved statistical information are also critical to effective sector development, at both a PIC level and for the Pacific region. Development will only occur if the environment for investment compares favorably with other prospective opportunities.

Improving efficiency

136. It will also be necessary for the PICs to improve the efficiency of the tourism sector. This would include improving linkages between tourism and the local economy such as food supplies and services to hotels, improved destination management and strategy, pooling of private sector resources such as cold storage and access to warehousing financing for this purpose, and regional training facilities. The Caribbean tourism strategy now incorporates a number these initiatives designed to improve efficiency. Fiscal revenues from the sector can also be better managed.

3.2 Targeting Opportunities for Transformational Change

3.2.1 The Chinese Market

137. China has been by far the fastest growing tourism source market in recent years and has been the world’s top spender in international tourism since 2012. According to UNWTO, 109 million Chinese traveled abroad. Boosted by rising disposable incomes, an appreciating currency, improved travel facilitation and an easing of restrictions on international travel, Chinese outbound travel has been growing strongly over the last two decades. According to the recent data released by WTTC (WTTC 2016), Chinese tourists spent US\$215 billion outside mainland China in 2015, a 53 percent rise from the US\$140 billion spent in 2014, despite the country’s economic slowdown.

Figure 12. Chinese Spending has grown substantially during the last 10 years



Source: WTTC

138. China’s economic growth has exceeded that of other large emerging markets experiencing rapid growth. Continued robust income growth and expansion of China’s middle class will make long-haul travel even more achievable for Chinese households in the coming decades. The number of Chinese households earning above US\$35,000 per annum—an income level at which long-haul international travel becomes affordable—rose by 21 million from 2003 to 2013 (IHG 2015). An additional 61 million households will pass this threshold by 2023 (Table 9).

Table 9. Chinese households are getting wealthier, and so their demand for travel will increase

Household Income Level	2013 (millions of households)	2023 (millions of households)	Market Segments
Up to \$20,000	364	312	
\$20,000 to \$35,000	44	93	Short-haul trips and low cost accommodations
\$35,000 to \$70,000	21	63	Long-haul trips and higher cost accommodations
\$70,000 to \$ 150,000	5	21	Luxury accommodations and tend to spend more while on long-haul trips
Over \$150,000	1	4	

Source: InterContinental Hotels Group 2015

139. Chinese travelers are a diverse market. Based on an analysis of income and travel spending by WTTTC and Oxford Economics, household income of close to US\$20,000 is the threshold at which Chinese households can afford outbound leisure travel. From there, it is estimated that households earning US\$35,000 annually find international travel more affordable and can take more long-haul trips. When traveling abroad, many Chinese tourists are willing to pay a premium for accommodation, dining and shopping. For the higher-end market segments, recent Chinese travel trends show that cruise, safari and adventure travel are becoming increasingly popular.

140. China has a fast growing market segment of well-traveled, high spenders, looking for new experiences. A study conducted by the Boston Consulting Group (2013) shows that from 2012 to 2030, three segments of the outbound leisure market will grow the fastest: young 'affluents' (ages 18 to 30), senior professionals (ages 45 to 55, traveling without an organized tour group), and small groups of families and friends (ages 30 to 45, also traveling without an organized tour group). Combined, by 2030, these segments will account for additional 100 million annual trips and US\$ 340 billion in annual spending. This is quite different from the past when the outbound leisure market was driven largely by mass-market travelers and travel in organized tour groups. It implies potential opportunities for PICs, which offer niche and higher-end products and generally attract more experienced travelers.

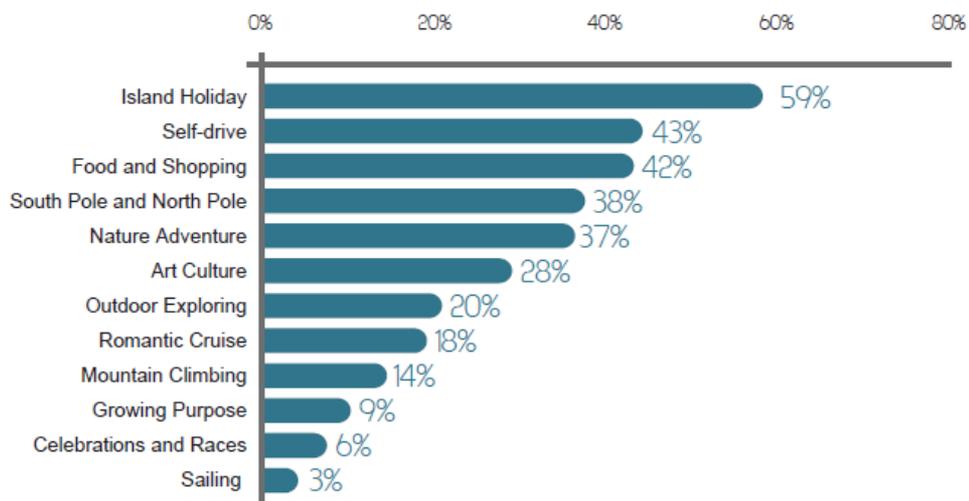
141. Opportunities to tap China's travelers are not just in the country's largest and most well-known cities. In terms of location, while well-known super tier 1 cities⁴ such as Shanghai and Beijing all have populations of more than 10 million, by 2030, 29 non-super tier 1 cities will have middle-class and affluent consumers of more than 3 million. And in many cases, these cities represent unique opportunities for consumer goods and services. According to 2013 data from TripAdvisor's China website, which tends to attract more experienced travelers, more than 70 percent of unique site visitors researching outbound destinations lived outside the four super tier 1 cities. And online traffic from these visitors is growing two to three times faster than that of visitors from the super tier 1 cities (Boston Consulting Group 2013). For travel and tourism companies in the distribution channel for PICs, looking beyond tier 1 cities may yield more potential opportunities. For example, Australia's Jetstar Airways launched flight services from tier 3 city Haikou in 2009 and United Airlines started to offer three direct flights weekly between San Francisco and Chengdu, which was a destination with no US airline services before.

⁴ Super tier 1 cities refer to Shanghai, Beijing, Guangzhou and Shenzhen.

142. Large cities, iconic attractions, and beach resorts have been favored destinations in recent years and will continue to be in the future. Shopping, sightseeing, and relaxing are popular activities now and will remain so, while outdoor and adventure trips are emerging as new trends. Significantly, in the first half of 2015, 25 percent of Chinese outbound travelers chose island destinations for their trips abroad (Meesak 2015). In particular, traveling to lesser-known and often more expensive islands is an increasingly popular trend, which suggests opportunities for PIC11s.

143. In the Chinese luxury travel market, research has found that island-based locations are among the most popular destinations. A 2014 survey targeted 203 ‘super tourists’, noted for their extensive spending, who traveled abroad for an average of 18 days with spending of US\$150,000. The results show that their major tourist destinations were in Europe, the US and island-based locations. Specifically, 59 percent of these super tourists have island resort experience (Hurun Report 2014).

Figure 13. Island Holiday is the most popular travel experiences of Chinese ‘Super Tourists’

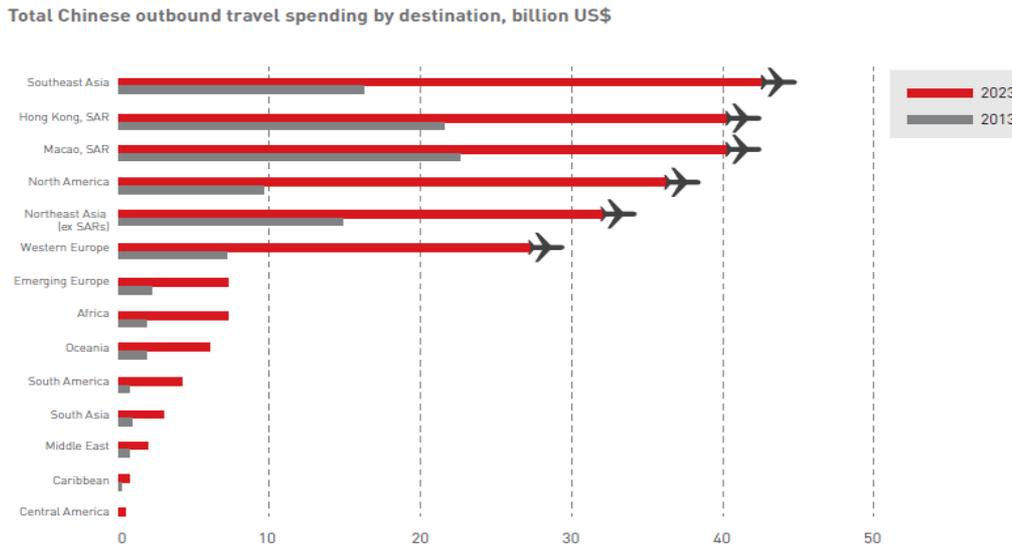


Source: Hurun Report 2014

144. Cities are still the primary destinations of Chinese travelers, with over 70 percent of Chinese outbound travel to major cities around the world⁵. This fits with the pattern of Chinese tourists, who tend to travel as part of a package trip involving group tours with multiple destination stops. The current largest city markets for Chinese travel spending are mostly found in the Asia-Pacific and the US.

⁵ Excluding Hong Kong and Macao

Figure 14. Travel spending by Chinese outbound travel will triple in Oceania and in other destinations



Source: IHG 2015

145. Shopping has long been central to the outbound Chinese tourism market. A recent analysis by McKinsey suggested that 29 percent of Chinese tourists choose their location based on shopping opportunities. The study also found that in 2015 Chinese tourists who traveled abroad devoted about a quarter of their total annual consumption to their trips, with a half this being spent on shopping (Zipser 2016).

146. The preference of Chinese leisure travelers for packaged group trips has been a key characteristic that shapes travel and spending behavior while abroad. Package trips are especially appealing to new travelers. As the Chinese travel market evolves, the popularity of group leisure is unlikely to diminish, as a large proportion of the increase in Chinese outbound arrivals will be made by first-time travelers. However, Chinese travelers making their second international trip and those in higher income brackets are more likely to opt for independent travel. In addition, there are increasing indications of preferences for long-haul leisure travel, higher-cost accommodations, and high-end shopping. It is these markets that are more likely to be attracted to the PIC11.

Nature of Transformational Change

147. Countries are usually required to receive “Approved Destination Status” (ADS) before Chinese tourists can be allowed to visit although Palau appears to be an exception. Analysis of historical travel facilitation reforms affecting Chinese nationals shows that, following ADS approval, these reforms can yield substantial growth in Chinese arrivals (Table 10). Previous travel facilitation reforms include:

- The removal of inbound travel quotas
- Introduction of an individual travel visa scheme
- Government sponsored tourism promotion programs
- Visa-free travel exceptions for various classes of passport holders
- Introduction of electronic visa application (eVisa)
- Visa waiver programs
- Visa on arrival programs (VoA)

Table 10. Improving travel policy toward China can generate significant growth in Chinese inbound travel

Destination	Year of Policy Change	Policy Change Type	CAGR (pre-reform, 6-yr)	CAGR (post-reform, 3-yr)
Indonesia	2006	VoA	15%	40%
Singapore	2011	Visa-free exceptions	5%	15%
Philippines	2005	Visa waiver	9%	15%
Hong Kong, SAR	2002	Mainland quota removed	7%	19%
Macao, SAR	2003	Individual visa scheme	22%	26%
Malaysia	2007	Gov tourism promotion	1%	18%
Thailand	2010	Gov tourism promotion	4%	59%
Cambodia	2006	eVisa	14%	17%

148. Moreover, recent reforms by the US, Australia and the UK will greatly facilitate Chinese outbound travel, though their impacts have yet to be observed in the available arrivals and spending data. In November 2014, the US and China reached a mutual agreement to extend the terms of their tourist visa from one year to ten years. Chinese nationals can acquire US short-term multiple-entry visas for both business and leisure travel valid for up to ten years, and vice versa. In 2014, 2.2 million Chinese visitors arrived in the US, up 21 percent over 2013⁶.

149. Similarly, the UK is in the process of improving visa facilitation and processing for Chinese travelers. Super Priority Visas, which are processed within 24 hours, have been extended to travelers from Beijing, Shanghai and Guangzhou. In addition, the mobile fingerprinting service that is required to apply for the UK visa has been extended from 9 Chinese cities to an additional 50 cities, making it more convenient to apply for the visa. This has been commended by the CEO of WTTC as a great effort to welcome more Chinese tourists (WTTC 2015).

Table 11. Recent US, Australia and UK Visa Reforms have targeted Chinese tourists

Destination	Total tourist arrivals 2014 (million)	Recent changes to visa policies for Chinese tourists
US	2.2	<ul style="list-style-type: none"> In November 2014, the US significantly eased the visa application process for Chinese tourists and increased visa validity limits to 10 years (from 1 year) and the allowed duration of stay remains 6 months From December 2014 to January 2015, the US issued 351,650 Chinese visas, up 68 percent
Australia	0.8	<ul style="list-style-type: none"> New multiple-entry, 10-year visa granted on Jun 2015
UK	0.2	<ul style="list-style-type: none"> From January 2016, the standard visitor visas will be extended from 6 months to 2 years multiple entry (with plans to introduce a new 10 year multiple entry visa for the same price) Mobile fingerprinting service (which is needed to apply for the UK visa) has been extended to an additional 50 Chinese cities

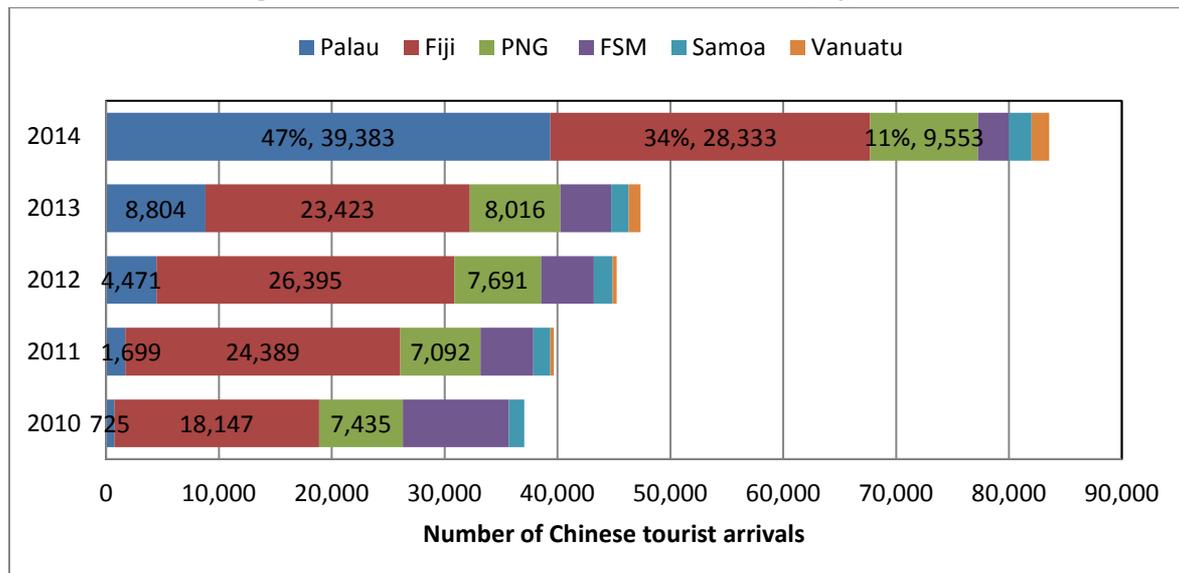
⁶ Two million Chinese visitors travelled for business, holiday and VFR.

Scale of Transformation

150. Based on historical trends, the demand for travel will continue to grow, particularly the demand for outbound travel. The number of Chinese who travel abroad will reach 220 million in 2025, according to recent estimates (Goldman Sachs Global Investment Research 2015). In addition, by 2030, outbound trips will account for 40 percent of China’s total market value up from 30 percent in 2012. Chinese travelers will be spending about US\$700 billion on these outbound trips (Boston Consulting Group 2013).

151. Between 1995 and 2008, total Chinese arrivals in nine of the PIC11 were reported by the UNWTO as growing from only 278 to 3,969. Notably, in 2009 the total jumped to 25,988, then increased to 84,468 in 2014. The main destinations for Chinese tourists in the region are six PIC11s: Palau, Fiji, PNG, FSM, Samoa and Vanuatu. Figure 15 shows the strong growth of Chinese arrivals in top PIC11s from 2010 to 2014. The distribution of the arrivals illustrates that Palau and Fiji are key destinations receiving more than 80 percent of the total Chinese arrivals in the top PIC11s in 2014.

Figure 15. Chinese arrivals are concentrated in Palau, Fiji, and PNG



Source: UNWTO

152. The market share of Chinese tourists can be increased substantially beyond its current seven percent. Between 2009 and 2014, Chinese visitors to PIC11 grew by an average of 27 percent per annum, and now represent seven percent of the inbound market. Based on the experience of other destinations that implemented well-targeted policy interventions that facilitated improved access, such as aviation and visa policies, together with targeted marketing, the annual growth rate of Chinese arrivals could continue to grow at 20 percent for the next 10 to 20 years in most PIC11.

153. Beyond 2025-2030, it is likely that limitations on carrying capacity and absorption rates would act to reduce the growth of Chinese visitors to PIC11s. Assuming growth returned to the long-term average for all markets, Chinese visitors would retain the 26 percent share of total PIC11 tourism resulting in a figure of approximately 971,000 by 2040. At that time the PIC11 would welcome nearly 3.7 million international tourists.

Economic Impact

154. Spending by Chinese tourists has significant economic value to destinations. Asia-Pacific destinations, for example, receive more than 40 percent of their total travel spending from Chinese

visitors. South Africa, Canada, the US, Argentina, Brazil and Russia are also among the top 15 destinations in terms of the Chinese share of total travel spending. It is estimated that over the next eight years, growth in Chinese outbound travel to key destination markets will expand markedly. For example, in absolute terms, the US will see the greatest increase in Chinese travel spending, more than quadrupling by 2023 and Thailand will see Chinese travel spending more than double by 2023. The US Department of Commerce projects that the new visa policy could mean that as many as 7.5 million Chinese visitors will visit the US by 2021 which is three times as many arrivals as in 2013 and they will inject an estimated \$85 billion into the domestic economy (Fuller 2015).

155. Compared to a long term growth rate of around five percent for most PIC11, the additionality of the transformational scenario estimates the economic potential of the Chinese market opportunity in 2040 at over 660,000 additional tourists, which bring nearly US\$950 million in tourism receipts, and generate nearly 65,200 additional jobs.

Table 12. The Chinese market has a potential of bringing an additional one billion dollars by 2040

Additional Impact	2040
Number of tourists	660,435
Tourism expenditure (USD)	947,305,634
Airport taxes (USD)	36,984,367
Employment	65,197

Source: Author's estimations

3.2.2 The Cruise Ship Market

156. The cruising industry brings hundreds of thousands of visitors—many for the first time—and millions in revenue to the Pacific every year. Cruising offers visitors opportunities to affordably visit multiple islands in a single vacation and to travel easily between countries. It also opens up destinations that lack tourism infrastructure or are difficult to access by air or land. This allows the benefits of tourism to reach isolated communities. While the average cruise visitor spends less than an overnight visitor, that spending demands less capital investment and has greater local benefit. Passenger spending at port calls goes primarily to private businesses with lower levels of leakage than average tourism spending⁷.

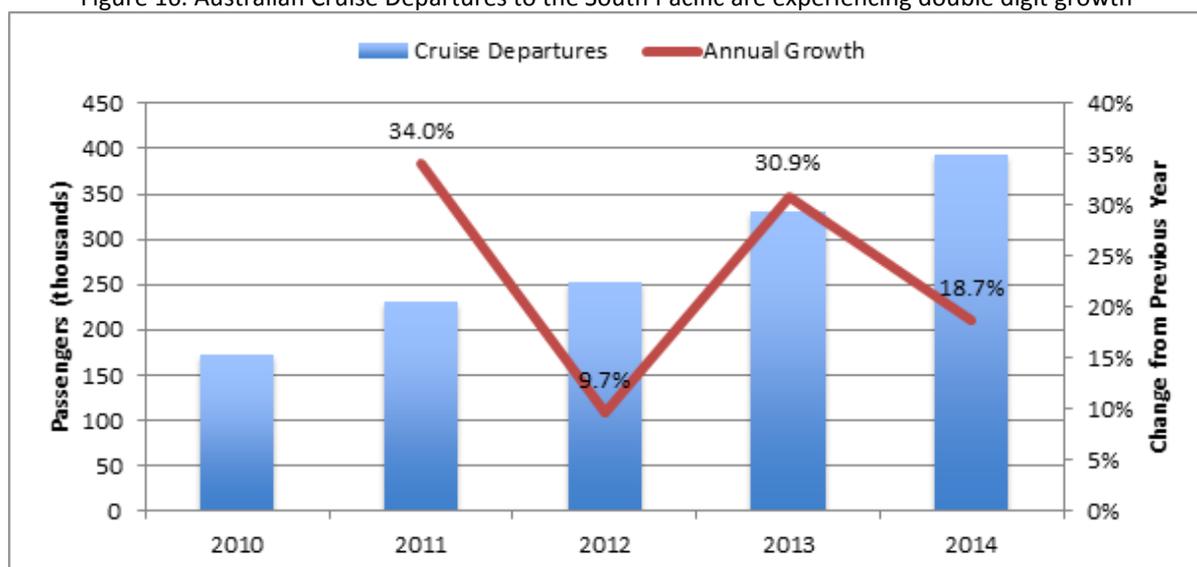
157. The growth of the Australian market has transformed cruising in the Pacific. Since 2004 cruising to all destinations by Australians has grown at an annual rate of 20 percent, reaching 1 million passengers in 2014. Market penetration is a global high 4.2 percent, considerably ahead of North America—the world's largest cruise market—where market penetration is 3.4 percent. Australia has quickly become the world's fourth largest cruise market, after North America, Germany and the UK, accounting for 4.5 percent of global traffic. The most popular cruise length among Australians continues to be 8-14 days, with 54 percent of the market, although 5-7 day length cruises account for 21.7 percent of passengers and grew by 31 percent from 2013 to 2014. The average ocean cruise

⁷ Most estimates of leakage from overnight tourism revenue in Pacific SIDS are close to 60 percent, while IFC (2014) estimates that leakage for cruise passenger spending in Vanuatu is 41 percent.

length is 9.7 days, down slightly from 10.25 days in 2013, reflecting the increased popularity of 5-7 and 0-4 day cruises.

158. The most popular cruise route from Australia, accounting for 39 percent of passengers, is the South Pacific, which includes PNG, Vanuatu, Solomon Islands, Fiji, Samoa, Tonga, and non-member states New Caledonia, French Polynesia, American Samoa and Cook Islands. In 2014 the entire South Pacific region received 392,549 passengers, up 18.7 percent from 2013 and more than double the number in 2010 (Figure 16) (CLIA Australasia 2014). Australia is the largest source market for the South Pacific, contributing 70-75 percent of passengers (IFC 2014). However, growth of the Australian cruise market has been a factor in the slowing growth of air travel to Vanuatu. From 2010 to 2014, average annual growth in air arrivals from Australia to Vanuatu was only 0.9 percent, while the same figure for New Zealand was 8.1 percent.

Figure 16. Australian Cruise Departures to the South Pacific are experiencing double digit growth



Source: Cruise Lines International Association Australasia

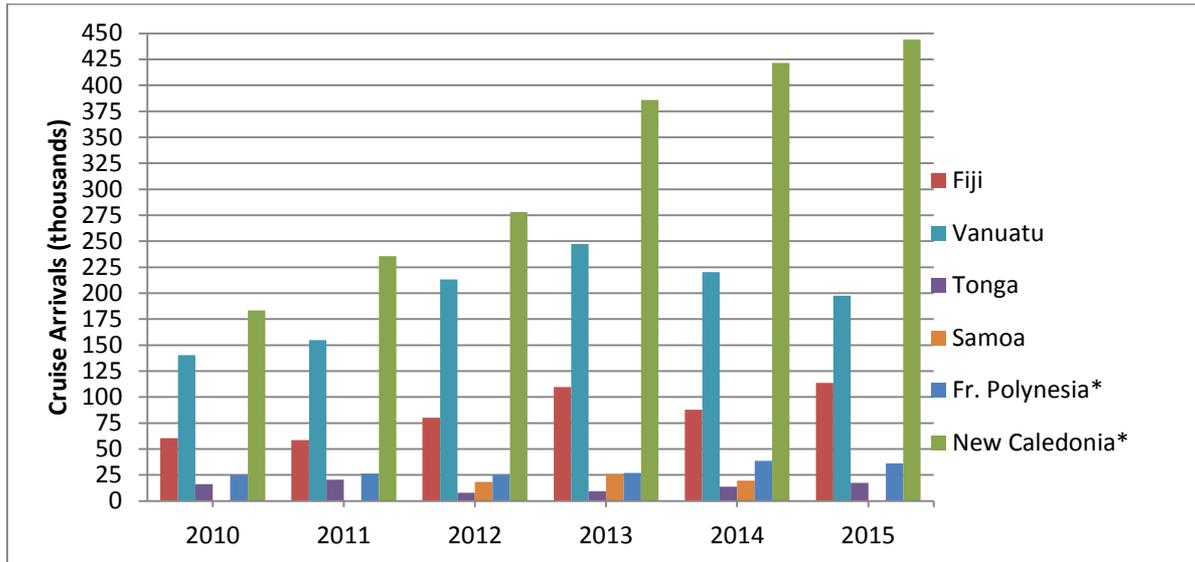
159. The total number of cruise passengers from New Zealand increased by 10.6 percent in 2014 reaching a record of 65,609, the third highest growth rate globally. Since 2009, passenger volume has increased an average of 17.3 percent a year, more than doubling over the period. With market penetration increasing to 1.4 percent, New Zealanders are more engaged with cruise travel than major markets Spain and France, and there is still plenty of room for growth. The preferred cruise length remains 8-14 days, accounting for 51.8 percent of passengers and up 6.3 percent from 2013. 5-7 day cruises saw the largest year-on-year increase of 40 percent, and made up 23.8 percent of passengers. The average cruise length decreased to 10.4 days in 2014, down from 11.1 days, due to growth in the shorter duration cruises. The South Pacific attracted 20,577 passengers from New Zealand, 31.4 percent of the total number, and a 12.7 percent increase over 2013 (CLIA Australasia 2014). Because of shorter sailing times from Auckland versus Australia, a greater share of New Zealand cruises visits Tonga.

160. The world's fastest growing cruise source market is Asia, with 34 percent average annual growth in cruise passengers 2012-2014. Chinese outbound cruise passengers have increased by 80 percent, comprising almost 50 percent of the 1.4 million Asian cruise passengers. There will be 52 ships based in Asian ports in 2015, but mainly on a seasonal basis, operating in other areas during Northern winter, including the South Pacific. Most cruises are short duration, up to 6 days, with

gaming, shopping and entertainment the main activities. Operations from Chinese ports cannot reach Pacific Island destinations on the most popular length itineraries, but Caissa Touristic is marketing a 46-day cruise from Tianjin with 8 port calls in the South Pacific sailing in November 2016. The Asian fly-cruise market is growing. Asian passengers choosing to fly-cruise outside Asia make up 9 percent of the market—126,000 passengers—and this segment averaged 5 percent annual growth from 2012 to 2014. Only 3 percent of these passengers made Australia, New Zealand and the South Pacific their fly-cruise destination, leaving significant room for the South Pacific to increase its share (CLIA Southeast Asia 2015).

161. Cruise arrivals to South Pacific destinations have generally increased since 2008 (Figure 17). Each country records arrivals, so a single cruise passenger can be counted as multiple arrivals when an itinerary includes multiple countries. Similarly, a passenger is counted as one arrival even if a cruise ship stops at multiple ports in a country. Figure 17 also illustrates the rapid growth and dominance of New Caledonia as a cruise destination. New Caledonia’s primary advantage in the cruise market is proximity to Australia. The French territory is located just 1,210 km east of Australia—the closest South Pacific destination to Brisbane and Sydney—and is featured on the most popular 7- 10-day itineraries. New Caledonia has four ports of call at Nouméa, Isle of Pines, Lifou and Mare offering a variety of attractions. Cruising is also the most affordable way to visit New Caledonia due to high airfare and accommodation prices. As a result, it received nearly four times more cruise visitors than overnight visitors in 2015. As long as New Caledonia remains safe and politically stable, it will be a major cruise destination. The deployment of cruise ships in PICs further east could shift some of the market to more distant countries like Fiji, Samoa and Tonga.

Figure 17. New Caledonia and Vanuatu are the most popular cruise destinations in the South Pacific



Source: SPTO and National Statistics Offices *Non-member countries **2015 data not available for Samoa

162. Fiji, PNG, Samoa, Tonga and Vanuatu received 350,197 cruise passengers in 2014, with the greatest share going to Vanuatu. Unfortunately, not all member countries track cruise arrivals. Solomon Islands likely received 3,000 visitors, based on 2014 scheduled port calls. Palau, FSM, Kiribati and RMI each likely saw less than 1,000 arrivals from trans-Pacific and Round-the-World cruises.

163. Vanuatu is the most popular PIC11 destination in the South Pacific. Only New Caledonia, sees more cruise arrivals. In 2015 Vanuatu received a total of 197,471 cruise passengers, more than double the number of overnight visitors. While this represents a decline from 2013’s record high — partly

due to the effects of Tropical Cyclone Pam—arrivals have increased 58 percent since 2009. Just under half of these arrivals visited multiple ports within the archipelago. The capital, Port Vila, is the primary port of call. Ships that make additional calls favor Luganville (Santo) and Mystery Island (Aneityum). These three ports account for 85 percent of calls. Ships also call at Champagne Beach, Wala and Pentecost. According to a 2013 survey by SPTO, 93 percent of passengers were Australian and 70 percent were first time visitors. Of the 30 percent who had visited previously, 77 percent had done so on a cruise. Respondents reported high levels of satisfaction with their visit, with strong majorities expressing a desire to return and to recommend Vanuatu to others (SPTO 2014).

164. Cruise operators, their passengers and crew spent US\$34.6 million in Vanuatu in 2013. This is equivalent to approximately 10 percent of Vanuatu's exports. 90 percent of this spending went to private businesses. One cruise ship passenger brings US\$125 of spending distributed over three ports. It is estimated that the number of jobs created or sustained by cruise ship tourism in Vanuatu ranges from 1,170 full-time jobs to 3,250 part-time jobs (IFC 2014).

165. Fiji receives Australian- and New Zealand-based cruises, and trans-Pacific and Round-the-World cruise vessels. The ports of call in Fiji are Suva, Dravuni Island, Port Denarau (Nadi), Lautoka, Savusavu and Yasawa-i-rara. Lautoka also serves as an embarkation port for a few small luxury and expedition cruises a year. While cruise arrivals are not tracked by country of origin, the majority of cruises that include Fiji in their itinerary depart from Australia. The cruise industry has become an important tourism sector for Fiji. Cruise arrivals have increased dramatically from 41,669 in 2008 to 113,760 in 2015. Estimates by the government indicate that cruise passengers spent US\$3.9 million, or US\$35 per arrival, in 2013. Suva port hosted 64 cruise liners in 2014 and was scheduled to host 53 cruise liners in 2015. Port Denarau is home to two local cruise lines, which offer itineraries up to 7 nights around Fiji's islands on small ships.

166. Approximately half of the cruise ships visiting Tonga are from Australia and New Zealand, but a significant number of total port calls are trans-Pacific and Round-the-World cruises. Arrivals have fluctuated dramatically in recent years, demonstrating the unpredictability seen in more geographically isolated markets. In 2015, Tonga received 17,375 cruise visitors, down from a peak of 27,641 in 2009, but up from the low of 7,957 in 2012. Nuku'alofa and Vava'u are Tonga's two ports of call. Nuku'alofa is the primary destination, with Vava'u receiving about half of the ships that have called at Nuku'alofa. Most ships calling at both ports are Australia- and New Zealand-based. A 2014 survey by SPTO showed that 90 percent of cruise arrivals had never visited Tonga before. 55 percent wanted to return on a cruise and 29 percent wanted to return on an overnight trip. Australians represented 39 percent of all visitors, with Europeans accounting for 23 percent, Americans for 22 percent and New Zealanders for 12 percent (SPTO 2014). The strong presence of Europeans and Americans highlights the significance of Round-the-World and trans-Pacific cruises in Tonga.

167. Samoa is visited regularly by Round-the-World and trans-Pacific cruises and occasionally by Australia- and New Zealand-based cruises. Ships call at the capital Apia, bringing 26,145 cruise visitors and an estimated US\$1.2 million in spending in 2013 (Samoa Tourism Authority 2015). Distance from Australia means the shortest cruises calling in Samoa are 18 days, above the most popular length of 8-14 days (CLIA Australasia 2014). Inconsistent demand for long cruise itineraries has dramatically affected annual passenger arrivals. While 2008 saw 13,509 arrivals, the following three years saw zero passengers. Relatively low average passenger spending of US\$28—compared to Port Vila's average of US\$79—is partially due to lower spending by passengers on long cruises.

168. Cruise tourism in PNG has been growing fast since the government recognized it as one of their main priorities for growth. Arrivals have nearly doubled since 2009, with over 9,000 in 2014. PNG has been able to open up destinations previously undeveloped by land-based tourism due to access challenges. There are 11 ports of call receiving trans-Pacific, Round-the-World and Australia-based cruises: Alotau, Conflict Islands, Doini Island, Kiriwina Island, Kitana, Madang, Port Moresby, Rabaul, Sepik, Vitu Islands and Wewak. PNG is implementing a cruise development strategy, which is viewed as very successful within the industry, developing new destinations and tapping into both Australian and global markets. Eliminating the visa requirement for passengers has been critical to the introduction of new itineraries to PNG by Carnival Australia in 2013. PNG is also considering linking with Indonesia or the Philippines for island cruising experiences (Vincent 2015).

169. The geographic distance from the main ports in Australia and New Zealand is the main hindrance for cruise tourism development in some of the other PIC11s. The 2015 initiative by SPTO supported by CLIA for regional cruise development cooperation among the South Pacific countries could open up new itineraries and add new ports. In the North Pacific, the Pacific Asia Travel Association is investigating the viability of home-porting vessels in Guam, a US territory that could also visit Palau, FSM and the Marshall Islands.

[Learning from Barbados: Small Island State Home Port Success](#)

170. The Caribbean is the world's largest cruising destination market, with 39 percent of cruise ship capacity and 25 million passenger arrivals in 2014. While the majority of ships are based in the US, Barbados has established itself as a successful home port in the Eastern Caribbean. Part of this success is based on geography. Barbados sits near the middle of the chain of islands that make up the Eastern Caribbean, allowing for a variety of cruise itineraries where ships sail only at night, eliminating unpopular days at sea. US-based ships cannot reach these islands on the most popular 7 day-length itineraries.

171. Barbados opened its dedicated cruise terminal at the Bridgetown port in 1994, the result of a public-private partnership investment. In 1996 when annual cruise passenger arrivals already exceeded 500,000, Barbados created a Cruise Tourism Development Strategy. The new strategy set out two goals: maximizing the value added from cruise tourism and; maximizing the rate of conversion for cruise tourists to over-night tourists. Home porting was a central recommendation in achieving the goals of the strategy. While Barbados was not likely to attract the major US cruise lines, the island was suited to attracting European and smaller US cruise lines. The island offered European operators the opportunity to distinguish themselves within the market, rather than being dwarfed by competitors in a large US port. Barbados also offered them shorter relocation voyages in the spring and fall. European and smaller US operators were attractive because they typically brought higher spending passengers on smaller ships (Egret Communications/ARA Consulting 2001).

172. Between 2000 and 2011, over 20 percent of cruise ship calls to Barbados were homeport calls where passengers embarked and disembarked and ships resupplied. In 2006, the rate was over 37 percent. This performance exceeded all other Caribbean ports, even Puerto Rico and the Bahamas. In 2010, 127,314 passengers of the total 745,145 arriving, or 17 percent, were on home porting vessels. Even in the aftermaths of 9/11 and the 2008 Global Financial Crisis, the share of home port calls was unaffected, largely because most operators were Europe and UK based (Caribbean Shipping Association 2012).

173. Barbados was able to make home-porting a successful part of cruise shipping by providing quality services through a dedicated cruise terminal and effectively promoting to European and small US operators, with the support of strong policies focused on increasing the value of cruise tourism.

Transformational Opportunity: Fly - Cruise in Fiji

174. One way to increase both the number of visitors to PIC11s and the socioeconomic impact of cruising is by selectively basing large cruise ships in PIC11 countries. Not only would this bring benefits to the homeport country, but it would also bring more cruise arrivals to PICs that are too far from Australia to reach on the most popular 7-10 day-length cruises. Fly-cruise is a key strategy in the development of new markets. This is seen as a longer-term development in the Chinese market. A potential Fiji-based vessel provides an opportunity to capitalize on the strong Australian market and fast-growing Asian interest in developing fly-cruise options with vessels based in the region. While this would begin with Fiji, it could become an opportunity for Vanuatu, Solomon Islands, PNG and Samoa.

175. Countries benefit in numerous ways when cruise operators base ships at their ports. In addition to the fees paid directly to port facilities, cruise lines spend significant sums to provision and supply their vessels, generating revenue for local providers. Passengers traveling to and from the port increases airline traffic and revenue for ground transport providers. Hotels, restaurants and other tourism businesses can benefit further when passengers choose to extend their visits pre- and post-cruise. Provisioning cruise ships and increased over-night stays can have the additional effect of improving local supply chains, especially for food, stimulating producers and distributors to improve quality and service.

176. A few small island states have been successful homeports. In the Caribbean, Barbados, the Dominican Republic, Puerto Rico and Guadeloupe have the most consistent turnaround traffic, although Puerto Rico and Guadeloupe are territories of the US and France respectively, offering them privileged positions for those major source markets. French Polynesia, also a territory of France, is the only small island state outside the Caribbean with steady homeport use.

New Itineraries for the South Pacific

177. Australia-based cruise ships visiting Pacific islands operate primarily from Brisbane and Sydney, with a few sailings a year from Melbourne. Recently, Cairns has emerged as a new base for cruises to PNG and Solomon Islands. Return itineraries range in length from 7 -18 days, though the most popular are 7-10 days and feature 3-5 port calls, depending on the departure port. New Zealand-based ships visiting the Pacific islands operate from Auckland and return itineraries range from 8 -22 days, with 8-10 day lengths including 3-5 port calls most popular.

178. In order to maintain competitiveness and increase sales, cruise lines are constantly working to develop new itineraries and unique destinations. Cruise lines consider a number of factors when designing itineraries: marquee ports and destinations; number of ports; mix of cultures, countries and experiences; shore excursion revenues; port costs; shoreside activities and infrastructure; competitive itinerary comparison; passenger sourcing; timing in port and fuel consumption; geography; cruise length; and operational considerations, like navigation and logistics. In the Pacific, itineraries include at least one city port call that offers shopping and cultural attractions, as well as soft adventure activities. All other port calls are beach-focused, which primarily offer “untouched” natural environments with water- and land-based soft adventure activities. Some beach port calls are on uninhabited islands, but most also offer shopping and cultural activities with local communities. In

PNG and Solomon Islands, a few ports of call are exclusively cultural attractions, focused on unique “tribal” practices and ceremonies.

179. Based on the results of its 2014 research on economic impacts of cruising in Vanuatu, the International Finance Corporation commissioned a feasibility study, in conjunction with Carnival Australia and Australian Aid, to determine the market demand, potential economic impacts, air access arrangements, infrastructure requirements and commercial feasibility of a Pacific-based cruise ship. The study, released in 2015, illustrated the strong potential for a fly-cruise package embarking in Lautoka, Fiji with 7-day itineraries to Fiji and Tonga and to Fiji and Vanuatu for a 1,500-passenger ship. Fiji was chosen as home port because of air connectivity with source markets and infrastructure potential. The two itineraries were developed based on market demand, distance and existing call port infrastructure.

180. Projected demand for the product in Australia far exceeded the capacity of a proposed 8-week pilot voyage program and 75 percent of potential customers planned to include a resort stay before or after their cruise for an average of 3 nights. Only a minority of those interested in this fly-cruise product had visited the Pacific Islands recently on a cruise or at a resort. Further, the study found that the substitution effect on the existing holiday market would be small—only 6 to 10 percent.

Economic Impact in the South Pacific

181. Economic impacts for all three countries would be substantial. The study showed that an 8-week pilot program would bring a total of AU\$9.1 million of direct and indirect benefit: AU\$6.6 million to Fiji, AU\$1.5 million to Vanuatu and AU\$1 million to Tonga. This benefit includes passenger spending, port fees, provisioning of local goods in Fiji, resort stays and Fiji Airways revenue, and also accounts for substitution effects in Fiji. Each additional week of voyages would add AU\$1 million to the two countries on each itinerary, so a full 6-month cruise season would bring AU\$27.4 million: AU\$19.8 million to Fiji, AU\$3 million to Tonga and AU\$4.6 to Vanuatu (IFC 2015).

182. Of the direct spending contribution to the totals above for each country, a portion is passenger spending at the home port and ports of call. Proposed itineraries include three port calls in Fiji and two in Vanuatu or Tonga. According to the Government of Fiji, average cruise passenger spending at a call port is AU\$42, so the three communities would see an estimated AU\$1.26 million from an 8-week pilot program. The two ports of call in Vanuatu would receive AU\$1.11 million and Tonga’s two ports would see AU\$703,500⁸. Possible additional ports could include Vanuatu, Solomon Islands, PNG and Samoa.

183. Home-basing cruise ships in the Pacific can generate multiplier effects in the hosting country, and open up new destinations. One way to increase both the number of visitors to the PIC11 and the socioeconomic impact of cruising is by basing large cruise ships in Fiji and PNG. Not only would this bring benefits to the homeport country, but it would also bring more cruise arrivals to PICs that are too far from Australia to reach on the most popular 7-10 day-length cruises.

Table 13. Home-basing cruise ships in the South Pacific can bring over 266,000 tourists per year in by 2040

Additional Impact	2040
Number of home-based ships	4

⁸ Average passenger spending in Vanuatu ports is based on IFC 2014 study and Tonga estimate is based on spending in similar Vanuatu port.

Number of tourists	266,112
Tourism expenditure (USD)	66,692,658
Port fees (USD)	9,211,200
Employment	4,668

Source: Author's estimations

184. In 2040, the economic potential of the home-basing cruise ships market opportunity⁹ is estimated at nearly 266,000 tourists, which bring nearly US\$67 million in tourism receipts, and generate nearly 4,700 jobs. The country hosting the cruise ship can earn over two thirds of these benefits.

3.2.3 High-End Resorts

185. For PIC11s, with limited ability to serve mass markets of the scale emerging globally, it will also be important to pursue strategies that increase yield. Achieving yield, however, requires properties that meet the demands of discerning international travelers, with either international standard resorts or specialty resort products. The Pacific has few international brand properties outside of Fiji.

186. Globally there are many hotels which cater to the High-Net-Worth Individuals¹⁰ (HNWI) market and there are a number of brands that specialise in this segment. The luxury accommodation segment away from major cities has two discrete components:

- The luxury exclusive hotel¹¹, often less than 100 rooms and with unique characteristics of location, architecture, interior design and hospitality standards;
- Small exclusive resort properties, often less than 20 rooms, which cater for HNWI guests and which offer privacy, exceptional standards of hospitality, food and guest activities.

187. There has been an established group of small high-end resorts within this latter category in Fiji for more than forty years, including Turtle Island and Wakaya Club. Low profile, small and in most cases on private islands or away from major settlements. They have a global reputation among HNWI and are frequently visited by celebrities and others seeking a holiday in an exclusive property where their presence is not noticed, particularly by the media. These properties are generally promoted through luxury accommodation networks and by word-of-mouth. The major markets are the US and Australia, but they attract a global clientele. Usually operating on a fully inclusive basis with high quality cuisine, daily rates are rarely available, but generally exceed US\$1,500 on a per-person basis.

⁹ Estimates are built based on home-basing two ships in Fiji, which visit Samoa, Tonga, Vanuatu as destinations; and two in PNG, which visit Solomon Islands. This results in 113,056 individuals that visit two countries on each itinerary, therefore adding up to 266,112 visitor arrivals.

¹⁰ HNWIs are defined by Capgemini and RBC Wealth Management (www.worldwealthreport.com) as those having investable assets of US\$1 million or more, excluding primary residence, collectibles, consumables, and consumer durables. This criteria best defines consumers with the highest level of disposable assets.

¹¹ Highest category as defined by World Luxury Index Hotels 2014 and represented by chains such as Banyan Tree, Six Senses, Orient Express and Mandarin Oriental.

This is significantly above the luxury definition used by STR¹² of US\$175 per day for the top 15 percent of hotels.

188. While visitor numbers are small the yield is high. These resorts are in most cases protective of their natural environments and work closely with their local communities. Their very existence adds to the reputation of the Pacific as a location for exclusive accommodation away from crowds. They also complement the well-established and effectively marketed lodge product in New Zealand, which has a number of small high-end lodges with global reputations. There are also properties in French Polynesia and the Cook Islands which conform to these standards. In Asia a number of properties, for example the Aman collection, carry a similar cachet. Globally there are specialist marketing groups, such as Relais & Chateaux, and publications featuring small luxury hotels and resorts. Several Fiji properties are included in these groups.

189. The further development of this product, both in Fiji and selectively in other Pacific Island countries, including Samoa, Vanuatu and FSM would strengthen the high-end product offering. In addition, there is an opportunity for luxury-exclusive chains to enter the Pacific market.

The High-End Market

190. Luxury is the fastest-growing segment of the travel industry, having grown 48 percent in the past five years. In 2014 alone, the world population undertook 46 million international luxury trips, worth US\$219 billion¹³. The market share of these trips rose from 3.9 percent in 2009 to 4.6 percent in 2014 (ITB Berlin 2015).

191. Tourism New Zealand (2015) has defined the market for their premium offering as High-, Very-High-, and Ultra-High-Net-Worth Individuals with liquid assets of US\$1-30+ million who purchase luxury itineraries of US\$20,000-100,000+. In 2014 the upper tiers Ultra- and Very-High-Net-Worth Individuals represented 1.5 million individuals, which together represent 57 percent of HNWI wealth. The total sector represents 14.6 million individuals (Capgemini and RBC Wealth Management 2015). Tourism New Zealand (2015) suggest that successful marketing to the top two luxury tiers will ensure success with the bottom premium tier of HNWI, which is influenced by the tiers above them. Two-thirds of this market is located in four countries: the US, Japan, Germany and China, with China's HNWI population growing 17 percent in 2014. Annualised growth of Asia-Pacific HNWI's total wealth is forecast at 10.4 percent through 2017.

192. Tourism New Zealand (2015) profiles the sector as:

- They are global citizens who live and work throughout the world.
- Their life is one of almost permanent travel, driven by a desire for unique destinations and authentic experiences for both work and pleasure.
- Although the age profile is broadening the 40-60 year age group dominates.
- They take 4 to 6 trips annually, 50 percent of them long haul, 50 percent domestic.
- 75 percent fly first or business class, with UHNW often traveling privately.
- Typical trip value: HNWI US\$20-50K, VHNWI US\$50-100K, UHNWI US\$100K+.
- Their time is a precious commodity and they demand value in exchange.

¹² STR is a globally recognized company providing data gathering, analysis and benchmarking services to the hotel industry.

¹³ Luxury trips were defined for this analysis as all short trips with spending of more than €750 (US\$957) per night and all long trips costing more than €500 (US\$638) per night.

- They are thirsty for knowledge and seek unique interactions with talented and cultured people.
- Often the target audience is not necessarily the consumer, more often the gatekeeper or advisor.

193. A review of TripAdvisor comments on Fiji properties Turtle Island and Wakaya Club shows a majority of guests coming from the US, particularly Western states (2016). Local sources report that private aircraft with US registrations are common at Fiji's Nadi Airport, and that some Chinese HNWI and groups from the Middle East have visited Fiji's exclusive resorts. The market is supported by Fiji's popularity as a stopover for trans-Pacific super yachts, although there is little direct connection with exclusive resorts. There is a significant global honeymoon market that selects exclusive resorts for a once-in-a-lifetime experience, but which is not necessarily HNWI. The growing Chinese HNWI market offers a major opportunity for growth of this sector with little impact on other sectors of the tourist experience.

194. This market reflects the concentration of wealth and the influence that VHNWI have on their peer group and on those who would wish to move in similar circles. The market is driven by luxury travel advisors and there are international luxury travel shows presenting this market to the specialised travel trade. It is a separate marketing stream from normal travel marketing.

Transformational Opportunity

195. The Pacific has many islands or secluded waterfront areas that could be developed for this market. The region is uncrowded and national authorities have accepted the exclusive resort concept as economically beneficial. The way in which the Fiji resorts have worked with their communities has lasting local benefits. There are some privately-held islands which would be suitable for development. It is a model capable of being replicated without cannibalising the market, which is growing and has depth through its aspirational nature.

196. The development of the sector in the Pacific and in New Zealand has been in part driven by investors who are HNWI themselves, and who have taken an active interest in the development and standards maintenance of their properties. Many come from the US. Their deep pockets and personal commitments have overcome the difficulties of building and sustaining properties of this quality through the development phase. David Gilmour, a Canadian entrepreneur, established the Wakaya Club & Spa on his private island in Fiji. It has ten luxury villas and a staff of 300 (Wakaya Club & Spa 2013). The property is included in Forbes list of the world's most expensive hotels. As part of its philanthropic mission, the resort constructed a primary school for children of staff on the island. Philanthropy in local communities is often a feature of similar resorts.

197. A new resort in Fiji, Dolphin Island, has been developed by the owner of New Zealand's longest-established luxury property, Huka Lodge, and the properties are marketed together.

198. The essential components of this resort category are small size, exclusive location with no outside visitors, often dedicated aircraft for transfers, absolute privacy for those who want it, impeccable service and outstanding cuisine. At the same time a proportion will find expansion a commercial option, taking advantage of a high market profile to expand the number of rooms or move towards the luxury exclusive category. In the medium term the sector has the potential to attract international chains and hotel groups specialising in the sector and which, through their operating standards and marketing, can grow the total luxury accommodation sector in the Pacific.

199. The entry strategy requires:

- Acceptance of the strategy at a national level to minimise concerns of elitism;
- Support by governments to assist the purchase or lease of land under conditions acceptable to investors but ensuring full protection and benefits to traditional land owners;
- Identification of prospective locations, their characteristics and suitability for development as well as accessibility;
- Identification of a Pacific champion to lead, guide and assist in the development of a regional strategy, an individual respected by his or her peers and who can, with assistance, bring investors and opportunities together;
- Development of a Pacific luxury marketing strategy similar to Tourism New Zealand's Premium Strategy and, if possible, establishing links to enhance the South Pacific offering;
- Availability of private jet aircraft facilities at the gateway airport;
- Direct access via commercial flights from the US West Coast and Asia.

Economic Impact

200. Assuming there are currently 7 existing exclusive first-tier luxury resorts of 14 keys each operating at 65 percent occupancy at Average Daily Per Person Rate of US\$1,500, the annual revenue generated would be nearly \$70 million. Doubling the number of resorts across the region with similar operating ratios could increase the annual revenue generated to nearly US\$140 million at current prices, although there should be scope to grow average resort size and rate. A fifteen-year program to double the number of resorts is seen as a practical proposition if it is a supported program, as expansion of the sector in prior years has been very slow. The program has the potential to be extended if proven effective in growing the luxury travel sector for the Pacific.

201. This revenue would be subject to leakages for beverages, food, hotel supplies, fuel and investor returns, but experience in existing properties shows high levels of locally sourced food, increased use of alternative energy and low impact activities.

202. More importantly, stimulation of this market and the development of new properties would encourage further resort development at two levels:

- Additional small resorts at a lower price point, still offering many of the features of high end resorts but without the exclusivity factor. There are already second-tier luxury resorts of this standard in Fiji and Samoa. There is an opportunity to develop 10 additional second-tier resorts averaging 20 rooms across the region by 2030, primarily in Fiji but also in Tonga, Samoa and Vanuatu at an ADR of \$US875 per night, the additional revenue generated would be nearly US\$75 million at current prices. This would include all other expenditure such as food, beverage and activities.
- Generating interest from luxury exclusive chains or super-luxury brands of major chains to acquire and/or develop small high end resorts. This could include chains such as Six Senses, Four Seasons, Rosewood or Banyan Tree, and specifically chains which are succeeding in attracting the Chinese luxury market, including Chinese luxury chains. Assuming over the fifteen-year period 10 properties in this third-tier category were developed with an average of 70 rooms and an ADR of US\$750 per night, they could generate revenue of approximately \$US218 million at current prices.

203. In 2040, the economic potential of the luxury market opportunity¹⁴ is estimated at over 138,000 additional tourists, which bring nearly US\$490 million in tourism receipts, and generate over 32,000 additional jobs. Fiji would be the main beneficiary of a luxury resort initiative, although there would be opportunities in Tonga, Samoa, Palau, and Vanuatu.

Table 14. The high end market has a potential of bringing nearly half a billion dollars by 2040

Additional impact	2040
Number of tourists	138,841
Tourism expenditure (USD)	487,114,167
Airport taxes (USD)	7,775,079
Employment	32,458

Source: Author's estimations

3.2.4 The Retiree Market

204. The United Nations Population Division is projecting the world population to grow from 6.9 billion in 2010 to 9.7 billion by 2050. Following a gradual aging process, the elderly are expected to grow faster than other age groups. This trend is evident in the targeted markets for PIC11s (Table 15). The shift in age structure associated with population ageing can have a profound economic impact.

¹⁴ Assuming the new development of 7 exclusive resorts (14 rooms each), 10 second-tier luxury (20 rooms each), and 10 luxury (7 rooms each) by 2030, and a subsequent growth of 3 percent per year. Employment estimates use a multiplier of 0.7 per US\$10,000 in receipts. Taxes use the weighted average of \$56 per tourist.

Table 15. Population Aged 60+ in Top Source Markets will increase significantly by 2050

Country	2015		2050	
	% of population	Number	% of population	Number
Japan	40.9	51,768,357	57.6	61,868,736
Germany	33.3	26,869,437	53.7	40,013,481
UK	27.7	17,926,332	40.4	30,445,844
USA	24.5	78,834,630	36.2	140,769,130
Australia	24.3	5,824,467	36.6	12,259,536
New Zealand	23.9	1,082,431	39.2	2,197,944
China	16.8	231,176,232	45.4	612,017,424
India	9.8	128,482,998	22.2	378,583,926
Total		541,964,884		1,278,156,021

Source: UN Department of Economic and Social Affairs Population Division

205. The number of Australians over the age of 65 is projected to increase by 75 percent over the next 20 years, from 3.3 million in 2012 to 5.8 million in 2032, and post-retirement assets will grow from around US\$300 billion to US\$1.3 trillion by 2032. Although the Australian government is encouraging workers to retire at 67, people are taking earlier retirement. The Australian Bureau of Statistics revealed that the average retirement age is closer to 59 for men and 50 for women (Hutchens 2013). The average age at retirement for people ages 45 years and over in 2012-2013 was 53.8 years.

206. As Australia's standard of living has risen over the past three decades along with the cost of daily living, some Australian retirees are moving overseas. The number of age pensions paid to Australians living overseas increased 30 percent between 2007 and 2012 (Wyatt 2014). For those who move overseas, some of the popular destinations in the Asian Pacific region include Indonesia, Malaysia and Vietnam.

207. Similarly, New Zealand's population is aging. The number of people age 65 and over has doubled since 1980, and is likely to double again by 2036. The largest growth will occur between 2011 and 2036, as the baby boomers move into the 65 age group. Similar trends in key Asian markets such as China and India suggest that there may be a substantial retiree market for the Pacific by 2040 if conditions are right.

Decision Drivers

208. The current senior tourism market is disaggregating into three segments by length of stay: leisure travelers, long-stay travelers and home owners or permanent stay. For the home owners and permanent-stay segment, long term certainty of residency, access to high quality medical care, ease of communication, and ease of visa and immigration process are critical factors. In addition, affordability, safety, ease of international and local connectivity, tax status and property ownership rights, including disposal on death or departure with repatriation of assets, are also important to this

segment. Some destinations are offering access to retirement villages, which allow independent and assisted living without the hassle of home maintenance; physician consultations and medical facilities are also close to these villages. Based on the current conditions and trends Fiji, Vanuatu and Samoa have the greatest potential to grow the retiree market. In addition, Micronesia may have the particular potential to attract Chinese retirees and those of other Asian markets.

Nature of Transformational Change

209. Forbes has published a list of the ten best retirement destinations using various criteria from ease in securing a visa to quality of life. Besides Malaysia, other developing destinations on this list include Panama and Thailand (Morais 2009).

210. Costa Rica was the first country to make a concerted effort to attract foreign retirees with a program of special benefits. It launched *Pensionado* and *Rentista* Program in 1971 to attract foreign investments and retirees. Specifically, the Costa Rican government created an immigration scheme to provide annual residency status to retirees who meet the minimum monthly income requirements. The Program also introduced income tax incentives and import duty waivers on cars and household goods. However, tax and customs incentives have been largely removed amidst concerns over rapid increases in foreign retirees.

211. Panama is another country that has successfully attracted foreign retirees. With an internationally well-regarded healthcare system and affordable property prices, it ranks favorably as a retirement destination by the International Living Magazine (2016).

212. In Thailand, the Longstay Program has been implemented to assist foreigners in purchasing a second home. Thailand Longstay Management Company was established in 2001 and endorsed by the Thai Royal Government to support the long stay program. The Tourism Authority of Thailand is a major shareholder of the company. This program targets long stay retirees over 50 years old. Participants receive a one-year retirement visa, fast tracking for immigration and custom procedures and Thai driving licenses. Long-stay visitors arrive throughout the year, with slight increases during winter months.

Learning from Malaysia's "My Second Home Program" (MM2H)

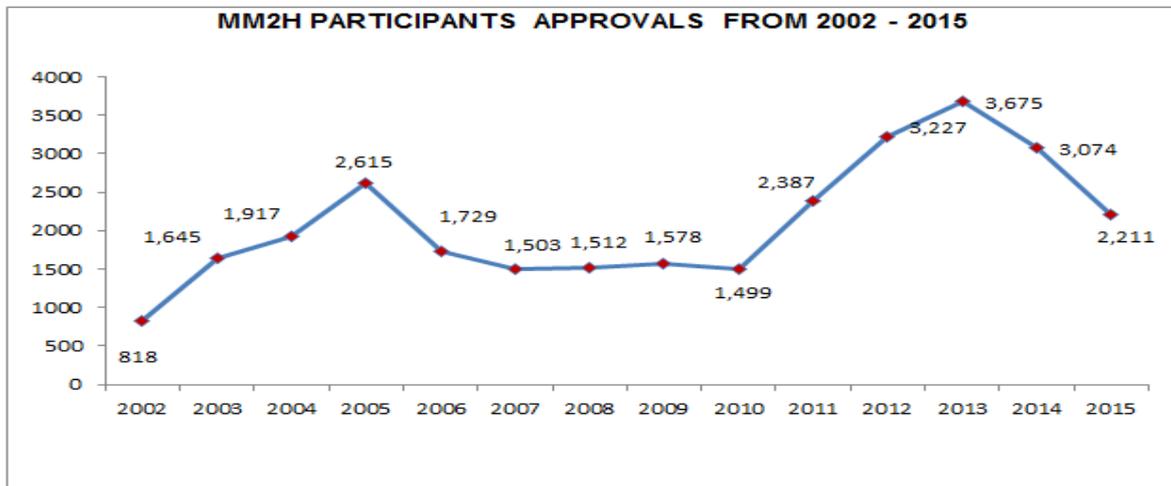
213. Malaysia was ranked fifth highest as a retirement destination by the International Living Magazine (2016), after Panama, Ecuador, Mexico and Costa Rica, making it the best place to retire in Asia. Malaysia is also well recognized as a regional center of excellence for medical tourism. The Malaysian government launched the Silver Hair Program in 1988, later renamed as the Malaysia My Second Home (MM2H) scheme. It is an international residency scheme that allows foreigners to live in the country on a long-stay visa for up to 10 years. To qualify for the program, applicants must meet certain financial and medical criteria. Applicants aged below 50 years are required to show proof of liquid assets worth a minimum of RM500,000 (US\$127,866) and offshore income of RM10,000 (US\$2557) per month. Applicants aged 50 and above may comply with the financial proof of RM350,000 (US\$89,507) in liquid assets and offshore income of RM10,000 (US\$2557) per month. Successful applicants are then entitled to enter and leave the country on a largely unrestricted basis (Abdul-Aziz 2014).

214. Participants of the program enjoy incentives including rights to property purchase, vehicle purchase, children's education, tax incentives, part-time employment and investing in local companies.

Participants are also allowed to bring their children who are below 21 years old and not married as their dependents. In addition, participants’ parents can also receive a long term visa.

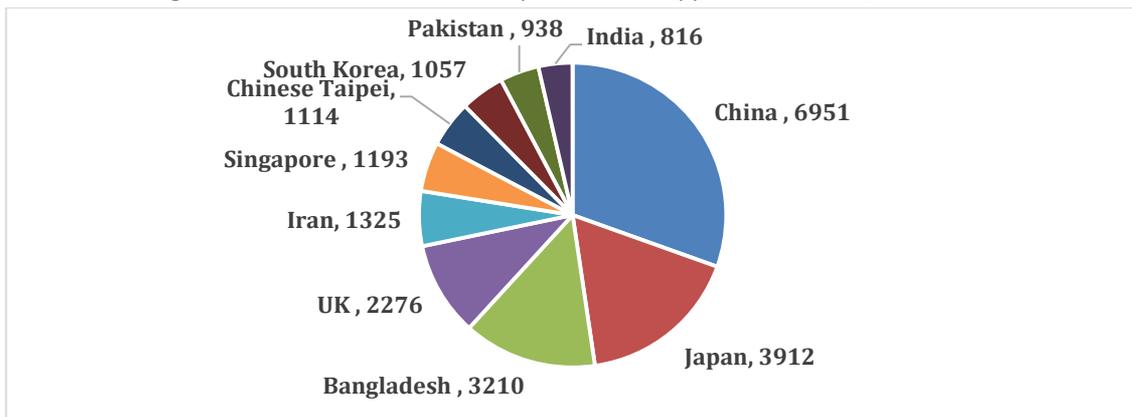
215. Currently the Ministry of Tourism and Culture is responsible for promoting MM2H, with approval of applicants and issuance of visas made directly by the Immigration Department of the Ministry of Home Affairs. The program is operated through a network of registered immigration agents. As Figure 18 shows, 29,390 people have been approved for the program between 2002 and 2015. Sixty percent of these approved participants are from China, Japan, Bangladesh, the UK and Iran.

Figure 18. MM2H Participant Approvals Declined Recently After Steady Growth, 2002-2015



Source: Ministry of Tourism and Culture, Government of Malaysia

Figure 19. China dominates the top ten MM2H approval countries, 2002-2015



Source: Ministry of Tourism and Culture, Government of Malaysia

216. Malaysia is positioning itself as a “relaxing retirement” destination. For MM2H participants, some country specific attractions include affordable and high quality health services, political stability and a comfortable climate and pace of life.

217. Notably, gaps in Malaysia’s current offering still exist. For example, high quality health care offering outside urban areas is limited and suitable quality accommodation is also limited outside the main centers. At present, the MM2H program does not have a long-term targeted marketing strategy or adopt annual targets for participant numbers. The Program also lacks support if MM2H participants face issues with local and state governments on varying restrictions such as those related to property transactions.

Economic Impact

218. Due to the existing constraints of medical facilities and other supporting infrastructure, the growth of foreign retirees in PIC11s may not be significant in the next two to five years. However, based on the experience of other destinations and with appropriate conditions, it seems reasonable for PIC11s to target a total of 5,000 retirees by 2025. The growth is likely to slow after 2025 and it is reasonable to assume that retirees would only stay for a period of up to ten years. Growth is likely to continue beyond 2025, although at a slower pace. PIC11s could potentially have 10,000 resident foreign retirees by 2040.

219. According to current incentives for overseas retirees in Fiji, the principle applicant must either deposit a sum of F\$100,000 (US\$48,000) in a resident account of a local bank upon application approval or purchase a property in the Fiji Islands. In addition to the initial investments these retirees bring, the policy of Fiji also requires F\$30,000 (US\$14,500) for a family of two or F\$40,000 (US\$19,500) for a family of up to five members must be deposited annually in the resident account of a local bank (Fiji Department of Immigration 2016).

220. Retirees could also spend a substantial share of their income locally while they live in PIC11s. As the Thailand Longstay program shows, most program participants do not spend the entire year in the destination. Even if retirees spend six months annually in PIC11s and spend 80 percent of their monthly income locally, PIC11s would still benefit from foreign retirees' local expenditures. Using MM2H Program's minimum monthly income US\$2500 as a benchmark, one foreign retiree could spend up to US\$30,000 annually. Assuming retirees spend half of the year in a PIC, this could potentially bring US\$15,000 per year in addition to the US\$50,000 in initial investments.

221. The economic potential of the retiree market opportunity¹⁵ is estimated at 10,000 retirees, which bring US\$200 million in receipts, and generate almost 14,000 jobs.

Table 16. The retiree market has a potential of bringing US\$320 million in 2040

Additional impact	2040
Number of tourists	10,000
Tourism expenditure (USD)	200,000,000
Airport taxes (USD)	560,000
Employment	13,800

Source: Author's estimations

¹⁵ Assumes annual expenditures of \$15,000 per year, in addition to \$50,000 in investment. Employment estimates use a multiplier of 0.7 per US\$10,000 in receipts. Airport taxes use the weighted average of \$56 per tourist.

4 Capturing Transformational Change

222. There are visible opportunities to grow tourism in the Pacific by capitalizing on changing markets and reinvigorating established markets with new and improved products and stronger marketing. In addition to the strategies required to address the underlying fundamentals in order to build a stronger platform for growth—improved connectivity, attracting higher-yielding tourists, improving the investment climate and effectiveness of public sector participation, and improved efficiency—Pacific governments will need to take specific actions to capture these transformational opportunities.

Opportunity	Actions Required
<div data-bbox="252 757 481 943" data-label="Image"> </div> <p data-bbox="236 1003 501 1088">Increasing the Chinese Market</p>	<ul style="list-style-type: none"> <li data-bbox="608 667 1380 904">• Negotiate new air routes between PIC’s and Chinese cities with frequencies to fit with limited holiday opportunities, price points to match competitive destinations and minimal stops. Scheduled routes may initially be developed by charters or supplemented by charters at times of high demand. <li data-bbox="608 913 1380 1070">• Upgrade airports and provide support to attract new carriers, to cater for larger aircraft and volume traffic, to minimize processing delays on arrival and departure and facilitate transfers to their destination. <li data-bbox="608 1079 1380 1361">• Tailor offerings to Chinese tourists, such as providing translators, improving service standards, installing Chinese signage and coverage of Wi-Fi. Prioritize market segments and understanding the preferences of these segments. Develop information for independent travelers which minimizes uncertainty, and provides clarity from the point of product selection to destination arrival. <li data-bbox="608 1370 1380 1527">• Build relationships with major Chinese outbound operators, wholesalers and China-based agents selling the Pacific to develop concrete sales and distribution channels for marketing efforts. <li data-bbox="608 1536 1380 1693">• Implement a fully-resourced, long-term targeted promotion campaign, covering all cities, including travel trade, public relations and a major on-line presence through leading booking and trading websites. <li data-bbox="608 1702 1380 1814">• Identify specific segments of the Chinese market which match PIC11 offerings, including soft adventure, diving, weddings, incentives, overnight cruising etc. <li data-bbox="608 1823 1380 1980">• Increase the efficiency of visa application processes across all PIC’s targeting the Chinese market where visas are a barrier. <ul style="list-style-type: none"> <li data-bbox="655 1908 1380 1980">○ Improve the communication of visa requirements to intending Chinese tourists.

	<ul style="list-style-type: none"> ○ Streamline and simplify the visa application process as much as possible. ○ Introduce multiple entry electronic visas (e-visa) and extend the allowed duration. ○ Promote regional visa scheme or visa waiver programs to facilitate travel among PIC11s, eliminating individual visa requirements for each destination. ○ Introduce no-cost Visa on Arrival where possible. ● Improve the shopping product in key destinations and at resorts through a retail development program. ● Implement a major campaign through Chinese media to raise awareness of the Pacific.
Opportunity	Actions Required
 <p data-bbox="210 974 523 1108">Increasing the PIC-based cruise ship market</p>	<ul style="list-style-type: none"> ● Work with the cruise lines and the Fiji Government to ensure the formal procedures, authorities and rights for Fiji-based cruise operations are in place and that essential services are provided. ● Work with Fiji Ports to bring Lautoka Wharf up to the necessary standard for alongside berthing and passenger embarking-disembarking, including pre-departure assembly, baggage handling and coach loading areas. ● Work with Fiji Roads to ensure the Nadi-Lautoka Road is at a standard for large volume coach traffic. ● Work with Airports Fiji Limited to ensure terminal capacity can meet the needs of multiple arrivals and departures of cruise passengers to coincide with scheduled cruise vessel movements. ● Build relationships directly with cruise companies and airlines to ensure that charter flights to and from main source markets can operate in coordination with cruise ship schedules. ● Assist the development of existing and new destination ports in PIC's including safe navigation, adequate services and the development of ground operations where not already in place. ● Negotiate with cruise companies for sector fares to enable multi-stop, alternative fly-in fly-out, or extended shore breaks for example Samoa, Tonga, Fiji, Vanuatu to increase yield. ● Encourage the use of smaller cruise vessels (less than 500 passengers) for remote island cruising, enabling low impact visits to sensitive communities. These already exist in some locations including Fiji, PNG and the Solomon Islands. Tonga has potential in the Ha'apai and Vava'u groups.

	<ul style="list-style-type: none"> • Upgrade ports to improve the visitor experience with weather protected markets close to the wharf and control over local tour operations. • Assist agencies operating potential new cruise ports to attract cruise vessels through financial or in-kind subsidies where economic impact from cruise traffic is sufficient to meet the goals of the destination. • Promote the Pacific as a fly-cruise destination in both Pacific Rim and global markets.
Opportunity	Actions Required
 <p>Attracting investments in high-end resorts</p>	<ul style="list-style-type: none"> • PIC Governments to develop an exclusive accommodation policy and implementation strategy at a national level to minimise concerns of elitism. • Support by governments to assist the purchase or lease of land under conditions acceptable to investors but ensuring full protection and benefits to traditional land owners. • Identify prospective locations, their characteristics and suitability for development as well as accessibility. • Identify a Pacific champion to lead, guide and assist in the development of a regional strategy, an individual respected by his or her peers and who can, with assistance, bring investors and opportunities together. • Develop a Pacific luxury marketing strategy similar to Tourism New Zealand’s Premium Strategy and, if possible, establish links to enhance the South Pacific offering. • Increase availability of private jet aircraft facilities at gateway airports.
Opportunity	Actions Required
 <p>Attracting the Retiree Market</p>	<ul style="list-style-type: none"> • Establish visa and taxation regimes to attract long stay retirees. • Invest in high quality and affordable health care offerings that are crucial to the retiree market including private hospitals and aged-care homes. • Invest in infrastructure and provide incentives to attract the private sector to develop accommodation options for foreign retirees. Provide policy incentives for foreign retirees to own and dispose of properties in PIC11s. • Determine rights of individuals to import personal effects duty free, and vehicles for their own use either duty free (with a claw-back on sale) or at a minimal charge. • Determine rights of retirees to import capital and receive income from their home country, and to remit capital on sale or to beneficiaries in the event of death.

- Establish a system of licensed immigration agents to assist and guide intending immigrants, with an agreed scale of fees and specific skill requirements.
- Enhance targeted marketing efforts to potential foreign retirees. Develop annual targets for participant numbers. Given Australia and New Zealand are both top destinations for retirement, PIC11s need to develop a strategic plan to attract retirees from these two potential markets with a roll-out to wider markets in the future.
- Develop a communication plan and provide clear guidance to retirees through a dedicated government website.
- Introduce training through authorized providers for aged-care support services.
- Determine the interest of Australian and New Zealand aged-care providers to establish facilities in PICs and encourage the development of retirement complexes close to major centers.

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Appendix 1: International Arrivals in PICs

1. While the majority of PICs are dependent on Australia and New Zealand as their main generating markets there are changes occurring in other markets. Fiji is the aviation hub for the South Pacific and the entry point for long-haul passengers traveling to other Pacific destinations and this role has gained from changes in connectivity from other PICs. It is the administrative center, with major regional institutions and a strong meetings and business base. Australians have consistently provided 50 percent of visitor arrivals in Fiji over the past five years. The New Zealand share of the Fiji market has increased from 15 percent in 2010 to 18 percent in 2014.

Fiji

2. The US market to Fiji is particularly strong, and is attracted by the range of high end resorts and secluded smaller luxury properties, particularly in the northern islands of Fiji. There have been significant falls in the volume of United Kingdom and European visitors since the GFC. Japanese visitor numbers began falling dramatically in the late 1990s. Chinese visitors have been increasing and charter flights are now operating at selected periods of the year. There are strong seasonal patterns of visitor arrivals to Fiji, with Australians and New Zealand arrivals peaking in the southern winter months through to September, while northern hemisphere markets primarily arrive in the northern winter. This new year-round pattern has significantly improved the financial viability of the Fiji tourist industry, and operators are using Chinese New Year as a prime opportunity to access the China market.

Table A1. Arrivals to Fiji

	2010	2011	2012	2013	2014
Australia	318,185	344,829	337,291	340,151	349,217
NZ	97,857	103,181	106,122	108,239	123,968
US	53,122	55,089	56,478	55,385	61,924
China	18,147	24,389	26,395	23,423	28,333
UK	23,813	24,054	17,076	17,209	16,782
Canada	12,970	14,099	13,426	13,052	12,457
Germany	7,710	8,319	7,841	n/a	n/a
Japan	12,011	9,616	7,069	7,314	5,888
ROK	6,327	5,101	4,404	4,225	5,676
Other	81,726	86,373	104,488	88,708	88,385
Total	631,868	675,050	680,590	657,706	692,630

Source: UNWTO

Vanuatu

3. Vanuatu shares the pattern of dependence on the Australian market—50 percent of all arrivals—and as is the case of Fiji the pattern of arrivals is static or declining. The introduction of low cost carriers in 2005 opened the market to Australia and New Zealand packaged visitors, and there is a range of resorts primarily on the principal island of Efate. Vanuatu has always had visitors from New Caledonia, as a neighboring francophone PIC.

Table A2. Arrivals to Vanuatu

	2010	2011	2012	2013	2014
Australia	58,760	57,843	65,405	65,776	60,808
NZ	11,927	11,399	14,430	15,068	16,293
New Caledonia	11,410	11,376	13,138	12,515	12,757
US and Canada	2,395	1,922	2,094	2,614	2,373
China	-	302	379	1,062	1,563
Japan	517	630	705	659	763
Europe	4,888	5,265	5,491	5,544	5,591
Other	7,283	5,223	6,519	6,871	8,663
Total	97,180	93,960	108,161	110,109	108,811

Source: UNWTO and SPTO Note: These statistics do not include cruise passengers

4. For Vanuatu the cruise industry is a major component of the tourist sector. Visitor numbers for 2015 and 2016 will be affected by Cyclone Pam. There are six ports of call in Vanuatu, which provides a greater spread of benefits, as the majority of international overnight visitors stay on Efate, with Tanna and Santo as the second level destinations. Vanuatu has been the principal cruise destination from Australia as the closest PIC.

Table A3. Cruise Arrivals to Vanuatu

Year	Arrivals
2010	140,468
2011	154,938
2012	213,243
2013	247,296
2014	220,205

Source: SPTO

Palau

5. The quality of the dive experience in Palau generates visitors from across the globe and Palau has one of most diverse source markets of all PICS. However China, China Taiwan, Japan and Korea are the largest generating markets, with the first three each generating 30 to 40,000 arrivals each and Korea nearly 15,000 arrivals. The introduction of charter flights from China has driven rapid growth over the past two years. There have been year on year fluctuations between markets but the Chinese market grew exponentially in 2014 and the first months of 2015, with year on year growth rates of over 300 percent in the second quarter of 2015, creating significant pressures on facilities and natural attractions and impacting on visitors from other established origin markets.

Table A4. Arrivals to Palau

Country/Year	2010	2011	2012	2013	2014
China	725	1,699	4,471	8,804	39,383
Japan	29,318	37,800	39,353	35,642	37,986
China Taiwan	22,161	37,632	38,650	25,543	30,080
ROK	15,144	15,681	19,465	16,871	14,650
US	5,809	5,890	6,529	6,618	8,772
Australia/NZ	1,241	1,134	1,366	1,277	1,279
Russia	562	577	664	811	652
Germany	662	749	946	1,290	1,233
UK	311	260	284	330	390
Italy	384	273	397	255	363
Switzerland	216	289	283	389	298
Other Europe	n/a	1,387	1,793	1,943	2,256
Other	9,060	5,686	4,553	5,293	3,442
Total	85,593	109,057	118,754	105,066	140,784

Sources: UNWTO and SPTO

Samoa

6. New Zealand is the dominant market to Samoa, generating 41.8 percent of arrivals in 2014, but there is consistent visitor traffic from American Samoa (14.0 percent) as Apia provides a transfer point to Australia and New Zealand. Australia has become the second most important market, generated by lower cost carrier direct flights and competitive pricing as well as direct Government support. However, the withdrawal of direct flights to the USA has impacted the development of long haul markets. Connectivity between Polynesian PICs is limited, with Fiji and New Zealand as the airline hubs for PIC visitors. As noted, the strong influence of visiting friends and relatives is a major driver of arrivals. Visitors from the USA include both holiday and VFR.

Table A5. International tourist arrivals Samoa, 2009-2014

	2009	2010	2011	2012	2013	2014
New Zealand	54,587	57,837	54,921	59,803	53,245	54,630
Australia	24,507	23,415	25,194	28,161	28,261	31,155
American Samoa	24,298	23,737	24,431	23,179	20,194	18,276
USA	9,264	8,658	7,425	7,597	7,144	8,450
China	1,193	1,356	1,512	1,671	1,520	1,998
Fiji	-	-	2,646	2,876	2,708	2,903
Germany	1,450	1,089	1,151	1,003	955	1,339
UK	1,719	1,306	1,163	1,031	862	805
Japan	601	510	532	688	452	629
Other European	2,378	2,263	1,714	1,453	1,647	1,741
Other	9,308	9,329	6,914	7,232	6,685	8,727
Total	129,305	129,500	127,603	134,694	124,673	130,653

Sources: UNWTO and SPTO

Papua New Guinea

7. The high proportion of business and short-term employment arrivals to Papua New Guinea includes a wide spectrum of nationalities. Australians dominate, both on holiday and business, while Philippines arrivals are primarily contract workers. The ranking of source markets for the number of holiday visitors does not follow the same ranking as the overall ranking of the number of visitors (table below). While Australia still ranks first, it is then followed by the US, the UK, Germany and Indonesia. The Australian holiday market has increased since 2005 when the PNG Tourism Promotion Authority

office opened in Sydney. The close relationship between the two countries, the distance and the frequency of flights make PNG a convenient destination for Australians. In 2011, PNG received 3,452 US holiday travelers and by 2014 this had increased to 6,233. The marketing efforts in the US have helped create awareness and the unique natural resources receive a strong interest from the US niche markets. Australian holiday arrivals are probably affected by a restrictive visa regime, although this is now being modified.

8. Arrivals from Europe have increased sharply over the last years as well. Holiday arrivals from the UK increased from 1,679 in 2001 to 3,087 in 2014. Arrivals from Germany increased from 1,626 (2011) to 2,572 (2014). PNGTPA opened an office in London in 2013 and arrivals from the UK increased by 35 percent since.

9. In 2010, Japan was the third largest market (2,350 holiday arrivals) for PNG but arrivals have dropped since then. This has been partly caused by a decline in the number of flights to Tokyo and a change in Japanese travel patterns. Holiday arrivals from China are low, 916 arrivals in 2014, despite PNG being an “Approved Destination” since 2006.

Table A6. Arrivals to Papua New Guinea

	2010	2011	2012	2013	2014
Australia	75,355	77,396	80,276	83,616	93,433
Philippines	9,551	13,984	19,155	22,288	18,958
NZ	7,043	9,055	9,247	8,288	10,698
US/Canada	10,362	10,888	9,807	9,292	10,092
China	7,435	7,092	7,691	8,016	9,553
Japan	3,804	3,566	3,131	3,294	3,703
ROK	981	1,456	1,764	1,717	1,673
UK	5,102	4,765	3,784	5,095	6,070
Germany	1,680	2,328	2,221	1,435	1,837
France	830	1,271	1,059	1,278	1,435
Other Europe	4,453	3,038	2,699	2,846	3,279
Other	19,754	24,751	26,315	23,034	23,832
Total	146,350	159,590	167,149	170,199	184,563

Source UNWTO and SPTO

Tonga

10. Tonga depends on New Zealand as its principal source of visitors, which includes a significant proportion of Visiting Friends and Relatives, as do arrivals from the USA and Australia. Northern Europe visitors have continued to decline, a pattern shared by other PICs. New Zealand, which is frequently a shared destination with PICs, also experienced a significant decline in Northern Europe in the period following the advent of the GFC. Evident is the low level of visitors from other PICs, constrained by lack of transport links.

Table A7. Arrivals to Tonga

	2009	2010	2011	2012	2013	2014
New Zealand	15,050	21,630	22,253	19,684	22,870	24,797
Australia	9,370	10,392	10,320	9,195	9,527	11,150
US	5,425	6,372	5,508	5,161	5,468	5,942
Fiji	1,497	1,502	1,535	1,430	1,430	1,832
Germany	941	785	780	718	745	803
UK	1,705	819	696	621	669	715
Japan	709	607	541	647	600	644
China	807	850	541	524	542	759
France	553	300	305	237	305	301
Other Europe	1,645	1,421	1,395	1,193	1,190	1,269
Other	8,009	2,403	2,131	2,187	1,895	2,224
Total	45,711	47,081	46,005	41,597	45,241	50,436

Source: UNWTO and SPTO

Solomon Islands

11. Australia again dominates arrivals into the Solomon Islands, but the diversity of diving and natural experiences draws a much wider market, and although numbers are small European visitors are increasing. Inter-PIC traffic among the Melanesian PICs is much greater than in Polynesia, with better linkages and shared borders. Australia has been operating a peace-keeping operation in the Solomon Islands for more than ten years which generates visitor and service personnel arrivals.

Table A8. Arrivals to Solomon Islands

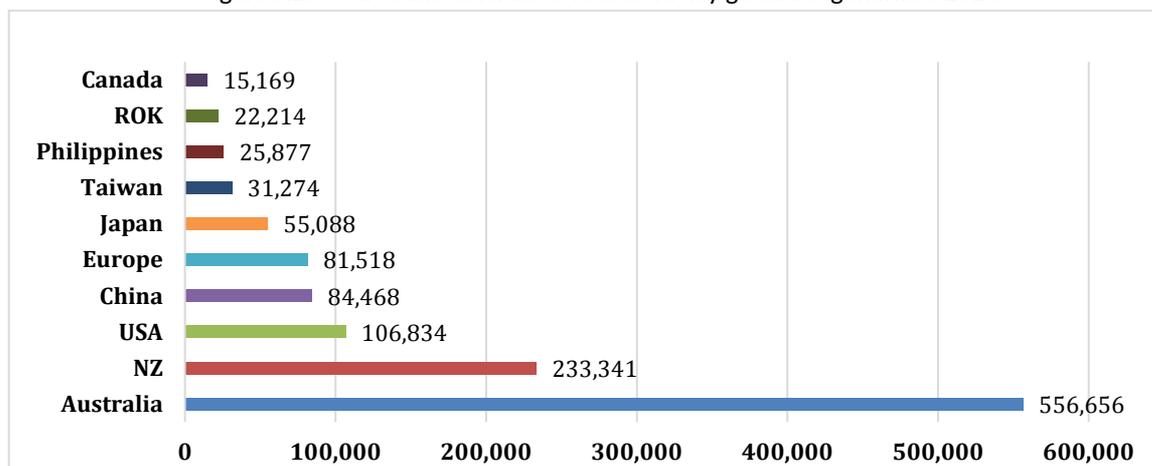
	2009	2010	2011	2012	2013
Australia	8,902	10,751	11,392	11,079	11,181
PNG	1,098	1,361	2,057	1,973	2,019
NZ	1,364	1,710	1,724	1,747	1,905
Fiji	917	991	1,204	1,555	1,800
US	1,034	862	1,040	1,334	1,161
Vanuatu	308	405	513	595	804
Japan	873	589	641	614	601
UK	419	432	380	385	460
Other Europe	621	582	561	676	662
Other	2,772	2,838	3,429	3,967	3,838
Total	18,308	20,521	22,941	23,925	24,431

Source: UNWTO and SPTO

Appendix 2: PIC Source Markets Trends

1. In the past decade the global financial crisis, the UK travel tax, reductions in flights to the US and Japan, as well as the rise of China have created shifts in the pattern of arrivals in the Pacific. Inter-island connectivity has declined, there have been major, well reported natural disasters and global competition has intensified. Long haul markets have declined in importance and PICs have become increasingly dependent on Pacific Rim markets.

Figure A1. Total tourist arrivals to PICs from key generating markets 2014*



Source: UNWTO 2015

*Data from FSM, Kiribati and Solomon Islands is 2013, Marshall Islands 2012. Arrivals from key generating markets only and does not reflect total tourist arrivals.

2. Two thirds of tourists are visitors from Australia and New Zealand. The USA, China, Japan and Europe are relatively small markets, but still very important as they have the potential to generate much more growth in arrivals than Australia and New Zealand. Outbound travelers from the USA are already more than double the combined populations of Australia and New Zealand, at half the travel propensity.

Travel by established markets, Australia and New Zealand

Australia

3. Australia's outbound departures have increased steadily from 4.3 million in 2005 to 8,125 million in 2014. Departures increased by 4.6 percent between 2013 and 2014; the trend has continued through 2015. Australia ranked 9th in international tourism spending for 2014 according to the UNWTO. Growth over the last few years occurred despite fluctuations in the Australian dollar. In 2014, the Australian dollar reached highs that had not been seen since 2004, making international travel more attractive for Australians. The top ten destinations for the Australian outbound market in 2014 were: 1 New Zealand, 2 Indonesia, 3 USA, 4 UK, 5 Thailand, 6 China, 7 Singapore, 8 Fiji, 9 India, and Japan.

4. New Zealand remains the principal destination for Australians, but includes a high volume of VFR and business traffic. In 2014, VFR was 40.5 percent of arrivals, business visitors were 13.3 percent and holiday visitors made up only 38.3 percent.¹⁶ Indonesia travel reflects the immense popularity of Bali as a destination. Even the Bali bombing in 2002 and other security concerns in Indonesia have had

¹⁶ NZ Visitor Arrival Statistics December 2014

little effect on the rapid growth of Australian arrivals. The top destinations among PICs were Fiji, PNG, Vanuatu, Samoa, Solomon Islands and Tonga. However, Fiji, ranked 8th, was the only PIC among the ten top destinations for Australians in 2014-15.

5. Total outbound departures for Australia are forecast to continue to grow in future years, albeit more slowly. Tourism Australia expects outbound departures to grow 3.8 percent on average per annum and reach 12.3 million by 2022-23. Malaysia, China, Indonesia, Fiji and Singapore are forecast to be the top five fastest growing main destinations to be visited by Australian residents over the next few years (Tourism Research Australia, 2014).

6. The profile of Australians traveling to PICs covers the full spectrum, from families, adventure seekers and mature-aged to VFR and business. There is a strong surfing market to Fiji, PNG, Samoa and Tonga and a diving market across the region. The wedding market is primarily in Fiji and Vanuatu. Average daily expenditures by Australian visitors are available for four PICS. The relatively low expenditure in Samoa reflects the high proportion of VFR traffic.

Table A9. Average Daily Expenditure by Australian Visitors

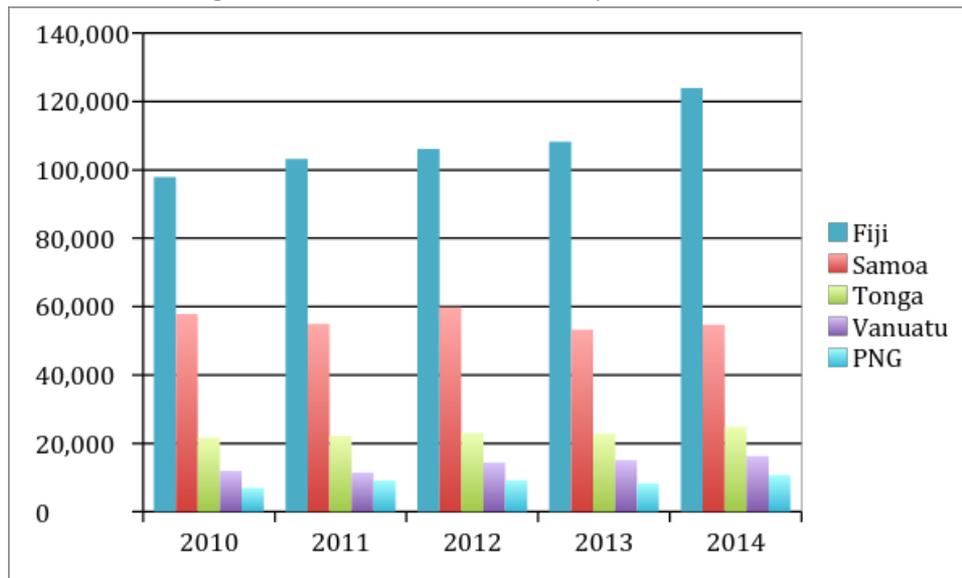
	Average Daily Expenditure \$US	
	Australians	All Visitors
PNG	260	308
Solomon Islands	167	174
Kiribati	151	129
Samoa	128	125

Source: Visitor surveys for 2014; PNG Exit survey 2011

New Zealand

7. For New Zealanders, outbound travel has also been increasing steadily from 2 million in 2010 to 2.3 million in 2014. In 2014-15, over 47 percent of the trips were to Australia followed by growing numbers to the USA (172,000 as of May 2015) and Fiji (135,000 as of May 2015), up by 14.8 percent and 14.4 percent respectively. Travel to some other PICs was up also: Samoa by 6 percent, Tonga by 9 percent and Vanuatu by 1.8 percent. International outbound leisure travel trips by New Zealand residents are estimated at 1.9 million in 2014, and are forecasted to grow by an average of 3.3 percent per year to reach 2.3 million trips by 2020. Outbound departures increased 2013 (1 percent) and 2012 (4 percent). Again, geographic distance plays an important role in this as Fiji, Tonga and Samoa are relatively close to New Zealand; 3 hours travel and in the same time zone. Much of the travel can be attributed to VFR, especially for Tonga. The Cook Islands are also a major destination for New Zealanders, with 79,959 arrivals in 2014.

Figure A2. New Zealand arrivals to top PICs, 2010-2014



Source: UNWTO

8. New Zealanders travel to PICs for family holidays, weddings (11 percent of visitors to the Cook Islands are attending weddings), adventure and sports, as well as beach holidays by couples or groups. The Pacific is also a destination for meetings and New Zealand is a major supplier of food and manufactured goods, so there is frequent business travel.

9. New Zealanders are twice as likely to visit PICs as Australians are: the travel propensity of Australians is 0.24, while for New Zealanders it is 0.52. If the Cook Islands are included, the propensity increases to 0.70. Although the population is only 19 percent of Australia, it is a primary market for PICs. In PICs where data is available, New Zealander's average daily expenditure is just above that of all visitors (see table below).

Table A10. Average Daily Expenditure by New Zealand Visitors

	Average Daily Expenditure \$US	
	NZ Visitors	All visitors
PNG	330	308
Solomon Islands	186	174
Samoa	127	125

Source: Visitor surveys for Solomon Islands, 2014; PNG Exit survey 2011

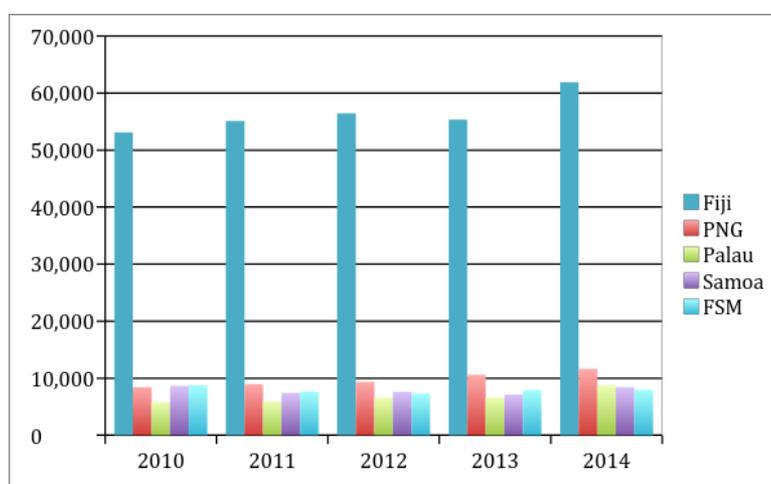
10. The two main markets for PICs—Australians and New Zealanders—are, therefore, traveling in increasing numbers both to some PICs as well as other destinations. Increased flight connections from the main carriers (Air New Zealand and Qantas) and low cost carriers such as Virgin Australia are helping to increase traffic. However, outbound travelers total 9 million (Australia) and 2.3 million (NZ) are relatively small bases from which to expand. Especially compared with the Caribbean islands, which can draw upon the USA market of more than 300 million.

Other established markets

USA

11. Americans took a record 68.3 million international trips in 2014, a 1 percent increase over 2013. Of that, 55 percent traveled no farther than neighboring Canada and Mexico. In 2014, just 1 percent of US outbound travelers visited Oceania, including Australia and New Zealand. The region received 601,000 Americans, an increase of 5 percent over 2013.

Figure A3. USA arrivals to top PICs, 2010-2014



Source: UNWTO

12. From 1995 to 2008, American arrivals to PICs grew from 47,601 in 1995 to a high of 98,368 in 2006, this was then surpassed in 2014 with more than 98,781 US arrivals reported. Fiji has long been the favorite destination for Americans ranging from 83 percent to 57 percent of all Americans visiting PICs from 1995 to 2009. Papua New Guinea has been and continues to be the second most popular destination among the target PICs beginning with the first recorded US arrivals in 2009 of 6,630 increasing to 11,668 by 2014, in part driven by major US resource extraction projects.

13. Geographic distance is less of concern for American visitors based in western states—California and Hawaii together account for 38 percent—but accessibility and attractiveness of the destination are the key decision makers. Fiji is the only PIC with direct flights to Los Angeles. Fiji is a mature destination for Americans offering a wide variety of accommodation including international brands. Fiji is a well-known honeymoon destination for this market. The arrivals to PNG include business travel, but the country has also become a destination for niche travel markets for divers and eco-tourists. The dive market drives much of the US travel to FSM and Palau, 65 percent of USA visitors to Palau dive¹⁷. Traditionally, US visitors to the Pacific have been largely drawn from western states, as travel times are significantly shorter and they are home to significant Pacific Island diaspora populations.

14. US investment in hotels, resorts and second homes in the Pacific, particularly in Fiji, creates confidence in the destination for US travelers. A number of high profile US personalities have homes or resorts in Fiji. The success of Fiji Water (8 percent of Fiji's exports), as a premium brand, has also created market awareness. Total USA arrivals to the Indian Ocean is smaller than to the Pacific,

¹⁷ Palau Tourist Survey 2014

increasing from 10,149 in 1995 to 29,895 by 2013, with most of these arrivals concentrated in the Maldives (20,034 arrivals).

15. Data from a series of surveys conducted in PICs enable daily expenditure to be calculated for US visitors to five PICs. Americans tend to spend more than average visitors, except for in PNG where a majority of US travelers comes for business purposes but still making them a good high-yield target market.

Table A11. Average Daily expenditure by US visitors

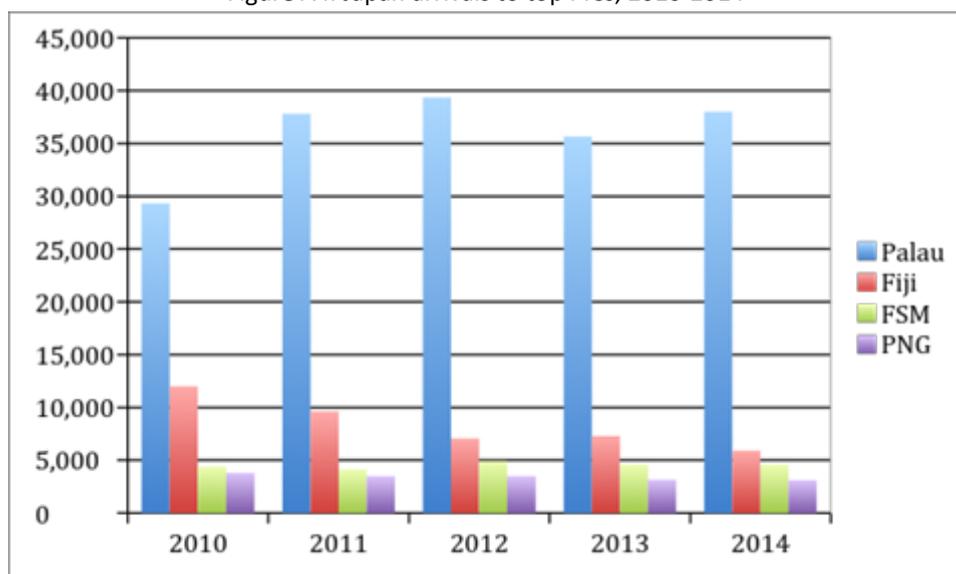
	Average Daily Expenditure \$US	
	US Visitors	All Visitors
PNG	272	308
Solomon Islands	228	125
Palau	371	280
Kiribati	178	129
Samoa	277	125

Source: Visitor surveys for each PIC 2011, 2012, 2014 PNG Exit Survey

Japan

16. Japanese international outbound travel has undergone fluctuations over the last ten years. Japanese outbound travelers stood at 17.5 million in 2006, but then gradually dropped to 15.4 million in 2009. In the following years outbound travel increased up to 18.5 million in 2012. Departures dropped again to 16.9 in 2014. Outbound trips are forecasted to grow by an average of 1.1 percent per year to reach 18.4 million trips by 2020. The outbound travel growth rate in Japan is one of the lowest in the region.

Figure A4. Japan arrivals to top PICs, 2010-2014



Source: UNWTO

17. Japanese arrivals to PICs were 48,204 in 1995, but by 2013 the total had only increased marginally to 53,221. As of 2014, the main markets for Japanese travelers in PICs were Palau (37,986), Fiji (5,888), FSM (4,570) and PNG (3,117). Japanese arrivals to Fiji dropped precipitously from a 1995 high of 45,300 to the 2014 total of 5,888. Palau began receiving large numbers of Japanese starting in 1998 with 21,571 visitors and then fluctuating within a few thousand in subsequent years. There are

direct flights from Narita to Palau and many of the Japanese visitors are coming to dive or snorkel. Japanese arrivals to Kiribati, Samoa, Marshall Islands and Solomon Islands are under 600 arrivals annually. Apart from Palau, overall Japanese visitation to the target PICs has been low considering that the Maldives received almost 40,000 visitors in 2013.

18. As with Japanese arrivals to the Pacific region destinations, arrivals in the Caribbean have declined substantially. They reached a 1996 high of 53,791 and have dropped to an all-time low in 2013 of 12,686. In the Indian Ocean, Japanese arrivals have been fairly static hovering between 35,044 in 1995 and 42,054 in 2014 with approximately 93 percent concentrated in the Maldives.

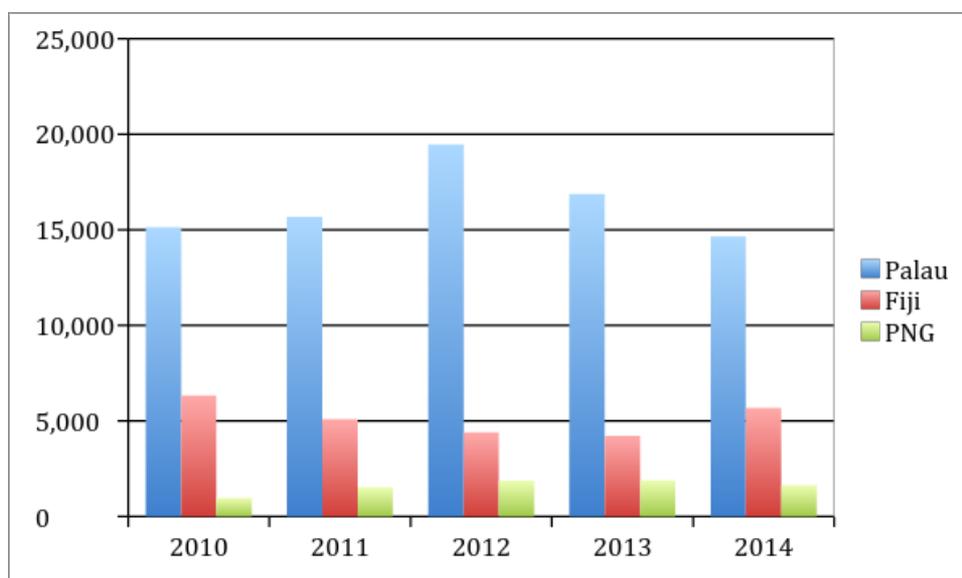
19. Japanese expenditures in PICs has only been measured by surveys in PNG and Palau. For PNG in 2011 average daily expenditure by Japanese visitors was US\$491, well above the average of US\$308. In Palau it was US\$318 in 2014, slightly higher than the average US\$280. While limited, these observations demonstrate the high-yield potential of the market.

20. Generally, the Japanese market appreciates quality products and attention to detail. Two interesting markets are seniors (age 65+) and young women. Japan’s population is graying and retirees have an increased interest in traveling abroad. Young women in their twenties and thirties are some of the keenest groups of travelers in Japan. They often travel in small groups and are very interested in discovering new destinations. Japanese groups are also interested in visiting World War II historic sites, particularly in PNG.

Republic of Korea (ROK)

21. Outbound travel in the Republic of Korea has been increasing since 2009 when the number of departures increased from 9.5 million in 2009 to 15.5 million in 2014. The strong value of the Korean Won, combined with the expansion of low-cost carriers, is the main reason for the increase in outbound travel. Preliminary statistics indicate outbound travel in 2015 will increase by double digits.

Figure A5. Republic of Korea arrivals to top PICs, 2010-2014



Sources: UNWTO 2015 and NTOs

22. Of all PICs Palau is the closest to ROK and there are four direct flights a week between the two countries. In 2014 Palau was the number one destination among PICs with 14,650 visitors, a decline from the 2012 peak of 19,465. Fiji, which has three direct flights a week, received 5,676 visitors in

2014—a 34 percent increase from 2013 and the highest number since 2010. PNG received 1,649 in 2014, the second year of declines from a 2012 peak of 1,764. Surveys show Korean travelers are interested in beaches and experiences.

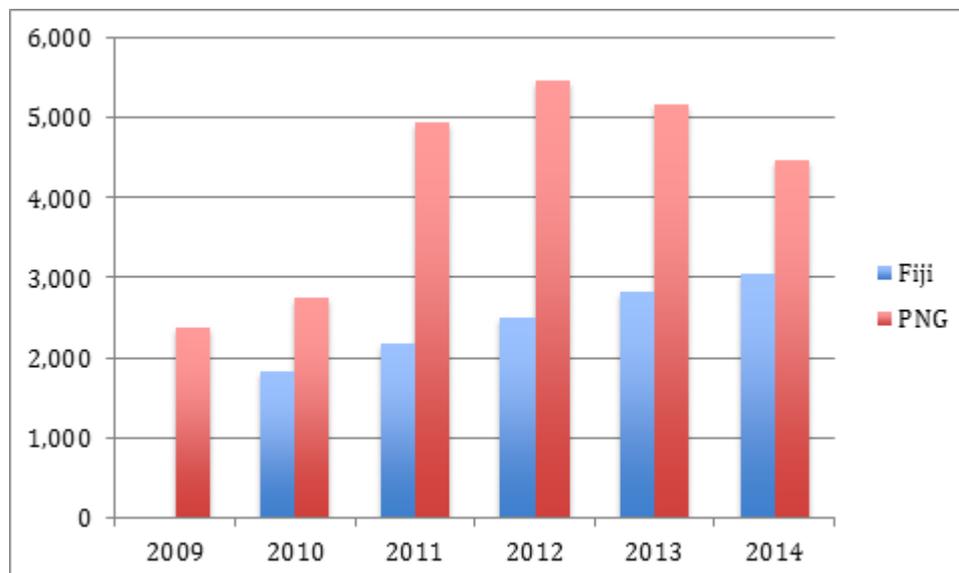
23. Competitive destinations in the Pacific and Indian Ocean have seen year-on-year increases in arrivals from ROK. Korean arrivals to Guam tripled between 2009 and 2014, reaching 293,437 arrivals in 2014. Northern Mariana Islands and Maldives also experienced growth.

24. Average daily expenditure for Korean visitors is only available for Palau in 2014. At US\$257, it is just below the average US\$280. This limited data makes it difficult to draw conclusions on their spending habits in PICs.

India

25. India is just behind China in growth rates of outbound travelers, but not yet in the top ten of global tourism spending countries. International tourism departures from India have grown from 3.7 million in 1997 to 18.3 million in 2014. With more than 1.1 billion inhabitants and a fast growing urban middle class wanting to travel, India is expected to continue to be one of the fastest growing outbound travel markets. Tourism Australia expects the number of Indians traveling overseas to rise from around 18 million in 2014 to 50 million by 2020.

Figure A6. India arrivals to Fiji and PNG, 2009-2014



Source: UNWTO 2015 and SPTO

26. Indian arrivals in Fiji have increased from 1,836 in 2010 to 3,057 in 2014 and saw an 8.3 percent increase compared to 2013. Arrivals to PNG increased from 2,382 in 2009 to 4,475 in 2014, down from a peak of 5,480 in 2012. While numbers are still low, India promises to be a strong growth market for Fiji and PNG. Fiji’s Indian diaspora offers a potential opportunity for VFR arrivals. Bollywood movie producers have recognized Fiji’s appeal as a shooting location, which can raise public awareness of the destination.

27. Maldives and Mauritius both experienced strong growth from the Indian market in the six years to 2014. Indian visitors to the Maldives tripled, reaching 45,587, while arrivals in Mauritius almost doubled to 61,167. Indian arrivals in both destinations are strongly driven by the wedding and

honeymoon market. Direct flights from Mumbai to Malé in Maldives take approximately five hours. There are no direct flights from India to Fiji and travel time is about 18 hours requiring a stopover in Hong Kong or Sydney. Fiji hopes to negotiate an air services agreement with India in January 2016, made possible by the addition of direct flights between Fiji and Singapore starting April 2016.

Europe

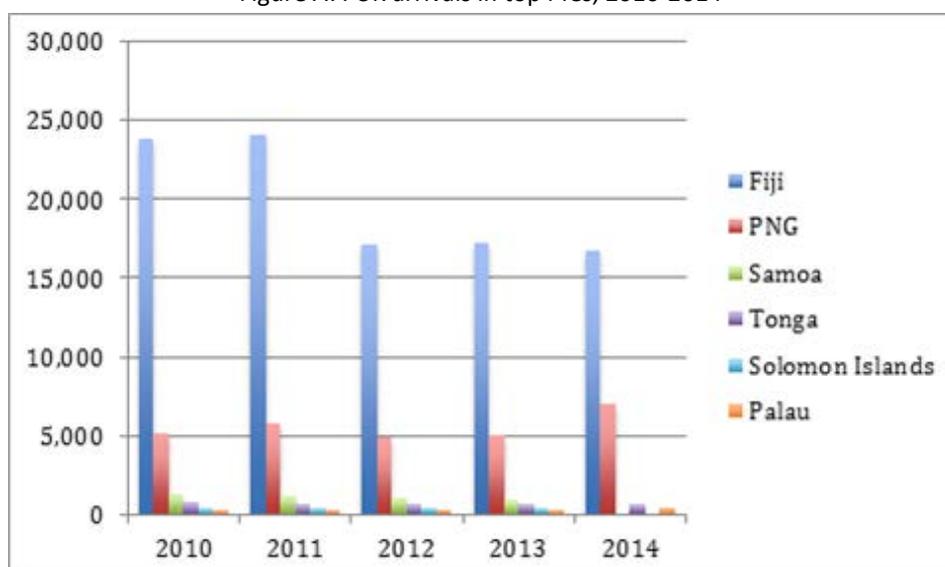
28. European outbound travel (including inter-European) increased from 497 million in 2010 to 575 million in 2014, and represents 51 percent of all international outbound travel. Average annual growth was 2.7 percent between 2005 and 2014, the lowest growth rate of all regions (World Tourism Organization, 2015).

29. Europe is considered an important market for PICs as European visitors have on average a much longer length of stay than travelers coming from Australia, New Zealand, China or Japan. This longer length of stay translates into higher revenue per tourist. Europeans are more likely to travel away from main resort areas and to have specific interests or experiences. For countries like PNG and Solomon Islands, which have diverse natural and cultural experiences, they form an important market for regional areas. Results from a 2014 tourism survey in Palau shows that many European tourists come specifically for diving.

30. UK residents took 60.1 million visits abroad in 2014; this was up 4 percent compared to 2013. This was a return to positive growth after the 1 percent decline of 2012. British travelers spent 3.0 percent or £1.0 billion, more during these visits in 2014 than in 2013. Growth had been hampered since the global financial crisis. UK outbound travel is expected to grow by 1 percent annually the next few years as consumers regain their confidence in the economy.

31. The four-tier UK Air Passenger Duty (based on the distance from London to the destination's capital city) as introduced in 2009 caused flight fares to increase. Asia Pacific fell in band D, the most expensive. The most expensive bands, C and D, were scrapped in April 2015 so all long-haul destinations now fall under A and B. Destinations in the Caribbean and Asia Pacific are expected to see visitor numbers from the UK rise as a result of the tax changes.

Figure A7. UK arrivals in top PICs, 2010-2014



Source: UNWTO 2015 and SPTO

32. The main markets for the UK in PICs in 2014 were Fiji (16,782), PNG (6,994), Samoa (862 in 2013), Solomon Islands (460 in 2013) and Palau (390 in 2013). UK arrivals to any other PICs are under 1,000 arrivals annually. UK arrivals in Fiji have decreased significantly in the last three years. This follows the overall trend for long-haul destinations from the UK. Based on visitor surveys, Fiji is mainly considered a honeymoon destination, while PNG is an adventure destination. Palau and the Solomon Islands attract a small but steady number of UK divers each year. UK visitors to PNG spent US\$255 per day in 2011, compared to an average US\$308.

33. **Germany** was the third largest spender on international tourism in the world in 2014, after China and the US. Total spending in 2014 is estimated at US\$92 billion, a 2 percent increase over 2013. In 2014, German departures to long-haul destinations recovered from their dip following the global financial and Euro crises. In 2014, Germany's departures were back at 4.2 percent growth, compared to 2013 when the outbound market grew by only 0.5 percent.

34. The number one destination for Germany within the targeted countries is Fiji with 7,841 in 2012¹⁸. The second most popular destination is PNG, where arrivals increased from 1,219 in 2009 to 3,330 visitors in 2014. Palau is third with 629 visitors in 2009 and 1,233 in 2014. Samoa and Tonga each received less than 1,000 German visitors in 2013 with Samoa declining from 1,450 German visitors in 2009 to 955 in 2014 (World Tourism Organization, 2015).

35. Based on visitor surveys, Fiji is primarily considered a honeymoon destination, while the main reason to visit the other to five countries is diving and nature. Arrivals to Samoa, PNG and Tonga were driven by historical associations and successful marketing by German-owned resorts. As these have declined, and as access has been reduced, the Pacific Islands are no longer the aspirational destinations they once were. German visitors to PNG in 2011 spent an average of US\$323 per day, just above the US\$308 average for all visitors.

36. **France**, while sixth in terms of tourism expenditures, has very low visitation to PICs. Fiji is the most popular country within PICs, as it received 4,375 visitors in 2012. Papua New Guinea is the second most visited PIC with 1,278 visitors in 2013. All other PICs received less than 1,000. However, French Polynesia and New Caledonia, French Pacific collectivities, together received over 70,000 visitors in 2014. The French market to the Maldives and Mauritius is of a similar scale. French visitors to PNG in 2011 spent an average of US\$419 per day, significantly more than the total average of US\$308.

37. The **Netherlands**, a relatively small country, has been able to make it in the top 15 source markets for Fiji, PNG and Solomon Islands. Fiji received 2,077 Dutch visitors in 2009, but by 2012 this number had dropped to 1,590. Papua New Guinea has experienced an increase in arrivals from the Netherlands increased from 515 in 2009 to 674 in 2014. Solomon Islands received 63 Dutch visitors in 2013.

38. **Russia** is currently the fourth biggest spender on tourism expenditure, after China, the United States of America and Germany. The Russian market has yet to find the PICs, yet in 2014 66,308 Russians visited the Maldives. This is a market with future potential, if access issues can be resolved.

¹⁸ Fiji data for 2013 and 2014 are not available.

China

39. China, the number one tourism generating in the world in terms of spending since 2012, has experienced substantial growth over the last year. In 2014, 109 million Chinese traveled abroad, an increase of 19 percent compared to 2013. These numbers include Hong Kong and Macau. Chinese tourists spent a record US\$164.8 billion overseas last year, a 28 percent increase over 2013. Outbound growth for 2015 is estimated between 15-20 percent. The increase in outbound travel is a result of the fast growing middle class combined with fewer restrictions for international travel. Mintel¹⁹ expects the volume of outbound travelers to grow at a CAGR of about 12.8% over 2014-19, reaching 213 million person-times in 2019.

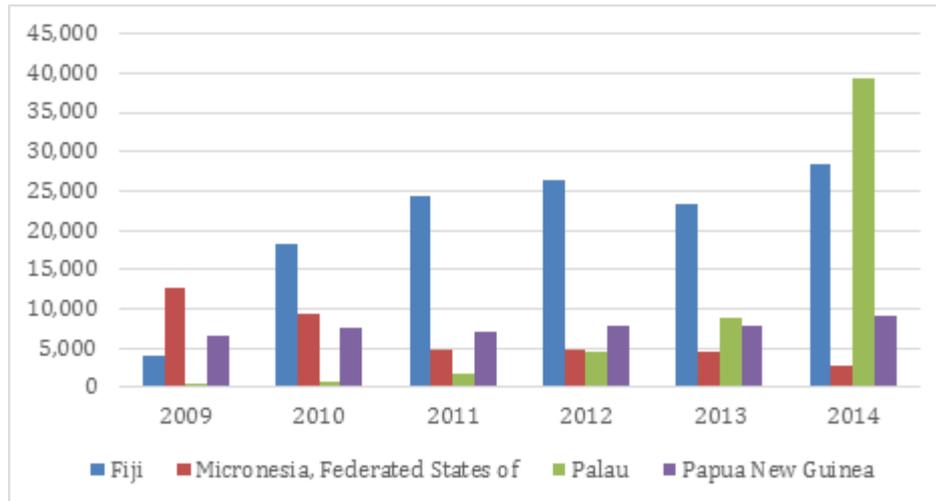
40. Approved Destination Status (ADS) is a bilateral tourism arrangement and lets Chinese holiday travelers travel in a group to the country and allows the other countries to advertise their destination in China. ADS was granted to Fiji, Tonga and Vanuatu in 2004 and extended to FSM, Samoa and PNG in 2006. ADS has only been granted to countries that support China politically and not to those that support China Taiwan. Solomon Islands, Kiribati, Tuvalu, Marshall Islands and Palau do not have ADS status. The countries that have ADS status also often received infrastructure support from China. In November 2015, the Chinese Government announced that the PICs that have ADS status, and presently receive grants from China, will have a representative tourist office in Beijing. The South Pacific Tourism Organization (SPTO) will manage the office. Du Jiang, deputy director of the China National Tourism Administration, said: "We hope to launch more direct routes to the region, in order to provide more convenience for visitors. We encourage Chinese companies to invest in the island nations and help develop tourism".

41. Between 1995 and 2008, total Chinese arrivals to nine of the eleven target PICs were reported by the UNWTO as growing from only 278 to 3,969. However, in 2009 the total jumped to 25,988, then increased to 83,517 in 2014. The main markets among the PICs in 2014 were Palau (39,383), Fiji (28,333), PNG (9,553), FSM (2,732), Samoa (1,998) and Vanuatu (1,563). Chinese arrivals in Palau rocketed from 8,804 in 2013 to 39,383 in 2014. In February 2015, Chinese visitors represented 62 percent of all visitors, which Agence France Presse reported as a 500 percent increase. The rapid increase prompted concerns by Palau residents and President Tommy Remengesau, which resulted in cutting the number of flights from China in half in April 2015. The size of the Chinese travel market means that increased interest will lead to remarkable growth figures. While there are no detailed statistics, considering the current flight schedule, most Chinese are originating from Hong and Shanghai.

42. The other five destinations have experienced relative small growth numbers from China. Statistics for the most recent year available are Marshall Islands (87), Tonga (391) and Tuvalu (60). No data on Chinese visitors was available for Kiribati and Solomon Islands.

¹⁹ Mintel (2014) Marketing to Chinese Tourists

Figure A8. China arrivals in top PICs, 2009-2014



Source: UNWTO 2015

Chinese Arrivals to other countries in the region

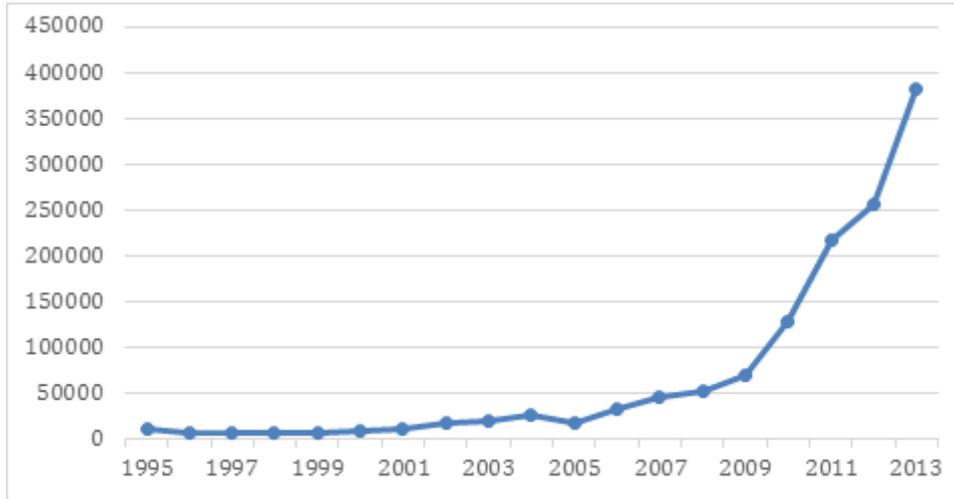
43. Chinese arrivals to other countries in the Pacific region increased from 1.43 million in 2009 to 4.92 million in 2014. Australia, New Zealand and the Northern Mariana Islands have overwhelmingly dominated the market, with an average 99 percent of all Chinese arrivals. Among these countries, Australia is the main receiving country with an average 71 percent market share between 1995 and 2014.

44. The Northern Mariana Islands has been grown quickly as a destination for Chinese visitors, due to the establishment of direct airline connections with China and increased marketing by Chinese agencies. The country received 29,528 in 2009—by 2014 arrivals had increased to 170,121. The other island states in the region include American Samoa, Cook Islands, French Polynesia, Guam, New Caledonia, and Niue. The only place among them that has seen substantially more Chinese visitors is Guam, which has doubled arrivals from 7,069 in 2011 to 14,547 in 2014.

Chinese Arrivals in Indian Ocean and Caribbean Sea

45. Chinese arrivals in the Caribbean are just approximately 10 percent of their numbers in the Indian Ocean. In the Caribbean, approximately 70 percent of arrivals have been concentrated in Cuba since 2007 with 22,218 arrivals in 2013. The next largest destination is Trinidad and Tobago with 3,657 arrivals.

Figure A9. Chinese arrivals to Indian Ocean, 1995-2013



Source: UNWTO

46. Chinese arrivals in the Indian Ocean totaled 381,377 in 2013, with 87 percent concentrated in the Maldives. Aside from the Maldives, Chinese visitors are also visiting Mauritius in increasing numbers with nearly 42,000 visiting in 2013.

47. Among Chinese, diving is fast growing in popularity. The first China Dive Expo was organized in 2005 and now 10 years later, the Expo will be held in five Chinese cities. The sport is becoming increasingly popular especially among High Net worth individuals²⁰.

²⁰ ILTM (2014) The Chinese Luxury Traveller

Appendix 3: Use of Subsidies in Pacific Islands Air Transport

Introduction

1. This Appendix approaches subsidies from the perspectives of routes and tourism. This is a different type of subsidy regime than those being discussed today in the airline industry in the U.S., where U.S. based carriers are arguing that the Middle Eastern carriers of Qatar and Dubai are receiving state subsidies in terms of capital and land, and are therefore accused of competing unfairly according to the U.S. Open Skies framework. The subsidies discussed here are payments to airlines for connecting certain city or airport pairs, usually a tourism destination with its target market of originating tourists.

Extent of Use and Known Impacts of Airline Subsidies

2. Subsidies for air routes have been in existence for a long time, and are regaining popularity in some markets. A formal approach to subsidies is applied by the U.S. Department of Transportation: Since deregulation of air services in 1978 meant that many smaller rural communities would lose air connectivity, a subsidy program was put into place that now serves roughly 163 communities with commuter airlines.²¹ The routes are seen to require what is termed “essential air services”. The program, however, has gone through significant reforms in the last four years, reducing the amount of subsidies and raising eligibility requirements.

Box 1: The World Routes Forum

The power imbalance between airlines and airports is so large that there is actually an entire industry supporting the relationship between the two. The World Routes Forum, an annual event managed by Routesonline.com owned by UMB (UK) Ltd. out of Manchester, UK, specializes in the matchup between airlines and airports. The paying guests are airports, who, for a fee, can set up booths showcasing their location and features, and are staffed with airport officials. The invited guests, who do not have to pay an entrance fee, are the airlines, whose executives then stroll through the event hall looking at the different exhibits. If an airline becomes interested in an airport, the two have the option of heading off to a speed negotiation in a private meeting room, with a set time limit of 15 minutes. At this point the primary agreement between the two parties is struck, to be completed in detail later.

In 2015, the event had 522 airports (241 from Europe and 101 from the Americas, with the UK having had 24 and the US having had 38) and 191 airlines as attendees, as well as 75 destinations (often represented by tourism authorities or boards).

3. In general there is a significant power imbalance between airlines and airports (see Box 1). Except for the largest hubs, where traffic is carefully allocated with gate slots, airlines in general have the upper hand and control the supply of traffic, and it is the airports that court airlines to serve them. This implies that airports often see it in their best interest to offer either direct subsidies or indirect subsidies through steep discounts in airport fees.

4. Not much specific is published on the use of subsidies by governments in support of their country’s tourism industry, however it is known they are widely used in the Caribbean, their use has

²¹ <https://www.transportation.gov/policy/aviation-policy/small-community-rural-air-service/essential-air-service>

been recently suggested to ministers of tourism in the Africa region²², and even the state of Maryland in the U.S. subsidizes the connection by British Airways of Baltimore-Washington International Airport (BWI) with London's Heathrow International Airport (LHR).²³ It appears that as a new trend airlines seem to seek subsidy mechanisms as a potential precondition for assuming new, riskier routes.

Use in the Caribbean

5. Subsidies are widely used in the Caribbean, at the airlines' request. The Caribbean Hotel and Tourism Association established in 2009 that of 35 countries surveyed, with only 9 responding, a total of US\$ 50 million was spent on subsidies for airlift.²⁴

6. There are two types of agreements that form the backbone of airline subsidy mechanisms in the Caribbean:

1. Minimum revenue guarantee agreements, and
2. Marketing agreements

7. Revenue guarantee agreements are usually with carriers from the U.S., where subsidies of routes are legal. These act as insurance policies for carriers that if they fly a specific route they will have a guaranteed minimum return.

8. The agreements are negotiated with individual airlines, and are usually contained in confidential memorandums of understandings. Because they are confidential, the competitive position of one airline vis a vis another airline is not publicly revealed. After the agreements are signed, usually an escrow deposit is made by the agreeing government for the amount the government has agreed to insure the services.

9. Minimum revenue guarantees are based on load factors: An airline agrees to fly a given route on a given schedule with set frequencies, and the government agrees that if load factors fall below a specified limit, the airline is entitled to funds from the escrow account to guarantee a minimum revenue. In this case the government assumes the risk for the projected tourism traffic, which is influenced by (a) the attraction of the country's properties in targeted markets, and (b) macroeconomic forces affecting the demand for tourism overall.

10. Marketing agreement occur generally with European carriers, since agreements in the form of minimum revenues are not legal in the EU. The marketing agreement mechanism, therefore, is a method of governments to support a route with a given airline while staying within the boundaries of EU law.

11. Marketing agreements also work with funds set aside, and a set minimum for traffic levels. Should these minimums not be met, the airline (and in some cases the government also) can withdraw from the funds to increase marketing for the route.

²² The author was present on April 29, 2014, when a panellist at the UNWTO meeting in Luanda, Angola, representing the World Routes Forum, told the assembly of ministers of tourism to look forward to the day when they may pay for air services flying to their targeted tourism attractions

²³ <http://www.bizjournals.com/baltimore/news/2012/09/17/bwi-british-airways-subsidy-contract.html>

²⁴ Bofinger, Heinrich C. and Millan Placci, Florencia, Stocktaking and Project Inception Report – Air Transport in the OECS: Subsidies and Connectivity, The World Bank (internal), 2012, p. 20

12. Through confidential interviews and discussions it was revealed by a tourism minister that one island nation in the Caribbean is willing to subsidize air services by up to US\$ 50 per passenger. With a distance of roughly 6,600 km between the island and London, UK, this amounts to 0.008 US\$ per passenger kilometer, or US\$ 0.01.

Criticisms and Impact

13. Economists in general see the use of subsidies for non-essential air services routes in a negative light for several reasons:

- Subsidies cause distortions in the marketplace by keeping ticket prices from reflecting the true cost of the air services being purchased by the traveller;
- Subsidies shift the risk of operation away from the airlines to the governments;
- Related to the two points above, subsidies in themselves reflect a market failure, since in itself the tourism and airline industries cannot price themselves sustainable in the marketplace:
 - Airline subsidies send a market signal that the tourism and hotel industry are not sustainable
- Subsidies cause out-of-sector tax receipts to support the tourism and hotel industry
 - For example, it could be argued that the small-scale banana farmer on a Caribbean island is paying, with his taxes, for the hotel industry, though he is receiving no benefit.

14. One common theme is that subsidies, in reality, reflect a lower quality of room stock. For example, it has been argued that because of the high quality of properties in Jamaica, the Bahamas, and the Dominican Republic, demand has been so consistent that though subsidy agreement exist, no payments ever needed to be made.²⁵ The argument continues by stating that because of the lack of large, high-quality properties in the OECS, the islands' tourism sectors are volatile, and thus the airlines face more risk.

15. Proponents for subsidies argue that the economic impact of air services is significant, and that lack thereof places vital connectivity at risk. Airlift is an absolute necessity for islands' tourism industry, even for islands well within the reach of mainland ferries. Subsidies, so the argument is made, rightfully shift risk away from airlines to governments, thus assuring the transport artery that can supply visitors. In the OECS islands, for example, stay-over tourism provides roughly 90% of all tourism revenue, and almost all stay-over tourists arrive by air. This can be estimated as roughly US\$ 1.02 billion overall revenues, or US\$ 1,042 per stay-over visitor. Proponents would argue that a \$50 investment in airline subsidies per passenger produces nearly \$1,000 in net revenues after subtracting the subsidy. Similarly, the subsidy of British Airways flying between BWI and Heathrow is said to have an economic gain of US\$ 117 million per annum, which amounts to US\$ 1,034 per passenger once the subsidy is subtracted.

Subsidizing routes from China to Fiji, Samoa, and Vanuatu

16. In 2015 there were no direct connections between the target islands and the key markets of Shanghai, Beijing, and Chengdu (see Table A12). In addition, amongst the proposed hubs only Sydney connects to China, and only via Beijing. Sydney also connects with Fiji, Vanuatu, and Samoa. With

²⁵ In reality, the Bahamas did make subsidy payments in 2012.

163,000 estimated seats with Beijing, the Sydney-Beijing route seems solid, as does the Sydney-Fiji route, with over half a million seats. The Sydney-Samoa route does not seem sustainable in the long run.

17. Auckland also has healthy traffic between Fiji and Samoa. The traffic between Vanuatu and other destination seems sustainable, though not to the sense that competition is likely. Between the islands, the only connections existing are between Fiji and Samoa, which, with less than 50,000 Seats does not seem sustainable²⁶, and between Fiji and Vanuatu.

Table A12: Estimated 2015 seat capacities between China, potential hubs, and target islands.

		Shanghai	Beijing	Chengdu	Brisbane	Sydney	Auckland	Fiji	Vanuatu	Samoa
		SHA	PEK	CTU	BNE	SYD	AKL	NAN	VLI	APW
Brisbane	BNE	0	0	0						
Sydney	SYD	0	163,020	0						
Auckland	AKL	0	0	0						
Fiji	NAN	0	0	0	216,580	514,332	400,764			
Vanuatu	VLI	0	0	0	77,012	79,560	61,568	48,040		
Samoa	APW	0	0	0	18,304	32,032	224,952	47,112	0	

Source: Author's calculations on data provided by Diio.

18. From a purely theoretical point of the view the best hub overall would be Fiji, keeping the route lengths to a minimum for all origin/destination pairs except Chengdu-Vanuatu. The second-best choice would be Brisbane, which also happens to be the best choice for Chengdu-Vanuatu. Sydney is geographically not optimally placed – the only advantage Sydney would have is the already healthy traffic with Beijing.

19. Several route options emerge. One obvious route that could be marketed now and would not require subsidies at this point would be Beijing-Sydney-Fiji. However, from this point forward other options need to carefully account for the distances found in Appendix I. The most obvious set of choices would be all routes going through Fiji. Though Fiji and Chengdu are not optimal, the connections to the other islands from Chengdu still make Fiji the most efficient hub distance-wise, and Fiji could feed its own tourism along with the same flights that bring in passengers for Samoa and Vanuatu.

20. Table A13 shows the lowest (or second lowest, in the case of Chengdu-Fiji-Vanuatu) per passenger costs for the origin-destination pairs studied, based on the assumed cost of \$0.01 per passenger kilometer.²⁷ Of importance is the last row showing the cost per passenger for Fiji and the three origins. If Fiji became a busy hub, this cost may go away as the route becomes sustainable (50,000+ passengers annually). This would reduce the other costs by the amount apportioned to Fiji as shown in Table A14.

²⁶ The route has 47,000 seats, and since load factors are assumed to be less than 100%, the number of passengers would be below this threshold.

²⁷ The \$0.01 price per passenger kilometre is derived from two sources: The \$50 per passenger price cap reported in the Caribbean mentioned in an earlier section of this report, and the annual subsidy of US\$ 5.5 million paid by BWI for British Airways services with Heathrow, divided by an annual 108,000 passengers, divided by 5,848 km, which amounts to US\$ 0.009 per kilometre.

Table A13: Lowest estimated subsidy per passenger in US\$, based on a cost of \$0.01 per passenger kilometer. Except for the 2nd row, Fiji is assumed to be the hub for the other islands.

	Shanghai	Beijing	Chengdu
Vanuatu via Fiji	90.07	99.46	104.73
Vanuatu via Brisbane			91.68
Samoa via Fiji	92.50	101.89	107.16
Fiji	80.39	89.78	95.05

Source: Author's calculations

Table A14: Per Passenger subsidy levels if the routes from China with Fiji became sustainable

	Shanghai	Beijing	Chengdu
Vanuatu via Fiji	9.68	9.68	9.68
Samoa via Fiji	12.11	12.11	12.11
Fiji	0	0	0

Source: Author's calculations

21. A different case would emerge if existing services were considered. The route Beijing-Sydney already exists, and if Sydney were to serve the other islands, subsidies could be lower as shown in Table A15 below.

Table A15: Per Passenger subsidy levels using Sydney as a hub for Beijing tourists.

	Beijing
Vanuatu	18.91
Samoa	39.14
Fiji	0

Source: Author's calculations

Table A16: Per Passenger subsidy levels using Auckland as a hub.

	Shanghai	Beijing	Chengdu
Fiji & Samoa	93.45	104.00	105.06
Vanuatu	115.76	126.31	127.37

Source: Author's calculations

22. Table A16 shows that even with existing services Auckland would still be more expensive, with the exception of Chengdu.

23. A mix of options would most likely not be advisable, since the purpose of using one hub is to concentrate traffic and therefore load factors, making subsidies minimal. Guaranteed revenue agreements only kick in when load factors fall below a giving threshold, for example 75%.

Caveat: Putting the Cart before the Horse

Box 2: The Case of St. Lucia

The interplay between hotel capacity and airlift is complex. One of the more dramatic examples of revenue guarantees gone wrong comes from the case of St. Lucia in 2007/2008. St. Lucia was making agreements with larger hotel developers to increase the quality of hotel stock through new hotels, and was counting on an expansion of 40% in hotel capacity in by 2008, with an additional 2,500 rooms coming on line. Hence there was much pressure to increase airlift: Since it takes a year for airlift capacity to come into place, St. Lucia started negotiating with American Airlines and others as soon as the new hotel development was expected. However, investment in new hotels dried out during the economic crises, and *none of the anticipated expansion occurred*. The airlines kept on flying with low load factors, and the final bill from the airlines came in the neighborhood of US\$ 3 million for 2008.

Source: Bofinger, Heinrich C. and Millan Placci, Florencia, *Stocktaking and Project Inception Report – Air Transport in the OECS: Subsidies and Connectivity*, The World Bank (internal), 2012, p. 20

24. Historically the Caribbean payment of subsidies to airlines has been deeply tied to the quality of properties and hotels. Though hotels deeply rely on airlift to fill rooms, airlift does not create

demand. Anecdotally Jamaica, for example, with its northern coast properties being in high demand, has not needed to pay up on revenue guarantees, and the Bahamas, until 2012, also had a reputation for not needing to subsidize. The OECS islands face the high cost of airlift precisely because of a weakness in properties. The story of St. Lucia (Box 2) is a telling.

Table A17: Visitors and room stock in select island tourism markets

	Bali	Guam	Maldives	Mauritius	Palau	Seychelles	Samoa	Vanuatu	Fiji
Int'l visitors	3,766,638	1,176,950	1,204,857	1,038,968	146,867	232,667	128,139	108,656	692,630
Room Stock	60,000	8,924	27,185	19,822	1,368	4,550	1,665	1,243	

Source: Mott MacDonald & Airbiz, Analysis of Provision of Direct Air Services for China to the Pacific Phase 1 Draft, p. 36

Policy Recommendations

25. The debate on using subsidies for non-essential air services can be approached from two different directions:

1. Because of the market distortions caused by subsidies, one can choose not to “play the game” at all, and refrain from applying any subsidy program to airlines, or
2. One can claim that even though overall subsidies are a bad idea, they are now the trend in the industry, and rather than bucking the trend one has to play along.

26. Many economists would choose the first option, but for the argument’s sake if the second option were chosen, there would be a suggested framework for developing a subsidy program. The program would have at minimum these features:

- The rise of airlift would be coordinated with the development of room stock
- Ideally, funding for the subsidies would come from within the tourism sector, for example a hotel association
- A clear limit per passenger kilometre would be set (suggested maximum at US\$ 0.01)
- A clear load factor ceiling would be set above which no payments are due (suggested 75%)
- The government or implementing organization would monitor traffic and load factors real time, with the right to demand that an airline reduce frequencies if load factors falls below the defined floor.

Appendix 4: Development of air services between China and the Pacific Islands - The of role of charters and the experience of other small island states

Introduction

1. The China Outbound market is now the world's largest single country outbound market, growing in volume terms and evolving in its sophistication and appetite for international travel. This report describes the work and outcomes of a study project to provide insight into the characteristics of the air travel and visitation market between China and various small Pacific states. The current state of the Chinese market would suggest that opportunities exist for Pacific Island nations to develop a Chinese travel market. There are significant visitor demographics which have previous international travel experience and sufficient funds to consider a medium-haul destination. The Chinese outbound travel market is highly seasonal, making it ideally suited to a charter tourism model. Peak periods for travel are Chinese New Year in January/February, Golden Week in May and national holidays in October.

2. The research inquired how potential success factors, market support schemes and/or in conjunction with air charter programs might be best used to generate economic benefits and to encourage Chinese visitation to Pacific Island destinations. The study is primarily based on a study of travel trends and outcomes for different small island destinations to establish best practices applicable to supporting new target travel destinations in the Pacific. A number of experiences dealing with the initiation of air services between China and the small island states is explored, by means of initial charter programs.

3. This Annex is organized as follows: Section 2 describes the charter models encountered during the study; Section 3 describes the success factors encountered based on the views of interviewed stakeholders that participated in the organization of such charter schemes, and provides recommendations.

Charter models

4. Based on the research conducted, it is not possible to single out individual models of charters as the distinction and nature in which these air services are provided can be blurry. Nonetheless, in broad terms, a definition of charter services can be conceptualized along 3 dimensions, which may or may not be intertwined: (i) scale; (ii) operational delivery modality; (iii) push or pull-oriented.

(i) Scale

5. From the interviews conducted, initial air service programs fell into three broad categories, dependent on the scale and by nature of the service, whether strategic or commercial:

- **Proof of Concept charters:** or "First time" charters are the bare minimum in size and scale, as small as 2-3 return flights, which would include a ferry/positioning flight at the beginning and end of the program.
- **Seasonal charters:** generally tie into a traditional Chinese holiday period with broadly 6-7 charters, operating 2-3 times per week over a 2-3 week period.

- **Commercially-led charters:** need to be significantly more sizeable in order to drive economies of scale, cover overhead, set up costs of the program, and ferry flights. Industry advice is that such programs would typically operate for a season or a minimum 16-week period at a once-weekly frequency

(ii) Operational delivery modality

6. Within these categories there are also varying operational models for charters, each with differing sets of client stakeholders. The following table provides a description of the type of engagement, relationships, and structure of incentives between the main stakeholders involved.

Modality	Engagement	Support and incentives
Major airline with airline with seasonal capacity charter	<ul style="list-style-type: none"> → Usually led by the client state (destination) tourism/government agencies → Initial market studies are provided by the client state → Client government agency may provide in-principle endorsement of airport discounts 	<ul style="list-style-type: none"> → Cooperative marketing agreements may extend to covering part or all of the airline’s costs of “dead sectors”, and could be proportional to the number of passengers per service, the number of services, length of stay (average room nights) → The destination airport may agree to discounts on landing charges → Client government may offer on-going cooperative marketing support with the objective of transitioning to scheduled services.
Travel wholesaler and airline partner	<ul style="list-style-type: none"> → Formulated by wholesaler and an airline looking for a price sensitive destination for the outbound target market (leisure, special interest, niche, major event etc.) → Wholesaler makes initial contacts with destination agents, resorts, hotels and destination management companies 	<ul style="list-style-type: none"> → Requests to the client government to cover costs of dead sectors → Requests to the client government to support discounted airport charges → Requests to client government to encourage airport and accommodation discounts, especially for tourism properties that are state-owned
Independent charter airline	<ul style="list-style-type: none"> → Airline or client government led negotiations → Objective for on-going seasonal services to a secondary airport to reduce national carrier impact. 	<ul style="list-style-type: none"> → Government assistance based on frequency, number of passengers, length of stay etc. → On-going and significant cooperative marketing agreement with destination branding → Government makes/leads airline-trade introductions. → Incentives for year-on-year expansion of services

(iii) Push or pull-oriented

7. As far as the third dimension is concerned, it is important to have an understanding as to whether a charter is supply-led or demand-led to appreciate what market is driving the charter service. Over the course of the research, a number of core topics were identified as potentially relevant for the successful initiation and completion of a charter program. The following chart tabulates and summarizes the responses.

	Supply-Led charters	Demand-led charters from China
Organization	Organized by destination country; tourist “demand” is expected to follow in reaction to the capacity or charter. Developed at a cost, as a proof of concept, to prove demand and demonstrate to local tourism stakeholders.	Organized entirely by outbound operators in China. Chinese side exerts all the control with usual little lead time, possibly only two to three months out from the charters date.
Initiation	In two instances, tourism organizations in the destination country initiated the process; and in the third a tour operator (in the absence of a strategic lead from government/tourism organization).	n/a
Risk bearing	The initiator (tourism organization/industry in the destination country) took the initial risks.	Tourism agents bear all the risk, not airlines. Airlines are usually Chinese and they price to profit, albeit in line with the leisure fare segment margins
NTO role	The tourism body was the leader in two of the cases. In the third case the NTO was a partner, but did not lead.	n/a
Importance of national carrier	This was critical in all cases. All three cases used the national carrier. However the national carrier did not take any part of the commercial risk. The carrier provided transport and undertook the operational risk.	n/a
Examples	From the cases encountered: → One was a proof of concept charter program which has never been repeated. → One was a charter program (for Chinese New Year 2015) which has been determined to have been successful and is likely to be repeated, albeit with lower than anticipated yields. → The third was a longer-term program which has transitioned to a scheduled airline service.	Palau is an example of a demand-led charter launched by a Chinese tour operator out of Hong Kong. This kick-started Chinese visitation growth, about +143% between 2010 and 2014 (CAGR). Nonetheless, the rapid growth of visitation inflows generated a great deal of controversy, with subsequent attempts made to cease the program. The local industry also was of the view that the product was priced below its actual quality. The case of Palau serves as an example of the challenges in coping with sudden growth in visitation, in view of the evident cultural differences between visitors and the local population.

EXAMPLE: SUPPLY-LED CHARTERS BETWEEN MAURITIUS-CHINA

This third Supply-led charter initiative mentioned in the table above, which started out as a charter from Mauritius – China (and which has since led to scheduled airline service) was initiated and led by the tourism organization and government with the (state-owned) airline and tourism industry operators all partnering.

In July 2011, the airline commenced connecting flights to Shanghai over Kuala Lumpur, which it operated once weekly until October 2012. During 2012, it operated two direct Shanghai services, (one service per season) as a proof of concept, and then direct air services commenced in January 2013. From Shanghai, the Chinese program grew to encompass an additional destination per year, with Beijing added in 2013 and Chengdu in 2015.

The program essentially operated at cost on the Chinese routes to keep the airfare component down. This is done in the interests of the greater tourism spend made by Chinese visitors in the destination (ideally) resulting in the economy deriving greater benefits than the actual cost. The initial scheduled model saw the majority of seats block-sold to Chinese travel agents, however the airline is looking at switching to a majority of direct sales as the market matures and Chinese consumers look to buy direct through online travel agents in China such as CTRIP/CYTS etc.

Success factors and recommendations

8. During the research, a number of vital factors repeatedly surfaced as contributing to success of charters from China into different small island states. How these factors impacted the charters will be described in more detail in this section. The main identified success factors are: (i) Leadership; (ii) Involved Stakeholder Partnership; (iii) No regulatory or policy barriers; (iv) Local Investment; (v) Geography; (vi) Price; (vii) Brand Positioning; (viii) Commercial Focus; (ix) Understanding Strategic Value of Charters; (x) Funding model; (xi) Seasonality; (xii) Sales and Distribution; (xiii) Itinerary; and (xiv) Choice of Air Carrier. The section below also includes the main recommendations under each of these success factors.

Leadership

9. Research showed that successful charter programs had one clear leader in the overseas market, a “local champion”, who was responsible for leading the charter initiative. It was important for the leader to: be at a very senior level; be empowered to speak and act on behalf of all partners, and; have connections at the highest levels to ensure things got done; engage the support of government officials such as provincial governors or mayors in China; and typically be key member of a tourism organization. One example provided in the interviews was the signing of a Memorandum of Understanding between two municipalities, giving confidence of political support to the prospective air service. In some instances the destination leader role was matched by a single point of contact or entity in a leadership role in China (typically a tour operator/travel agent), incorporating political support. It was found when this role was lacking in China, it was problematic to solve problems from the destination, particularly as the charter date neared and details and queries arose from the operational side of the charter.

- Recommendations

10. The development of two leader roles, leading the initiative for charters at both the local destination end and also in China. The local leader, typically a tourism organization leader; and a tour operator / travel agent in China.

Involved stakeholder partnership

11. Once the process has been decided and advanced, the interviewed parties advised that Chinese counterparts expect quick responses, prompting for good destination project management and timely interventions. A clear partnership approach was seen as crucial to giving the risk-taker confidence that it had the support of other entities and that they were committed to achieving a common goal. To ensure the success of charter operations, it has proved vital that all partners are aligned with each other; supportive of the leader; and clear on their roles and relative funding.

- Recommendations

12. It is recommended forming a Destination Team, led by the elected leader(s). The Destination Team will be made up of all stakeholder partners and will be aligned with a clear understanding on the charter strategy and the long-term vision of the air service. Stakeholder partners could include tourism agencies, local government, hoteliers, tour companies, airports and airlines. It is recommended that all parties within the Destination Team undertake cultural training and gain an appreciation and understanding of the Chinese business culture. Chinese investment interests in the Pacific islands are noted and an upcoming charter to Fiji for a Chinese government delegation/party may seem irrelevant in the commercial world, but is highly significant in China.

No regulatory or policy barriers

13. It is critical to enable movement of visitors in either direction through timely policy decisions; and negotiations between nations and regulatory bodies, partly through the removal of any visa restrictions and timely negotiation of air service rights or bilateral agreements ahead of demand. One airline reported an oversight relating to visas for cabin crew in the immediate short term before the first charter. Other stakeholders reported entering the Chinese market initially over Hong Kong because of lower risk exposure to competition; greater familiarity with the market; reduced language-based challenges; and access to a greater choice of supply side factors such as ground handlers, tour operators etc. Moreover, another stakeholder reported major challenges, inconvenience and cost for Chinese visitors related to visas. The same market was also challenged with a bilateral air service agreement which was highly protectionist on high yielding hub to hub routes. The barrier was overcome with lobbying.

- Recommendations

14. It is recommended that, should the long-term vision be to achieve direct scheduled services, bilateral agreement negotiations should begin at the time of charter services discussions begin to ensure no barriers restrict the growth of the service. Whilst charter licenses may appear relatively easy to procure bilateral agreements can take years to negotiate. As a priority, we recommended reviewing visa requirements, identifying any barriers there may be and working to remove these barriers. Where no visas are required, promote this fact to the travel trade, as a strategic advantage over competing destinations.

Local investment

15. Successful programs actively engage local tourism partners early in the process so they understand and appreciate the Chinese travel culture on a basic level. Examples include: hotel infrastructure (i.e. reconfiguration of public areas for shopping or dedicate room blocks to the Chinese market in alignment with a charter program); language services (tour guides); utilizing translation apps for occasions when the language barrier cannot be overcome and a tour guide is unavailable/out of hours; translation of printed material; welcome packs; signage or wayfinding in Chinese language; Chinese specific food and beverage offers; wireless internet; payment options (China Union Pay/Alipay); and general hospitality and specific cultural awareness training of customer facing staff.

- Recommendations

16. It is recommended that the Destination Team local tourism partners invest in key components of the visitor experience such as language services (tour guides), translation of printed material, welcome packs, signage, and food and beverage offer, wireless and payment options (China Union Pay/Alipay).

17. Tourism stakeholders need support to see the benefit of investment, in adapting their existing product and the associated costs against the result of diversification of visitor market and greater long term sustainability of their business through reduced risk exposure to core markets.

18. Long term strategies for destination management and economic development to encourage investment in infrastructure such as shopping centers, which enhance the appeal of the destination for all visitors (not just Chinese) and benefit locals is recommended. It is recommended that ground-based tourism partners invest in technology, such as Wi-Fi, enabling Chinese visitors to be online and connected to their preferred social media apps.

Geography

19. Second tier cities (and airports) in China appear to offer greater flexibility and greater initial potential for charters than the major hubs of Shanghai, Beijing and Guangzhou. The major hubs are home to the first tier Chinese carriers and often have barriers to entry for overseas carriers due to the following issues: congestion; protectionism; and slot availability; competition with existing scheduled services. Some secondary cities and provincial governments have invested in the development of aviation strategies and are keen to grow their aviation sectors. It was apparent that a secondary city offers a smaller pool of direct destinations (less competition for the charter), and in one instance a provincial government is reported to be paying subsidies for scheduled services to operate to outbound destinations. It would be counterproductive to compete with other subsidized services.

20. Markets such as Guam and Palau are relatively close to China and can be reached with a narrow body aircraft. Equally, from within China, Beijing is further away from the majority of target destinations than Guangzhou. Proximity will impact: overall ticket cost; flight time; fuel burn; ferry costs; and aircraft choice, as narrow body aircraft have roughly half the seats on board of a wide body aircraft, further reducing risk as there are fewer seats to fill.

- Recommendations

21. A serious consideration of second tier cities (and airports) in China over the major hubs of Shanghai, Beijing and Guangzhou should be given. The major hub markets are busy, and an overseas carrier with an island destination will struggle to gain a foothold, given the relatively niche volumes of visitors generated by the proposed charter, the assurances that there is no lack of demand, and the more compelling argument that a medium sized travel agent could be highly significant to the success of the charter. The benefit of a medium sized travel agency is that the charter program will not be overlooked as a great value proposition as it may be in a large national travel agency but at the same time, isn't so small that the agency has a shortage of communication and sales channels in marketing to the consumer.

22. We recommend a secondary Chinese city as an initial source market and a strategy to form a relationship with a provincial government to support the development of relations between the two communities. Geographically, the closer the source market, the lower the costs. Cities such as Wuhan or Chengdu have been active in recent aviation announcements and may also be viable secondary cities to consider.

Price

23. Respondents did not identify price as an issue, reporting successful islands positioned themselves for high yield markets. Respondents commented that volumes are so great that pricing does not become a factor as the market demand exists; and that high yield can be achieved by charging significant room rates, rather than discounting and starting at the bottom of the market.

Brand positioning

24. Chinese travelers are highly aware of brands when they choose their travel destination. Hotel brand has been identified as an important success factor and should be pushed when marketing the Island product.

25. Chinese consumers have: a comfort factor around known, major brands (e.g. Sheraton / Hilton); the consumer can equate these brands to an expected level of service and facility (in comparison with an SME-based, independently run accommodation provider).

Commercial Focus

26. Adopting a long term view of how to make a market sustainable and have commercial outcomes for all partners is a significant success factor. Long term sustainability and moving from charter to scheduled services should always be built on commercial imperatives. To achieve this, airlines, tour operators, hoteliers and tour providers need: a clear understanding of why they are taking risk in a charter program; and a vision of where the strategy is taking them to justify the investment required.

27. For an airline with mobile assets, "what's in it for me" may be two-fold, with benefits from: short term access to the Chinese market as a first mover advantage; and longer term assurance of the opportunity to operate the route, extract yield and grow its business in line with the strategic objectives of its business plan. A small charter program suffers from barriers in terms of economies of scale. For example, a charter tour operator in a mature (non-Chinese) market reported they would never consider a charter program of less than 16 weeks, in order to distribute the cost of the

positioning/ferry flights across the greatest possible cost base and recover the overheads associated with operating to a new market and finding new partners. A dilemma exists whereby a charter is enormously costly to set up and cannot possibly cover its costs and be viable in a purely commercial environment.

28. More than one respondent commented on the importance of a two-way visitor market impacting the financial viability of the program, i.e. the ability to sell outbound travel from the non-Chinese destination, to spread the risk of a fully-inbound market and offset some of the costs of aircraft positioning flights, which otherwise operate empty and add to the overheads of the program. It is unlikely in the case of the Pacific Islands that outbound markets wishing to travel to China would be high in volume, but a local travel agent with good direct sales and marketing efforts could be effective in selling cut price tickets and offsetting a small proportion of the costs.

- Recommendations

29. It is recommended a charter strategy firmly focused on the long term and clearly articulated around a five year vision. The first charter is the stepping stone to the long term program, which should be focused on being commercially driven by market forces, without the need for market support mechanisms and incentives. The strategy can remove over time, as partners become confident in the viability of the Chinese visitor market to the Pacific Islands.

Understanding the strategic value of a charter

30. Whilst a charter might never happen for purely commercial reasons, when considered for strategic reasons it might be seen to have merit on two levels:

31. Familiarity/debunking myth: One respondent reported a first tier Chinese carrier had consistently been reluctant to consider a destination because of perceived risks at an unfamiliar, regional airport (compared to the carrier's core market of major cities). By being contracted to operate a charter, the carrier was forced to concede it could operate successfully to the airport and therefore made a future proposal to consider the destination for more services more realistic/viable, as the carrier was forced to go beyond its comfort zone by a charter program.

32. Proving the market/demonstrating the destination's commitment: One tourism organization and tourism ministry commissioned a charter program primarily as a proof of concept to both the travel trade in China and to its own local tourism stakeholders, who were forced to stop procrastinating and invest in adapting their existing services and facilities to the needs of the Chinese visitor (language, signage, printed material, food and beverage etc.).

- Recommendations

33. It is recommended to utilize the "Proof of Concept" charters as the model under which to develop the first series of charters. It is recommended that the "Proof of Concept" program is created, funded and executed in order to demonstrate to all parties (island-based stakeholders as well as Chinese travel trade) that the market is viable.

Funding model

34. One single funding model, incorporating all partners with a clear timeline, deliverables and measurable is another key factor to overall success. Funds allocated should be transparent to all partners internally within the deal, whilst being commercial in confidence from the outside, with potential for two separate funds: (i) long term marketing fund; and (ii) short term charter specific fund. One respondent cited a key learning in this area arising from multiple funding models with an airline chartered and therefore paid to fly on one hand; and taking incentives from an airport on the other hand, thereby creating tension with the risk-taking tour incentivized by the tourism organization on a per-visitor basis. Hoteliers advised some challenges with getting paid and as such their preference was to work through Inbound Tour Operators rather than attempting to procure payment, particularly when the contract was short term and there was no previous relationship or credit history with the Chinese entity.

- Recommendations

35. A single funding model, incorporating all partners with a clear timeline, deliverables and measurable is recommended. All parties should be under one incentive structure, not disparate side deals (for example: airport and airline in one deal, tourism organization and travel wholesalers in a separate deal on the same flight/program). Funds should be spent on marketing the destination or directly supporting the charter, ensuring seats are sold, the service is a success and ultimately leads to sustainable tourism growth. Marketing incentive funds should be transparent and spent on marketing.

36. Once the level of base support has been determined the most appropriate and effective 'vehicle' to support a charter proposal is through a cooperative marketing agreement. The agreement is a formal agreement initially drafted by the client government's tourism agency and signed by both parties. The agreement prescribes a range of brand and tactical marketing programs over the charter season. This can extend to web ads, newsletter offers, destination branding, flyer membership incentive offers, email alerts etc. As a guide, approximately 50% of the final payment is made on presentation of the charter report along with proposals for the following season. While China's airlines (RPT and Charter) may have experience at operating at this level of sophistication, they provide access to high value media and sales networks.

Seasonality

37. An important success factor is to time the charter to coincide with lower-demand or lower-yield periods.

38. Target charter programs should be considered for a time period when: the destination has the capacity to absorb new visitors; and tourism operators are incentivized to participate and potentially reduce rates in the interest of countering seasonality. One interviewee noted a charter failure when a charter eventuated at a high yielding period from an established source market creating many difficulties for hoteliers and tour providers in accommodating a lower yielding market, impacting the destination's ability to have a team/partnership approach to the charter. A further benefit of smart scheduling of charters with existing markets is extending shoulder seasons, offsetting trough periods and no necessity to invest in developing new properties and room stock, to accommodate a higher risk new market.

- Recommendations

39. It is recommended that the charter is timed to coincide with lower-demand or lower-yield periods.

40. As previously observed, there is a strong fit between the seasonal outbound profile of peak Chinese demand and the seasonal shoulder/trough periods in the Pacific Islands. A degree of risk exists around Chinese New Year travel and the cyclone season, making that the least favorable of the three peak Chinese periods. In addition it is also one of the most expensive periods to be considering chartering aircraft, therefore May and October are recommended in the first instance. It is recommended for hotels segregating their visitor market seasonally, and dedicating certain periods to Chinese market, aligned with the charter program. This strategy has been successfully deployed in the Maldives, where cultural differences between traditional source markets and Chinese visitors had created tension.

Sales and distribution

41. Successful charters adopted a range of sales and distribution strategies to cover multiple markets and channels and monitored results and relative success. In terms of the existing sales channels, understanding the role of the travel agent is crucial, with consumers being told where to go by the travel agent rather than requesting assistance of getting to somewhere they have already pre-determined they want to visit.

42. Currently, the role of travel agents is significant, however the market is fast moving from distribution by traditional channels (such as travel agents) to online/direct sales. Travel agents will be required for small charter programs but as the model shifts to direct scheduled flights and awareness of the destination rises, a parallel shift in direct sales is possible.

43. Identifying a target Chinese consumer market for the future would be needed; ideally this will be in a secondary market in China where there will be less competition from the traditional scheduled services from large Chinese hubs. Also, identifying travel retailers/wholesalers best placed to sell seats/beds in China market. In a small scale program, such distributors are typically niche operators with their own clientele and own methods of selling (e.g. seminar-based dinners etc. not just traditional marketing channels). Being visible on Chinese distribution systems, such as CTRIP, CYTS etc. and to have airfares on TravelSky will be important as trends change.

44. One charter operator experienced its best sales from a travel agent adopting an unusual direct sales approach. It is noted, however, that the volume of visitors a relatively short charter can deliver is small, therefore the product is relatively niche and likely to be less attractive to major wholesalers working in the mass market. All Chinese partners will need to be flexible and have an appetite for risk and a passion for the destination; this attribute in Chinese partners was seen to be a key learning in one first-time charter experience.

- Recommendations

45. It is recommended investing in a parallel sales, marketing and PR strategy alongside the charter program to raise awareness of the destination with consumers and travel trade and to develop long term demand.

46. The strategy should be multi-channel, and incorporate traditional business to business elements focused on the travel trade and digital marketing targeted directly at consumers, as well as innovative PR, maximizing opportunities as they arise. It is recommended that aspirational imagery is used to capture visitor imagination and position the markets for high yield.

47. Charters, being a small volume program, will initially sell best through travel agents, but the Chinese market is quickly evolving and direct sales will be the future. Working with online entities such as CTRIP and CYTS who are leading development, to position for direct sales is recommended. It is also recommended that packages be structured around branded hotels and in units commensurate with ground transport, e.g. 22-seater mini buses and blocks of 10 rooms. It must be understood that the demand for charters to Pacific Island destinations will be a niche market in China. This will be typically demonstrated by an experienced traveler (rather than first-time international traveler), who will be looking for something different and unique. Identify USP of each Pacific Island travel experience and market accordingly to niche travel agents, building on the success of each destination's existing branding (e.g. Vanuatu/volcano experience or Fiji/island hospitality/smiles etc.)

Itinerary

48. The success of the execution of the initial charters is a high determining factor in whether there will be future activity. It has repeatedly been determined that a vital key to customer satisfaction in Chinese charter programs include: ground content; extensive tour programs; incorporating key activities and lots of photo opportunities; language investment; and food investment. If these factors are not in place, or visitors are dissatisfied, the program is unlikely to perpetuate. One respondent commented a poorly executed ground program on an initial charter lived long in the memories of the Chinese, and it impacted on the market and took eight years to negotiate a scheduled service in a major market.

- Recommendations

49. It is recommended to invest in bringing activity and tour operators "on the journey" to the Chinese market as a Destination Team, to ensure they develop appropriate programs for Chinese visitors as ground content is key to customer satisfaction. Chinese visitors want an extensive program incorporating key activities and lots of photo opportunities. Where destinations lack for expected content, such as shopping and casinos, consider approaches which have been successful elsewhere in places like Mauritius, Palau and the Competitor set. We recommended partnering with another destination for a two-center program as visitation and volumes grow (e.g. Maldives/Dubai) in the case of Vanuatu and Samoa.

Choice of carrier

50. Markets in which a local (Island State) carrier is available saw early success as they were able to enter the Chinese market without the additional challenges of negotiating capacity with Chinese carriers. Reasons to pursue a local carrier is due to the fact that generally local carriers are: keen to enter China and develop the market, and could be government owned. Government-owned carriers are strategically able to operate to China without as strong a focus on commercial outcomes as the key imperative is to cover costs only and enable access in the interests of in-market Chinese spending and flow through economic benefits.

51. When pursuing a local carrier is not an option, a second tier carrier in China may have a greater interest in developing business in tourism than the first tier carriers at the major hubs. The same degree of detail paid to the ground experience at the Island state airport for that non-local needs to be ensured so that the carrier is satisfied in terms of service, language, food etc. One first-time charter had poor feedback due to a relatively minor issue when a locally-based carrier failed to anticipate the ordering of Chinese breakfasts.

- Recommendations

52. It is recommended pursuing initial charters with a local airline partner (from the destination island in the Pacific) where possible. Non-Chinese carriers are generally more engaged in entering the market than Chinese carriers, and prepared to take more risk. Generally local carriers have strong relationships with the local leader and other tourism partners, presenting a team approach to the charter opportunity. However it should be noted that local carriers can be challenged in the regulatory environment, operationally and logistically when entering China for the first time. Local carriers are generally easier to negotiate with and bring into the Destination Team in the first instance.

