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The Viability and Sustainability of International Tourism in Developing Countries

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THE VIABILITY AND SUSTAINABILITY OF INTERNATIONAL TOURISM IN DEVELOPING COUNTRIES

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Introduction

The tourism sector is probably the only service sector that provides concrete and quantified trading opportunities for all nations, regardless of their level of development. However, it is also a sector where there is clearly an uneven distribution of benefits, which is threatening the social, economic and environmental sustainability of tourism in some developing countries. For many developing countries tourism is one of fundamental pillars of their development process because it is one of the dominant activities in the economy, while for others, particularly by islands and some small economies, it is the only source of foreign currency and employment, and therefore constitutes the platform for their economic development.

Against this background, part I presents an overview of the most important trends and features of international tourism and the most influential factors affecting the performance, efficiency and sustainability of tourism transactions in developing countries. Part II presents an overview and examples of the main issues affecting the viability of tourism in developing countries, including (a) the impact of the leakage effect which is adversely affecting them in taking advantage of commercial opportunities; and (b) the anti-competitive practices affecting tourism viability and performance in different segments of the tourism sector, as well as in other sectors closely linked to travel and tourism. Part III presents some reflections about the GATS 2000 negotiations as a possible turning point for making effective the increasing participation of developing countries in international tourism flows in a sustainable perspective. In this connection, some comments are provided on the impact of the proposed Annex on Tourism on the economic, social and environmental sustainability of tourism.

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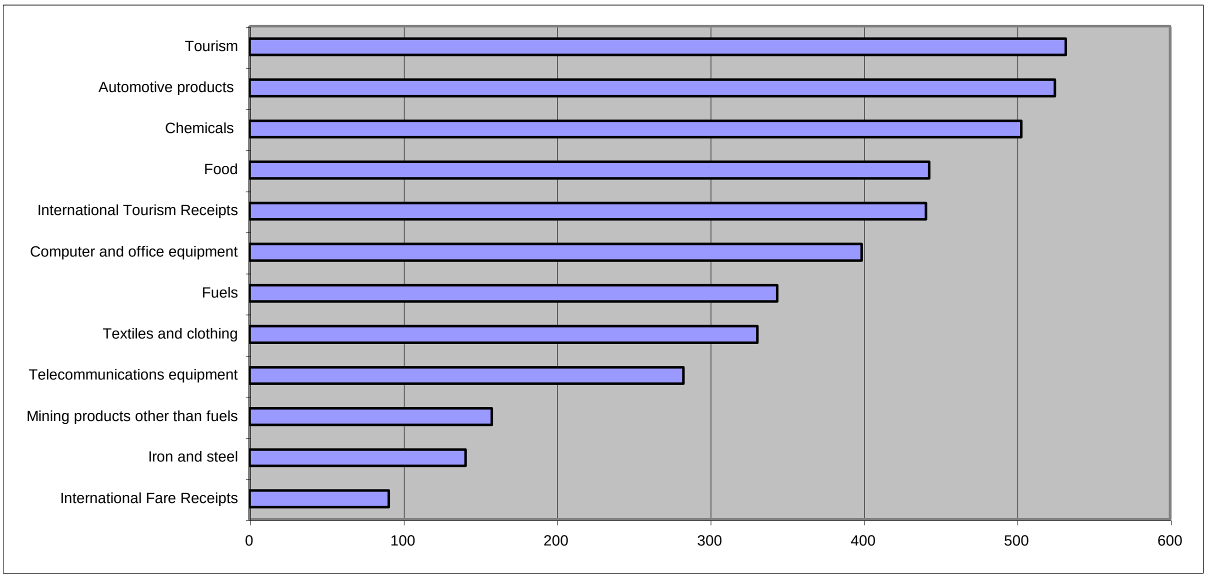
I. Salient trends and features of the performance of developing countries in international tourism

1. *Trends and features of international tourism: some indicators showing the sustainability of tourism in developing countries*

(a) Overall trends in international tourism

"International tourism highlights 2000"[2] of the World Tourism Organization (OMT/WTO) reports that during 1998 total tourism receipts, including those generated by international fares, were the most important export revenue worldwide. Export revenue that year amounted to an estimated US$ 532 billion, surpassing all the other international trade categories (see figure 1). International tourism totalled to US$ 441 billion and the international transport of passengers US$ 91 billion, which corresponded to 7.9 and 1.3 per cent respectively of worldwide exports of good and services. According to the OMT/WTO *Tourism Economic Report 1998*, tourism is one the five top export categories and the main source of foreign currency for at least 38 per cent of them.

Figure 1
Worldwide export earnings, 1998



Sources: Omt/WTO and IMF.

(b) Tourism spenders

The world's top tourism spender during 1998 was by far the European Union, with an over US$ 160 billion. The most important spenders among its members were Germany (2nd world ranking), US$ 46.9 billion; the United Kingdom (4th), US$ 28.8 billion; France (5th), US$ 17.8 billion; Italy (6th), US$ 17.7; and Netherlands (7th), US$ 11.0 billion. The other members' expenses during the same year ranged between US$ 8.8 and 1.8 billion. During the same year, the United States (1st in world ranking by individual countries) spent US$ 56.1 billion; Japan (3rd), 28.8 billion; Canada (8th) US$ 10.8 billion; China (9th), US$ 9.2 billion; Russian Federation (13th) US$ 8.3 billion; Switzerland (14th), US$ 7.1 billion; and Australia, US$ 5.4

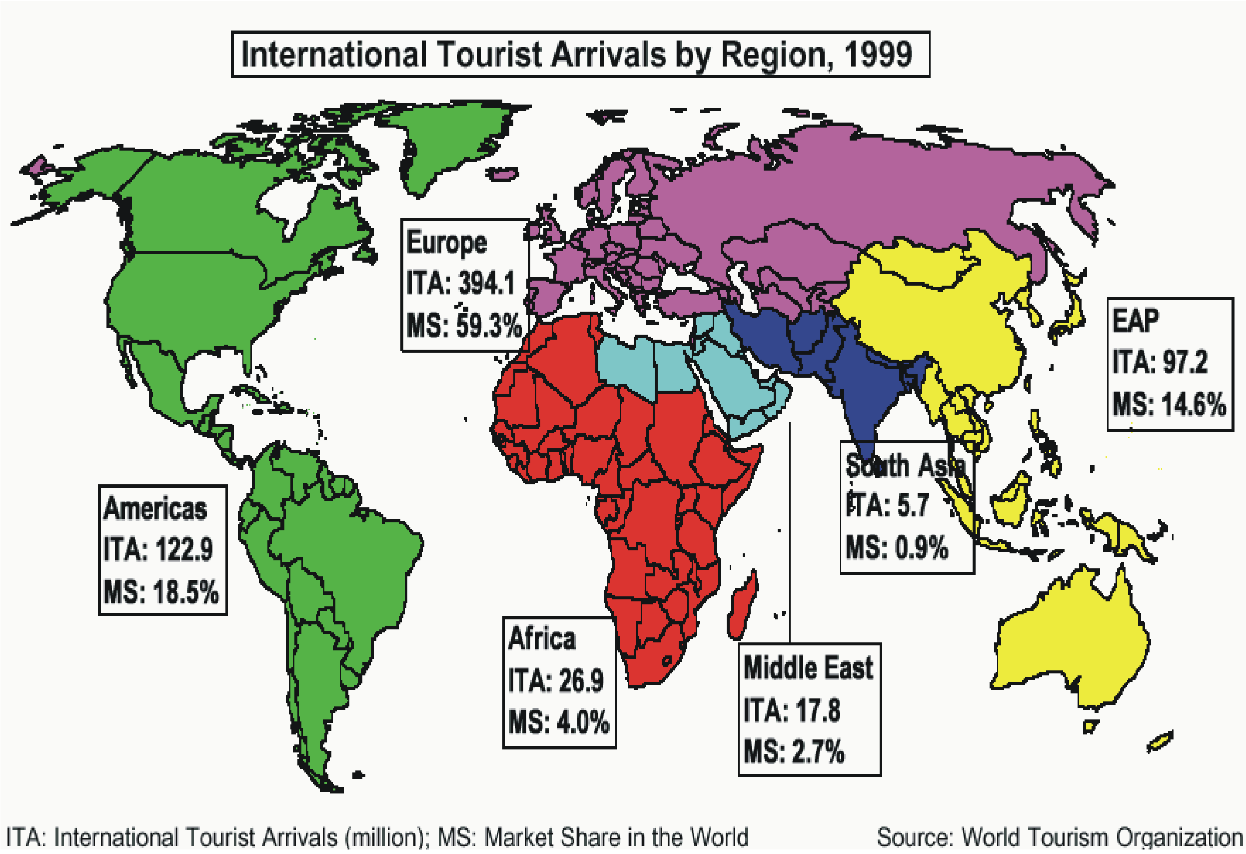
[2] OMT/WTO, Tourism Highlights 2000, www.world-tourism.org. The analysis in this section is based on data from this source

billion. Also during the same year 45 countries reported more that US$ 1 billion in international tourism expenditure

(c) International tourist arrivals

Preliminary figures for tourist arrivals for 1999 show that these arrivals totalled 664 million. The distribution and share are presented in figure 2.

Figure 2



(d) Tourism trends and best-performing countries in developing regions between 1997 and 1999

Africa. The African region showed a growth rate of 7.8 per cent in the number of arrivals, nearly twice the world average. There is a high concentration of international tourism arrivals in this region, bound for destinations in the north and south of the continent. The best-performing countries in terms of the increase in the number of arrivals included Morocco (18 per cent), Zimbabwe (11 per cent) and Zambia (26 per cent), while the important tourism destinations of Tunisia (3.4 per cent) and South Africa (6 per cent) continued to show steady gains.

Americas. The rate of growth for the whole region 2.4 per cent was lower than the world average, mainly owing to flat results for South American countries (-1 per cent) and Mexico (-2.9 per cent). Central America fared much better, especially Guatemala (29 per cent) and El Salvador (21 per cent). Results in the Caribbean were mixed, with Cuba (12 per cent) and the Dominican Republic (15 per cent) among the big winners and Puerto Rico (-11 per cent) among the losers.

East Asia/Pacific. After two years of decreasing tourist arrivals, East Asia and the Pacific bounced back strongly in 1999, attracting nearly 10 million more tourists than the previous record, set in 1998. Growth was widespread, with especially good results in Malaysia (43 per cent), Cambodia (29 per cent), Viet Nam (17 per cent), Singapore (11 per cent), Thailand (10 per cent), Republic of Korea (10 per cent), China (8 per cent) and Hong Kong, China (18 per cent).

Europe. Overall, tourism to Europe grew by 2.7 per cent in 1999, with results mixed according to region. In this region some economies in transition were affected by the Kosovo crisis and instability in the Russian market, which caused problems for mature destinations in Central and Eastern Europe such as Hungary (-14 per cent), Poland (-4.4 per cent) and the Czech Republic (-1.8 per cent). However, emerging destinations managed to attract the interest of travelers, for example, Estonia (15 per cent), Kyrgyzstan (17 per cent) and Georgia (21 per cent), as well as Russian Federation (17 per cent) and Ukraine (21 per cent).

Middle East. The Middle East is one of the world's smallest regions, receiving nearly 18 million tourists in 1999, but it also had the fastest growth rate with arrivals up by 16 per cent. Egypt, which represents a quarter of the regional total, recorded a spectacular growth rate of almost 40 per cent and a record number of tourist arrivals that far exceeds the totals achieved in its best year, 1997. Dubai, Lebanon and the Syrian Arab Republic also fared well, with arrivals increasing by 14, 12 and 9 per cent respectively. The Libyan Arab Jamahiriya registered an increase of 25 per cent.

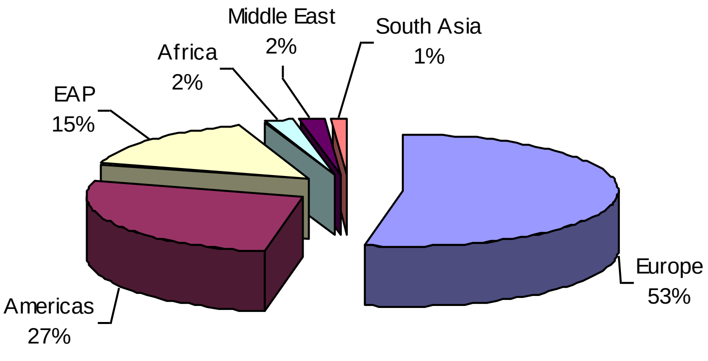
South Asia. Tourism increased in most countries in this region, resulting in an increase of 8.3 per cent over the previous year's results. India registered an increase of 5.2 per cent, while arrivals in the Islamic Republic of Iran rose by 16.5 per cent, in Sri Lanka by 14.4 per cent and in Maldives by 8.6 per cent.

(e) International tourism receipts

Preliminary results processed by the OMT/WTO indicate that during 1999 tourism receipts worldwide amounted to US$ 455 billion and a further US$ 93 billion. In 59 countries the receipts amounted over US$ 1 billion. Figure 3 presents the receipts in different regions of the world during 1998.

Figure 3

Tourism receipts market share (%), 1998



Source: OMT/WTO database.

2. Some indicators about the sustainability of international tourism in developing countries.

(a) Importance and impact of export revenues from tourism for developing countries

During the period 1995-1998, tourism revenues were one of the five leading sources of export revenue for 69 developing countries. Among the latter, tourism revenue was the main source of foreign currency in 28 countries, its share in total exports ranging between 79 and 20 per cent; in 27 countries it accounted for between 20 and 10 per cent; and in the 24 remaining countries it was around 10 per cent.

The contribution of export revenues to gross domestic product (GDP) was equally important and accounted for between 82.29 per cent (in Maldives) and 30 per cent (in Samoa). In the second group the contribution of export revenues to GDP is between 30 and 10 per cent and in the remaining countries under 10 per cent. One aspect to be underlined is that although the contribution of tourism revenues is important in all these countries, its contribution to GDP is declining as the economies become more diversified. The best examples of this are Mauritius, the Dominican Republic and Tunisia.

(b) The particular `situation of LDCs[3]

Although only 0.5 per cent of the world's exports of services originate in the LDCs, international services are an important part of the economies of those countries. In 1998, services accounted for 20 per cent of the LDCs' total exports of goods and services. However, in 13 of the 49 LDCs services export receipts exceeded merchandise export receipts and in all but three of those the share of tourism services exports in total foreign exchange earnings was more than twice the share of merchandise exports.

The share of the LDCs in the world's exports of international tourism services was 0.6 per cent in 1988 (with 2.4 million international tourist arrivals) and 0.8 per cent in 1998 (5.1 million). During the 1990s tourist flows to the LDCs increased more rapidly than tourist flows to the rest of the world. This growth was particularly strong in seven countries (Cambodia, Mali, Laos People's Democratic Republic, Myanmar, Samoa, Uganda, United Republic of Tanzania), which hosted over 1.2 million visitors in 1998, in comparison with 0.4 million in 1992. During that period, tourism growth was much slower in several LDCs, while a decrease was observed in a number of countries that suffered socio-political and economic instability.

The growth of international tourism receipts in the LDCs was also quite rapid during the 1990s: total receipts more than doubled between 1992 and 1998 (from US$ 1 billion to US$ 2.2 billion). There is a great degree of concentration in the distribution of tourism receipts among the LDCs: five countries (Cambodia, Maldives, Nepal, Uganda, United Republic of Tanzania) accounted for 51 per cent of the total tourism receipts of the group in 1998. Particularly strong, over the decade, was the growth in international tourists' expenditure in Cambodia, the United Republic of Tanzania, Myanmar, Bangladesh, Samoa, Uganda and Haiti.

Tourism is the first source of foreign exchange earnings in the whole group of 49 LDCs, aside from the petroleum industry, which is concentrated in only three LDCs (Angola, Yemen, Equatorial Guinea): the combined tourism export receipts of all LDCs in 1998 accounted for

[3] A very comprehensive report has been prepared by UNCTAD entitled *Tourism Development in LDCs: Realities and Perspectives*, for the High-Level Meeting on Tourism in LDCs, to be held in Las Palmas, Gran Canaria, Spain, from 26 to 29 March 2001. UNCTA/LDC/Misc.64. Can be downloaded from UNCTAD Website www.unctad.org.

16.2 per cent of the total non-oil export receipts of the LDCs, thus exceeding the second and third largest non-oil export sectors (cotton and textile products) by 39 per cent and 82 per cent, respectively.

c. Level of performance and sustainability of tourism in developing countries

The proper functioning of the tourism economy is linked to that of many other related economic activities, which accounts for the importance of its economic, social and environmental sustainability. As a matter of fact, the extent to which the business operations of international tourism, backward and forward are linked with other sectors will determine the level of performance and profitability of tourism, the extent of multiplier and spillover effects, and the retention of value added, i.e. the leakage effect.[4] The sectors producing goods and services are linked backwards with tourism in catering for the needs of tourists and tourism operators, e.g. agriculture and food-processing industries, and other manufacturing industries providing furniture, construction materials and other articles required by tourism establishments. Similarly, many other services, such as transport, business services, financial services, professional services, construction design and engineering, environmental services, security services and government services, also ensure the efficient performance of tourism operators. Some of these sectors are also crucial for the proper linkage of tourism with foreign markets (forward linkages) because they constitute the platforms for "taking off" and for keeping the national tourism providers fully integrated with international tourism flows.

Many developing countries have found important to improve the linking of tourism (forward and backward) with the other sectors of the economy as one of the foundations of tourism development policies, so as to capitalize on the benefits of the globalization and internationalization of markets. Successful experiences[5] of small economies and islands that have recently become emerging tourism destinations, such as Mauritius, Maldives, the Dominican Republic and other Caribbean islands, attest to the vital importance of the proper linkage of tourism with the rest of the economy, in their capacity of retaining value added, e.g., reducing leakages. Despite developing countries efforts to develop the most suitable domestic policy environment, the economic sustainability of tourism is being undermined by external factors beyond their control, notably the predatory behaviour of integrated suppliers which enjoy a dominant position in the originating markets of tourism flows.

II. Key issues with special impact on the social, economic and environmental sustainability of tourism

This part presents an overview and illustration of the main issues affecting the viability of tourism in developing countries, including (a) the leakage effect produced by their structural vulnerabilities and their difficulties in taking advantage of commercial opportunities; and (b) anti-competitive practices affecting tourism viability and performance in different segments of the tourism sector, as well as those in other sectors closely linked to travel and tourism.

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[4] David Diaz Benavides, "Strategic commercial polices: an option to support an increasing participation of developing countries in world tourism markets". In: WTO, "GATS implications for tourism". Seminar and Conference Proceedings, Milan, 1994.

[5] Prats F. "Tourism, environment and sustainable development in islands: 15 ideas and 9 cases for debate". Presentation at the International Conference on Sustainable Tourism in Small Island Developing States and Other Islands, organized by the World Tourism Organization/World Trade Organization October 1998.

1. Leakages from tourism in developing countries[6]

As a modality of international commerce, tourism involves not only inflows of foreign financial resources but also outflows, referred to herein as "leakages". When they exceed specific levels, these outflows can significantly neutralize the positive financial effect of international tourism. Leakage is the process whereby part of the foreign exchange earnings generated by tourism, rather than being retained by tourist-receiving countries, is either retained by tourist-generating countries or repatriated to them in the form of profits, income and royalty remittances, repayment of foreign loans, and imports of equipment, materials, capital and consumer goods to cater for the needs of international tourist and overseas promotional expenditures.

Leakages can be divided into three categories: internal leakage or the "import-coefficient" of tourism activities; external leakage or pre-leakage, depending on the commercialization mode of the tourism package and the choice of airline; and invisible leakage or foreign exchange costs associated with resource damage or deterioration.

Internal leakages can be measured by establishing "satellite accounts" within national accounting and survey procedures to detail all tourism-related economic activities. It is a normal effect present in both developed and developing countries. In principle, import-related leakages are highest where the local economies are weakest owing to sparse factor endowment or inadequate quality of goods and services. The average leakage for most developing countries today is between 40 and 50 percent of gross tourism earnings for small economies and between 10 and 20 percent for most advanced and diversified developing countries.[7] Importantly for LDCs, tourism import-related leakages are often inferior to other economic activity leakages, including manufacturing and, in some cases, agriculture, thus confirming tourism as a choice sector of development for which they possess comparative advantages in many areas.

A first step in reducing internal leakage is to identify what levels are appropriate given the economic structure of a country and then to ensure that effective leakage remains near this objective range while strategies to build up the local supply capacity are put in place. Although restrictive trade policies can reduce the size of the market, it is important to note that import openness tends to facilitate the leakage effect unless the economy has already in place a structure capable of reacting to the competitive stimulus of imports, which is usually not the case in LDCs.

External leakage or pre-leakage is much more difficult to measure and relates to the proportion of the total value added of tourism of services actually captured by the servicing country. To the extent that developing countries have limited access to commercialization channels in their target markets, they can only offer base prices to intermediaries that capture the mark-up on those services. Observed differences between paid and received prices for developing country tourism services (lodging, food, entertainment, etc.) suggest external leakage or pre-leakage levels of up to 75 percent. In some cases, base prices do not allow for the economic sustainability of projects, and normally do not contemplate replacement costs associated with resource depletion. This leads to problems of infrastructure and environmental sustainability, which tend to be overlooked in view of the short-term importance of crucial foreign exchange inflows.

As a flow variable, leakage levels do not have a static effect. They vary in time depending on:

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[6] This section is based on the contribution by Ellen Perez Ducy de Cuello, contained in *Financial Leakages from the Tourism in Developing Countries,* to be presented at the High-Level Meeting on Tourism in LDCs, Las Palmas, 26-29 March 2001.

[7] OMT/ WTO, *Políticas de Aviación y Turismo*, Madrid, 1995, p. 55.

(a) The stage or cycle point of the tourism industry. For example, a nascent tourism industry tends to require large amounts of one-time imports, whereas loan grace periods may allow for a decrease in leakage during the first few years of operation. During a maturity phase leakage may increase as large sums are invested in marketing, rehabilitation of facilities and upgrading of products provided, etc.

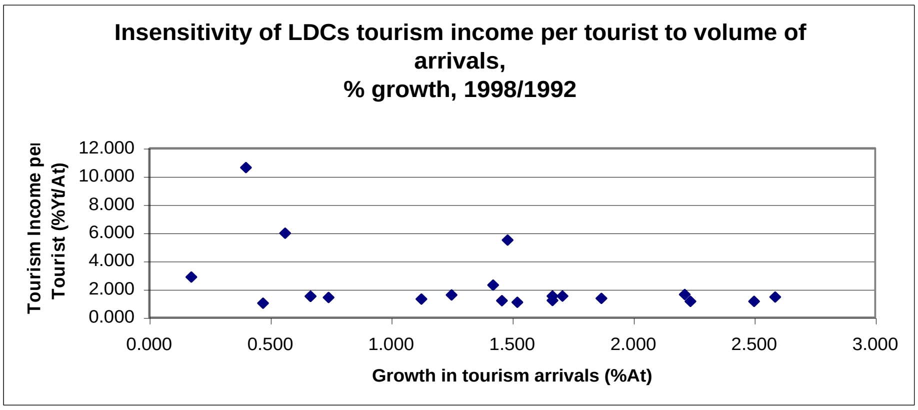
(b) The evolution of the economy to provide new services and products resulting from demand from the tourism sector. The import of products and services initially not available should trigger enough entrepreneurial response to enable these to be provided locally, thus allowing for a lessening of leakage. It is therefore a main objective of leakage limitation to provide and promote these links between domestic industry and tourism. For example, in the Dominican Republic leakages diminished between 1990 and 1995 as local industry became increasingly interested in servicing the tourism market.[8] The largest companies have now created subsidiaries specifically for this purpose.

Another factor to be evaluated in identifying appropriate leakage levels is the type of tourism being promoted. High-income tourism, because it requires the provision of very high quality and high priced goods, may actually result in increased leakage in some cases despite of the higher income it may generate. Mass tourism could have higher potential for leakage than ecological or adventure tourism because the latter value and consume local resources as part of the tourism experience. However, low-leakage tourism can also equate to low-income tourism, resulting in lower total income and therefore limiting the possibilities for expansion and development by other sectors of the receiving country's economy. In order to correctly evaluate the return on investments it is necessary to carry out a cost-of-opportunity study that will establish a "leakage break-even point" as a function of the country's economic capacity to serve different types of tourism and choose the type most suitable for a project or country.

Leakage effects on tourism net income levels are nonetheless offset by increased value added or volume. As an example of the positive outlook for LDCs, value added in tourism, measured as tourism income per tourist arrival (Yt/At) has grown by over 100 percent in 21 (almost half) of the LDCs surveyed between 1998 and 1992 (see table 1).

Interestingly, growth in income per tourist appears to bear no clear relationship to the level of or growth in arrivals (see graph 1). This suggests that growth in income per tourist is not a function of volume, and has therefore grown basically because of a favourable quality/price ratio. This also confirms the enormous diversity of situations present in LDCs and their tourism industries; but, in general, as value added grows, the *potential* for leakage lessens.

Graph 1



[8] Banco Central de la Republica Dominicana, *Cuenta Satelite de Turismo*, 1991, 1994-1996.

Table 1

Trends in Tourist Arrivals and Income per Tourist for LDC's 1992/1998.

	Tourist Arrivals (000)	Tourist Arrivals (000)	Tourism Income (US$m)	Tourism Income (US$m)		Income per Tourist (000)	Income per Tourist (000)	Growth in tourist arrivals	Growth in income per tourist
	At	At	Yt	Yt		Yt/At	Yt/At		
	1992	**1998**	1992	**1998**		1992	**1998**	1998/1992*	1998/1992*
Burundi	86	15	4	2		0.05	0.13	-83%	187%
Comores	19	27	8	26		0.42	0.96	**42%**	**129%**
Tanzanie	202	447	120	431		0.59	0.96	**121%**	**62%**
Kiribati	4	5	1	2		0.25	0.40	**25%**	**60%**
Haiti	90	150	38	96		0.42	0.64	**67%**	**52%**
Maldives	236	403	113	292		0.48	0.72	**71%**	**51%**
Afganistan	6	4	1	1	a/	0.17	0.25	-33%	50%
Sao Tome Principe	3	2	2	2	a/	0.67	1.00	-33%	50%
Lesotho	155	115	19	20		0.12	0.17	-26%	42%
Ouganda	92	238	38	135	b/	0.41	0.57	**159%**	**37%**
Samoa	38	71	17	43		0.45	0.61	**87%**	**35%**
Yemen	72	81	47	69		0.65	0.85	**13%**	**30%**
Bhutan	3	5	3	6		1.00	1.20	**67%**	**20%**
Ethiopie	83	121	23	40		0.28	0.33	**46%**	**19%**
Cambodia	88	220	50	143		0.57	0.65	**150%**	**14%**
Mali	38	85	11	28		0.29	0.33	**124%**	**14%**
Burkina Faso	92	140	24	39		0.26	0.28	**52%**	**7%**
Tchad	17	8	21	10		1.24	1.25	-53%	1%
Djibouti	28	19	6	4		0.21	0.21	-32%	-2%
Gambie	64	87	27	33		0.42	0.38	36%	-10%
Cap Vert	19	52	7	17		0.37	0.33	174%	-11%
Benin	130	152	32	33		0.25	0.22	17%	-12%
Salomón Islands	12	16	6	7		0.50	0.44	33%	-13%
Nepal	334	435	110	124		0.33	0.29	30%	-13%
Vanuatu	43	51	56	52		1.30	1.02	19%	-22%
Madagascar	54	133	39	74		0.72	0.56	146%	-23%
Niger	13	18	17	18		1.31	1.00	38%	-24%
Zambia	159	382	51	90		0.32	0.24	140%	-27%
Central African Republic	7	20	3	6		0.43	0.30	186%	-30%
Malawi	150	215	8	8		0.05	0.04	43%	-30%
Sudan	17	34	5	6		0.29	0.18	100%	-40%
Rep. Dem. Laos	30	260	18	68		0.60	0.26	767%	-56%
Myanmar	27	194	16	35		0.59	0.18	619%	-70%
Rep. Dem. Congo	22	32	7	2		0.32	0.06	45%	-80%
Togo	49	96	39	15		0.80	0.16	96%	-80%
Guinea	33	99	11	6		0.33	0.06	200%	-82%

Source; World Tourism Organization. a/ external estimates b/1997.

* cumulative growth rate (not annualized)

However, for varying reasons, including differing lengths of stay, very few countries have achieved income-per-tourist levels of above US$ 1000. The growth (calculated as the simple growth rate for 1998/1992) of the middle-income tourism category of US$ $500–$999 has been higher not only for arrivals (a factor of 2 versus 1.75) but also for combined income per tourist category (a factor of 4.9 versus 2), as can be seen in table 2. This indicates that the primary competitive segment for LDCs, as well as the segment where most opportunities for growth in value added exist, tends to be in this category of pricing.

Table 2
Number of countries with high-and middle-income tourism, 1988-1998

	Number of countries with:		
Year	Income per tourist **>USD1000**	Combined income, US$ (millions)	Combined arrivals (000)
1988	4	62	58
1992	4	97	
1998	7	162	118
growth %factor 98/92	1.75	2.6	2.0
	Income per tourist > **USD 500**	Combined income, US$ (millions)	Combined arrivals (000)
1988	8	152	382
1992	14	438	
1998	16	1478	1888
growth%factor 98/92	2	9.7	4.9

Source: Calculations based on World Tourism Organization statistics.

Tourism policy should therefore be based on the premise that although leakage is an intrinsic element of international tourism, and increased value added will also benefit the economy, leakage-containment measures have multiplicative effects that will allow developing countries to maximize the financial benefits to be derived from an expansion of tourism. A study on Indonesia showed that the tourism multiplier (1.59) was the highest of all categories, including final demand, and exhibited strong links to the agricultural sector, on which it had no direct effect at all.[9]

To the extent that leakages lead to a definition of economic opportunities it can be useful as a strategic blueprint for further economic development. Domestic policies in developing countries against leakages from international tourism should include (i) the provision of incentives to reinvest profits and potential cash transfers that otherwise would be invested abroad; (ii) the enhancement of the capacity of tourist destinations for intensifying the production of goods and services required by the tourism sector; (iii) the provision of incentives to domestic investors to expand their participation in tourism and iv) the enforcement of domestic competition policy against anti-competitive practices by tour operators.

As regards external leakages, most issues address points of discussion under the GATS Annex on tourism in the WTO, such as (i) local and international competition policy, particularly with regard to market access issues and best business practices in relation to regulations on contractual practices; and (ii) ecological and economic sustainability and the valuation and use of non-tradable resources.

[9] ESCAP, *The Economic Impact of Tourism in Indonesia*, 1991.

As such, a policy to reduce leakages and thus to improve the chances for a more viable tourism sector, should be based on the premise that leakages can be managed and need to be reduced from its present levels, where combined visible internal and external leakage can easily reach 75 percent of the market value of paid services. Management of leakages, should allow countries to profit as best as they can from the market expansion and competitive factor that tourism demand represents for local industry and the local economic structure in all fairness to least developed and developing countries, without engaging in anti-competitive practices that contradict other WTO principles, and reduce the contribution of tourism to sound economic development.

2. Anti-competitive practices affecting tourism sustainability

The competition issue and the treatment of anti-competitive behaviour are at the core of the problems of efficiency, viability and sustainability of tourism in developing countries. The latter's ability to deal with those two aspects and to counter their effects is a crucial matter. Firstly, this is because anti-competitive behaviour occurs largely in developed countries, as a result of the fierce competition among a few integrated dominant players with a high market share in their own market and in all segments of tourism industry supply, notably tour operators, travel agencies, hotels etc. Secondly, the pattern of globalization, which is the driving force of many of the developments in the supply of the tourism and air transport, also mostly originates and is controlled in the two leading developed economies, namely the European Union and the United States. Consequently, what often appears to be a normal commercial relationship in a developing country may actually be the result of a network of anti-competitive practices arising from a globalized and highly integrated tourism trading environment, dominated by a few suppliers in the originating tourism markets. Moreover, other non-behaviour-related industry issues, such as the inadequacy or absence of a domestic competition legal framework in developing countries, and the lack of multilateral disciplines and mechanisms within the GATS framework,[10] also affect the ability of developing countries to deal with or prevent anti-competitive practices in their tourism sectors.

Why and how do anti-competitive practices threaten the viability of sustainable tourism in developing countries?

The economic and social viability of tourism in developing countries depends on sustainable growth perspectives, in terms not only of absolute values, but also of their capacity for retaining more value added in their economies, i.e. smaller leakages, an even distribution of benefits in commercial operations, elimination of all barriers to tourism, particularly to commercial presence, and the movement of tourism suppliers in both origin and destination markets, and the effective implementation of provisions enumerated in Articles IV and XIX of GATS. The foundations for sustainable tourism are already in place in most developing countries as a result of the autonomous liberalization of the tourism sector itself and the progressive liberalization of many other services sectors. However, for those countries highly dependent on tourism revenue, the benefits of the liberalization of tourism are being threatened by the predatory practices of a few dominant tourism suppliers in the world tourism market. The evolution of the GATS disciplines, and the consistency of future commitments of developed countries with the economic, social and environmental sustainability of tourism in developing countries in the GATS 2000 negotiations, should mark a turning point favouring more profitable tourism for all WTO members, particularly the most vulnerable small developing countries.

The predatory practices and anti-competitive behaviour in international tourism have two main effects on the economic sustainability of the tourism of developing countries: unbalanced trade benefits, and the deepening of the leakage effect. Their combined impact minimize the positive

[10] Notably GATS Article IX Business practices.

impacts of spillover and multiplier effects inherent to tourism, and undermine the financial capacity of enterprises and the ability of countries to earmark necessary resources to maintain and upgrade basic infrastructure and quality standards in order to satisfy in an adequate way competitive conditions and international demand. Moreover, in most vulnerable and small developing economies, particularly LDCs, the foundations of tourism are threatened by unbalanced results in their business operations,[11] which are in turn threatening the social, economic and environmental sustainability of tourism.

There is much documented evidence[12] about the negative impact of anti-competitive behaviour of developed countries' dominant tourism suppliers on their own markets and overseas. Unfair practices, which confront developing countries' suppliers in their business operations with dominant suppliers in tourism-originating countries, are of a different nature and occur in different segments of tourism and related activities.[13] One of the salient features that become evident in commercial relations is the uneven distribution of benefits, due to the dominant position and market power of integrated suppliers in their own markets and worldwide. These suppliers have absolute advantages, because of their control of inbound and outbound operations in their countries and overseas, which allow them to keep consumers dependent on the offer of the products and services they supply, at the expenses of imposing onerous commercial conditions on suppliers in different tourism destinations. The huge supply capacity of dominant players in all segments of tourism, including transporters, CRS/GDS, tour operators, travel agencies and hotels, allows them to prepare holiday packages and retail them through their own business networks, as well as to impose prices and conditions on suppliers in tourism destinations.

How do the business operations of tour operators and travel agencies in the originating markets of tourism affect the sustainability of developing countries' tourism?

Tourism suppliers from developing countries e.g. hotels, inbound operators and land transport companies participate in international tourism mainly through the transactions of tour operators and travel agencies from developed countries in the developed countries' originating markets. As wholesalers of tourism products and services they assemble the holiday package by negotiating with destinations and operators in third countries. They view the tour package as an attractive option with many advantages for them: (a) it ensures flows of tourists; (b) it reduces the international marketing costs of the destination; and (c) it increase the volume flow of package travellers, which is likely to increase investment by foreign construction companies, major tour operators and airline companies that wish to make the tourism product more attractive to consumers. However, tourism suppliers from tourism destinations in developing countries have very often underlined their weak bargaining position in business transactions, particularly with dominant suppliers of the most important originating tourism market from developed countries.

(a) International competition among tour operators and travel agencies

Tour operators in originating countries manage business operations through (a) a subsidiary of a vertically integrated firm with a number of related travel interests; (b) an entirely independent firm that specializes in putting holiday packages together and selling them; (c) a subsidiary of an

[11] UNCTAD, "Tourism development in LDCs". TD/B/III.LDC/Misc 64, 17 February 2001. Can be downloaded from the UNCTAD website, www.unctad.org

[12] P. Evans, *Recent developments in trade and competition issues in the service sector: A review of practices in travel and in travel and tourism.* UNCTAD/ITCD/CLP/Misc.13, December 1999. Can be downloaded from the UNCTAD website, www.unctad.org

[13] See “International trade in tourism services: issues and options for developing countries". UNCTAD TD/B/ Com.1/E.M.6 /2, and TD/B/COM.1/17, 7 July 1998.

airline; and (d) an operator directly linked to a travel agent. [14] The tour operator of each major market is dominated by a small number of national firms with a relatively large market share, which compete fiercely with each other. For instance, four firms with a share of over 60 per cent dominate the United Kingdom market.[15] This results in the larger operators having a dominant position with a very little competition, because the layer of the next competitor is too small. Consequently, the travel agencies (the retailers of tourism packages) in destination markets are almost entirely dependent on their linkages with the dominant tour operators. Also, consumers become captive in their choices of tourist package offered by dominant suppliers. The effect of this supremacy of integrated tourism suppliers in their own markets is mirrored in their dominant position in commercial relations with tourism suppliers in destination developing countries.

The benefits and costs of package tours to service suppliers in developing countries depend to a large extent on the nature and terms of the contracts between them and the tour operators from the tourism-originating countries. Accordingly, the bargaining powers of suppliers from developing countries are a central issue affecting the tourism sustainability of developing countries. Some examples of how the common practices in contractual arrangements affect the sustainability of tourism in developing countries are presented below.

Use of monopsonistic power over local tourism suppliers in developing countries

The contract between a tour operator from an originating country and the suppliers in the destination country involves a block reservation for a future period at a negotiated price and specifies the terms of risk sharing in the event that not all the packages are sold. The tour operator normally has the greater bargaining power during the contract negotiations; if it considers that the negotiating partner’s offer is not attractive enough, it can choose another hotel in the same area or even another region of the same country. Tour operators thus often exercise a monopsonistic power over local tourism suppliers, such as local hotels, since for the latter the servicing of the package tour is a vital means of securing their occupancy rates.

The asymmetry of bargaining power is clearly revealed in the content of the contract. Often contracts last for one year or more, and the risk inherent in a long-term contract for a tour operator (e.g. uncertainty of future demands for the package) is reduced by negotiating various conditions favourable to the tour operator. A contract frequently contains the following provisions: a substantial discount is provided on rooms after the departure of the clients; no deposit is required for the booking; payment may be made long after the departure of the customers; and the tour operator retains the right to return unfilled rooms (“release-back clause”) shortly before the arrival date, without any need to pay compensation.

Anti-competitive practices resulting from vertical integration

Vertical integration among tour operators and travel agencies, which is currently proceeding at a notable pace in Europe, threatens to reduce the actual number of tour operators in the market. As a result, a great deal of market power is being transferred to the intermediaries that direct consumers to specific destinations. The consequences of this should be a major concern to developing countries' tourism destinations. The increase in the degree of concentration in the travel market in favour of mega-operators puts developing countries' suppliers and the other competitors in local markets at a clear disadvantage. It also opens the door to unfair practices, which directly affect tourist destinations. An example of this is the travel agent's “racking policy”, which refers to the decision about which brochures to put on display. This has a crucial impact on the tourism destinations of developing countries, because for them the travel agent's

[14] Evans, op. cit.
[15] Thea Sinclair M. and Stabler M. *The Economics of Tourism.* London, Routledge, 1997.

display rack is almost an essential facility, and denial of access to it can severely restrict consumer exposure.

The threat of "deracking" (i.e. removing brochures from the shelves) is used by integrated suppliers in attempt to negotiate larger commissions, by pressuring tour operators not to supply independent travel agencies on better terms or by pushing their own holidays through in-house incentive schemes. The lasting impact of this practice is more restrictive in originating countries where tour operators are the main distribution channels, such as in Europe, where more than 60 per cent of tour packages are sold by integrated suppliers. Conversely, in the United States the possibility of "deracking" is lower because about 70 per cent of travel agencies are independent, GDS/CRS are more important as distribution channels, and the Internet is becoming a primary source of information for consumers about tourism destinations.

(b) International competition among hotels.

The international hotels sector is characterized by a considerable diversity in the modalities of services provision, and by a high concentration of a very small number of large hotel groups, including hotel consortia, integrated hotel chains and tourism lodging (second homes). Their scope and focus are very often limited, either by a focus on home markets, notably through the hospitality franchising systems, or by a concentration on business travel and destinations. One important aspect to be noted is that the intensive use of the accommodation infrastructure, particularly hotels receiving international tourists regardless of the hotel's size, requires the continuous allocation of financial resources to maintain and upgrade the quality of accommodation to meet the standards of international demand.

In most developing country destinations huge investments have been made in the hospitality and accommodation sector either through investment of domestic resources or attracting foreign investors by increase of different modalities, including management contracts and franchising brand names

As in all the other segments of tourism-related activities, the importance of competition issues stems from a mix of practices through the distribution mechanisms. Anti-competitive behaviour in those mechanisms is thus most likely to have a significant effect on the ability of destinations, and of their hotel sectors, to compete effectively and to gain a fair share of the rewards of attracting tourists and travellers.

The sustainability of this sector in developing countries' tourism destinations depends on the occupancy rates (affected by seasonality) and the level of profits, which are highly influenced by the results of commercial transactions between hoteliers and tour operators from tourism-originating countries. In this connection, it has to be underlined that the accommodation sector is the one most affected by the dominant power of mega-operators, whose stringent demands in terms of quality standards are not duly compensated for with fair commercial remuneration. Another, wider impact of this predatory behaviour in the tourism economy of receiving countries is the deepening of the leakage effect and the undermining of positive inherent multipliers effects of tourism. Depending on the magnitude of these unfair compensations from dominant tour operators, some tourism destinations in developing countries might be subsidizing tourists from originating countries.

Table 3
Options for investment in hotels for developing countries: Costs and benefits

Types of investment	Benefits	Costs
Total ownership 100 per cent ownership of equity by a foreign subsidiary for an unlimited time	• No financial risk to the host country	• Large outflow of income from tourism (leakage) • Difficult to reflect government policy on tourism development
Joint venture Partial ownership of equity by foreign capital for an unlimited time	• Access to extra capital • Access to international marketing networks • Lower social/political cost of FDI • Reduced income leakage	• Requirement for a certain base capital • Risk-sharing • Possibly unfavourable contracts due to limited bargaining power
Franchising The right to do business in a prescribed manner under an existing brand name is sold to a local firm	• Transfer of managerial and marketing skills • Assured standard of quality • Brand image	• Management risk is with the host country's firms
Management contracts The business is controlled and managed by a foreign firm, without ownership by the latter	• Possible transfer of knowledge, skills and technology (e.g. GDS) through a cooperation agreement	• No control over finance, management and planning
Hotel consortia Independent hotels pool resources in order to compete with integrated and franchised chains	• Joint national and international publicity campaign	• Small-size hotels may not be considered attractive to a consortium • Initial lack of brand reputation
Full national ownership Domestic investment without foreign links	• Reduced international leakage • Independence in adoption of corporate strategies	• Lack of international reputation • Higher marketing costs

(c) Computerized reservation systems (CRS)/global distribution systems (GDS)

The development of international tourism relies on the effective commercialization of tourism products to consumers at tourism-originating countries. World information and distribution networks play a decisive role in the international tourism sector since they bring the buyers and producers of tourism products into contact. CRS, GDS and the Internet are the backbone of world information networks, which provide the infrastructures and networking facilities for airlines, tour operators, travel agencies and other tourism operators to process and obtain information, make reservations and market tourism products.

CRS have been developed by large air carriers since the 1970s to process flight reservations. They later evolved and expanded to offer further services related to air transport, such as the storage of information on a worldwide basis, the issuance of tickets, marketing (by displaying information on fares, discounts and conditions attached to them) or the sale of products and services. Moreover, they cover not only services provided by airlines, but also land services supplied to tourists, such as package tours, hotels and vehicle rentals. With this enlarged range of services, they became known as global distribution systems.[16] GDS have significantly improved the efficiency of travel agents' business operations and their use is growing rapidly.[17] They have become the main marketing and trading tool of international tourism, as well as a major source of income for the carriers which own them. Through strategic alliances and other forms of cooperation or mergers in the most important markets, these systems minimize their costs and

[16] The largest GDS (and their main original developers) are Galileo (United, British Airways, Alitalia, Swissair, KLM), Sabre (American), Worldspan (Delta, TWA, Northwest), Amadeus (Air France, Lufthansa, Iberia) and Abacus (ANA and Asian developing country carriers). More recently, the One World Alliance was created among BA, AA and Iberia.

[17] In 1995, 91 per cent of total ticket sales in the United States were made using GDS.

reduce the need for a direct commercial presence. A single GDS terminal provides immediate access to all services companies which have opted to market their products through this network.

The companies (air carriers or independent commercial companies) that control CRS and GDS either partly or entirely sell access to the system to tourism operators worldwide. There are many obstacles to and measures governing GDS networks. These include (a) unfair rights of access, (b) restrictions on display, (c) costs of services influenced by monopolistic practices, (d) neutrality and regulations, and (e) the technology gap among users.

Access problems. Despite their major contribution to the development of tourism, GDS are frequently considered a barrier to market entry, mainly because they are controlled by the major carriers and because of the unfavourable access conditions for competitors. While some East Asian developing countries have participated in the establishment of a major GDS (Abacus, complemented by the strategic alliance with Worldspan), other developing countries have not been able to do likewise, leaving their carriers and other service suppliers without privileged access to any GDS. Additionally, countries not yet seen as attractive tourist destinations, or whose hospitality sector is underdeveloped (particularly in Africa and South Asia), tend to be poorly represented, if at all, on GDS. Therefore, access to information on their tourism products is limited, thus making it difficult for them to sell their tourism services. These difficulties have meant that many smaller carriers, especially some from developing countries, have been obliged to continue using the traditional SITA CRS, which leaves them at a competitive disadvantage compared with those what are represented in the major GDS. On the other hand, in many developing countries, particularly in Africa, GDS are present as a result of joint ventures with local partners (e.g. the national carrier) but operate within a de facto monopoly. This leads to excessive user fees and hinders their potential for developing tourism.

Display. The GDS allows a travel agent to view a wide range of information, which sometimes requires several pages on a terminal screen. In most cases, however, travel agencies only consult the information on the first page (screen); the order in which screens are displayed is thus a crucial determinant in the user's selection of products. The display may discriminate against smaller carriers which do not own a major CRS, since controllers' own flights may be better displayed on the screens than those of their competitors (this is known as "display bias"). There may also be discrimination in favour of their suppliers of land services.

Cost. The cost of having services presented GDS may be prohibitively high for SMEs, leaving them with no access to this marketing tool. Even though all service providers have to pay a fee for having their services displayed in the systems, the costs of participation for the owners of GDS are fully or partly covered by the profits generated by the systems. The cost of hardware and user fees may prevent small users from using GDS; this puts some service suppliers (particularly SMEs) from developing countries at a disadvantage compared with their larger national or international competitors.

Neutrality and regulations. In order to prevent CRS from being used as an anti-competitive tool (e.g. by charging excessive fees for reservations made for non-owner companies) and to ensure their neutrality (e.g. by prohibiting display bias), the United States, Canada and the European Union have issued regulations in recent years on GDS operations related to air services, while the International Civil Aviation Authority (ICAO) adopted a code of conduct for CRS in 1991. However, the regulations and code have not been sufficient to resolve completely the anti-competitive bias of the systems, and particularly to address the specific problems of carriers from developing countries. The ICAO code (the only multilateral one) is non-binding and therefore there are no mechanisms to ensure its enforceability. The relevant domestic regulations are binding, but only within the territories of the countries concerned. The European Union regulations apply to CRS from countries which have similar legislation to ensure neutrality. On the other hand, although CRS have been included among the "soft" air services rights included in GATS, the commitments do not deal with their anti-competitive potential.

Technology gap. Installing and maintaining a system poses a greater problem to travel agents in developing countries, owing to deficiencies in the infrastructure necessary for such an information network, and the shortage of professionals to manage, operate and maintain the system. This not only represents a technical hindrance to the use of modern technology, but also increases the associated costs, thereby putting travel agents in developing countries at a disadvantage compared with their counterparts in developed countries.

Electronic commerce. The expansion of the use of the Internet and other forms of electronic communication opens up significant opportunities for developing countries to develop their tourism and air transport sectors. Their service suppliers can reach consumers around the world directly, offering both package tours and individual air and land services. They thereby cut out the costs of intermediaries (e.g. agency fees) and transaction costs and avoid the need for a direct commercial presence and its associated costs. Nevertheless, electronic marketing and trading have their own costs in terms of human and physical capital requirements. In countries where these requirements are in relatively short supply, the cost of electronic marketing and trading can be reduced if individual suppliers pool their resources. This could be coordinated, for instance, by national tourist authorities.[18] Moreover, modern technologies are likely to be increasingly used as institutional promotion tools. If there is a minimal critical mass of information infrastructure in a given country, the new technologies can offer substantial cost savings.

(d) Air transport

Air access in international tourism depends on the availability and conditions of air transport connecting tourist-generating countries and destination countries (i.e. prices, frequencies, travel time, etc.). Air transport is a major factor underpinning international tourism in the vast majority of developing countries, but its importance for tourism varies considerably from one region to another. It is the means of transport used by the majority of tourists arriving in developing countries. Air transport developed as a result of the increase in demand for tourism-related travel, becoming in turn the driving force behind the development of the tourism industry. In 1998, passengers were responsible for about 75 per cent of air traffic volume and for of the total operating revenues of airlines. It is estimated that up to 40 per cent of air passenger travel is for business purposes (as opposed to leisure or personal travel) and that business travellers account for up to half of airlines' income. Like tourism, the world air transport industry has expanded at twice the rate of world output growth, and is expected to continue to do so in the next twenty years.[19]

The main recent developments affecting air transport and the industry structure are the increased international ownership of airlines and their growing concentration, worldwide moves to liberalize and deregulate the sector, the privatization of airlines and the formation of strategic alliances among firms. The main benefits of the latter are the cost reductions and efficiency gains that can be achieved by rationalizing the joint use of resources (such as check-in facilities and ground personnel), creating synergies and providing "network value" (i.e. the wider coverage of points serviced by the carrier and its partners) without the need to physically expand operations.[20] The large global alliances aim at world coverage by pooling the networks of their

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[18] Naturally, the increased use of electronic means to develop tourism involves solving pending issues that are implied by all forms of electronic trade, such as access to infrastructure, confidentiality, safety of data transmission, consumer protection and taxation.

[19] Air Transport Action Group, *The Economic Benefits of Air Transport (1994 Data)*, Geneva, 1997.

[20] One of the main forms which airline alliances can take is code-sharing, a marketing arrangement between airlines allowing them to sell seats on each other's flights under their own designator code. In the case of connecting flights of two or more code-sharing carriers, the whole flight is displayed as a single carrier service on a CRS.

members.[21] The main drawback in doing this is that the alliances can restrict competition and thus negate some of these benefits, particularly if they collectively achieve a dominant position on given routes.

III. How the GATS 2000 Negotiations should mark a turning point to make effective the increasing participation of developing countries in international tourism flows in a sustainable perspective.

1. How negotiations could support the sustainability of tourism operations

The GATS 2000 negotiations mandated by the Final Act of the Uruguay Round provide developing countries with a unique opportunity to counterbalance the asymmetries imbedded in the outcome of the Uruguay Round services negotiations. In this perspective, it is the right time to take advantage of these negotiations to prepare and put forward negotiating proposals on how to make effective use of the provisions of Art IV and XIX, aimed at increasing participation of developing countries in trade in services and the expansion of their services exports including through the strengthening of their domestic services and its efficiency and competitiveness. The two-way process involves not only the refinement of offers, but also the preparation of requests from trading partners as one of the key ways to obtain substantive benefits as result of the GATS 2000 negotiations. Moreover, an active participation of developing countries in the GATS rule-making process is a contribution to building of an improved multilateral framework which would take into consideration existing asymmetries and the need for a predictable markets access for exporters of services from developing countries.

The viability of tourism, i.e. its economic, social, cultural and environmental sustainability, is at the heart of domestic policies and development concerns of developing countries. Accordingly, in the course of the present negotiations on trade in services, there is a need for similar focus on strengthening future substantive commitments on tourism by GATS members as was the case in other sector such as telecommunications and financial services. In this perspective the proposal for the Annex on Trade in Tourism Services (WT/GC/W/372), may contribute to providing a pro-competitive framework as a complementary tool which would ensure:

(a) *An adequate coverage and consistency of commitments in all tourism activities as defined by the Satellite Tourism Account.* This aspect is of paramount importance in view of specific characteristics and diversity of transactions linked to trade in tourism services, notably the heavy reliance of tourism on air transport and travel distribution systems.

(b) *The prevention of predatory behaviour and anti-competitive practices by dominant integrated suppliers in the originating markets.* This refers to disciplines to prevent anti-competitive conduct including from air transport and travel distribution systems, and to safeguard trade in tourism services from competitive exclusions, abuse of dominant and misleading or discriminatory use of information.

(c) *The effective access and use of information on a non-discriminatory basis.* It should include provisions on access to ensuring non-discrimination, transparent, reasonable and objective criteria; compliance with Art. IV of GATS and the truthfulness of the information on tourism distributed by governments (travel warning) and through GDS; the unbundling of travel distribution systems as a measure to counter vertical integration and conflicts of interest in travel agencies and the interconnection of CRS, through the

[21] The largest alliances existing in early 1998 (in terms of passenger-km) were those headed by: (1) American, British Airways, JAL, Qantas, Canadian; (2) United, Lufthansa, Singapore, Air Canada, Thai, Varig, SAS, SAA (Star Alliance); (3) Northwest, Continental, KLM, Alitalia; (4) Delta, Swissair, Sabena, Austrian, TAP (Quality Excellence) (*The Economist*, 10 and 31 January 1998).

portability of reservation numbers. Submitting GDS operations to effective multilateral disciplines and dispute-settlement mechanisms would have a substantial effect on trade and anti-competitive practices.

(d) *The implementation of an adequate framework for sustainable development of tourism.* Provisions on cooperation for the sustainable development of tourism are needed in recognition of the role of tourism in economic development; its need for infrastructure and development assistance; equitable trading conditions for economic sustainability; the relevance of enforcing internationally-recognized environmental and quality standards; the need for cooperation at all levels; and the importance of providing information on technologies required for competitive provision, regulation and sustainable development of tourism and all related-activities.

(e) *To preserve the environmental sustainability of tourism and the cultural heritage*. Guiding principles for national policies and trade commitments to preserve the ecological systems, the biodiversity, cultural patrimony and traditions.

2. Issues for consideration by developing countries in negotiating specific commitments in tourism

The liberalization under the GATS 2000 will be determined on one hand, by the level of removal of barriers in the revised horizontal commitments (which affect all sectors) and on the other, the lifting of conditions and limitations applied to each sector at sector-specific level and in the four modes of supply. Accordingly the consistency between the two types of commitment is an important issue to be addressed by developing countries, seeking to obtain commercially meaningful commitments at specific sectoral level.

a) Improvement of horizontal commitments

In preparation of their positions in services negotiations, developing countries must assess to what extent the horizontal commitments of developed countries impede the liberalization of tourism and travel and related services. The major limitation in the horizontal commitments is in the lack of significant trading opportunities in mode 4, i.e. temporary movement of natural persons, since practically no commitments in this mode were made in specific services sectors. The temporary presence of natural persons in all services sectors is undermined by the recurrence at the horizontal level to the economic needs tests, nationality and/or residence requirement and cumbersome administrative and visa procedures to be met by foreign nationals as services providers. The existing horizontal commitments by developed countries mainly refer to limitations for the establishment of the commercial presence (mode 3) by foreign providers to carry out the commercial operations.

b) Specific tourism sector commitments

Majority of tourism originating countries are developed countries, which have undertaking commitment to liberalize fully or partially the supply of services in different tourism sub-sectors and modes of supply. Still, *the impact of commitments in commercial presence* in term of market value is nullified by restrictions to the commercial presence of foreign tour operators, travel agencies, restaurants and hotels, which are not listed there. Also, the movement of natural persons engaged in the tourism supply of different services is precluded by limited horizontal commitments and the lack of specific sectoral commitments. For instance in many Members States of the EU the commercial presence of foreign tour operators from the third countries is precluded or allowed only in association with already established national firms therein. Similarly, foreigners are precluded from undertaking of the business operations in the restaurant sub-sector even for those specializing in typical national food from other countries. In addition, the level of restrictions on commercial presence is aggravated by the possibility of recourse to the economic needs test, cumbersome and discriminatory licensing requirements that foreign suppliers of tourism services must meet.

c) Temporary presence of natural persons as consumers and providers of services

It should be underlined that although the existing commitments on market access on *consumption abroad have no limitations* in the case of majority of the GATS commitments, including in the top originating countries; in real terms the freedom of movement for consumption abroad is restricted by the level of binding in other modes of supply, in particular the commercial presence of foreign suppliers in the tourism originating markets. The movement of consumers in most of the top originating markets of tourism is captive, because the existing level of binding of commercial presence consolidates the absolute advantage of the dominant mega-tour operators and other national suppliers including the travel agencies, since the exclusive right of selling directly to travellers of holiday packages in their own markets has been consolidated in the existing commitments on commercial presence. Moreover, under such commercial conditions, the consumers' choices are limited by the offers of holiday package by dominant tour operators, but not only them, also by the opportunities for suppliers from destination countries to reach consumer in the originating markets directly. In addition, the consumers' choices in these markets are restricted by unfair practices in the management of information systems and the "racking policies" by travel agencies, which are usually integrated with mega-tour operators.

To improve horizontal commitments on mode 4, developed countries should remove the application of the economic needs test with respect to the movement of professionals supplying tourism services. Not all the professions and occupations are equally important to the movement of persons in the context of trade in tourism services. For example, the possibility to have the waiver from the application economic needs test should be provided to individual tourism services suppliers involved in catering, maintenance services or in such areas where cultural affinities and close contacts with tourists may contribute to the quality of the services provided. To the extent that the remaining occupations would remain subject to the application of economic needs tests, efforts should be made to reduce the scope for arbitrary and discriminatory practices, provide greater transparency and introduce more neutral economic criteria. The issue of transparency in respect of the application of the GATS commitments is crucial as a tool in promoting trade in tourism services. In that respect, commitments in mode 4 are closely linked to the implementation of the relevant immigration regulations, policies and procedures in a clear and transparent manner. Publishing of the legislation and implementing regulations which significantly affect ability of the foreign nationals or permanent residents move across borders to supply services is a general obligation, since this is the way to limit the room for discretionary and procedural rules. The lack of transparency, clarity in the existence, implementation and application of policy guidelines affecting application for and consideration of temporary work permits, residency requirements of visas impede market access, effectively violating key GATS provision.