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**Value-Based Tourism and
Uruguay's Tourism Development Strategy**

**A paper contributed by
Roberto Bennett
General Manager
Uruguay XXI
Uruguay**

VALUED-BASED TOURISM: GETTING THE MOST OF THE TOURISM DOLLAR AND URUGUAY'S TOURISM DEVELOPMENT STRATEGY

Introduction

The initial question one must ask when discussing the economic impact of tourism on national economies is: “**Who runs the tourism business?**” Definitely, it is not the tourist, even if he or she may think so.

Tourist habits have changed and evolved greatly in the past 100 years but it is still the **destination** that attracts the visitor in the first place. Whether it is because of its exoticism, its outstanding attractions (manmade or natural), its good shopping opportunities, entertainment value, or its religious, historical and cultural traditions, these are the *push* elements (talking in pure marketing terms) that make the tourism industry thrive.

Secondly, when the **tour operators** hear about the new or renewed interest generated by a particular destination, and how it is stirring-up in the tourist's mind the desire to visit it, they design and market an appealing package to bring them both together.

And thirdly, the **tourist** himself, first searches for a way to get to a particular new destination and then spreads the good news amongst friends and relatives in an unstoppable, contagious word-of-mouth campaign.

Sometimes the destination *pushes* the tourist to consume it and on other occasions, the tourists first discover the new destination, they *pull* from it and later share the experience with their peers. But it is always the **destination** that draws the attention, awakens the interest and starts the ball rolling.

Difficulties arise when some of these countries that have a significant tourism development, start to give it excessive privileges; because governments assume it brings beneficial consequences for their national economies, even if they are negative from a social point of view. This is the case of Mexico for example, where according to recent studies, this country gives priority to the construction of highways and public transportation for tourism in detriment of adequate and proper transportation for the resident population. Excessive consumption of fresh water, which is a scarce resource in Mexico, is also observed in five-star hotels exclusively for use in swimming pools and watering golf courses. Meanwhile, in many cases, the resident population does not have access to drinking water in their homes. And also, in resorts such as Cancun, the permissiveness of the Mexican authorities and the abusive attitude of foreign “all inclusive” hotel chains are destroying the local businesses, especially bars, restaurants and souvenir shops.

Other studies show a harmful increase in the cost of living in regions that have high rates of tourism, producing very negative repercussions on the local population. The same thing happens in ecological terms, since massive tourism often causes environmental deterioration in countries that previously did not take precautions to approve specific control regulations.

The Evolution of International Tourism

Having expressed these concerns, what are the current trends in international tourism? A segment of intercontinental tourism has changed substantially over the last few decades. In the 60's and 70's there was an explosion in tourism in the most advanced societies, once they achieved sufficient time off and higher salaries for longer, better vacations. Tourism then was based on structured packages for determined circuits, and stays replicated Western lifestyle in many ways, since the traveller tried to enjoy the same comforts as they had in their own countries.

However, nowadays the chance to enjoy an encounter with foreign native life-styles and the opportunity to live briefly with exotic cultures is much valued by the 21st. century tourist and in

greater demand. Tourist attractions based on particular local characteristics and flavours, situated in a "natural" environment, different from where the traveller resides, plus the authenticity or simulation of the same, are now described as "**post-modern tourism**." But this focus can also have its negative consequences: Traditional indigenous practices are sometimes trivialized or drained, left without content and soon become a spectacle lacking in original cultural meaning.

In view of such occurrences, what should be the development of tourism in developing countries such as Uruguay? Some significant segments, for example, that have not been fully exploited in this country are: Adventure tourism, extreme sports and native cultural attractions. In addition to this, Uruguay has favourable characteristics to develop a more powerful health spa tourism offer, a product which already attracts large contingents of people of all ages, all year round, to the northern hot springs region on the coast of the rivers Dayman and Arapey. These hot springs can also be combined with cultural, historic, rural and ecological tourism.

Eco-tourism is another of the many possibilities that can favourably develop all year round in Uruguay. It is obvious that sun-and-beach tourism is currently the greatest summer attraction of this small South American country. Without doubt, there are exceptional conditions for this profile, but it doesn't have to be the only one. Especially since it lasts for just two and a half months (15/Dec.-1/March), creating a serious seasonality problem, massive unemployment during the 9 months of the low season and the infra-utilization of a vast and expensive infrastructure. This is the case in the municipality of Maldonado, where precarious housing, very difficult to administrate and later eradicate, is proliferating after the construction boom in the coastal resort of Punta del Este ended. Therefore, a negative consequence of the sun and beach seasonality in Uruguay (so different from the permanently hot climates of other regions) is that the local market cannot sustain the same level of activity for the entire year, and seasonal workers, who generally lack proper housing and sufficient economic resources, are most affected during the low season, creating undesirable pockets of poverty and crime.

Eco tourism, on the other hand, is a year-round activity that covers the whole of the country and fits nicely with the environment and native characteristics of the Uruguayans, a "*gaucho & pampa* cattle-breeding nation". Placed in **third position** (behind Finland and Norway) by the World Economic Forum, in its **Environmental Sustainability Index 2005** (prepared by the universities of Yale and Columbia); and with 5 hectares of fertile land per inhabitant (six times the world average), in Uruguay the ecological resources and attractions are obvious. And the potential economic impact on the local labour force and economy is presumed to be substantial.

Unfortunately, in Uruguay we do not fully know for certain what tourism activities represent in terms of **economic impact** nor their **complete social and territorial effects**. In spite of significant efforts done by private and public sectors, conducting surveys of receptive tourism, plus the statistical data collected periodically from every port of entry, at national government level, direct and indirect consequences of tourism are not being properly evaluated. How much tourism is growing annually is known through income estimates, but the full consequences of this phenomenon in social, monetary and territorial terms are not yet known.

The installation of a **satellite account** would enable a breakdown of the tourism account through strict accounting, including the impact of the activity on employment. Without this exercise, it is very difficult to fully account for incomes generated by the sector, given the wide spectrum of formal and informal services linked with this activity. And planning a national strategy even more so.

Pros and Cons of Tourism

The impact of tourism on the local community can be seen from two points of view. Firstly, it represents an incomparable benefit in terms of the economy, cultural exchange and awareness; but on the other hand it causes problems with cultural shifts of the people. From the perspective of the visitor, tourism is the search for new experiences as well as a disassociation of daily

behavioural guidelines, in a time and place that is perceived as “a personal liberation.” And this can allow ethical, moral and other barriers to be avoided, ignored or dropped.

From the perspective of the local communities, several Latin American studies refer to the deterioration of the social fabric in their communities due to changes in their social behavioural guidelines in sexuality and family structure, reflecting a dramatic increase in prostitution, drug abuse, etc. These deplorable acts are favoured by some types of recreational activities exploited by modern-day tourism, coming mainly from developed nations. For example, young people in the Uruguayan city of Maldonado are exposed to a totally different lifestyle in neighbouring posh Punta del Este. Very different from their normal environment, regarding consumption of goods and services, most of which are not within their reach under normal conditions. Therefore, this produces a worrying transformation of values, or at least of social practices.

How does tourism affect social guidelines on the receiving community? A study made by the College of Social Sciences in Punta del Este shows that classes in Maldonado and Punta del Este high schools practically finish at the end of October (instead of December like the rest of the nation), because a considerable number of students begin to work in tourism-related activities at that time. This is not only felt in class attendance but also in exam preparations during the summer months. According to local teachers, getting a well-paying job for two or three months in Punta del Este affects the efforts made by the educational community during the rest of the year. This somewhat contradicts the ultimate goals of strategy makers, who seek greater profits for the sector, increased consumption of local products and also a rise in the standards of living of their nationals.

Given these realities of the tourism business, a competitive national strategy should be defined in a **Strategic Plan for Sustainable Tourism**, with strong social participation, plus careful conservation of the national patrimony and environment.

The Plan must also anticipate a consolidated annual budget. And in order to better explain this point and the consequences of a state policy and a Strategic Plan for Tourism, let us look at what some Latin American countries have produced.

In the first place, when we look at **Uruguay**, we find that the budget for tourism represents approximately U\$S **3,5** million. The income in 2003, coming from receptive tourism, represented U\$S **318** million. And in 2004 it reached the figure of U\$S **454, 6**, showing an increase of **30%**.

This is due to a growth of **6%** in foreign tourist arrivals, which jumped from **1.5** million in 2003 to **1.6** million in 2004; and an increase in the tourist average daily spend per head of **28%** (U\$S **32** in 2004) representing an average stay of 9.2 nights.

Tourism, as an export of productive activity for Uruguay occupies the second position, situated only just behind the **meats**. The volume of income generated by tourism is equivalent to **double** the exports of **skins & hides, cereals or milk and its sub products**. But in the public eye, these latter products have a much higher profile, perhaps because of better marketing and internal public relations.

In the case of **Argentina**, the tourism budget represents approximately U\$S **65** million. The income in that country in 2003, from receptive tourism, represented U\$S **1.942** million and in 2004 it reached U\$S **2.491**, showing an increase of **28.2%**.

This is due to a growth of **11.9%** in foreign tourist arrivals, which jumped from **3** million in 2003 to **3.4** million in 2004; and an increase of the tourist daily spend per head of **12.2%** (U\$S **69.9** in 2004) and an average stay of **10.6** nights (up by **2.2%**)

Tourism, as an exporter of productive activity for Argentinean goods is placed in fourth position, generating U\$S 2.491 million dollars per annum, situated only just behind the **food industry, oils and cereals**. The volume of tourism income is equivalent to **double** the exports of **meat**,

petroleum and hydrocarbons. But in the public eye, these latter three products also have a much higher profile.

With one million direct jobs and half million indirect ones, in Argentina 8% of the working force has something to do with tourism, and this makes it a major player in the economic and social development of the nation, plus a very valid alternative for future generations. That is why a Federal Strategic Plan is being created (see Annexe One, page 16).

Statistical Information

The World Tourism Organization is aware of the limitations of the available statistical information on tourism. Despite the considerable progress made in recent decades, international tourism statistics are often not uniform, because definitions and methods of data collection tend to differ. Every user of this information should bear in mind that the international comparability of statistical data is still not optimal.

Unless otherwise stated, reported data concentrates on International Tourism as measured from an Inbound Tourism perspective, i.e. the tourism received by any given destination country (and in a few cases territories) from non-residents travelling to that destination.

The most common unit of measure used to quantify the volume of International Tourism for statistical purposes is the number of International Tourist Arrivals. For a proper understanding of this unit, two considerations should be taken into account:

- Data refer exclusively to tourists (overnight visitors). A visitor who stays at least one night in a collective or private accommodation in the country visited. Same-day visitors are not included.
- Data refer to the number of arrivals and not to the number of persons. The same person who makes several trips to a given country during a given period will be counted as a new arrival each time, as well as a person who travels through several countries on one trip is counted as a new arrival each time.

Figures on the volume of international tourism presented, preferably relate to the concept of international tourist arrivals at frontiers. However, as not all countries are collecting data according to this concept, another series may be used instead. The series of useful elements indicated below are often used in marketing research studies and statistical reports, to quantify and qualify the tourism figures:

- Resident population;
- Number of visitors from the city, province or state (monthly distribution);
- Number of visitors from the rest of the country (monthly);
- Number of overseas visitors (monthly and by country of origin);
- Percentile age distribution for each category;
- Average spend per head;
- Ethnic and racial distribution;
- Percentage of arrivals by airplane;
- Percentage arriving by car;
- Percentage arriving by train;
- Percentage arriving by bus;
- Percentage arriving by ship;
- Number of school-children in the city, province or state;
- Number of visiting school-children from outside the city, province or state;
- Number of senior citizens living in the city, province or state;
- Number of senior citizens visiting; and
- Conventions and incentive groups visiting (by month).

- Number of hotels (by category);
- Number of hotel beds;
- Number of apartments for rent (tourist use only);
- Number of apartment beds;
- Number of camping grounds;
- Capacity of camping grounds;
- Percentage occupancy for each of the above (monthly);
- Percentage distribution by days of the week (monthly);
- Average length of stay (monthly); and
- Average spend per head (monthly).

- List of special events (monthly);
- Estimated number of attendances to each;
- Admission prices for them;
- Number of visitors per annum (monthly distribution);
- Percentage of adults, children, schools and groups (monthly);
- List of other major tourist attractions in a 100 km radius;
- Admission prices to other major tourist attractions;
- Number of visitors per annum to each (monthly distribution); and
- Admission prices for movies, shows, theme parks and theatres.

- Average monthly temperatures, wind-speed, sunshine hours, rainfall and snowfall (if any) in the area.

URUGUAY'S TOURISM DEVELOPMENT STRATEGY

During the last decade, the regional and international tourism has suffered great variations. Some of the main reasons have been:

- a) A marked increase in the number of destinations and options
- b) Reduction in the price of tickets to areas before considered inaccessible
- c) The impact of September 11, March 11 and July 21
- d) Consolidation of the charter flights worldwide

Uruguay, because of its geographic location and the strong historical presence of Argentine tourism in all of its territory, has had to adapt quickly and abruptly to the new realities and tendencies of the market. A considerable dependency on the Argentine and Brazilian tourism left our country in a very vulnerable position facing the possible economic ups and downs of the region. And this fragility has been seen clearly reflected in the last three years.

For this reason, the authorities have elaborated a Strategic Plan that aims to obtain the adjustment of the tourist promotions to the reality of the market and the elimination of the much-feared seasonality of our beach resorts. Instead of promoting the individual departments and municipalities, as it was done before, where some had stronger options to offer than others, Uruguay now has chosen to promote its main **Five Tourism Products**.

An extensive research and market study has concluded that the five products more clearly established in our country are the following:

- Sun and Beaches (lakes, rivers and the Atlantic Ocean);
- Historical and Cultural;
- Congresses, Events and Conventions;
- Thermal Spas; and
- Eco tourism.

Therefore, the definitions of the Tourism Products that Uruguay has to offer, have begun to receive top national priority, regarding the state policies and the promotional information produced to send both to national and foreign potential visitors.

The fundamental importance of these five products lays in its great variety and the possibilities they offer to be enjoyed during the twelve months of the year, in all four seasons.

The first and foremost step taken was the adoption of a "country brand," with its logo: **URUGUAY*Natural***

Another important aspect of the Uruguayan tourist marketing has been the effort to redesign the campaigns for the promotion of the five products, since it was chosen to orientate the efforts towards specific groups of consumers previously identified through marketing research, rather than the mass tourism.

The approved plan of action included:

- a) The use of less institutional publicity;
- b) Increase the Uruguayan offers through competitive promotional tourist packages;
- c) Place emphasis on Quality Tourism rather than Quantity; and
- d) Develop and promote a good relation between price and quality (value for money).

The election of the correct channels of promotion and distribution of the offers, will help the parties involved arrive directly to the chosen potential consumers, and this is undoubtedly a key instrument for success.

This task must be undertaken by the three main partners in the Uruguayan tourism:

- 1) The private sector;
- 2) The municipalities; and
- 3) The Ministry of Tourism and other national authorities.

The first measure designed to obtain the goals pursued by the strategic plan, was the decision to use the country-brand "**Uruguay*Natural***," in all forms of advertising, promotional materials and even at presidential and ministerial levels. Based on the concept that the word "Natural" is the one that best describes our country, its products and its people. Also, taking into account that it is spelt and it has a similar meaning in several important languages, facilitating the understanding of the message we want to deliver.

In order to increase the volume of visitors and investments in tourism to the country, Uruguayans are conscious that it is necessary to be able to:

- a) Identify the necessities of the potential clients;
- b) Be ahead of the demand; and
- c) Know how to satisfy it.

In agreement with these concepts, we need to satisfy the needs of our customers through activities that are coordinated and sustainable, and will allow the country to reach its pre-established goals.

The new strategy demands a permanent collective effort from all those that take part in the project, to ensure its development, production, financing and implementation.

In summary, the objective of the Uruguayan Strategic Plan consists of the following steps:

- a) To satisfy the needs of the tourists who visit us;
- b) In a profitable form for the nation;
- c) Creating a philosophy of valid management for the five tourist products;
- d) Always oriented to the service of the consumers; and
- e) Looking to be more competitive in a constantly changing market.

Summary

Uruguay's Aims for 2005-2006

- 1) Consolidation of the country-brand *UruguayNatural*;
- 2) Development of new products and sub-products;
- 3) Access to new markets and growth in the existing ones;
- 4) Launch new Tax Benefits for investors in Tourism;
- 5) Constant improvement of services for the tourist;
- 6) Permanent professional staff training programs at all levels.

Actions to be taken in the coming five years

- Optimize the investment tools of the Ministry of Tourism and other public organizations;
- Development of promotions for new national destinations;
- Concession of government properties to private enterprises;
- Facilitate private investment through further tax exemptions;
- Development of tourist clusters;
- Promote new circuits;
- Promote Plans of Excellence for Resorts, Parks and Special Areas;
- A Promotional Plan for Local Celebrations & Festivities will be developed;
- Specific promotions of each of these events;
- Promotion of special days and long weekends (for example: Mother's Day).

Markets to target

Countries and areas to be researched: Province of Buenos Aires, Argentine Mesopotamia, Paraguay, Chile, Río Grande do Sul and Sao Paulo (Brazil).

Strategies to be applied

Further Research Studies will be done in markets considered important. Analyzing behaviours, opportunities, activity of the competition, tourism related news, access to other holiday resorts; plus national or regional holidays and important dates will be investigated with operators, in order to plan clear, specific actions.

Prime target countries

- Argentina,
- Brazil,
- Chile,

- Paraguay, and
- Uruguay

Extra Zone

- Europe (Spain, Germany, U.K., France and Italy),
- USA,
- Mexico,
- Japan, and
- China.

Tax Incentives and Benefits for Investors in Tourism

The Tourism Promotional Regime should reach:

- Lodging Services;
- Cultural and commercial enterprises;
- Congresses, events and conventions;
- Sports and recreational activities;
- Leisure or health activities;
- Hotels;
- Apart-Hotels;
- Hostels;
- Motels; and
- Camping grounds.

Tax benefits for foreign investors

Credits on VAT over goods and services imported or acquired locally, destined to the construction, improvements and extensions (infrastructure and property), equipment and renovation of equipment

Capital Tax: investments in construction, improvements and extensions are accounted as assets exempt of taxes at closing of fiscal period when work was started and the following 10 periods.

Income Tax: investments in construction, improvements and extensions are amortized in 15 years and investments in equipment in 5 years.

Capital Tax: investment in equipment is computed as an asset exempted at closing of period and for the next 4.

Includes the property where construction is planned.

Import Levies: 50% exemption on goods and materials used in constructions, improvements, extensions and equipment.

Special VAT exemption for tourists

The search for new incentives to attract more tourism has forced the European Union to grant the return of the Value Added Tax for the sales of goods to visitors residing outside its borders. Other countries, like Mexico and Argentina, have also implemented this mechanism, with some variations in the way it is applied. Argentina for example, has privatized the way the returns are made, simplifying and speeding up the procedure.

In Chile and Uruguay, the governments are studying a system by which through a special credit card, the VAT from sales is credited to the visiting non-resident tourists (see Annex Two, page 18).

Why it is Important to Build a Tourism Cluster

Necessary Strategic Aims

- Develop and promote a competitive and sustainable tourism offer.
- Strengthen the tourism awareness at a local, national and international level.
- Bring together all institutions connected with the tourism activity.
- Increase in a sustained way the receptive tourism demand so as to generate a major income of foreign currency in the country, as well as to insure a fair re-distribution of resources at national level.

Promoting a *Tourism Cluster* as an answer to the sector's needs

To create a cluster implies the development of organized management groups that can generate competitive advantages, something of great importance to small and medium size tourism companies in the country.

Presently, great sensitivity with the prices is predominant worldwide. Everybody looks for a good relationship between prices and quality. And an overall excellent level of services. In addition, the modern traveller is getting used to pursuing and choosing through internet special deals and bargain prices.

These changes of habit and new international tendencies force us to study and analyze the ways it can affect our country, our tourism and the business opportunities that appear on the market. In other words:

How do we compete effectively for the tourists' money and time?

The first point to remember is that with globalization, **EVERYTHING AFFECTS US and EVERYTHING CAN BENEFIT US**. However, it is necessary to know how to take advantage of the opportunities. Our potential buying market must be the entire world. Thinking about the region is not enough. We have to aim towards all other countries because in the new millennium, there are buyers for everything, if we accept the new rules of game. That is: **good products, good prices and good services are no longer a luxury, but an obligation for the sales person**.

We must look for what distinguishes us and our product from the other competitors, because the words of Tom Peters are lapidary: "If you are not distinct, you will be extinct ". Therefore, the challenge and solution lies in innovation, and it means knowing how to interpret the desires and dreams of the potential customers.

Advertising experts Saatchi & Saatchi say: If today you only give people what they are looking for, somebody else will offer them what they never dreamed existed or was possible to seek. In tourism, this concept of **the personal dream** is forever present.

The mission of the new international tourism trade is no longer to sell products but **to create emotional bonds with the brand and the destination**. These reinforce the need for a cluster because they are being transformed into connecting elements between people with similar life-styles, values, objectives and dreams. Nowadays tourists are economically powerful and adventurous, especially young people, because they approach the products directly, creating strong links, bonds, loyalty and even affection towards the brand or resort, seeking a collective identity with their peers. The island of Ibiza, Thailand or Nepal are good examples of this.

This search for the illusion, the dream and the idealized objective, extends through the world of tourism today. Tour operators are constantly searching for new, different destinations that may represent a change from the usual routes, aside from the beaten path, from the very well known resorts and attractions. This is the real challenge for governments, agencies and tour operators. But, it also represents a great opportunity for developing nations. Nowadays, it is not enough to offer spectacular beaches or places of great ecological, historical and cultural value. The modern

tourists wish to participate, to be pro-active, and to take part in the activities that are developing in front of them in any particular place. They want to touch, to smell, to know, to feel, to perceive, to taste the native drinks and cuisine. Or buy the typical clothes of each country. Finding out the history and the legends of each region. Communicating with the native population, if possible in their own language (although it is important if the local sellers also know several international languages, to facilitate the sales). And, of course, the final mission of each tourist is and will be to take home a series of objects that will remind them of the experience. Generating new jobs and more profit centers.

For that reason, it is essential for tourism export strategy makers to create and support new forms of commerce, especially through shopping, entertainment and leisure. Followed by proper, well-planned promotional activities. And, in that scheme, the idea of **destination clusters** fits perfectly. Tourism and purchases go hand in hand. It has always been so, but only in recent years have governments and the private sector detected its true worth and potential. The real economic value of tourism as a trade motivator had not been recognized and its infinite possibilities by associating efforts untapped.

Today, these **destination clusters** are becoming an intricate part of all visits to natural attractions. The joint venture with: major sporting events, golf courses, beaches, sailing clubs, spas, restaurants, spectacles, casinos and shopping centers, undoubtedly creates a very attractive package for people of all ages.

Take for example, Las Vegas. Some years ago, it had only hotels and casinos to offer, stuck in the middle of the Nevada desert. Strategy makers detected that competition from Atlantic City and other gambling resorts was becoming fierce and therefore planned a **destination/resort/hotel cluster**. At present, Vegas has 35 million visitors a year, 60 golf courses and 130.000 hotel rooms, with an average spend of U\$S 96 per person per day. To achieve these astounding figures, partnerships were made with airlines and bus companies. This society, created to promote a particular destination and its packages, was key to the success of Las Vegas. For instance, when the city joined forces with Southwest Airlines and started the campaign "Spa and Shopping in Las Vegas", followed of "Shop & Dine" and "Shop & Play". Notice how the purchases are always present in the packages, even if gambling (although implicit) is not always mentioned.

A similar deal was done by Southwest with the city of Denver (Colorado), when they began offering packages that included airline tickets plus visits to the Art Museum, the Botanical Gardens and the Chevy Creek Shopping Mall, plus two nights at a five star hotel.

Another example of this kind of commercial association was created by America West airline, with their campaign "Fly America West to Arizona & Carry Home the Memories." This package offers trips to Phoenix with visits to commercial centers and especially Macy's store. All partners contribute to the promotional campaigns and all benefit from its success. Especially cities like Denver and Phoenix that are not recognized as prime tourism destinations.

We must emphasize that the **experience of buying and entertainment** are the main motors that move tourists to visit the particular city in the package. A very practical tool for those destinations that do not stand out for their natural, historical or cultural tourism attraction.

Mexicana airline has a similar campaign in Mexico with its promotion "Go Shopping to San Antonio (Texas)", that includes visits to commercial centers and stays at good hotels.

These are some examples of how different companies, cities and attractions can join efforts, associating amongst themselves to be able to offer innovative and competitive tourism packages, that are commercially beneficial to the individual services and the area as a whole. Stimulating consumption plus creating new jobs and local wealth. And maximizing the impact of their promotional campaigns.

Clearly, it is **no longer sufficient to sell a Tourism Destination, it must be the Complete Experience, and Destination/Resort/Clusters do the job.**

To further illustrate this point, we attach information supplied by the World Tourism Organization (WTO).

Tourism and the World Economy

International tourism receipts represented in 2003 approximately 6 per cent of worldwide exports of goods and services (as expressed in US\$). When considering service exports exclusively, the share of tourism exports increases to nearly 30 per cent.

2003

World Exports of merchandise and commercial services (Balance of Payments, Goods and Services Credit)

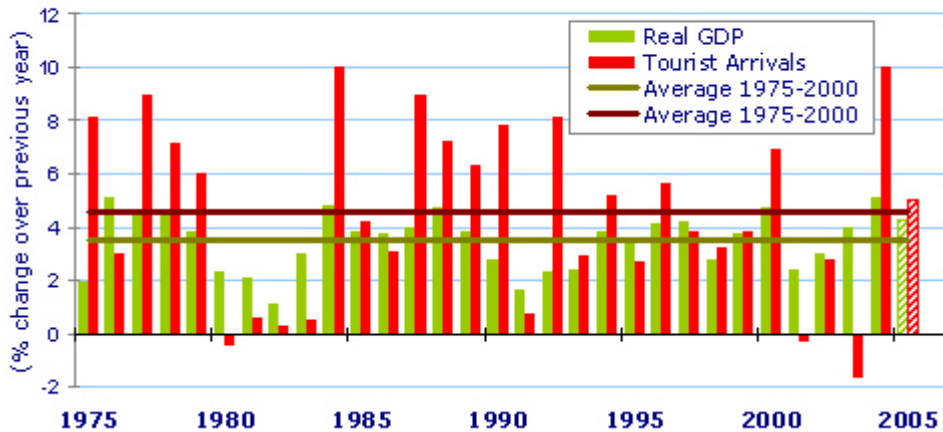
	US\$ billion	Share (%)	Share (%)
Total	9,089	100	
Merchandise exports	7,294	80	
Agricultural products	674	7	
Mining products	960	11	
Manufactures	5,437	60	
Other	223	2	
Commercial services	1,795	20	100
Transportation	405	4	23
Travel	525	6	29
Other	865	10	48

Source: World Trade Organization, World Tourism Organization

Tourism demand depends above all strongly on the economic conditions in major generating markets. When economies grow, levels of disposable income will usually also rise. A relatively large part of discretionary income will typically be spent on tourism, in particular in the case of emerging economies. A tightening of the economic situation on the other hand, will often result in a decrease or trading down of tourism spending.

In general, the growth of international tourism arrivals significantly outpaces growth of economic output as measured in Gross Domestic Product (GDP). In years when world economic growth exceeds 4 per cent, the growth of tourism volume tends to be higher. When GDP growth falls below 2 per cent, tourism growth tends to be even lower. Compared to GDP growth at 3.5 per cent, tourism grew on average 1.3 times faster. Over the period 1975-2000, tourism increased at an average rate of 4.6 per cent a year.

Economic Growth (GDP) & International Tourist Arrivals



Source: World Tourism Organization; International Monetary Fund

Undoubtedly, there is ample room to grow in the tourism industry for developing nations, and new ways to add “value-based” linkages within the different clusters, so as to achieve greater commercial and developmental impact.

It is therefore up to the national investment and export strategists to devise norms and plans to stimulate tourism, without harming the local natural environment, culture or economy. Devising schemes to create destination clusters to support the local products and producers, avoiding the import of goods and services that can be manufactured or grown and supplied locally. Creating tax benefits and proactive legislation essential to attract foreign investors, as capitalists are always searching for countries of opportunity, ruled by clear, safe, sound and coherent laws and regulations.

In short, the investment and export strategists of developing nations must never forget this golden rule: **Seek growth and prosperity for the country’s economy and for all its citizens, but not at any price.**

ANNEX ONE

Description of the Argentinean Strategic Plan for Sustainable Tourism

Political and institutional framework

The Strategic Plan for Sustainable Tourism stems from an intention of political order and therefore must be a fundamental tool for the design of a true state policy for sector development. It should however include the public and the private sectors in its debate.

But in addition, it responds to the specific needs of a technical nature: responding to the new market demands with development strategies that, capitalizing on acquired experience, focus actions on the players involved, especially at the national level.

Objective

Design a state policy that, based on the process of strategic planning that channels and states disperse and disassociated factors, allows advancement in the construction of competitive conditions this sector needs to achieve maximum benefit.

Main focuses of this policy

- Favour economic development and social inclusion.
- Preserve historical, cultural and environmental heritage.

For these objectives it is necessary to:

- Introduce a creative, innovative and participative process in a decentralized manner, considering steps of diagnosis, identification and formulation of projects at multiple levels: macro, micro, sector and regional, attending to the urgencies of the short-term and respecting the particularities of the medium and long-term. All of this, of course, is considered and formulated in a circular and recursive process.
- Create occurrences of social organizations (social networks) that, based on broad training of linkages and willingness to cooperate, allow these processes of participation and consensus to become self-sustainable.

Action plan

A. Creation of situational diagnostics, identification of players and construction of possible scenarios.

B. Organization of regional events with participation of the public and private sector and social organizations, to discuss diagnostics and to elaborate agreed-upon proposals among all interested in sector development.

C. Definition of public and private promotion strategies and design of application instruments.

In parallel to these actions and with the objective of attending to the demands of the short-term, the following work should be performed:

1. Publicity actions (participation in trade shows, fairs and other events)
2. Training programs
3. Promotion of new destinations
4. Social tourism
5. Investment project financing

Conceptual framework

The project seeks the construction of a strategic plan as a general framework to give a national response to tourism development from a sustainable point of view. This general framework should suggest fundamental directions, broad strategies and details necessary to change the current situation, as well as successive intermediate steps needed to reach proposed objectives.

With respect to plan administration, a decentralized process for construction is suggested with the region being the active unit. The plan should consider a methodological design and leadership for the entire process from analysis of the situation to communications, with follow-up adjustments.

Dealing with the implementation of a creative, innovative and participative process that consists of various steps: Situation analysis and positioning; definition of mission and institutional function; scenario study with SWOT analysis; main player analysis; creation of objectives, strategies, goals, indicators, actions and projects; assignment of resources and budget; responsibilities; and pronouncement of follow-on processes of evaluation and training.

The idea is to definitively abandon traditional planning and take on this task by adopting a strategic planning model.

In short

The Strategic Plan for Sustainable Tourism should be based on a State Policy agreed between the national government, the provinces, municipalities and diverse private actors.

The Plan should contemplate a strategy for economic and sustainable development and aim to turn the nation in question from a country with tourists to a "touristic country," with interesting viable options for foreign and national visitors, by virtue of quality and the diversity of the offer.

ANNEXE TWO

Restitution of the V.A.T. to Non Resident Tourists

- The application of a VAT return system through a multi-service card is considered advisable for developing nations. This methodology anticipates several advantages that exceed the tax refunds. Tourists, when entering the country, will be able to acquire a card at a cost that, for example, could be in the range of U\$S 10. This card will allow the registration of all future purchases the tourist makes, for later tax returns. The card will also grant the tourist different services and benefits that the Ministry of Tourism could possibly offer by reaching strategic alliances with the private sector. As an example, special discounts on international phone-calls or different promotions for highway tolls, motorcar services, etc.

The transactions that the tourist makes will be registered, allowing the collection of very valuable data on the visitor's behavior, purchasing habits and tendencies, movements, etc.

The money obtained through the sale of this multi-service card could be destined "to mitigate" a possible loss of revenue or reduction in the collection of the V.A.T.

- The instrumentation of this system, both the operational side as well as the sale of the multi-service card, could be given to a purposely created private company, by way of a national concession. Many countries, like Argentina and Chile, have decided in favor of this solution because of the government's impossibility to make it work with the limited resources available in terms of funds and personnel. The company obtains its yield through a percentage of the card sales or a deduction in the return to the tourists by concept of an administrative commission.
- There are other important aspects to be considered in this system's instrumentation: The V.A.T. refund would be applied only to goods bought and taken out of the country by foreign tourists. Also, a minimum amount of purchase in the same commercial premises is considered advisable.
- The Methodology to follow would be the world-wide accepted system whereby the shops adhered to the program, if preconditions are fulfilled, send the reimbursement check to the tourist, mailed to his home address or local bank account. When leaving the country where they spent their holidays, the tourists must show the Customs Officer their purchases, the corresponding receipts and the passport. The Officer will then seal the checks. The amounts can be reimbursed in several ways: in cash, deposited to the tourist's credit card, by banker's checks or to their banking account. This operation is a responsibility of the private company that will orchestrate the tax refund.

On the other hand, the Mexican House of Representatives approved on September 14, 2005, the reform of a law that will allow the reimbursement of the VAT to all foreign tourists that acquire merchandise during their stay in Mexico and later return to their country of origin, either by air or sea.

The tax money will be given back to foreigners, as long as they demonstrate their permanent residence abroad.

Other established requirements for the reimbursement are that: a) the fiscal invoices fulfill all law obligations, b) the acquired merchandise leaves the country and c) the minimum amount of purchase is superior to 1.200 pesos (approximately US\$ 110).

The fiscal incentive will only be applied to foreign tourists who enter and leave Mexico by the air or maritime routes. The reimbursement exclusion for those leaving the country by land is due to "serious control problems that would exist, caused by the enormous transit of people across the country's borders," says the legislative document.

According to Mexican legislators, the international tendency indicates that most developed countries have introduced the V.A.T. reimbursement in order to attract greater numbers of foreign visitors to their tourist destinations. Although some Mexican deputies consider that with this tax reform, the State Treasury's income will suffer a serious reduction, the majority feels that the V.A.T. reimbursement will help promote Mexico outside its borders and stimulate tourists to increase their average spend per head.

Another benefit stemming from this tax reform is that public finances will be fortified, because it will help regularize and control retail establishments, as these will have to register themselves before the State Finance authorities, if they wish to sell their goods to tourists.

The reform will come into effect on July 2006, so as to give the Mexican fiscal authorities time to solve all operational questions derived from its application.