AN EMPIRICAL ANALYSIS ON INTERNATIONAL TOURIST FLOW AND HOTEL ROOM PRICES: THE CASE OF MALDIVES

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Summary

International tourism has played an important role in economic development in the developing world in general and small island developing states (SIDS) in particular. In Maldives, for example, the rapid economic growth at 8.4 percent per year since 1970 has been driven mainly by its rapidly expanding and upgrading of tourism industry, which has transformed sleepy fishing villages into a luxury destination for rich tourists.

A large number of existing studies focus on demand-side or push factors, such as income levels of originating countries, as major determinants of how many people go traveling. By contrast, only a few rigorous studies have been conducted to explore the roles of supply-side or pull factors in attracting tourists to destination countries. An example of supply-side factors is the level of security in their potential destination countries, which tourists care. Another example is natural landscape, historical buildings, and other amenities that attract tourists. In many cases, access to amenities is open, which creates externality problems, such as congestion and free-riding in maintenance or preserving efforts. The lack of attention to the supply-side factors of tourism amounts to the lack of policy implications for these policy issues and for the strategy of economic development.

This study is an attempt at filling this gap by using a set of cross-country panel data available from the World Tourism Organization and also a set of primary survey data of guesthouse collected by myself in the Maldives. With the panel of many countries, the study examines the relationship between supply-side factors and tourist flow from cross-country perspective as well as for the single country case of the Maldives. A major finding is that international inbound tourism is not very sensitive to price compared with tourist income and security issues. The latter are found to be closely associated with tourist flow. Another major finding from the panel data analysis is that infrastructure investment and transport cost reductions are closely associated with international tourist flow to low-income countries.

To reinforce the above findings, a more detailed analysis is conducted by focusing on the tourist flow into Maldives. In this analysis, special attention is paid to the changing relative prices of travels to this and other destinations as well as the declining security level of Maldives. The results suggest that the stagnation in the number of tourist arrivals from Europe since 2004 is likely to be ascribed to the adverse economic conditions in EU and the declining security indicators in the Maldives.

With the guesthouse survey data from Maldives, this dissertation addresses the issues of externality problems that have been emerging due to the recent proliferation of guesthouse. When one considers these problems, Maldives deserves a special attention because it has had a unique policy called One Resort on One Island (OROI), which banned hotel business in inhabited islands and instead allowed each resort firm to monopolize one of the numerous tiny coral islands. Unlike many other goods and services, international tourism is consumed by foreigners and, hence, consumer surplus is taken away from the destination country. If the demand is inelastic with respect to price, as this dissertation actually finds, monopoly pricing may be better from the national (as opposed to global) welfare point of view than marginal-cost pricing. Moreover, a monopoly in each resort island internalizes externalities.

Recently, however, the OROI policy has been partly amended so that not just rich resort firms but small firms are now allowed to operate hotel business called guesthouses on inhabited islands as a result of democratization. Naturally, the question arises as to what the consequences of the policy change are. The survey data are used to examine the extent of congestion, incentives for preservation, the relationship between service quality and human (or managerial) resource development, and the relationship between service quality and prices, and so on.

Compared with the existing empirical studies of international tourism, this study extends the scope of analysis considerably to cover not only the demand side but also the supply side. Although it has some limitations, its findings, especially those about the externality problems and the impact of security on tourist arrivals, are interesting and offer some policy implications.