

Small Island Tourism Economies: A Bird's Eye View

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Abstract: Over the last twenty years, there has been mounting interest within public and academic circles in the livelihood of islands with small populations and territory which are present in each of world's greatest oceans. The Small Island Tourism Economies profiled in this paper vary profoundly in their size, land area, and location. These economies also differ in their narrow natural resource bases on land and in water, in their prospects for self reliance in economic development, and their overwhelming reliance on tourism as a source of exports. These sovereign island economies differ to the extent in which they are home to a multitude of ethnic diversity, political systems, historical experience, economic and environmental vulnerability, ecological fragility, the types of risk facing private investors, and in the extent which they are perceived, or perceive themselves, to be insular and peripheral. In spite of the vast diversity as well as similarities, researchers are fascinated by the world of island economies, and are intrigued by their unique features which cannot be addressed through a generalised set of rules. This paper analyses the geographical, historical, economic, tourism-oriented and institutional characteristics, as well as vulnerability to changes in the international economic, financial and political climates of twenty Small Island Tourism Economies.

Keywords: *Small Size; Islands; Tourism; Volatility; Vulnerability*

1. INTRODUCTION

Over the last twenty years, there has been a growing interest in the livelihood of small states, particularly island economies across the world. Islands with small populations are also very small territorially, and these two aspects of their size tend to be connected. These island economies differ in the extent to which they are home to different ethnic minorities, their political cultures, historical experiences and their vulnerability to external interventions and natural disasters; in their ecological fragility; and their perception of insularity and its underlying consequences. These sovereign island economies have commonalities such as small populations, very little productive capacity, similar ecological surroundings, and pleasant climates which foster tourism.

The Decolonisation Process gave rise to the political expectations of the world's smallest islands, achieved independence and consolidated their positions at the United Nations. This has prompted a variety of island-related research programmes worldwide to address the special problems of and the opportunities for these small island economies in a period of vast globalisation.

The plan of this paper is as follows. Section 2 defines Small Island Tourism Economies (SITEs). An analytical review of the economic characteristics of SITEs is given in Section 3. The growing issue of vulnerability of SITEs is assessed in Section 4. Concluding remarks are presented in Section 5.

2. WHAT ARE SMALL ISLAND TOURISM ECONOMIES (SITES)?

2.1. Small Size

In the literature on small economies, several attempts have been made to conceptualise the size of an economy, yet there has been very little agreement on this. The issue of size first emerged in economics of international trade, where the small country is the price taker and the large country is the price maker with respect to import and export prices in world markets. According to Armstrong and Read (2000), this flawed concept of size tends to focus on the inclusion of larger countries and the exclusion of smaller countries.

Size is a relative rather than an absolute concept. In the literature, size deals with quantifiable variables, where population, GDP and land area are the most widely used. Some notable examples in emphasising size are Kuznets (1960), where a country with a population of 10 million or less is regarded as small. By this measure, the World Bank's World Development Indicators (WDI) 2002 data show there are 130 small economies to date. In Robinson (1960), a population threshold of 10 to 15 million is used. Armstrong and Read (2000) argue that population is often used because it is convenient and provides information about the size of the domestic market and labour force. Clearly, there is debate as to the definition of what constitutes a 'small' country.

| SITE | Mean (1980-2000) | | Mean 2000 | | Surface Area (km ²) |
|----------------|------------------|----------------------------|--------------|----------------------------|---------------------------------|
| | Pop. (m) | GDP per capita ('000 US\$) | Pop. (m) | GDP per capita ('000 US\$) | |
| Antigua | 0.06 | 6.6 | 0.07 | 9.1 | 440 |
| Bahamas | 0.26 | 13.1 | 0.30 | 13.9 | 10,010 |
| Barbados | 0.26 | 7.1 | 0.27 | 8.3 | 430 |
| Comoros | 0.44 | 0.5 | 0.56 | 0.4 | 2,230 |
| Cyprus | 0.69 | 10.0 | 0.76 | 14.1 | 9,240 |
| Dominica | 0.07 | 3.4 | 0.07 | 3.4 | 750 |
| Dominican Rep. | 7.06 | 1.5 | 8.37 | 2.1 | 48,380 |
| Fiji | 0.73 | 2.3 | 0.81 | 2.4 | 18,270 |
| Grenada | 0.09 | 2.6 | 0.10 | 3.8 | 340 |
| Haiti | 6.54 | 0.5 | 7.96 | 0.4 | 27,560 |
| Jamaica | 2.40 | 1.7 | 2.63 | 1.8 | 10,830 |
| Maldives | 0.21 | 1.3 | 0.28 | 1.9 | 300 |
| Malta | 0.37 | 7.0 | 0.39 | 10.2 | 320 |
| Mauritius | 1.07 | 2.9 | 1.19 | 4.4 | 2,030 |
| Samoa | 0.16 | 1.2 | 0.17 | 1.4 | 2,830 |
| Seychelles | 0.07 | 5.9 | 0.08 | 7.0 | 450 |
| St Kitts | 0.04 | 4.5 | 0.04 | 6.8 | 360 |
| St Lucia | 0.13 | 3.1 | 0.16 | 4.0 | 610 |
| St Vincent | 0.11 | 2.1 | 0.12 | 2.8 | 390 |
| Vanuatu | 0.15 | 1.2 | 0.20 | 1.2 | 12,190 |
| Total | 20.91 | | 24.51 | | 147,960 |

Source: WDIs 2002/World Bank

Note: For Dominica population is 2000 only

Table 1. Common Size Measures of SITES

It is difficult to substantiate why a particular population threshold is used, and there have been variations in the level of thresholds, which also seem to be chosen arbitrarily.

In determining the choice of countries for this paper¹, neither a population nor a GDP threshold is used. This is because some of the SITES in the sample, particularly Dominican Republic, Haiti, Jamaica, and Mauritius, have populations above 1 million, and yet share numerous features of being small. Undesirable outcomes are inevitable when a population, GDP or a land-area threshold is chosen since countries can overshoot it but still feature 'smallness'.

In a ground-breaking contribution to the subject of small states, Armstrong et al. (1995) probably best explains the size of an economy by utilising the concept of sub-optimality in a macroeconomic framework. The principle behind it is the incorporation of the interaction between production and trade, while a necessary condition of minimum efficient scale (MES)² is upheld for the economy. Particularly in small economies, the level of GDP is determined by the MES, the shape of the average cost curve below the MES, and transport costs. This approach to conceptualise size is elegant and provides a more precise understanding of the implications for being small.

¹ The data presented in this study are taken from the World Development Indicators (WDI) 2002, the World Bank.

² This is the level of output of goods and services at which production is feasible.

Viewing the populations of the 20 SITES profiled in this paper, they are home to more than 24 million people, which is less than one percent of the total population of all the developing countries combined. They range in size from micro-economies, like St. Kitts and Nevis, with only 41,000 people, to mini-economies like Antigua and Barbuda, Dominica, Grenada, and Seychelles, with populations between 50,000 and 100,000. Furthermore, The Bahamas, Barbados, Maldives, Malta, Samoa, St. Lucia, St. Vincent and the Grenadines, and Vanuatu have populations between 100,000 and 500,000. This is the population range into which most SITES fall. Cyprus and Fiji have populations between 500,000 and 1 million. The remaining four SITES are Dominican Republic, Haiti, Jamaica and Mauritius, each with populations of more than one million.

Comoros and Haiti were French colonies, while Dominican Republic was a Haitian colony. The remaining seventeen SITES profiled in this paper are former British colonies, which gained independence in the latter half of the 20th Century. The above mentioned seventeen SITES are now in the British Commonwealth. Haiti has the longest history of independence, having gained it from France in 1804.

The per capita GDP (in constant 1995 US Dollars) in these countries also ranges widely. There are 2 low income (<US\$ 756) SITES, namely Comoros and Haiti, and 3 high income (>US\$ 9,265) SITES, which are The Bahamas, Cyprus and Malta. The rest are either low or high middle income SITES, where their per capita GDP ranges from US\$ 756 to US\$ 9,265. SITES in this paper are in four geographic regions of the world, with 11 of them in the Caribbean Sea, 3 in the Pacific Ocean, 4 in the Indian Ocean, and 2 in the Mediterranean Sea.

2.2. Island Economies

The SITES profiled in this paper are sovereign island economies, and are geographically surrounded by oceans. Visitors normally reach these economies by air, and freight is usually carried by sea. These island economies have the world's most delicate ecosystems, and are consistently threatened by natural disasters as well as the effects of environmental damage. Technically, all islands are insular but not situated in remote areas of the globe. Insularity and remoteness give rise to transport and communications problems. Most of these SITES are in regions where they are frequently affected by unfavourable climatic conditions, which typically affect the entire population and economy.

2.3. Reliance on Tourism

Tourism plays a dominant role in the economic well-being of SITEs, and tourism earnings account for a significant proportion in the value added in their national product. The fundamental aim of tourism development in SITEs is to increase foreign exchange earnings to finance imports. As can be seen in Table 2, the SITEs profiled in this paper have an overwhelming reliance on tourism as a source of exports. In economic planning, tourism has been given a predominant emphasis in the SITEs where the climate is well suited for tourism development and the islands are strategically located.

| SITEs | Agriculture* | Industry* | Manufacturing* | Services* | Exports* | Tourism Reits** |
|------------|--------------|-----------|----------------|-----------|----------|-----------------|
| Antigua | 4.6 | 18.5 | 3.4 | 76.9 | 77.6 | 67.0 |
| Bahamas | 2.2 | n.a. | n.a. | 83.8 | 65.5 | 59.0 |
| Barbados | 6.8 | 20.6 | 10.2 | 72.6 | 57.5 | 51.0 |
| Comoros | 38.4 | 12.0 | 3.9 | 49.7 | 17.5 | 22.2 |
| Cyprus | 7.4 | 28.0 | 15.2 | 64.6 | 48.2 | 36.8 |
| Dominica | 24.7 | 19.6 | 7.3 | 55.7 | 47.6 | 23.3 |
| Dom. Rep. | 14.4 | 29.5 | 16.6 | 56.1 | 27.4 | 31.7 |
| Fiji | 19.8 | 23.3 | 11.5 | 56.9 | 54.1 | 25.3 |
| Grenada | 14.6 | 18.9 | 6.1 | 66.5 | 46.1 | 41.9 |
| Haiti | 31.1 | 17.1 | 9.0 | 51.8 | 13.3 | 23.3 |
| Jamaica | 7.3 | 36.7 | 17.3 | 55.9 | 48.3 | 32.8 |
| Maldives | 13.9 | n.a. | 4.6 | n.a. | 48.1 | 51.6 |
| Malta | 3.9 | 39.6 | 28.2 | 56.5 | 84.1 | 24.3 |
| Mauritius | 11.5 | 30.7 | 21.9 | 57.8 | 58.8 | 14.0 |
| Samoa | 18.8 | 30.9 | 18.8 | 50.4 | 32.6 | 41.5 |
| Seychelles | 4.9 | 18.4 | 10.6 | 76.7 | 61.8 | 40.2 |
| St Kitts | 8.2 | 25.2 | 12.4 | 66.5 | 55.7 | 57.4 |
| St Lucia | 12.3 | 19.4 | 7.8 | 68.3 | 65.7 | 59.3 |
| St Vincent | 15.8 | 24.9 | 9.6 | 59.3 | 59.1 | 37.2 |
| Vanuatu | 21.6 | 10.5 | 4.5 | 67.7 | 44.6 | 46.4 |

Source: WDI's 2002/World Bank

Note: *Mean % of GDP and **% of Exports

Table 2. Structure of the Economy of 20 SITEs

The large proportion of what is being earned through tourism goes out of the economy, almost instantaneously to finance imports to sustain the tourism industry. Tourism-related imports are comprised mostly of non-indigenous goods. Meat and dairy products feature heavily in the Caribbean, while imports of construction material for building tourism-related facilities feature more in the Maldives. Labour is also imported for employment in tourism, which results in substantial foreign exchange outflow.

In SITEs, tourism facilities are mostly enclave developments and their effects on the domestic economy can sometimes be very limited. Tourism requires careful planning in order to maintain its sustainability and limit environmental damage. While tourism development has contributed to economic development in many SITEs, they

should be managed responsibly in order to secure their long term sustainability.

Research on pairwise correlations among international tourist destinations in terms of tourist arrivals or earnings provides some background for national policies of SITEs. When the correlation coefficients are negative, destinations are generally neighbouring countries and are regarded as substitutes. In contrast, when correlations are positive, the destinations are complementary to each other. In Figure 1, all of the pairwise correlations are positive, except for Haiti.

2.4. Implications of being a SITE

The most prominent feature of SITEs is their narrow productive base and the small domestic market. Many of these SITEs are necessarily and relatively undiversified in their production of exports. In order to tackle this problem, they have to rely on international trade and foreign direct investment.

SITEs do not have advanced capital markets to hedge against adverse macroeconomic shocks. Access to international capital markets is difficult because SITEs are considered risky entities. The absence of reliable institutional frameworks in SITEs makes the distribution of income more uneven and results in higher levels of poverty in these small island economies. Until 1990, SITEs had enjoyed a steady flow of aid from their former colonists towards an advancement of social infrastructure such as schools and hospitals, which has reinforced their economic development records.

There are substantially qualitative differences about per capita incomes and economic growth rates between SITEs and other relatively large developing countries. A possible explanation for this outcome is because SITEs have relatively large natural resource abundance, which fosters tourism and offsets the inherent disadvantages of being small. Some key social indicators such as the formal education attainment of population, access to better health care, and safe drinking water in SITEs, are highly favourable. That is a clear reflection of sound domestic policies in these SITEs on their social front.

Most SITEs are in remote areas of the globe. Exports and imports are equally uncompetitive in the world and domestic markets, respectively, due to the higher transportation costs. Therefore, there is no incentive to improve efficiency or to prop up modernisation.

The incidence of natural disasters is very high in most SITEs, where there is severe economic

disruption while development opportunities are regularly forgone. Some SITEs have a high incidence of HIV/AIDS, particularly in Haiti. The population estimates for Haiti, given in Table 1, explicitly take into account the effects of excess mortality due to HIV/AIDS. This has resulted in lower life expectancy, higher infant mortality and death rates, lower population and growth rates, and greater changes in the distribution of population by age and sex, than would otherwise have been expected.

It is widely claimed that, due to the increased emissions of green house gases, there will be widespread global warming. The subsequent rise in sea levels would increase by a metre over the next one hundred years, which would result in complete extinction of SITEs like the Maldives. Moreover, other SITEs would experience widespread soil erosion, which could result in the disappearance of the world's most popular beaches.

There is diversity among SITEs if, for instance, one compares the stages of development among SITEs. Therefore, one could not draw up a single set of policy prescriptions for all SITEs, but should address their domestic and regional circumstances since each SITE is inherently unique.

3. ECONOMIC CHARACTERISTICS

3.1. High Volatility of Real GDP Growth

The square of the deviation from the mean of a GDP growth rate is known as the volatility of GDP growth. In SITEs, the volatility of GDP growth rate tends to be very high. The real GDP growth rate and its volatility are given in Figure 2. The number of observations varies among SITEs according to the availability of data. Eleven SITEs have data from 1977-2000, five SITEs have data from 1978-2000, and the four remaining SITEs have data from 1979-2000, 1980-2000, 1981-2000 and 1985-2000. The lowest mean volatility of real GDP growth rate recorded was 8.1 for Malta, while the highest mean volatility was for 56.9 for St. Lucia. The highest individual volatility figure recorded was 555.1 for Dominica.

The high volatility of the GDP growth rate recorded among SITEs is due to three main reasons. SITEs are so open to the rest-of-the-world markets due to the high dependability of imports and exports, and are more susceptible to changes in the rest-of-the-world market conditions. Moreover, SITEs have a small range of uncompetitive exports and limited options to avoid losses. Finally, SITEs are prone to natural

disasters, which affect every activity within the economy.

The significance of the above vary quite differently among SITEs because smallness is associated with relatively high levels of specialisation in production and trade.

3.2. The Narrow Productive Base

There is less incentive to diversify industry when the domestic market is small. It is quite prominent in SITEs to have one dominant economic activity and when it starts to decline another dominant economic activity replaces it rather than the economy becoming more diversified. During the last decade, merchandise exports among SITEs have plummeted, while tourism-related earnings have soared.

3.3. International Trade

In SITEs the range of production of goods and services is small, but a broad range of goods and services is consumed for the purposes of international trade. Hence, the proportion of trade to GDP is relatively high among SITEs.

SITEs hold much greater stake in world markets because of the smaller proportion of world trade, but are bound by the same rules and regulations. Moreover, SITEs do not necessarily receive a preferential treatment, except for a few former British colonies with regard to banana exports. In this regard, the terms of trade of SITEs do not exhibit irregular changes when compared with other larger developing countries.

The reliance of SITEs on their import tariff receipts as a major source of government revenue can be hampered in any trade liberalisation measure. This could also result in unsustainable government debt in SITEs.

3.4. Capital Market Accessibility

SITEs need a consistent inflow of foreign capital to smooth out consumption over the long run, while compensating for any adverse shocks to domestic production. A common feature of SITEs is that they depend heavily on foreign aid to finance development. Aid flows have dropped sharply during the last decade of the 20th Century, due to the collapse of communism in Europe. Aid from donor countries has been diverted towards former Soviet allies. SITEs have experienced a dramatic decline in per capita aid of around US\$145 in 1990 to less than US\$ 100 per capita in 2000. They have very limited access to commercial borrowings because these are perceived to suffer from frequent natural disasters or for other reasons considered to be high risk.

3.5. High Country Risk Ratings

Even though SITEs have relatively low levels of indebtedness, they have difficulties in borrowing on commercial terms. The costs of obtaining information on the economy and country risk issues are the major impediments to borrowing. The difficulties in prosecuting illegal activities in SITEs makes enforcing contracts very costly for investors. This is one of the main reasons why the costs of borrowing for SITEs are relatively high. As a result, the integration of SITEs into international financial capital markets is more difficult than would otherwise be the case.

Foreign Direct Investment plays an important role in linking SITEs to the developed world. Entrepreneurship from the outside world is an important source of knowledge and expertise in creating efficiency and improving management control in the private sector. Moreover, this would also bring in state-of-the-art technology, and increase market opportunities for local firms.

3.6. Poverty Prevalence

Although SITEs have achieved high average per capita GDP relative to the larger developing countries, poverty continues to be an unabated challenge. Generally, with the increase in per capita GDP, there has been a decline in poverty. However, there are a number of small economies that have higher poverty rates than what their per capita incomes reflect, primarily because SITEs are island archipelagos. In such island archipelagos, a large proportion of the economic activity is confined to the capital, while the dispersed communities remain poor. Poverty prevalence becomes high with the uneven distribution of income. The high volatility of GDP, together with the population's inability to absorb negative shocks to their incomes, mean that inequality is further aggravated and hardship is intensified.

3.7. Institutional Distinctiveness

The public sector has played a dominant role in economic activities. There is limited institutional capacity in the public sector, particularly in SITEs in which there are considerable internal transport costs, with islands scattered across miles of ocean, which is often difficult to navigate.

4. VULNERABILITY

Vulnerability means exposure to exogenous shocks over which the affected country has little or no control, and low resilience to withstand and recover from these shocks. Small states are less likely to be resilient to these shocks, given the

narrow economic structures and limited resources. In the literature, vulnerability can exist in the form of economic, strategic and environmental factors. Economic vulnerability examines the narrow productive base, the susceptibility of the economy to external shocks, and the high incidence of natural disasters. Strategic vulnerability accounts for the political vulnerability to their colonial history, as well as their larger neighbours. Environmental vulnerability explains the intensity of the fragility of the delicate ecosystems of SITEs.

5. CONCLUDING REMARKS

This paper evaluated the economic, social and political characteristics of 20 sovereign states, which are small island economies, where international tourism earnings dominate the value added in their national incomes. Such an analysis warrants a critical assessment of the relevance and practicality of theories pertaining to international tourism earnings and economic growth.

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| | ATG | BHS | BRB | COM | CYP | DMA | DOM | FJI | GRD | HTI | JAM | KNA | LCA | MDV | MLT | MUS | SMW | SYC | VCT | VUT |
|----------------|------|------|-----|------|------|------|------|------|------|------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| Antigua | 1 | | | | | | | | | | | | | | | | | | | |
| Bahamas | 0.9 | 1 | | | | | | | | | | | | | | | | | | |
| Barbados | 0.8 | 0.8 | 1 | | | | | | | | | | | | | | | | | |
| Comoros | 0.9 | 0.7 | 0.7 | 1 | | | | | | | | | | | | | | | | |
| Cyprus | 0.9 | 0.8 | 0.8 | 0.9 | 1 | | | | | | | | | | | | | | | |
| Dominica | 0.9 | 0.8 | 0.8 | 0.9 | 1.0 | 1 | | | | | | | | | | | | | | |
| Dominican Rep. | 0.9 | 0.8 | 0.9 | 0.9 | 1.0 | 1.0 | 1 | | | | | | | | | | | | | |
| Fiji | 0.8 | 0.7 | 0.7 | 0.9 | 0.9 | 0.9 | 0.9 | 1 | | | | | | | | | | | | |
| Grenada | 0.9 | 0.9 | 0.8 | 0.9 | 1.0 | 1.0 | 1.0 | 0.9 | 1 | | | | | | | | | | | |
| Haiti | -0.5 | -0.2 | 0.0 | -0.3 | -0.3 | -0.2 | -0.1 | -0.1 | -0.3 | 1 | | | | | | | | | | |
| Jamaica | 0.9 | 0.9 | 0.8 | 0.9 | 1.0 | 1.0 | 0.9 | 0.9 | 1.0 | -0.3 | 1 | | | | | | | | | |
| Maldives | 0.9 | 0.8 | 0.8 | 0.9 | 1.0 | 1.0 | 0.9 | 0.9 | 1.0 | -0.2 | 1.0 | 1 | | | | | | | | |
| Malta | 0.9 | 0.7 | 0.5 | 0.8 | 0.8 | 0.8 | 0.7 | 0.7 | 0.8 | -0.4 | 0.9 | 0.9 | 1 | | | | | | | |
| Mauritius | 0.9 | 0.8 | 0.9 | 0.9 | 1.0 | 1.0 | 1.0 | 0.9 | 1.0 | -0.1 | 0.9 | 1.0 | 0.7 | 1 | | | | | | |
| Samoa | 0.6 | 0.6 | 0.7 | 0.5 | 0.7 | 0.7 | 0.7 | 0.6 | 0.7 | 0.1 | 0.7 | 0.7 | 0.6 | 0.7 | 1 | | | | | |
| Seychelles | 0.9 | 0.8 | 0.9 | 0.9 | 1.0 | 1.0 | 1.0 | 0.9 | 1.0 | -0.1 | 0.9 | 1.0 | 0.7 | 1.0 | 0.7 | 1 | | | | |
| St Kitts | 0.6 | 0.6 | 0.9 | 0.7 | 0.8 | 0.8 | 0.9 | 0.8 | 0.8 | 0.1 | 0.7 | 0.8 | 0.4 | 0.9 | 0.6 | 0.9 | 1 | | | |
| St Lucia | 0.9 | 0.8 | 0.8 | 0.9 | 0.9 | 1.0 | 0.9 | 0.9 | 1.0 | -0.2 | 0.9 | 1.0 | 0.8 | 0.9 | 0.7 | 1.0 | 0.8 | 1 | | |
| St Vincent | 0.9 | 0.8 | 0.9 | 0.9 | 1.0 | 1.0 | 1.0 | 0.9 | 1.0 | -0.1 | 1.0 | 1.0 | 0.8 | 1.0 | 0.8 | 1.0 | 0.8 | 1.0 | 1 | |
| Vanuatu | 0.7 | 0.5 | 0.6 | 0.9 | 0.8 | 0.9 | 0.8 | 0.8 | 0.8 | 0.0 | 0.9 | 0.9 | 0.8 | 0.9 | 0.7 | 0.9 | 0.7 | 0.8 | 0.8 | 1 |

Figure 1. Pairwise correlations of International Tourism Receipts (ITRs) for 20 SITES

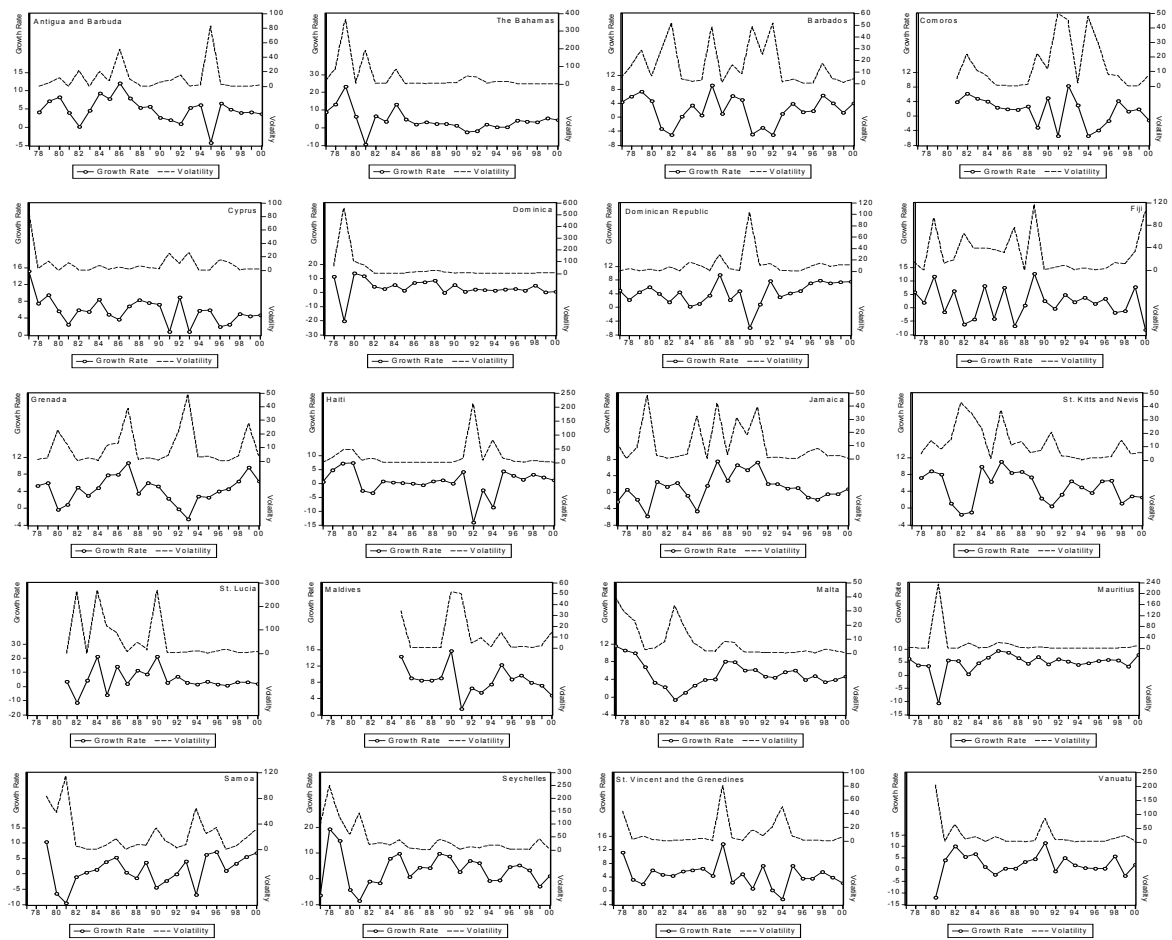


Figure 2. Real GDP Growth Rate and their respective volatilities for 20 SITES