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## Tourism Development and Regional Integration in Central America (ARI)

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**Theme:** What is the relationship between tourism and regional integration in Central America?

**Summary:** Since the signing of the Peace Accords, tourism has emerged as a primary development strategy for Central American countries. At the same time, tourism has become a driving force for the regional political-economic integration project, facilitating consensus between governments over the regional developmental model. This ARI outlines the contours of the dual processes of regional integration and tourism development in contemporary Central America. It argues that a convergence of development priorities across the region around export-oriented growth and commitments to poverty reduction has placed tourism as a driver of the regional integration project.

### **Analysis:**

#### *Introduction*

Central American integration has been a contested and complex process throughout its many different stages. At present, the Central American Integration System (SICA) comprises the seven Central American countries (Belize, Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica and Panama) plus the Caribbean Dominican Republic. Through a number of regional agreements, these governments are committed to a series of integration processes. At the same time as the revived regional integration project which has been underway since the early 1990s, changes in the political economy of the region have restructured the productive economies of Central American countries away from traditional agriculture to predominantly service-based economies in less than 20 years. One of the most significant features of the new service economy has been the phenomenal rise of tourism. Through its contribution to foreign exchange earnings and the generation of direct and indirect employment, tourism has emerged as a primary development strategy for the region and the countries within it.

This ARI argues that there is a convergence between the current model of Central American integration and the specific characteristics of tourism development. As such, tourism has become one of the driving forces of the contemporary integration process, even while other issues such as internal migration have remained more contentious. I begin with an overview of Central American integration in its historical context, then trace how tourism has emerged as a primary development strategy for the region. The paper

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then explores the contemporary relationship between tourism development and regional integration.

#### *Central American Integration in Historical Perspective*

The model of Central American integration has always been explicitly tied to the region's political economy. As across much of Latin America, in the 1970s the region developed an import substitution industrialisation (ISI) model based on intra-regional integration and state-led development, a fundamental component of which was the establishment of the Central American Common Market. The extensive trade liberalisation of the 1980s set the stage for the deeper 'Washington Consensus' reforms of the next decade and further oriented Central American economies towards the market-led export economy and away from the preceding state-led inward-oriented model of development. The 1990s saw a revitalisation of the integration project started by the CACM. The Tegucigalpa Protocol of 1991 –which established the major institutions of Central American integration– stated that the best model for Central American development would be one based on the concept of 'dual growth': inward growth through regional economic union and outward growth through the export-led, free-trade model.

The further embedding of 'trade-led growth' is being facilitated by increasing outward-oriented integration, exemplified by trade agreements such as the Dominican Republic-Central America Free Trade Agreement (DR-CAFTA) and the EU-Central America Association agreement currently being negotiated. While these are not integration agreements in their own right, nevertheless they continue to shape Central American political economy and define the contours of regional integration. The renewed regional integration project sets the context for the growth of the importance of tourism to Central American development due to the industry's potential for enhancing competitiveness and advancing the new trade agenda.

#### *The Emergence of Tourism as a Regional Development Strategy*

Tourism has been a significant development strategy for many of Central America's island neighbours in the Caribbean. The 'mass tourism' model pursued by Caribbean countries has been extensively criticised for its developmental outcomes, as the economic benefits of the industry have tended to accrue to large international hotel chains and travel companies at the expense of the local economies. The rejection of the Caribbean model can also be accounted for in part due to the changing tastes of consumers, with a growing dismissal of the mass tourism model for a more 'authentic' or 'adventurous' style of tourism. As such, the strategy adopted by Central American tourism institutions has been to create a niche for the Central America 'product' within the global tourist market based on Mayan archaeology, biodiversity and beaches.

The tourism industry has been established and promoted predominantly through private-sector investment by transnational corporations, expatriates and local people. Large-scale foreign investment projects have been a significant feature of tourism in Central America. The first example of this kind of tourism was through the Papagayo Project in Costa Rica, where the Fiscal Incentives Law of 1986 was created to lure investment from large hotel chains such as the Four Seasons and others along the Pacific coast during the 1980s and 1990s. In Belize, the 'boutique' nature of foreign investment is being considerably undermined by the growth of cruise-ship tourism, predominantly controlled by Carnival Cruises. Between 1996 and 2004, Belize saw a 4,000% increase in visitor numbers, from 14,000 to 850,000. The growth of this industry has generated significant political opposition from the country's small-scale tourism sector. In interviews, representatives of

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the Belize Tourism Industry Association expressed concern that the growth of cruise-ship tourism may lead to the destruction of the local tourism industry.

In Honduras, attracting large-scale foreign investment is a key feature of the National Tourism Development Plan. The most significant of such projects is the 'Tela Bay' project, jointly funded by the private sector (principally the US company Resorts of the World) and the Inter-American Development Bank. The project's aim project is to create a series of four- and five-star resorts, the first of which will be 'Los Micos Golf and Beach Resort'. Despite resistance by local communities, the project is being pursued and justified with the argument that it will bring economic development and job creation to a deprived area. In an interview, the project director argued that Los Micos will have a multiplier effect of 2.5 direct jobs, with a further 40,000 indirect jobs being created.

Large-scale investment by multinational tourism corporations is undoubtedly a key feature of tourism development strategies in Central America. Spanish companies in particular have invested widely across the region, with a large presence for Barceló and Sol Meliá hotels. However, the tourism sector of each country is still predominantly comprised of small- and medium-sized enterprises, usually owned by local people and expatriate residents. According to the Director of the Central American Tourism Integration system, small-scale enterprises make up a total of 70% of all tourism in Central America. However, despite the prevalence of small-scale enterprises in the regional tourism industry, when interviewed, representatives of the small- and medium-sized enterprise sector were critical of the vision of foreign investment-led development endorsed by the regional tourism integration project. As such, there is a clear tension over which model of tourism development should be encouraged and much debate over whether the pursuit of foreign direct investment is compatible with the more small-scale, locally-owned tourism that is part of Central America's 'niche' appeal.

Along with a dynamic and influential private sector, tourism development is being extensively promoted and funded by bilateral and multilateral donors. Tourism is endorsed by donors as a key tool for achieving commitments to poverty reduction. Two aspects of contemporary development policy in particular are presented as compatible with tourism: (1) the integration of previously marginalised populations into productive activity (Millennium Development Goal 1); and (2) the promotion of gender equality and women's empowerment (Millennium Development Goal 3). This understanding of the relationship between tourism and poverty reduction was echoed by tourism policy-makers interviewed across Central America. In practice, this has led to a wealth of funding for tourism development projects, many of which have an explicit focus on integrating indigenous people and/or women into the benefits of tourism.

One such example is the World Bank's 'Regional Development in the Copán Valley' Project (RDCP) which disbursed US\$2.96 million in seed capital for tourism-based microenterprises with the aim of targeting indigenous people and indigenous women in particular. Another example is an IADB project in Costa Rica entitled 'Rural Community Tourism in Costa Rica and Replication in Central America'. The project is a pilot study which will start initially in three communities in Costa Rica, but aims to develop a model for tourism-based poverty reduction across the whole of Central America. As with earlier projects in Honduras and Belize, the project's objectives include strengthening entrepreneurialism and integrating the rural poor into the productive sector through tourism-related economic activity. Poverty-reduction projects funded by the World Bank

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and IADB are thus becoming a significant dimension of tourism development in Central America.

#### *Tourism Development and Regional Integration*

Tourism has emerged as a primary Central American development strategy due to the influence of the local and international tourism private sector and the promotion of tourism by bilateral and multilateral donors. However, the *embedding* and *institutionalisation* of tourism development have taken place through a concurrent process of regional tourism integration. I now set out the ways in which tourism has become a foundational aspect of the contemporary regional integration project. The 1996 'Declaration of Montelimar' signed by representatives of the seven tourism integration countries (incorporating Belize and Panama) recognises tourism as a force for enhancing Central American global competitiveness, and increasing the diversification of economies. The over-arching institution for political and economic integration in Central America is the Central American Integration System (SICA), of which there are ten Specialist Technical Secretariats.

Of the various dimensions of regional integration, tourism integration has arguably made the most rapid progress, with a plethora of institutions and organisations springing up to facilitate policy-making in this key development area. The Central American Tourism Integration Secretariat (SITCA) is the key institution responsible for tourism policy-making. SITCA, responsible for the overall regional management of tourism policy, works closely with the Central American Integration Body and the Central American Development and Competitiveness Body, thus coordinating tourism policy with other aspects of the regional integration project. More specific to tourism is the Central American Tourism Council (CCT), comprising an Executive Committee made up of the seven Tourism Ministers, whose aim is to:

'Facilitate and promote the development of tourism in the whole Central American region in order to integrate the industry as a strategic sector in each country with the aim of contributing to sustainable tourism development in the region. In addition, it aims to facilitate and stimulate the development of tourism across Central America, eliminating any obstacle and impediments to the free movement of people in the region and integrating tourism promotion –as a role of the state– into all activities of the different branches of government'.<sup>1</sup>

Private sector interests have been entrenched within the Central American tourism integration project from the start. Indeed, it could be argued that the project originated primarily as a response to the pressure of tourism industry actors wanting to invest or expand in the area. A key element of SITCA's policy strategy is the incorporation of the private sector into public sector decision-making, agreed by all governments in the 2002 'Declaration of San José'. As such, the formation of tourism development policy is heavily influenced by the objectives of the tourism industry –both regional and international– and the interests of such actors are strongly represented in the policy process. A particularly influential institution over policy-making is the Federation of Central American Tourism Chambers (FEDECATUR), representing the key tourism enterprises of each country and promoting policies such as investment incentives and tax breaks. Also representing the private sector, the Central American Federation of Tour Operators (FACOT) liaises with governmental institutions on policy matters. In addition to the inclusion of the local private

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<sup>1</sup> <http://www.sica.int/cct>.

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sector in policy-making, the interest of large-scale tourism enterprises are further entrenched within the tourism development project. The Tourism Action Plan commits governments to carrying out an analysis of the levels of competitiveness of each country's investment laws and a reorientation of these laws towards promoting greater tourism capital flow into the region. As argued above, such strategies may in fact conflict with the interests of smaller producers represented by FECECATUR and FACOT, who continue to pressure the tourism institutions to focus on small-scale, community-based tourism.

In addition to regional institutions, a number of donors (both bilateral and multilateral) are funding different aspects of regional tourism integration. The most prominent donor here is the Spanish Agency for International Cooperation and Development (AECID). AECID funds one of the key institutions of tourism integration, the Central American Tourism Promotion Agency (CATA), based in Madrid and allowing direct access to the European tourist market and potential European investors. According to CATA's Director of Marketing, the aim of the institution is to court investment from EU companies and attract European tour operators in order to contribute to the development of the tourism industry in Central America. AECID also funds tourism activities within its Regional Cooperation with Central America Programme (PCRC). This aims to strengthen tourism as a productive activity as a fundamental component of regional integration. A second phase of AECID funding –the *Fondo España-SICA 2010-2013*– has most recently funded the establishment of a tourism route based around volcanoes and colonial cities, which will act as a 'multi-destination tourism itinerary'.

A further example of bilateral funding is the Regional Collaboration to Develop a Sustainable Tourism Sector (FODESTUR). Funded by the German overseas development agency, the FODESTUR project has generated initiatives such as the 'Sustainable Tourism Certificate' (CST) and the 'Central American Green Initiative' (ICV) that form a key part of the sustainability dimension of the regional project. These projects, under the guidance of FODESTUR, are expressed primarily in market terms. The ICV, for example, offers affiliation to private-sector organisations oriented towards market segments interested in contact with nature. This ties in with the regional policy commitment to 'reinforcing programmes oriented towards elevating the competitiveness, quality and excellence of the region's tourist services', as agreed in the San José Declaration. Other such regional tourism integration initiatives include the Swiss Agency for Development and Cooperation's funding of the Government-Private Sector Network, which links Central America into the Global Clearinghouse, established by the Monterrey Consensus on Financing for Development to facilitate private sector investment in developing countries.

**Conclusion:** As argued in this ARI, the particular political economic juncture in contemporary Central America has created the conditions in which tourism development and regional integration can be seen as mutually reinforcing processes. The interplay between the structural changes taking place through private sector activity and the increasing institutionalisation of tourism development at all levels of policy-making help to explain the prominence of tourism in the new political economy of Central America. Tourism development policy in Central America is highly consistent across tourism institutions at the national, regional and international level. Key features of this consensus include the role of the private sector in the consultation and implementation of policy, the role of tourism as a vehicle for poverty reduction through generating employment and offering microenterprise opportunities, and the commitment to enhancing competitiveness through the continued liberalisation of the tourism sector.

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The high level of coordination between regional and national institutions in the tourism policy-making process helps to embed the particular model of tourism development outlined above. Moreover, these institutional changes driven by tourism development further embed a particular vision of regional integration, and contribute to developing consensus (at least at the policy level) over the current development model across the region. The coherence of the goals of tourism development institutions operating at different levels means that this consensus is able to be maintained despite conflict between different tiers of the tourism industry and ongoing resistance to large-scale tourism projects such as luxury resorts and cruise-ship tourism. The convergence between the particular characteristics of tourism development and the current trajectory of regional integration means that for the time being tourism is likely to continue to be a driver of Central American integration. It is important to note the role of the Spanish government and Spanish companies in supporting tourism integration –both at the level of the private sector and political institutions–. The high levels of private investment and developing funding detailed here suggest a growing commitment to tourism as a pillar of Spanish development cooperation.

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