

From instability to volatility: Bermuda's shift from tourism to international business dependency

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SUMMARY

Bermuda has relied on tourism as a primary source of economic activity ever since the 1920s. At the close of 2003, the World Bank positioned this small country behind only Luxemburg and the United States as the third richest country in the world. However, by 1995 Britain's oldest colony experienced an economic dependency shift from tourism to international business. This article examines how this shift has impacted on the residents of Bermuda, economically and socially and points out the dangers of relying too heavily on international business. The survey results implied that there was a significant difference in the perceptions of respondents employed in various industries concerning tourism being more important to Bermuda's economy than international business. Also, the majority of respondents agreed that international business revenues were primarily responsible for Bermuda's current economic prosperity, and that the domestic tourism industry will not be able to sustain Bermuda's economy if international business revenues suddenly declined. Additionally, exponential forecasting techniques were applied to determine the short-term prospects for Bermuda's principle industries. The results showed accelerated growth trends in the international business sector causing a 'pull' effect for supporting industries and heightened demand for specialized labour. Conversely, the domestic tourism industry outlook leading up to 2010 displayed a continued negative growth trend. Consequently, tourism related jobs were predicted to decline, creating a 'drag' effect for supporting industries. The article concludes by suggesting that a community-based approach to tourism, along with sustaining international business growth could be the key to Bermuda's long-term economic future.

Key words:

tourism; international business; economy; Bermuda

INTRODUCTION

The 150 islands of Bermuda are situated 774 miles southwest of New York City and populated by approximately 65,000 people. Bermuda's residents benefit from having a local currency on par with the United States dollar and a 2002 estimated GDP of \$52,457. Contrary to popular belief, Britain's oldest dependent colony is not a part of the Caribbean region.

Historically, Bermuda has relied on tourism revenues as its chief earner of foreign exchange. However, over the last decade, Bermuda experienced an unprecedented economic dependency shift from tourism to international business. Consequently, this study examines the significance of each industry to Bermuda's economy and briefly discusses the economic and social impacts

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associated with Bermuda's transformation from being a leader in sophisticated resort travel to a haven for insurance and reinsurance companies.

As the new millennium approached, the bulk of Bermuda's foreign exchange earnings were generated by the international business sector. Conversely, a consistent downturn in visitor arrivals resulted in reduced tourism spending. "At the close of 1998, Bermuda's tourism earnings dropped from \$542 million to \$472.3 million" (Treaster 1999).

Nevertheless, for the same year, economic contributions from international business almost doubled as this sector pumped \$757.6 million into Bermuda's economy. According to the International Companies 2000 report by Brian Archer, as cited by Roger Crombie, "the expenditure of \$967.3 million in Bermuda by the international business companies generated \$1.2 million of income" (Crombie 2002). This amounted to about 43% of Bermuda's Gross Domestic Product. Consequently, the international business sector created and maintained over 9,240 jobs and affected a further 4,550. By the year 2000, over 1,500 insurance companies (including over half the world's captives) with \$150 billion in assets and writing over \$40 billion annually in premiums were incorporated in Bermuda. Even after the tragic events of September 11, 2001, new capital poured into Bermuda. This steady foreign exchange intake was mentioned by a prominent local corporate law firm, which noted, "more than 100 new insurance companies have been incorporated since that time, of which 12 have capital in excess of \$1 billion" (Attride-Stirling 2003).

Meanwhile, over the same period, Bermuda's tourism industry regressed in the opposite direction, closing out 1997 with approximately 97,000 or 20% fewer visitors. "At the close of 2003, visitor air arrivals fell by 9.7% or 27,445 from 2002. Tourism industry contributions also declined to \$245.6 million, a decrease of 7.5% from the previous year" (The Bermuda Government 2004). This culminated in a 5-year drop of 42% from the \$472.3 million generated in 1998. Not only did annual visitor arrival totals decline, but also Bermuda's hotel bed capacity fell 23% from 8,500 to 6,500 beds between 1993 and 2002, (based on two people per room). Prior to the new millennium, Bermuda lost 1,742 licensed hotel beds and 2,502 direct hospitality related jobs (Bermuda Hotel Association 1999). Bermuda's total bed count fell another 45% to 3,400 after the country experienced the worst natural disaster in 40 years –

Hurricane Fabian on September 5, 2003. At the close of 2003 Bermuda not only hosted its lowest annual total of air visitor arrivals since 1968, but also the country's hotel bed capacity had been considerably depleted. Fortunately, the serendipitous economic contributions generated by the international business sector over this period were primarily responsible for stabilizing Bermuda's economy, and providing jobs for those displaced hospitality workers affected by a reduction in annual visitor spending and hotel lodging facilities.

LITERATURE REVIEW

A study by McDowall (1999) details the embryonic stages of Bermuda's tourism industry, and how rapid tourism growth provided economic prosperity for Bermuda during the first half of the twentieth century. More importantly it focused on the Bermuda Government's initial management efforts that were responsible for establishing Bermuda as a once prominent tourism destination. The publication outlined the successful tourism marketing strategies, which transformed Bermuda from being primarily an agriculture producing country during the 1920s to a traveller's paradise over the next several decades. The expansion of the tourism sector paralleled the corresponding decline in the importance of the agricultural economy, particularly onion exports.

Research by Conlin (1993) focused on Bermuda's three-decade tourism growth period between 1949 and 1979, and emphasized how segmentation was a pivotal tool adopted by Bermuda's tourism marketing planners when sculpturing the country into a single segment tourism destination. Conlin predicted that Bermuda's then tourism strategy of targeting a narrow segmented market was considered not only dangerous but also risky, due to the possibility of this segment becoming dissatisfied with an aging product and customers' changing preference for destinations. A 1995 economic impact study conducted by Archer (1995), outlined the importance of tourism to the economy of Bermuda. This study concluded that "the Bermuda tourism industry had reached a policy crossroads with high cost structures, declining competitiveness and a perceived fall in value for money" (Archer 1995:19).

Furthermore, Archer made explicit comparisons that crystallized the economic impact of tourism versus other exports between 1985 and 1992. Archer discussed

how, despite the decline in tourist arrivals during the first half of the 1990s, tourism remained Bermuda's leading employer and a major contributor of foreign revenue. Conversely, research by Teye (1992), dealing with land transportation in Bermuda, determined that between 1970 and 1992, "Bermuda appears to have become a hostage of its own economic prosperity achieved through tourism," (Teye 1992:404).

By the late 1980's, the leading role of tourism as the principal contributor to the Bermudian economy was being threatened by the international business sector, which consists mostly of insurance businesses. In 1976, the contribution of international businesses to the economy was only about \$80 million compared with about \$180 million by the tourism sector. By 1998 the two sectors had reversed their roles: international business contributed \$758 million to the economy, compared with the \$472 million by tourism (Treaster 1999).

Tourism, however, continued to be the leading employer, creating about 5,800 direct jobs in 2001 (Bermuda Government 2004). Archer's contributions are critical because they highlight how international business revenues continued to accelerate rapidly during the 1990s, while Bermuda's tourism industry's benefits continued to diminish. Moreover, "between 1996 and 2000, international business employment grew by 27%, whilst hotel sector employment declined by 19%" (Steward 2003:286). Even though the Bermuda's once prominent tourism industry struggled to survive, the country was able to sustain economic prosperity due to the opportune fiscal contributions being generated by a booming international business sector. For the first three quarters of 2003, international business generated \$593 million and represented 15.8% of Bermuda's total GDP, while tourism accounted for \$245.6 million, a decrease of 7.5% from the previous year (Bermuda Government 2004).

A publication by Riley (1997) underscores how the genesis of Bermuda's decline in air arrival visitors resulted from a 31% airline seat capacity reduction, due to the collapse of Eastern Airlines in 1990. Other contributing factors mentioned by Riley included the 1990 United States recession and the 1991 Gulf War, which magnified the threat of terrorism to travellers. Riley theorized that an increasingly aging loyal Bermuda visitor would be disillusioned by a national controversial 1996 "Let Yourself Go" advertising campaign, which altered Bermuda's quaint image and appealed

to younger, more energetic travellers. Riley agreed with Conlin when he suggested that Bermuda's tourism industry would benefit from venturing into new emerging markets in Europe and the Far East, instead of relying almost exclusively on North American travellers.

The impact of reduced visitor arrival totals and the dramatic growth of international business created an economic dominance swing between Bermuda's two major foreign exchange earners. Fortunately, Bermuda did not experience any significant negative economic downturn from the steady decline in visitor arrival totals, as over this period the country was making the transition from being an entirely tourism dependent nation into a global international business leader. However, what primary impact did this industry shift have on Bermuda's economic and social environment? Furthermore, how did this impact affect the perceptions of Bermuda's residents toward tourism during this unprecedented economic reliance transformation?

A study conducted by De Shields (2004) found that while residents employed directly and indirectly in tourism believed that tourism was more important to Bermuda's economy, persons employed directly in tourism were significantly more likely to believe this. Residents' diverse feelings about how significant tourism is to Bermuda's economy can be attributed to a steady closure of hotels, displacement of hotel workers, fewer visitor arrivals and a surging international business sector. In this same study, residents were united in their view that international business is primarily responsible for Bermuda's strong economy and that tourism would not be able to sustain Bermuda's economy if international business earnings suddenly declined (Table 1).

Additional corroborating data outlining the social impacts associated with Bermuda's economic dependency swing can be observed in Table 2, which compares hotel related jobs to those in the international sector. The phenomenal growth in international business contrasts the stark decline experienced by tourism. It is estimated, however, that by the year 2010, the international business sector will become Bermuda's largest single employer.

Table 1

RESULTS OF T-TESTS FOR AVERAGE DIRECT AND NON-DIRECT HOSPITALITY EMPLOYEES' PERCEPTIONS

Profiles	Direct Hospitality		Non-Direct Hospitality		Means Difference	df	t
	Means	SD	Means	SD			
Statement							
I believe tourism is more important to Bermuda's economy than international business.	3.61	1.09	2.77	1.02	0.84	152	4.799 **
I feel international business is primarily responsible for Bermuda's strong economy.	3.84	0.793	3.92	0.842	-0.09	152	-0.63
Bermuda's tourism industry will be able to sustain the economy if international business suddenly declines.	2.37	0.962	2.21	0.932	0.16	152	1.06

**p < .05

Source: DeShields (2004)

Table 2

JOBS IN HOTELS AND INTERNATIONAL COMPANIES 1978-2010

	1978	2003	2010*
Hotels	5,264	2,918	2,342
International business	1,381	3,781	5,022
Total jobs in Bermuda's economy	28,276	37,686	40,968

*Forecasted

Source: Bermuda Electric Light Company Ltd. (2004)

Table 3 further illustrates the growth and decline in jobs by sector for the years 1978 to 2010. The forecasts from 2003 were produced using exponential smoothing with a trend component. Job market predictions suggest that international business will likely grow 264% by 2010. This growth is expected to have a 'pull' effect on other support industries. For example, business services, which include accounting, law, technology, human resources and financial services, will all grow in concert with the international sector. Additionally, the demand for office space and homes for the imported staff to service the international sector will fuel job growth in the real estate and construction industries. Educational jobs will grow, as residents who shift from tourism and other sectors to the international sector will have to be retrained.

Alternatively, the 56% decline in tourism jobs will have a 'drag' effect on certain industries. The drop in visitors means that there is less spending in the retail sector. Evidence of this trend recently occurred when one of Bermuda's largest retailers closed its doors after more than 160 years of being in business.

Table 3

JOB GROWTH BY INDUSTRY 1978-2010

Industry	Growth %
International Business	264
Business Services	221
Real Estate	141
Education	134
Restaurants	103
Construction	102
Finance	96
Agriculture and Fisheries	93
Community Services	59
Public Administration	58
Wholesale Trade	19
Transportation	15
Manufacturing	-5
Electricity, Gas and Water	-9
Retail	-23
Hotels	-56
Average Growth	45

Source: Bermuda Electric Company Ltd. (2004)

This resulted in more than 200 lost jobs and a 6% drop in the retail job sector.

Higher salaries offered by the international business sector also played a role in the reduction of jobs in local hotels. Data from the 2000 Census on population and housing revealed that the annual median income for tourism industry employees was US\$ 28,581. This was less than half the US\$ 58,904 earned by international business workers. While Bermuda's residents are aware of the importance of international business to Bermuda's economy, those in the tourism industry will become increasingly marginalised as the gap widens between these two economic pillars. Eventually, the international business sector growth trends will place a heavy burden on Bermuda's labour pool as the demand for specialised skills is projected to steadily rise.

The impact of several new job opportunities in international business offering higher wages has contributed to transforming Bermuda into a very expensive place to live. A study on housing (Coldwell Banker 2003) estimated that between 1995 and 2002 average condominium prices on the island rose by 131%. Currently, the average cost of a two-bedroom home exceeds US\$ 875,000. This contrasts with median household income growth between the 1991 and 2000 census of just 47%. Also, since the demand for a higher skilled labour force remains, Bermuda's expatriate population is forecasted to escalate. Another mitigating factor is that, historically, the hospitality industry imported mostly male workers who were accommodated in on-property hotel dormitories. Today's international business expatriates not only require accommodations for their families, but also vehicles to transport them. This twofold dilemma places tremendous stress on Bermuda's housing market and creates unwanted traffic congestion on the country's highways.

SUMMARY AND CONCLUSION

Even with the rapid growth of international business over the past ten years, tourism still remains Bermuda's second major earner of foreign exchange and thus is still vital to Bermuda's economy. The question remains how can tourism regain a stronger position in Bermuda's economy and lessen, to some extent, the reliance on international business for economic survival. Whether employed in tourism or not, residents agreed

that if anything should negatively affect international business, and it experiences a sharp decline, tourism in its current state, could not sustain the economy. Local and foreign investors have adapted to the declining tourism market by building mixed luxury hotel and condominium structures. The hotel section is designed to accommodate traditional tourists, while the condominiums are specifically intended for meeting the demands of time-sharing clients. These self-contained accommodations are equipped with full residential features and serve the purpose of funding the hotel operations during Bermuda's traditional off-season months between November and March. This is a step in the right direction but given the wide disparity in earnings between the two sectors, more needs to be done to close the gap.

Bermuda's economic dependency challenge is complicated mainly because both of Bermuda's primary foreign exchange earners must establish a way to harmoniously coexist, considering how each is dependent on the other and heavily affected by external forces, both positive and negative. This dependency stems from the fact that one of the reasons for international business setting up in Bermuda was the attractive environment that tourism offered – fine hotels and restaurants, excellent air service, first class telecommunications services and an excellent location. Positive external forces affecting Bermuda's tourism industry include a weak US dollar, which causes Americans to vacation at home and closer to home, and terrorism threats in Europe, which has the same effect. Negative forces include regional hurricanes, changing tastes for more exotic destinations and, of course, a strong US dollar. The main negative force affecting international business is the potential closing of tax loopholes that would make it less favourable for companies to relocate to jurisdictions such as Bermuda. For example, in the 2004 United States Presidential election, the Democratic Party candidate John Kerry consistently discussed the reassessment of existing United States tax laws that allowed US companies that relocate to offshore 'low' tax havens, such as Bermuda and, thus, from paying billions of dollars in taxes. Also, global competition, which attracts insurance and re-insurance revenues, is certainly growing.

Airlines are another external force that can affect both of Bermuda's pillars. For example, Bermuda is a high-yield destination: it is cheaper to fly from New York to London or from New York to Barbados than it is to fly from New York to Bermuda, a fraction of the distance.

As long as the market can bear the prices being charged, fares will remain high. The leisure market will initially suffer from this. This market is more price-sensitive and will simply go elsewhere, as the declining air arrival numbers seem to indicate. However, even though the international sector can pay the higher fares, they will not be able to make up for substantial declines in the leisure market and airlines will eventually cut service. Bermuda was successful, however, in 2005 in getting more lift from airlines but the bulk of the new lift came from non-legacy, low-cost carriers such as USA 3000. Other low cost carriers, such as Jet Blue, are being pursued. The aim of course is to bring airfares down to more affordable levels, which will be a boast to the leisure travel market. However, this, too, may be a stop-gap measure and Bermuda may have to look once again at the possibility of having its own airline if it wants to guarantee seats and control costs.

Bermuda's challenges go beyond just reaching a delicate balance between its two economic pillars. If international business continues to increase, as predicted, and the tourism industry is revived, a new set of complexities face the island. With a landmass of just 35 square kilometres and a population of 65,000, Bermuda is already one of the most densely populated places on the planet. Just over one-fifth of its 38,000-strong workforce is non-Bermudian. Because of the high skill requirements of the international sector, it is likely that most of the increased demand for jobs will be filled by non-Bermudians. This will put increasing pressure on an already over-heated housing market and tax the infrastructure to even greater limits. The income gap between workers in international business, a large portion of whom will be foreign-born, and workers in tourism, the majority of which are Bermudian, is likely to widen. Thus the likelihood of tension between the two groups cannot be understated. The international sector has already made it clear that they will oppose any measures to curtail its growth. However, considering the potential social minefield that will be created if controls are not put in place, the island will have to make several bold and perhaps unpopular decisions to further prevent the 'isles of rest from becoming the isles of stress' (Hayward, Gomez and Sterrer 1981).

In today's competitive global environment volatility has become the rule rather than the exception. Therefore, Bermuda must remain flexible when seeking a sustainable balance between its two primary industries. The core objective should be to effectively control the

international business growth trends so that the negative social impacts attributed to this growth are minimised. Moreover, Bermuda's leaders must exhibit foresight when collaborating with the international business sector to safeguard against volatility and avoid the regrettable predicament now faced by the country's tourism industry. Finally, Bermuda's decision makers should adopt findings reached by (Murphy 1985), which recommended a community-led planning approach for ensuring tourism success. Therefore, any strategic planning process geared toward rejuvenating domestic tourism, while sustaining international business growth should be pursued *with* rather than *for* the community (Aramberri 2001). Ostensibly, maintaining a superior quality of life in Bermuda will necessitate developing partnerships with all parties concerned that are mutually beneficial and that encourage community-wide involvement.

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Submitted: 03/31/2006
 Accepted: 11/09/2006