

# MODELLING TOURISM DEMAND IN MADEIRA SINCE 1946: AND HISTORICAL OVERVIEW BASED ON A TIME SERIES APPROACH

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## ABSTRACT

Tourism is the leading economic sector in most islands and for that reason market trends are closely monitored due to the huge impacts of relatively minor changes in the demand patterns. An interesting line of research regarding the analysis of market trends concerns the examination of time series to get an historical overview of the data patterns. The modelling of demand patterns is obviously dependent on data availability, and the measurement of changes in demand patterns is quite often focused on a few decades. In this paper, we use long-term time-series data to analyse the evolution of the main markets in Madeira, by country of origin, in order to re-examine the Butler life cycle model, based on data available from 1946 onwards. This study is an opportunity to document the historical development of the industry in Madeira and to introduce the discussion about the rejuvenation of a mature destination. Tourism development in Madeira has experienced rapid growth until the late 90s, as one of the leading destinations in the European context. However, annual growth rates are not within acceptable ranges, which lead policy-makers and experts to recommend a thoughtfully assessment of the industry prospects.

Keywords: Madeira Island Inbound Tourism, Butler' Life Cycle Model, Time Series Modeling.

JEL Classification: L83

## 1. INTRODUCTION

According to Garay and Cánoves (2011) studies focused on the history of tourism are relatively recent, although there is growing recognition of the key importance of such analysis (Walton, 2005). However, the standard analysis is too often centred on the “cultural foundation of the historical evolution of tourism” or on the relationship between tourism development and the adoption of new ICT related technologies or modern habits of consumption and societal changes. (Inglis, 2000; Smith, 2001). Another criticism relates to the reduced number of long-term approaches, from a regional historical perspective, concerned with the tourism experience outside the Mediterranean area.

In these circumstances, the overall objective of this paper is to “carry-out” a detailed analysis of tourism development in Madeira based on Butler Tourism Area Life Cycle, one of the most applied model to think strategically about tourism development (Butler, 1980; Douglas, 1997; Bardolet & Sheldon, 2008; Garay & Cánoves, 2011). Because of the availability of an exceptionally long time series, this paper offers the opportunity to detect secular trends and specific features in tourism industry in a peripheral area not impacted by the mass tourism phenomena and therefore less interpretable within the

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standard theoretical and methodological apparatus (Tooman, 1997; Douglas, 1997; Karplus & Karkover, 2005). The current literature on the subject revealed a dearth of timely and exhaustive analysis of consolidated/mature destinations outside the “mass/coastal tourism” hotspots, despite their past glories in the field of tourism. For example, the development process of tourism development in Madeira, “one of the oldest tourists’ destination in the world with a centenary tradition”, has “scarcely been studied” (Ismeri Europa, 2011:135). Therefore, in this study we analyse the different phases of tourism development in Madeira, and related them to global and local processes, such as issues of accessibility, that affect tourism development and the current attempts to rejuvenate the destination. The analysis of mature destinations is of interest for policy makers and operators, because lessons learnt from mature destinations succeeding in apply consistent policies to promote renovation are specially welcomed by policy-makers eager to succeed in revitalizing the destinations under their jurisdiction.

Although, the prevailing theories about the maturity decline phase predicted an inevitable phase of decline, the empirical evidence doesn’t support such allegations, which is confirmed in this study (Pulina *et al.*, 2008; Garay & Cánoves, 2011). Tourism development must be interpreted as a process guided by governmental interventions, fostered or constrained by political and social factors and by past decisions on tourism planning, urban development and other key economic variables. Since this study operates at a relatively large scale, from a temporal point of view, we only consider the macro-issues in trying to explain tourism development in this case study.

This paper is organized as follows. Section 2 describes the key pressing economic issues affecting the region under analysis and an overview of tourism sector is presented. Section 3 introduces a brief analysis of the theoretical background retained for this study. Section 4 describes the tourism development path of Madeira since the end of the Second World War. Finally, section 5 concludes by contending that the overall conclusion to be drawn is time dependent.

## **2. CONTEXTUAL SETTING**

The archipelago of Madeira which comprises two inhabited islands, Madeira and Porto Santo occupies an area of 801 Km<sup>2</sup>. With a population of 258686 (as of 2014) and a density of 326,2 per Km<sup>2</sup>, the archipelago lies in the Atlantic North, 1000 km from Lisbon and 400 km from the Canary Islands (Tenerife). Madeira is affiliated to Portugal and constitutes one of the Outermost Regions (ORs) according to the EU legislation.

Tourism has been the dominant sector of the economy and enjoys a centenary tradition as Madeira is one of the oldest touristic destinations in the world. According to the most recent data, by taking into account direct and indirect effects of tourism, the sector account for 21% of the GDP and 15% of the employment (Ismeri Europa, 2011:136). Owing to the island’s natural beauty and aesthetical landscapes, plus a mosaic of rich biodiversity, picturesque villages and an overall ambience of security and calmness, the region has been hailed as amongst the best in the World.

Over time Madeira has been able to avoid to be confronted with major issues in terms of severe environmental damage and natural resources degradation as a result an unmanageable number of visitors. Only minor issues of uncontrolled building construction and problems of waste and garbage management were detected. As of 2015, the number of tourist per km, in the EU island’s context is quite low. The overall quality of the destinations remains pretty stable and most visitors report high levels of satisfaction when asked their opinion (Synovate, 2004; ECAM, 2010).

As a direct result of its membership to the Union, Madeira benefited since 1986 from an impressive growth record and low employment rates, as a result of a positive economic dynamics fuelled by EU grants. As with other ORs, “the past heritage of colonial structures” and marginalization lead naturally to the adoption of welfare focused policies (Ismeri Europa, 2011:138). Therefore, a “generous welfare system” and the attempts to implement “social equalization” policies aiming at recovering from the islands late arrival to the neo-Keynesian are a key feature of the political economy approach pursued by the local government (Ismeri Europa, 2011). While the tourism sector along with the construction and public administration sectors still predominate in terms of GVA and employment shares, it must be acknowledged that the tourism sector was less heavily handed by the local government. As previously mentioned, Madeira, experienced a positive growth dynamic for the last 25 years. The GDP at constant prices increased constantly and at a higher rate compared to the Mainland, which prompted the region to become the second-richest in Portugal. Figure 1, based on data supplied by the Local Statistical Office, compares the growth trends for Portugal, Madeira and Azores for the period 1995-2012, when the region grew at 5,8% per year, well above the Portuguese average (3,8%). However, the region experienced a slowdown in its catching up process since 2008 and the growth momentum experienced in the 80s and 90s was not maintained in spite of the on-going access to financial transfers. In fact, the local economy experienced a sharp fall in GDP levels (-2,8% for the 2008-2012 period), which prompted relevant actors to develop increasing levels of awareness and understanding of the seriousness of the current economic situation.

According to the Ismeri Europa Report (2011), Madeira emerged in the 90s and first half of the first decade of the XXI century as an example of success in developing the tourism sector, within the EU context. The islands receive around 1.000.000 tourism per year. “This success” is thought to be closely linked to abundance of tourism raw materials, namely nature, mild climate and an excellent and well-deserved reputation for the warm welcome offered to visitors. Similarly, the geographical location, sufficiently close to the European Mainland to allow a 3-4 hours’ flights from North Europe and close enough to Africa to offer an exotic flair and aesthetical pleasant landscapes should be fully considered as comparative advantages. As mentioned above, the tourism industry contributes with 21% to the GDP, and the tourism receipts for 2014 have been estimated at 300 million euros (for hotels establishments alone), according to the statistical office. Still according to the statistical office, around 157 hotels are in operation, as of September of 2015, serving 6267443 bed-nights. However, by taking into account the rural tourism sector along with Local Housing we get an overall figure of 32150 beds in terms of accommodation capacity. According to the Statistics Department, the tourism and travel related sectors employs around 15% of the active population.

The typical tourist can travel around the island, or enjoy the rural hinterland by walking along one of the levadas. As Madeira is an island of contrasts, and a convenient way to check the islands may attractions is to rent a car. Owing to the rugged mountain outcrops and picturesque villages along the coast, a long range of activities, from diving to mountain sports are available. Several museums and places of historical significance can be assessed to get in touch with the history and current life styles of the population. In 2014 the statistical office reported 1140250 tourist visits, of which 19% are of Portuguese nationality and the rest incoming tourists from Germany, Britain, France and Others. The local airport offers more than 50 direct flights per week to several European cities. The Madeira international airport was expanded in 2000 and is now served by 30 airlines.

### **3. A FEW NOTES ON THE BUTLER LIFE CYCLE MODEL**

The Butler's life cycle model offers a starting point/theoretical framework to engage in historical approaches in the field of tourism, if mixed with other theoretical frameworks. A key reason for an eclectic approach lies in the difficulties reported by scholars attempting to offer theoretical insights to explain and describe the last stage. Garay & Cánoves (2011) maintain that the decline and re-orientation phase as depicted in the TALC model is "too simplistic and restrictive" and similar comments were also made by Agarwal (2002). The evidence available suggest that, from a long-term perspective, to consider just one large life cycle is insufficient because consecutive life cycles may occur, either as a result of stages of development induced by the "major paradigms of capitalism development" or as a result of internal factors. It is worth to mention that in the stagnation phase/rejuvenation phase, almost all destinations attempt to up-grade and re-invent the image of the destination based on new market niches. In fact, in the absence of a re-orientation ("re-invention") phase, the destination may experience a phase of irreversible decline. This last stand is characterized by increased levels of uncompetitive behaviour, fewer and fewer number of arrivals of international travellers and spatial "recession" linked to the abandonment of resorts in peripheral areas. It is not surprising then, to notice a plethora of government sponsored programs to redefine the destination, as soon as the first signs of stagnation appear. In this study, we assume that several life cycles may occur simultaneously, as during the transition to a new phase, reinvention coexist with elements of the previous phase. As asserted by Garay & Cánoves (2011) "*many, if not most, destinations do not involve one single cycle but a series of cycles at different stages of development*", while on the post-fordist stage. Quite typically, the local DMO and operators are in a permanent state of re-invention and modernization (which points to the rejuvenation phase), while trying to apply the best practices tested in the field without losing sight of the traditional and consolidated practices (from the previous stages).

Inputs borrowed from the economic history have been extraordinary important to discern the major phases of tourism development at regional and national level. In an attempt to examine the major cycles of tourism development in Catalonia, Garay & Cánoves (2011) identified 4 major stages of development in the case of Catalonia: "proto-tourism, pre-fordism, fordism and post-fordism". Garcia (2014) and Fayos-Solá (1996) apply a similar approach to analyse tourism development in Spain and Portugal. Such stages are related both to the different accumulation regimes ("production and consumption of tourism activities") experienced by the economy as a whole and to specific "tourism models of regulation (political, institutional and competence forms related to tourism)", which, in turn, are influenced and impacted by a wide range of "cultural, social, economic and technological" features at work. As reported by Garay & Cánoves (2011) "*the destination's historical, geographical and political distinctiveness compounded by the interaction between the key players (governments, hoteliers and foreign firms) are utterly decisive in defining the keystones of the sector's development path*".

### **4. AN OVERVIEW OF THE HISTORY OF TOURISM IN MADEIRA**

The background of Madeira's tourism starts officially in 1812 with the first opening of a hotel in Funchal. However, tourism has existed for many centuries. The City council website defines two major periods of tourism development in Madeira: the colonial period running from the 15<sup>th</sup> to the 18<sup>th</sup> centuries, and therapeutic period comprising the 19<sup>th</sup> century and the first half of the 20<sup>th</sup> century. Tourism in each period behaves differently according to the main motives to visit the island. However, both share similarities, notably the overall

dependence on the “paradisiacal beauty” and “the kindness of its climate”, as well as on the umbilical link to the transatlantic voyages.

The key event in the first half of the XX century is rather organizational and institutional, because of the key changes in terms of promoting the sector abroad. The following description and references to historical events is based on the information supplied by the Camara Municipal do Funchal website. In the 30s, the newly established Tourism Commission come into existence, with the ultimate goal of planning the implementation of measures to advertise the region abroad. The Tourism commission attended the Leipzig Fair in 1931, which resulted in visits from journalists, and subsequent drafting and editing of texts celebrating the island beauty in several newspapers and magazines: “Tatler” (1931); o “Time” (1933); o “Daily Mail” (1933); o “Daily Telegraph” (1939) e o “The National Geographic Magazine” (1939). It is worth to mention that during the 20s and 30s, a large number of tourists were “*aristocrats, finance businessmen and famous public figures, such as the Prince of Wales and Churchill, as well as some still searching the therapeutic qualities*”. According to the Funchal city county website, as a result of the Nazi social politics, the organization “Kraft Durch Freude” - Power by Joy, affiliated in the national-socialist party, offered (in the 30s) to its members the opportunity to practice cultural and sports activities, by organizing trips that used Funchal as a port of call. To a certain extent, the first half of the XX century is still heavily influenced by the trends laid down in the last decades of the XIX century.

Tourism before and during the second World Ward declined significantly. As a consequence, a large number of hotels closed. During the turmoil of the Second World War, the islands hosted mainly wealthy English and Germans, arriving on transatlantic ships and eager to escape violence. Modern tourism, as the term is commonly understood, started “officially” (at least in the official records) at the end of the Second World War, period in which the number of tourists recorded by the Statistical Office was less than a thousand a year. Data recorded for 1946 indicates just 936 guests, which points to a fresh start in this sector. In fact, and immediately after the world war, Funchal was excluded from the transatlantic exchanges, because the “big” transatlantic ships, “that used to stop regularly in the port of Funchal”, were diverted to other “better equipped” and better located ports of call, such as Las Palmas and Tenerife. Therefore, the upmarket aristocrat segment ceased to exist based on the aforementioned travelling mode.

In the early 50s, the region boasted 453 rooms for 9131 tourists. The high season was largely dependent on the Winter period, centred around November to March and an average of 142135 visitors come ashore, from the transatlantic ships. Owing to the opening of direct flights (international flights and charters) with Lisbon and the Uk, first in 1949, then in 1960 and finally in 1964 (when the new airport was officially opened for traffic), a new period of discovery started, and the number of tourists increased steadily. By then, tourism was already perceived as an important and strategic pole of development. The previous 17 years were characterised by rather modest increases, owing to the low levels of accessibility, but the sector expanded strongly after 1964. In the second half of the sixties and in the first years of the 70s, the island witnessed the arrival of a flux of a different type of tourists, comparatively to the first years of the post-war period when most visitors travelled by hydroplane. As a direct result of the opening of new routes and arrivals of middle-classes visitors, tourism enters the development phase, and the number of hotel facilities increases. By 1967, 2295 rooms were available, and 3832 as of 1971. New establishments, such as the Madeira Palacio (1969), Apartamentos Lido-Sol (1970) Madeira Sheraton (1972), Holiday Inn e Matur (1972), D. Pedro-Machico (1972), opened in the early 70s. By 1973, the hotel industry operated 8248 beds. Another key post-war development lies in the growing Portuguese middle class, as a result of the economic development recorded in the 60s and 70s, eager to travel both at home and abroad. Meanwhile, Madeira emerged since the 50s as one of the target areas at

national level, but contrary to the Spanish case the Portuguese government never allowed a laissez-faire model of regulation. In Spain, the government “gave free reign to the market’s actions and, more specifically, to speculative investment, which triggered not only tourism but also the residential model implemented throughout the majority of the Spanish Mediterranean coast” (Garay & Cánoves, 2011). Similarly, to the Spanish case, the Ministry of Tourism in Portugal was rather interested in promoting a “positive image of the country abroad” at expenses of more mundane affairs such as “issues of regulation and intervention”. With regards to Madeira, given the relatively low volume of arrivals, the tourism sector was never able to perform in the 50s and 60s as a decisive factor leading to levels of “economic growth” compatible with high levels of human development.

Since 1976, Madeira enjoys an autonomous status within the Portuguese Republic, with broad executive and legislative powers. The region was granted to be ruled by its own government bodies, such the Regional Government and the Local Parliament. The government structure includes a Regional Departments, regarded as Ministries. Overall, this period is characterised by impressive economic growth, particularly after 1986. In the first years of autonomy, the local government focused on the urgent need to close the gap in terms of key infrastructure projects and social indicators. As a result of the ascension to the EU, a remarkable number of new infrastructures (roads, bridges, civic centres, schools and hospitals) come into view, and the region experienced a cycle of political stability and high levels of employment.

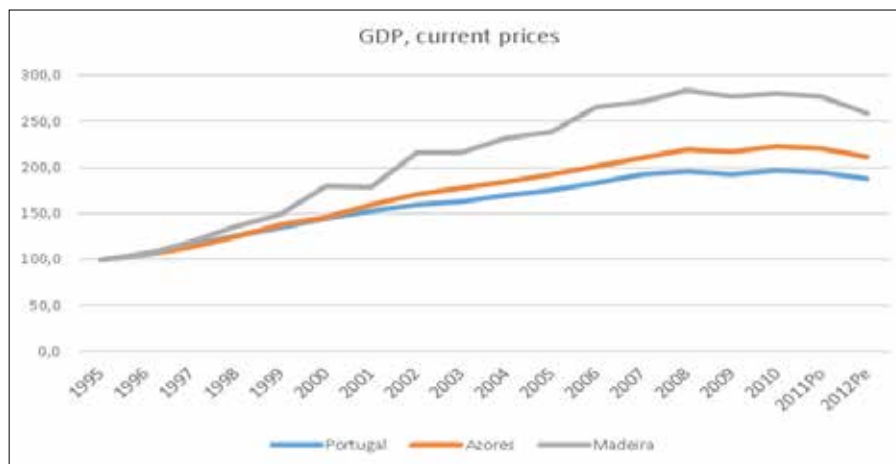
Thanks to the autonomy granted in 1976, a key structural institutional breakthrough took place in 1978, with the establishment of the local “Regional Department (Ministry) of tourism”. From 1936 through 1978, tourism was run basically by the authorities at Lisbon. As mentioned above, another major structural change that occurred in the 80s relates to another upsurge in the number of Portuguese national arriving at Funchal, in their search for mild climate temperatures at the height of the Summer.

Arrivals and overnights registered a remarkable growth rate in the 1964-1977 period, followed by a sharp decrease concentrated in 1978. The first oil-shock struck the European economy and the sector was impacted both by the negative international context and by the political and social instability associated to the first IMF intervention in Portugal. The Portuguese market predominated from 1971 through 1976 (around 23% of the overall demand). The accommodation sector adapted by increasing “moderately” in numbers, but remained solidly concentrated at Funchal, the main city. The period from 1986 onwards was characterised by a spectacular development phase, owing to the convergence of a series of positive factors. The increasing affluence of the Portuguese middle class lead increasing numbers of Portuguese nationals travelling to Madeira. Moreover, the access to substantial amounts of financials transfers allowed the local economy to take off and an extensive network of modern roads linking Funchal to the hinterland was built. The rural hinterland was now open to be discovered. Not surprisingly, impressive growth was recorded once more in the 1980-1999 period fuelled by sustained increases in the German and British markets. This demand effect was transmitted to the accommodation sector that experienced an impressive growth of 7% per year in the 1990-2010 decade. Then as now, the key reasons to travel to the island remain pretty stable, owing to the overwhelming focus on nature, mild climate, relaxation and rest.

The Portuguese market offered in the 80s a sizeable guarantee of secure supplies of new arrivals. Through the 80s and the 90s the Winter period loses gradually its importance and in the 80s, the local Ministry of Tourism starts to promote a wide range of sports, cultural activities, events and festivals in order to reduce the levels and image of seasonality. Tourism reinforces its role as a key engine of growth in the 80s, despite the overall reliance on government grants channelled for the deployment of basic infrastructure, which resulted in

an oversized public sector. The growth record of the 90s was driven mainly by the Portuguese, British and German markets. Figure 1 shows that the number of arrivals increased from 520515 in 1990 to 880228 in 2000. During the 80s, the number of visitors stayed in the level of one third of million, but a period of rapid growth followed and the number of 1000000 was reached in 2005. Although the expectations ran high in 2000, as a result of enlargement of the airport run-away, the statistics available suggests an increasing volatile demand, and a number of negative events, namely the 2010 disaster. The growth rate recorded in the late 90s was never registered again. The growth rate in 2010 run at -7,8%, but it recovered the following year at 6,2%. Since 2012, the average number of arrivals/guests stayed at the level of 1070000.

Figure 1: GDP, growth Dynamics 1995-2012 in Portugal, Azores and Madeira: 1995=100



Source: own calculation based on data supplied by the Madeira Statistical Office

The first signs of stagnation and declining numbers of Portuguese nationals were first felt in 2000. In all, slightly more than one third of the number of years that present negative growth took place during the first 10 years of the new century. From this point onwards, we may assume that two different Life Cycles remain in operation, namely the classic product strongly anchored on top accommodation based at Funchal, in the maturity phase, and an emergent one, based on the exploration of the hinterland. The share of the main city Funchal, declined, in terms of arrivals and overnights, at expenses of counties located elsewhere. The priorities for the economy as a whole for 2014-2020 period, as defined in the Economic and Social Development Plan implicitly acknowledged that a few sectors have reached saturation. The plan aims at the following areas, Innovation, RTD and Energy, Human Capital Development, Competitiveness and Internationalization, Environmental sustainability and Territorial Cohesion and Social Cohesion. While such measures do not directly cover the specific needs of the tourism sector, a stringent implementation of the wide range of instruments relating to the measures listed above will have far reaching consequences in terms of the development of the tourism sector in brand new niches. Quite recently, the local government in close association with the Chamber of Commerce and Industry develop from scratch a specific strategic document aiming at the tourism sector for the next decade (ACIE, 2015). Several market niches and nationalities emerged as strategic, notably the nautical sector and the Easter Europe.

Table 1 offers an overview of the most recent data, namely in terms of accommodation availability and average length of stay. As of November of 2015, the region operates around 13687 rooms. In 2014, the region received about 1 million visitors. The length of stay, in the range of 7 days until 1976, went down to 5,5 days in 2014. As of September of 2015,

more than 61% of hotel rooms were located at Funchal, but the share of the main city decreased from 69% in 2002 to 66% in 2014. The Western counties' share of international arrivals increased by 24%, but since 2010 we witness the virtual stabilisation of the market shares in terms of guests and overnights by county. The number of overnights dropped after the 2010 natural disaster, the effect of which as compounded by the decreasing number of Portuguese nationals travelling to Madeira as a results of the 2011 IMF intervention. The German and British markets still predominate. From a "regional origin" point of view, the European market predominates, with 97,7% of the market as of 2014. Visitors from France and Eastern Europe have been growing, and the share of Portuguese nationals decreased sharply after 2008 (Costa & Almeida, 2015; Ramos-Pérez & Izquierda-Misiego, 2015).

**Table 1: Madeira' Tourism: Basic indicators**

Establishments	152	nov-15
Rooms	13 192	nov-15
Accommodation capacity	27 140	nov-15
Personel employed	5 910	nov-15
Length of Stay	5, 6 days	nov-15
Share of Funchal (guests)	64,50%	nov-15
Number of overnights	6629000	2015
Number of Guests	11211800	2015

Source: based on data supplied by the Madeira' Statistical Office

Table 2 depicts the distribution of respondents by nationality and their annual growth rate for the 1976-2014 period. Annual growth rate for the top 12 European countries varies from -0,7% to 6,9%. A study commissioned by the local Tourism Department suggests that most visitors are travelling to the island to enjoy mainly nature and landscapes. The study can be summarised as follows: nature and mild climate are the key attractions of the region; however, an increasing number of visitors value the local gastronomy, traditions and heritage; about 45% of the respondents declared to be repeat visitors with 55% being first visitors; visitors visiting for the third and fourth time correspond to 11%.

**Table 2: Main markets of origin**

Countries	Guests	Market Share (2014)	CAGR 1976-2014
Total	1 140 250	100,0%	3,9%
Portugal	217 665	19,1%	2,6%
Foreign Countries	922 585	80,9%	4,4%
Germany	219 591	19,3%	4,7%
Austria	17 076	1,5%	6,7%
Belgium	23 451	2,1%	1,5%
Denmark	23 778	2,1%	0,9%
Spain	38 620	3,4%	7,6%
Finland	24 225	2,1%	5,5%
France	134 834	11,8%	6,9%
Italy	13 389	1,2%	6,9%
Norway	17 537	1,5%	4,8%
Nederlands	37 722	3,3%	4,3%
United Kingdom	222 221	19,5%	5,0%
Sweden	26 523	2,3%	-0,7%
Other Coutries	123 618	10,8%	5,7%

Source: own calculation, own calculation based on data supplied by the Madeira' Statistical Office



At this point, we will comment briefly on some of the question raised in the introduction. From 2005 onwards, the tourism sector is experiencing a transition phase, characterised by the stagnation of the classic product and by attempts to develop alternative sectors to circumvent the main weakness of the mainstay product. The growth record is no longer uniform, being not unreasonable to admit at the time (in 2005), on the basis of the available data, that the region had just reached the Butler's last stage. However, signs of recovery can be identified from 2012 onwards, which makes it possible to suggest that conditions have been met to begin a new cycle of growth. The reversal in the declining trend alert us against drawing hasty conclusions, by declaring the region to be officially in the declining phase. After 2012, the tourism sector appears to have found a new balance, and entered a new growth phase, which can be explained in several ways. The natural landscapes and mild climate all year round enabled the local authority to promote and convey abroad, over the past decades, a simple and concise information. Moreover, the cycles of political violence in the Middle East appeared to have been beneficial to tourism in Madeira, because the number of arrivals increases above the trend in periods of turmoil. However, to consider that the current trend equates to a new Life Cycle for the destination as a whole may be excessive, because the key elements of the previous phase remain in full force. Moreover, from a long term perspective, the progressive decline of the annual growth rate is quite evident and the overall dependence on the main markets (Britain, Germany, Portugal, France and the Netherlands) (See Figure 1). Since 1976, for each year the market share of those markets increased by 0,36%.

According to a recent report commissioned by EU the main weakness of the local industry lies in the excess of accommodation supply and in the progressive and generalised loss of competitiveness, compared to more exotic destinations. Despite having registered very slow growth in the last 10 years, the local tourism experience nonetheless still offers high levels of customer satisfaction. The same report urged the region to upgrade the existing product under the cultural/heritage banner. Added value to the customer can be easily produced by betting on the local identity and agricultural traditions, culture and heritage, nautical sports and nature. The region still has to offer an exotic flair and visitors can combine the green experience with urban leisure. In this regard it is recommended, among other things, to increase the complexity, from a motivational point of view, of the current mainstay. Top quality accommodation alone cannot counteract the main moves of the regions' competitors and the new life cycle will not be consolidated unless the region provides value added/unique experience. As admitted by the local operators the sector faces serious challenges from increasing competition from other destinations, as well as, from the economic downturn felt in most European countries, which are relevant in terms of market of origin.

Off course, the sector must adapt to the low cost phenomena and to the changing behaviour patterns. A cluster based approach to the tourism sector is recommended as well as benchmarking studies to identify best cases and "support the diversification process". The integration of sustainability principles is deemed to be a priority because the sector is highly dependent on nature and landscape and prone to disasters. In all, a more intelligent approach to develop tourism is recommended and a larger transformation in the economy as a whole is required. When considering further recommendation, it should be kept in mind that the over-dependence on tourism exposes the region to external risks. The high dependence "upon" tourism means, a high degree of exposure, and vulnerability, to the "erratic and uncertain movements of international tourism". While natural disasters, such as the 20<sup>th</sup> of February impacted negatively the region, security issues in the Middle East are likely to impact positively the region, so the two effects are likely to cancel each other out.

In conclusion, Madeira didn't follow the typical trend characterising other destinations lying in a similar parallel in the Mediterranean area, with rapid growth in the 60's and 70's and then a slowdown or even collapse in the number of arrivals in the 80s followed by a

recover in the 90s'. Because not dependent on the 3-s product tailored to the mass market, the region didn't suffer from environmental degradation and chaotic urban development, and ultimately decline apparently beyond recovery and loss of competitiveness. On the contrary, the sector showed strong and continuous growth until the 2003. While tourism development was characterised by the development of mass tourism elsewhere in Europe, a process known as the Fordist phase, as a result of the consolidation and further expansion of the Welfare State in Europe, tourism numbers never exceed the local carrying capacity. Owing to the distances to the European Mainland along and access exclusively by air, tourism in Madeira was restricted to the middle and upper middle classes. Madeira attracted mainly, until the 80s, the kind of "bourgeois" tourist that characterised the "pre-fordist" phase in other destinations, because no access by car was available to the low-middle class attracted by low prices and short one-day or extended holidays. Issues of accessibility and geographical proximity are therefore keen to understand the path of tourism development in the 60s and 70s.

The data suggests that the TALC may not apply in a deterministic and perfect manner to the evolution of tourism in Madeira. Madeira is a typical example of an Atlantic destination that operated in this sector for centuries, firstly as a "welcoming society" and then, since the 60s, as a modern operator. The region never catered for large numbers of tourists or for a large audience, owing to clear limitations in terms of access, which prevent growth to become exhaustion through over-exploitation and environmental degradation. The relative smallness of the potential market and being ahead of their time in terms of focus in nature, have also contributed to slow down growth. The key question that remains to be answered. As mentioned above, the unique pattern "urban development" and orography of the island is critical to understand the past and current development of tourism. Madeira is mountainous, and only 16% of the island has a gradient of less than 30°, flat terrain and sandy beaches are almost inexistent. It is similarly clear that Tourism in Madeira results from historical processes and policy initiatives. Until the 90s, tourism remain largely unplanned, owing to the lower inflationary pressure over the natural resources and lack of episodes of stagnation and/or dramatic/substantial decline in the key variables. Only after 2000, could be traced the first attempts to regulate tourism development, by defining land zoning and building features as well as the carrying capacity limits by county. An attempt was made to keep Madeira's distinctive image of a green island and eco-tourism paradise and the most recent strategic thinking about tourism development in the region

## 5. CONCLUSIONS

As stated in the Ismeri Europa report (2011:135), tourism in Madeira benefits from a "centenary tradition" (Madeira is one of the oldest touristic destinations in the world)". By taking into account "*all direct and indirect effects of tourism*", *the data available clearly indicates that tourism has been a major influence on economic growth, with the empirical estimates suggesting that it may account for as much as 21% for GDP and 14% for employment*". The tourism, in terms of development differs both from "the mass offer" provided by the Canary Islands and from "the scarce hotel capacities" currently available in the Azores. Therefore, tourism in Madeira is neither based on the mass approach still striving in the southern neighbour nor in the market niche model currently in the phase of consolidation in the Azores. While signs of stagnation felt since 2000 along with the sudden impact of the 2010 natural disaster forced the local experts to reconsider the strategy in place at the time, the records available since then point in the opposite direction. In spite of several bouts of global economic instability and major natural disasters, the sector has shown remarkable resilience, with growth rates

within acceptable limits. The sector has bypassed many environmental and image problems experienced by other players and the key advantages attracting visitors to the region still appear to be significantly valued by western visitors. Off course, the region must compete with other well prepared competitors.

To study the visitors profile is a matter of survival, as well as, to communicate in new ways. New market research methods are definitively required, and the public administration needs to understand the ongoing socio-cultural changes, namely in terms of the ecological stance. Nevertheless, the prospects for the industry are positive because the region has to offer world-class natural resources and an interesting historical background. New developments in promising markets such as nautical sports and gastronomy are schedule to start operations in the next few years. Moreover, the economic recovery in Europe is compatible with a sustained number of arrivals from Western European countries. The high level of real and perceived security, and the highest standards in terms of quality, reliability and service, offer another advantage, as the Middle East crisis clearly illustrates. The sector should explore the agricultural past of the island, due to its links to the “culture of the people, in the landscape and environment”. In the same vein, the “vineyards and the wine industry” could explore the Madeira Wine effect. Similarly, the banana cultivation offers an entry point to explore the island culture and history. Although agriculture is in percentage terms marginal with a very limited impact in terms of direct contribution to the GDP, it’s impact in the social fabric of the island life is enormous. The agricultural work supports the environment and landscape, and adds an essential element to “the identity and authenticity of the region” promoted abroad. The factors “environment, landscape, identity and authenticity” are currently understood as crucial elements to attract tourists and to convey an up-graded and redefined image of the region abroad. A number of agricultural products and practices offer a sub-tropical flair. Moreover, the few “manufacturing industries”, mainly centred in the production of “traditional” products, such as embroidery and wicker products as well as the wine production offers interesting grounds to explore the cultural segment. In the end, as “all the economy in Madeira is transversally affected by tourism”, it is not too complicated to identify a wide range of viable forward and backward linkages that may be used by entrepreneurs eager to innovate and gain market shares.

Whilst being acutely aware of the need to preserve the environmental *status quo* and avoid signs of decline.

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