

Aerial view, islands of Palau.

Palau

PACIFIC TOURISM SECTOR SNAPSHOT | NOVEMBER 2021

DESTINATION INFORMATION AT A GLANCE

POPULATION:

17,500 (2020).*

CAPITAL:

Ngerulmud (Babeldaob Island, 1,680 kilometers (km) southeast of Manila, 2,250 km north of Darwin).

OFFICIAL LANGUAGES:

Palauan and English.

CLIMATE:

Hot and humid tropical climate, with an annual mean temperature of 28°C. Rainfall is heaviest between July and October.

CURRENCY:

US dollar (\$). Credit cards are widely accepted in the larger tourist areas, but not elsewhere.

ENTRY AND VISA REQUIREMENTS:

Visitors of almost all nationalities are entitled to either visa-free entry or a visa on arrival. Both have 30 days duration.

GEOGRAPHY:

Comprises more than 300 islands (the vast majority uninhabited) in the westernmost part of the Caroline Islands archipelago. A total land area of 460 square km across 1.29 million square km of ocean.

*Asian Development Bank. 2021. *Key Indicators for Asia and the Pacific 2021*. Manila.

INTRODUCTION

The Republic of Palau is a global leader in sustainable tourism, offering visitors a pristine natural environment, and well-developed tourism infrastructure. Palau's world-class diving and the famous Rock Islands and Jellyfish Lake are at the core of its tourist offering, but the country is also home to lush inland nature reserves and a range of accommodation and restaurants.

Palau's economy is driven by tourism. Tourism receipts contribute an estimated 38% of Palau's gross domestic product (GDP) (Pacific Tourism Organisation [SPTO] 2020).¹ Tourism employment was estimated at 2,690 in 2018 (SPTO 2019)—representing 45% of the country's total employment—however, only 24% of tourism jobs, or 650 positions, were held by Palauans (Graduate School USA 2019).

The Government of Palau aims to transition the tourism sector to focus on sustainability and higher-yield visitors. Significant policy initiatives—such as limiting charter flights and changing immigration laws to protect the environment—demonstrate the government's commitment to this goal. However, key challenges remain to be addressed, including local labor shortages, infrastructure constraints, and preventing future environmental degradation.

1 The Asian Development Bank (2020) suggests tourism's contribution to GDP could be as high as 40% to 50%.

TOURISM SECTOR OVERVIEW

Note: this overview compiles key tourism information based on the most recent available data. Due to the impact of coronavirus disease (COVID-19) on the tourism sector, some of this information has likely changed.

TRANSPORT AND CONNECTIVITY

Before COVID-19 disrupted global travel, Palau had direct air services to Guam; Hong Kong; Manila; Seoul; Taipei, China; Tokyo; and Yap. These routes were serviced by five main airlines—Asiana Airlines, China Airlines, Japan Airlines, Korean Airlines, and United Airlines—and smaller operators, including Caroline Islands Air and Lanmei Airlines. Over the past 15 years, 18 different airlines have operated into Palau. United Airlines has carried the largest number of passengers at 25%, followed by China Airlines at 17% and Asiana Airlines at 15% (Palau Visitors Authority [PVA] n.d.).

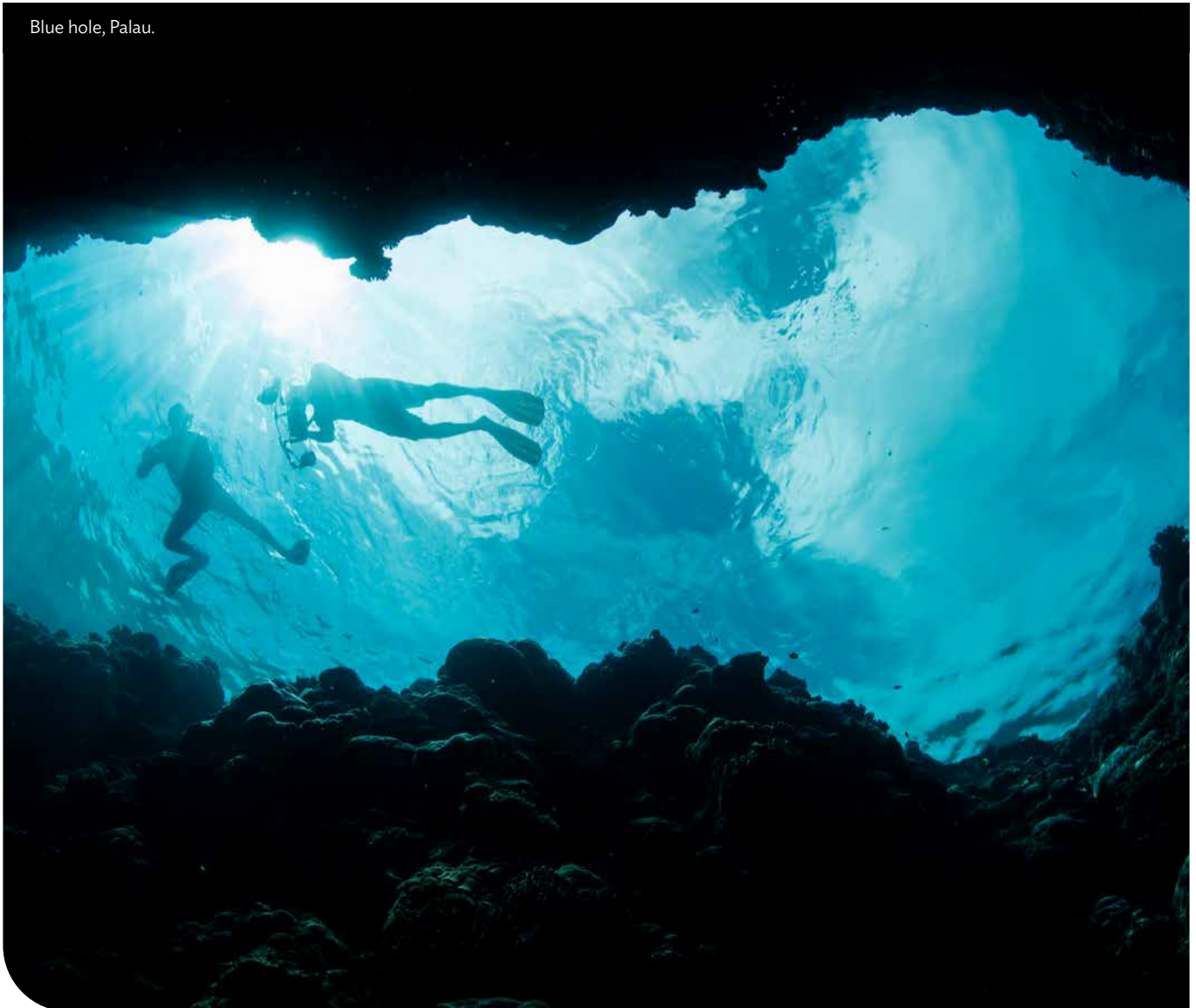
Many visitors to Palau arrive on charter flights. Charter visitors peaked at 80,000 in 2015 and accounted for nearly half of all

arrivals that year. Four main charter airlines—Air Explorer (also known as Palau Pacific Airways), Asian Air, Dynamic Airlines, and Mega Maldives—have carried 20% of all incoming passengers into Palau over the past 15 years. Almost all charter passengers (97%) are from the People’s Republic of China (PRC) (PVA n.d.).

Charter flight arrivals have decreased since 2015. In April 2015, the President of Palau introduced a policy limiting the number of charter flights into Palau, aiming to slow a surge of low-spend package tourists and relieve pressure on Palau’s environment and infrastructure. Charter passengers dropped by 50,000 over the subsequent four years, and in 2019 just under 30,000 visitors arrived by charter flight (PVA 2020). The policy, as implemented, directly allocated charter rights to specific operators. It has since been suggested that these rights be auctioned instead, potentially increasing revenue to the government (Graduate School USA 2019).

Visitors can travel easily around Palau’s two main islands by taxi and hire car. The Japan–Palau Friendship Bridge joins Babeldaob—Palau’s largest island and the site of its capital city

Blue hole, Palau.



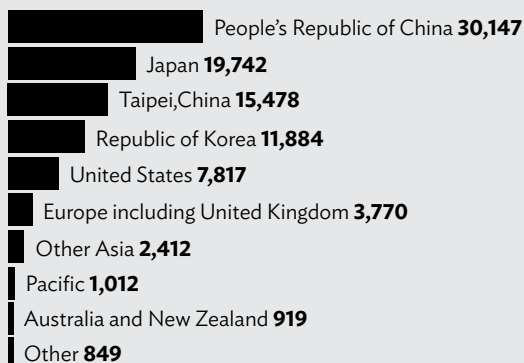
Box 1: Palau Key Visitor Statistics

Air Arrivals (2019)

94,030 visitors.

Source: Pacific Tourism Organisation.

Air Arrivals by Source Country (2019)



Source: Pacific Tourism Organisation.

Tourism Receipts (2017)

\$123 million.

Source: Pacific Tourism Organisation. 2020. *2019 Annual Visitor Arrivals Report*. Suva. (Estimate).

Visitor Spend (2014)

\$280 per person per day, equaling **\$1456** per person for an average 5.2 night stay.

Source: Pacific Tourism Organisation. 2014. *Palau Tourist Survey: November 2014*. Suva.

Sea Arrivals

Palau receives a small, fluctuating number of expedition cruise visitors each year. For example, more than **1,000 expedition cruise visitors** arrived in **2018**, and only **120** in **2019**. The country also receives a small number of yacht visitors (50–60) per year.

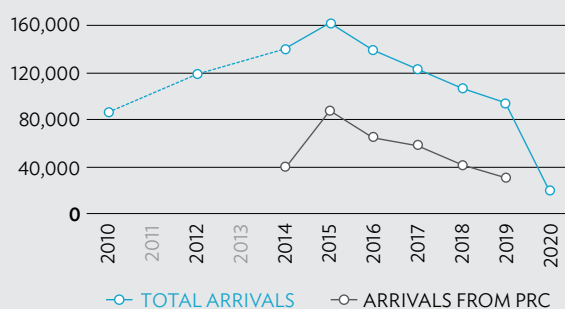
Source: Palau Visitors Authority.

Source: Pacific Private Sector Development Initiative.

and international airport—to Koror, the center of Palau's tourism offering. A sealed highway circles Babeldaob and continues through the interconnected islands of Koror State. A trip from the northernmost to the southernmost points of the highway takes just 60 minutes. Palau has many car rental companies and taxis are readily available, particularly around Koror.

Box 2: Palau Visitor Arrival Trends

Arrivals (2010–2020)



PRC = People's Republic of China
Source: Pacific Tourism Organisation.

Arrivals to Palau were declining before the disruptions to international travel caused by the coronavirus disease. Visitor arrivals peaked in 2015 and have been declining since. Arrivals in 2019 were down 11.5% from 2018, and down 42% from the 2015 peak. Palau's visitor arrival trends are closely associated with fluctuating arrivals from the People's Republic of China (PRC)—the country's largest source market. The PRC market grew from 725 visitors in 2010 to more than 87,000 in 2015 but dropped to just 30,000 in 2019 (Pacific Tourism Organisation, unpublished data).

Arrivals in Palau are not seasonal. Visitor numbers tend to be consistent throughout the year, with a minor trough noticeable from October to December. The average length of stay is 5.2 nights. This is slightly lower among visitors from Asia, and higher for visitors making long-haul trips, such as from Europe and the United States (Palau Visitors Authority 2020).

References:

Palau Visitors Authority. 2020. *Arrivals Report December 2019*. Ngerulmud.

Source: Pacific Private Sector Development Initiative.

Palau's island groups are accessible by sea. The island groups close to Babeldaob and Koror, including Peleliu and Angaur, which are close to Palau's famous Rock Islands and Jellyfish Lake, are easily accessed by speed boat or regular ferry service. Palau's outer islands, including Kayangel and the Southwest Islands, require a charter boat or private yacht. There are also helicopter and flight operators, allowing tourists to visit outer islands or take a scenic flight across Palau.

ACCOMMODATION

In 2019, Palau had 105 accommodation providers, with a total of more than 2,000 rooms (PVA, unpublished data and SPTO 2020). More than 60% of properties are classified as hotels or resorts and range from low-end budget hotels to the luxury five-star Palau Pacific Resort (PVA, unpublished data).

Table 1: Tourism Plans and Policies, Palau

PLAN OR POLICY	STRATEGIES AND GOALS
Pathway to 2030	<p>Palau’s overarching development strategy.</p> <p>The strategy recognizes that tourism is Palau’s leading economic sector. It advocates for a focus on sustainable high-yield tourism, cautioning against repeating Palau’s previous shift toward mass-market tourism (Government of Palau 2019). The strategy suggests Palau’s reliance on tourism creates challenges because of tourism’s susceptibility to external economic volatility, and proposes the growth of domestic fishing and agricultural industries to foster greater resilience.</p>
Palau Responsible Tourism Policy Framework 2017–2021	<p>Palau’s current tourism sector strategy.</p> <p>The framework was developed following the unplanned growth in mass-market arrivals between 2010 and 2015. Its mission is to “grow and sustain a visitor industry that is respectful of our people and environment, ensures the optimum flow and retention of revenue in our economy, and consistently delivers on the promise of a ‘Pristine Paradise. Palau’ experience to all” (Government of Palau 2016). It focuses on six target areas, which include improving sustainable tourism awareness, increasing visitor yield, and ensuring tourism is responsibly managed and community-driven. The framework does not include a defined set of activities or strategies to meet its aim, and Palau is yet to conduct a carrying capacity assessment.</p>

References:

Government of Palau. 2016. *Palau Responsible Tourism Policy Framework 2017–2021*. Ngerulmud.
 Government of Palau. 2019. *Pathway to 2030*. Ngerulmud.

Source: Pacific Private Sector Development Initiative.

A traditional building in Palau.



Box 3: Palau Key Attractions

- **Sustainable tourism**—Every visitor must sign a pledge on arrival to act in an ecologically responsible way, making Palau the first nation to change its immigration laws to protect the environment.
- **World-class diving and snorkeling**—Palau’s bio-diverse waters offer 700 species of coral and 1,300 species of fish, sunken wrecks from World War II, the World Heritage-listed Rock Islands Southern Lagoon, and the opportunity to swim amongst millions of harmless jellyfish at Jellyfish Lake.
- **Hiking, swimming, and bird-watching**—Visitors can hike or catch the monorail to swim in clear natural pools created by beautiful waterfalls, visit unique nature reserves with diverse bird life, or walk through the millennia-old Badrulchau Stone Monoliths, dubbed the “Easter Island of Micronesia.”

Source: Pacific Private Sector Development Initiative.



Accommodation providers also include smaller operators, such as homestays and bungalows, live-aboard dive vessels, and luxury yachts. Most accommodation is in Koror, with only a few small cottages in the nearby islands. There is no tourist accommodation on Palau’s outermost islands.

Palau’s accommodation supply grew in response to increased tourism. The number of rooms increased by 37% from 2012 to 2018, fueled by the boom in tourism. Most new developments were in the mid-to-lower range. Occupancy rates across all properties peaked at 61% in 2015 and dropped to just below 40% in 2018. Occupancy rates remain strongest for high-end properties, sitting at around 78% in 2018, while mid-range occupancy dropped to 33%, in line with the decrease in lower-spending visitors (Graduate School USA 2019).

ORGANIZED TOURS

Palau has a range of tour guides and tour options. Diving is a focus of Palau’s tourism offering, and there are numerous dive shops and diving services in Koror. A day trip to Palau’s famous

Rock Islands and Jellyfish Lake is one of the most popular tours. World War II history tours take visitors to Peleliu, an island that was the site of one of the most significant Pacific battles, and a few companies specialize in island tours and eco-tours. The provision of tour services, including land transportation and boat tours, is reserved for Palauans.

VISITOR DEMAND AND SATISFACTION

Most visitors to Palau are highly satisfied with their experience. 90% of visitors reported that their trip was “very enjoyable.” 92% said they would “definitely” recommend Palau as a tourist destination to friends and family. Key highlights for visitors surveyed included diving, snorkeling, swimming, and the friendly Palauans (SPTO 2014). The range of tourist activities for non-divers, particularly families, has been cited as a potential area for improvement.

EMPLOYMENT AND TRAINING

Education in tourism is available in Palau. Tourism courses are offered at the Palau Tourism and Hospitality School of Excellence, which is housed at Palau’s Community College, the country’s only post-secondary educational institution. Tertiary courses are offered in tour guiding and tour services, and the school hosts workshops from providers such as the Australia Pacific Training Coalition. Tourism has been incorporated into Palau’s school curriculum to raise awareness of the benefits of tourism and the importance of environmental sustainability.

There are few opportunities for business education in Palau. In-country tourism education for Palauans is limited to vocational training. This has resulted in many positions in the tourism sector being held by foreign workers, including at the management level. Palau’s Chamber of Commerce has advocated for better business education to allow Palauans to qualify for managerial positions or start their own businesses in the tourism sector.

TOURISM GOVERNANCE, PLANNING, AND POLICY

The Government of Palau has committed to sustainable tourism. Several policies and plans are in place to guide the development of the sector (Table 1), and sustainability is integrated into tourism regulation. The Responsible Tourism Education Act, passed in 2018, mandates sustainable visitor practices, including a ban on reef-toxic sunscreens, alternatives to disposable plastic and polystyrene, and a requirement for incoming aircraft and vessels to distribute information on Palau’s environmental policies before passenger disembarkation.

The Bureau of Tourism (BOT) is responsible for sustainable tourism policy and planning. The BOT was created in 2014 and now sits under Palau’s Ministry of Human Resources, Culture, Tourism and Development. It is led by a director of tourism. The BOT is mandated to regulate the tourism industry through the provision of safety standards and certification and support Palau’s vision of a low-impact, high-value, sustainable tourism industry.

Box 4: Impact of COVID-19 on Palau's Tourism Sector

Palau closed its borders at the beginning of April 2020 to control spread of the coronavirus disease (COVID-19). In early June 2020, the Government of Palau eased restrictions to allow residents and citizens to return, subject to a 7-day quarantine in Guam and a further 14-day quarantine in Palau (Graduate School USA 2020). In July 2020, an executive order announced a limited reopening of borders from September 2020 (Government of Palau 2020), still involving stringent testing and origin-dependent quarantine measures (Pacific Region Infrastructure Facility 2020), but borders remained closed to tourists. At the end of July 2021, Palau remained COVID-19 free (World Health Organization 2021). By mid-May 2021, 97% of adults had received their first vaccination (ABC News 2021) and by the end of July, with almost all eligible adults fully vaccinated, Palau had begun vaccinating adolescents (Government of Palau, Ministry of Health and Human Services 2021).

On 1 April 2021, Palau launched a “travel bubble”^a with Taipei, China. Under the bubble arrangements, twice-weekly roundtrip flights, carrying a maximum of 100 passengers per flight (Asian Development Bank [ADB] 2021b), brought tourists from Taipei, China to Palau on strictly managed package tours (Davidson 2021). The tours were expensive, and passengers were required to pay for two COVID-19 tests and complete 14 days of “self health management”^b on their return. Within two weeks, bookings had dropped to single figures (Davidson 2021). The bubble was halted 7 weeks after opening due to a spike of COVID-19 cases in Taipei, China. During the time the bubble was operational, less than 300 tourists had arrived in Palau—around 2% of average pre-pandemic arrivals during April–May (ADB 2021b). In May 2021, Palau opened its borders to fully vaccinated travelers who could travel or transit through Guam (where the only remaining flight to Palau originates). In late July 2021, with Palau close to achieving herd immunity and case numbers in Taipei, China dropping, the two countries were discussing reopening the travel bubble (Chen 2021).

The pandemic has significantly impacted the tourism sector. Visitor arrivals fell by 43% in February 2020, 70% in March 2020, and stopped altogether in April 2020. Total arrivals for 2020 were just 18,174—19% of the 2019 figure (Pacific Tourism Organisation 2021). As a result, the Asian Development Bank calculated that Palau's gross domestic profit (GDP) dropped by 10.3% in the 2020 fiscal year (FY)^c and projected a further 10.8% contraction in FY2021 followed by 8.8% growth in FY2022 (ADB 2021a). However, economic growth of 1.2% was recorded in the domestic non-tourism sectors, suggesting the economic impact was contained within the tourism industry (Graduate School USA et al 2021).

Employment levels have fallen, but not as badly as predicted. More than 3,100 jobs—more than a quarter of

Palau's total formal employment—were predicted to be lost by the end of the 2020 financial year, largely in tourism (Graduate School USA 2020), however actual job losses have been considerably lower. Data in February 2021 indicated that 1143 jobs had been lost by the end of FY2020, with a further 458 job losses projected for FY2021 (Graduate School USA et al 2021). The lower numbers are partly due to a significant move to part-time employment, with many employers keeping staff on at reduced hours and maintaining a ready workforce for reopening (Graduate School USA et al 2021). Repatriation of foreign workers has also contributed.

The Government of Palau established the \$20 million Coronavirus Relief One-Stop Shop Act, known as the CROSS Act. The program provides temporary relief to the private sector, including loans to cover businesses' fixed costs, unemployment benefits, and temporary employment schemes. The program covers both Palauan and foreign workers. However, after Palau became eligible for benefits under the United States (US) Coronavirus Aid, Relief, and Economic Security Act, also known as the CARES Act, most Palauans were transferred to CARES funding. The CROSS Act now primarily supports nonresident workers in Palau, who will be vital in the recovery of Palau's tourism industry when travel restrictions are eased. Under the CARES Act, citizens of Palau—as a state in free association with the US—are eligible for US unemployment benefits (Graduate School USA 2020). Palauans' average payments during the first four months of the program were twice that of the average Palauan wage for the same period (Graduate School USA et al 2021).

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TOURISM MARKETING

Graduate School USA, EconMAP, Government of Palau, and ADB. 2021. *The Road to Recovery: Further Updating the Economic Impact of COVID-19 and Strategies for Mitigation in the Republic of Palau*. Honolulu.

Pacific Region Infrastructure Facility. 2020. *Post COVID-19 Pacific Short-term Aviation Strategy—A Scoping Study: Consultants' Final Report*. Sydney.

SPTO. 2021. *2020 Annual Visitor Arrival Snapshot*. Suva.

World Health Organization. 2021. "COVID-19: Palau." <https://covid19.who.int/region/wpro/country/pw>.

Source: Pacific Private Sector Development Initiative.

^a Strictly managed bilateral travel.

^b A period of managed isolation including a temporary ban on public transport and public spaces.

^c The fiscal year in Palau ends on 30 September.

The Palau Visitors Authority (PVA) is responsible for destination marketing. Formerly known as the Palau Tourism Commission, the authority is mandated under the Tourism Re-Organization Act 1982 as a semi-autonomous body. Although its primary function is to market Palau internationally, it also supports tourism awareness within the Palauan community. The PVA board has seven members, appointed by the President of Palau. Day-to-day operations are led by a director.

Palau is marketed with the brand “Pristine Paradise. Palau.” Marketing efforts have historically focused on attracting visitors from Japan; Republic of Korea; Taipei, China; and the United States. More recently, attention has been given to the longer-haul European and Asia-Pacific markets. Palau has never been actively promoted in the PRC. Marketing is primarily conducted through Palau’s destination website,² which has information on accommodation, experiences, and travel tips, and through attendance at key trade shows and exhibitions.

2 www.pristineparadisepalau.com

Jake World War II seaplane wreck, Palau





Jellyfish Lake, Palau

ENVIRONMENT AND INFRASTRUCTURE

All visitors to Palau sign the “Palau Pledge,” a formal promise to act in an environmentally responsible way during their time in Palau. The mandatory agreement was instituted in 2018 and dedicated to the children of Palau. While a local nongovernment organization led the development of the pledge, the government responded by creating a new entry visa process, making Palau the first nation to change its immigration laws to protect the environment.

The Government of Palau has pioneered community-based and environmental tourism initiatives. The Airai State Cultural Tour, a government-supported community-based tourism initiative which uses locally grown food and biodegradable utensils to eliminate plastic waste, won a Pacific Asia Travel Association (PATA) gold award in 2019. The BOT is also working with Sustainable Travel International, Slow Food, Palau Pledge, and Palau Visitors Authority to mitigate the carbon footprint of tourism and establish Palau as the world’s first “Carbon Neutral Tourism Destination.”

Tourist charges and levies support Palau’s environmental initiatives, increase government revenue, and deter low-spending tourists. The Government of Palau charges visitors a \$100 Pristine Paradise Environmental Fee on departure, up from \$50 in 2015. A 12% hotel occupancy tax is levied on accommodation sales. Visitors are also required to purchase permits to visit the Koror State public assets of the Rock Islands and Jellyfish Lake, which cost \$50 and \$100, respectively.

Palau has a large Marine Protected Area that is important for both conservation and ecotourism. Established in 2015 under the Palau National Marine Sanctuary Act, the area covers 80% of Palau’s exclusive economic zone. It is one of the largest no-take marine protected areas in the world, measuring 475,077 square kilometers (km²), or 38 km² for every Palauan citizen. A 2017 survey found Palau’s Marine Protected Area was influential in attracting environmentally conscious tourists, with 22% of visitors suggesting that Palau’s commitment to creating a national marine sanctuary was an important factor in their decision to visit (Palau International Coral Reef Center and the Stanford Center for Ocean Solutions 2019).

PRIVATE SECTOR ORGANIZATION

Palau’s tourism boom saw a rapid private sector expansion, including growing numbers of tourist accommodation providers and tour operators. The private sector is diverse, due to high levels of foreign ownership, and includes operators from Europe; Japan; the PRC; Republic of Korea; Taipei, China; and the United States, as well as Palau. Private sector tourism operators are supported by the Belau Tourism Association and Palau’s Chamber of Commerce.

TOURISM SECTOR CHALLENGES AND OPPORTUNITIES

ENVIRONMENT AND INFRASTRUCTURE

Palau’s appeal as a tourist destination relies on its image as a pristine natural environment. However, the recent rapid expansion of tourism overwhelmed the country’s infrastructure and threatened its sustainability. Water supply, beaches, coral reefs, and heritage sites were all affected. Palau also faces climate change-related threats and is at high risk of disasters. In 2012, Typhoon Bopha caused damage and losses equivalent to 7%–9% of GDP, while Typhoon Haiyan in 2013 caused estimated losses of 4% of GDP (Asian Development Bank [ADB] 2018).

Palau’s fragile water supply is a limiting factor for tourism. Water shortages and rationing occur in times of drought. More than three-quarters of the population of Palau live in urban areas, increasing pressure on water supply and sanitation, though the entire population has access to basic water supplies and sanitation (ADB 2017a). Sewerage infrastructure in Koror is poor, and swimming bans at beaches near tourist hotels have occurred due to contamination risk. Significant improvements are expected through the Asian Development Bank-supported Koror–Airai Sanitation Project.³

Increased generation of solid waste is outpacing recycling programs. Palau has good waste collection and a number of recycling programs, which are nonetheless unable to keep pace with increased waste production. Increasing importation of food, as well as tourism, are the main contributors. All of Palau’s population has access to electricity, and 8% of power is generated by renewable sources. While power produced from renewables is increasing, overall power consumption is increasing faster, meaning renewable energy is decreasing as a proportion of the total (Government of Palau 2019).

VISITOR DEMAND AND SATISFACTION

A sudden rise in the number of tourists visiting from the PRC shifted Palau towards unplanned, mass-market tourism. High-spending visitors, predominantly divers, had previously underpinned Palau’s tourism industry. The new visitors, arriving primarily via charter airline, on vertically integrated pre-paid package tours, spent significantly less in-country. This led to an increase in new and inexperienced tour operators, with poor environmental practices. At the same time, hotel developments aimed at the low-end traveler began to clutter the market (Government of Palau 2016).

With the expansion of the PRC market, the composition of Palau’s tourist arrivals changed significantly. Prior to 2010, Palau’s primary source markets were Japan—a major market since the 1980s, particularly for diving—and Taipei, China. In 2012, they still represented one third of all arrivals. From 2012

3 ADB’s Koror–Airai Sanitation Project will not only provide public health and environmental benefits, but also protect tourism. For more information, see: <https://www.adb.org/projects/42439-013/main#project-pds>

to 2019, visitors from these locations dropped by 50% and 60%, respectively. The change in visitor composition impacted tourism revenue. For example, a 2019 study found Japanese visitors spent an average \$185 per night on accommodation in Palau, compared to \$94 per night spend of visitors from the PRC (Graduate School USA 2019).

Visitor arrivals from the PRC have decreased rapidly. Several factors have contributed to this reduction, including Palau’s policy to reduce charter flights and the Government of the PRC initiating stricter enforcement of its policy to restrict travel to countries without “approved-destination” status (including Palau). On top of these factors, a severe El Niño effect in 2016 led to a significant loss of jellyfish in the Rock Islands, a key tourist drawcard. Visitor arrivals to Palau dropped 42% from 2015 to 2019, including a 65% drop in the number of visitors from the PRC.

SECTOR ORGANIZATION

A high level of foreign investment characterizes Palau’s tourism industry. An estimated 49% of tourism-related businesses in Palau are now foreign-owned. In the hotel sector, it is 70% (Graduate School USA 2019). The figure is likely to be even higher than reported because of the prevalence of “front businesses.”⁴ Many Palauans have been unable to invest in tourism on any scale, particularly in the accommodation sector, due to the high cost of entry.

4 “Front businesses” essentially bypass Palau’s foreign investment regulations by using a Palauan registered owner for a business effectively operated by foreign nationals.

The economic benefit of tourism to Palau is realized primarily through increased public revenues. Direct benefit to Palauan businesses and workers is limited by the high level of foreign ownership and employment in the sector. Although non-Palauan employment in the tourism sector grew by an average of 4.2% per year during 2010–2018, the employment of Palauans remained unchanged. The prevalence of tourism front businesses, as opposed to joint ventures, has also constrained the potential for knowledge sharing and managerial training (Graduate School USA 2019).

Volatility in visitor numbers has affected private sector operators. The fall in visitor numbers since 2015, while supporting efforts to protect Palau’s environment, left hotel rooms empty and other tourism service operators without customers. This had a disproportionate effect on smaller Palauan-owned businesses, many of which were established during the boom at the lower end of the market, often with loans.

ECONOMY, POLITICS, AND GOVERNMENT

“High-value” visitation is still a notional goal rather than a policy objective. A 2017 assessment suggested an understanding of the concept of high-value tourism remains limited in Palau (ADB 2017b). Despite attempts to encourage higher-spending visitors, average tourist spend has stagnated at around \$200 per night since the peak of the tourism boom in 2015. Palau’s lack of a comprehensive tourism policy or

Aerial view of islands, Palau.



master plan, alongside limited planning frameworks, has caused concerns that its tourism industry may still be vulnerable to unconstrained market forces.

Palau's tourism assets are managed on a state-by-state basis. There is no national framework for tourism site management, such as checking signage or beach cleanliness, and management varies significantly between states. There is also little coordination on the distribution of tourism revenues. For example, the state of Koror earns substantial revenues from tourists visiting the Rock Islands, while other states reap very little financial reward from tourism.

LAND ACCESS AND DEVELOPMENT

Complex land ownership and leasing practices constrain tourism and impact livelihoods. Land ownership in Palau is restricted to citizens, with foreigners permitted to lease land for up to 99 years. This can make it difficult for investors to develop new hotels and resorts. At the same time, a lack of support for local communities in the land lease development and negotiation process has led to a prevalence of bad leases, leaving communities facing poor compensation or without consideration of inflation. Concerns are increasing about “land alienation” and a low level of local control of the Palauan tourism industry (Vogt 2020).

Limited land-use planning threatens the sustainability of Palau's tourism industry. While there is some planning oversight in Koror, the majority of Palau does not have formal land-use controls for tourism planning. Individual states can grant leases for tourism development that may not be consistent with a national land-use planning framework (ADB 2017b). Development of tourist infrastructure, such as new hotels, is not subject to building codes, sometimes leading to electrical and plumbing problems and resultant environmental risks.

EMPLOYMENT AND TRAINING

Many Palauans prefer working in the public sector rather than in tourism. Government employment offers more consistent work and benefits compared with the perceived instability of the tourism sector. Under the Compact Agreement between the two countries, Palauans can study and work in the United States, which can create a “brain drain” of skilled workers and cause outmigration. Palau's labor market is close to full employment, with the 2015 census recording an unemployment rate of only

1.7% (Government of Palau 2021). The government sector, which includes governments at the local, state, and national levels, is Palau's largest single employer (ADB 2017b).

The tourism industry has increasingly relied on foreign labor. Workers from Asia, particularly the Philippines and Bangladesh, fill roles in hotels, restaurants, and housekeeping. However, restrictions imposed by both Palauan and international governments have limited the flow of foreign workers and raised concerns about future labor shortages in the sector (ADB 2017b). Some foreign workers also returned home during the COVID-19 pandemic, potentially creating additional labor shortages in the tourism industry.

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Bloody Nose Ridge, a World War II battle site, Peleliu Island, Palau



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Pacific Private Sector Development Initiative

Asian Development Bank
Pacific Liaison and Coordination Office
Level 20, 45 Clarence St, Sydney 2000 Australia

Ph: +61 2 8270 9444
Fax: +61 2 8270 9445

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 @ADB_Sydney_PSDI
 @ADB_Pacific_PSDI

www.pacificpsdi.org
info@pacificpsdi.org