

Unhappy holidays

Tourism is in trouble. War, terrorism, political instability and disease: these have affected the entire sector, adding to structural problems in areas like the airline industry. Yet travel and tourism are important parts of the global economy, in small and less-developed countries just as in major developed ones. What is the outlook for tourism and how can it respond in the present circumstances? We interviewed **Peter Keller**, Director for Tourism at the Swiss Secretariat of State for Economic Affairs, and president of the OECD Tourism Committee.



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Getting away from it all

OECD Observer: *Tourism industries have been affected by the events of 9/11 and now by the Iraq war. How important is tourism in the OECD economies and how badly has the impact really been on the sector?*

Peter Keller: Tourism is an important sector of the economy in all industrialised nations and is a key export service industry in the world economy. It represents nearly 30% of worldwide service exports. In some OECD countries this part rises to 50% or more! The

recent and current crises have shown the importance of direct and indirect effects on tourism in national and local economies. As past crises have shown, tourism is fragile and is strongly vulnerable to exogenous factors, like geopolitical skirmishes and broader tensions. Terrorism and wars are simply not compatible with tourism. People want to travel, but they have to feel safe first.

Take the Iraq conflict. Its immediate effects are several. There is the loss of consumer and industry confidence as people feel

uncertain about travelling. The airline sector and the region concerned by the war are particularly affected. The number of passengers has fallen by 10% generally, and 42% for the Middle East region in March 2003 compared to a year earlier. Add to this the problem of containing infectious disease, as with the present scare over SARS, and you will understand just how vulnerable travel and tourism are. Despite lost revenue, the tourism industry must face increases in supply-side costs, such as in insurance, security and oil prices.

And perhaps most serious of all are the employment losses, both in tourist destinations and in related industries, like aviation. The American Air Transport Association reports the cancellation of more than 200 daily flights, and again heavy job losses – 70,000.

Within the OECD area, which represents about two-thirds of international tourism, it is anticipated that home and neighbouring markets, which account for the lion's share of tourism revenues, are less crisis-prone and can in any case make up for much of these losses with the help of tourism from abroad.

Has every country been affected or are some types of tourism or regions weathering the storm better than others?

Peter Keller: For a long time, the security risk was mainly limited to regions with low political stability. The events of 11 September have shown that with globalisation, all OECD countries are vulnerable to acts of terrorism. In 2001, tourism demand fell slightly for the first time since the Second World War. Tourism demand shrank in general and particularly for the concerned destinations. After 11 September, hotel bookings in New York dropped for a time, and transatlantic flights were both cheaper and emptier as people stayed at home. But experience shows that a sharp recovery in demand usually follows rather soon after even massive decreases. The operational sector, tour operators and airlines, are more and more used to predicting the behaviour of visitors in such cases. They have developed the know-how for efficient crisis management, using the likes of promotions, information campaigns and capacity adjustments to keep business going.

Can these trends be blamed solely on the current political climate, or are there deeper, structural issues at play?

Peter Keller: Tourism very much relies on the authorities being able to provide such essentials as public security and political stability. Tourism is thus highly susceptible and a natural target for international terrorism. The collapse in demand following acts of terrorism, although short in

duration, does point to certain problems of a structural nature in this particular branch of the economy. In particular, the rapid and extensive growth in tourism products and services all over the world in the past few decades has in many cases been made possible by state support. This has resulted in overcapacity in key sectors of the industry, such as the hotel trade and civil

Germany, the United Kingdom, Japan, France and Italy are also important outbound markets. They spent altogether in the same year US\$141 billion on foreign travel.

Tourism is a key economic sector in many OECD countries. Yet tourism growth cannot be taken for granted everywhere.

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aviation. In the airline sector, high employment and operating costs and competition from low-cost carriers have created major structural problems. The major network companies are suffering most. Also, let us not forget that the world economy as a whole has been in a weak condition and this naturally affects tourism as it would any other sector.

The scarcity of American visitors is causing some concern in world tourism markets.

How do you explain the fact that Americans, who often have less paid leave than most Europeans, tend to be the largest spenders in so many of the countries they visit? Do countries rely too much on the US market?

Peter Keller: International tourism today is less dependent on the spending of American tourists than at the time the OECD was founded in the 1960s. The fact that the United States has become the world's largest earner and has a positive balance of tourism payments seems to have gone largely unnoticed. In other words, the US receives more tourism revenue than it spends abroad. In 2000, US receipts from international tourism amounted to US\$82 billion. In the same year Americans spent US\$59 billion on travel abroad.

Still, the United States remains the largest single tourism source market for most countries. American spending per capita and per day count more than the length of paid holidays. But other OECD countries like

How do you see the role of public policy in this area?

Peter Keller: Despite the unbroken growth trend in the sector as a whole, for individual countries and tourism enterprises there is no guarantee of steady growth. Some of the traditional tourist destinations in the OECD countries have still not managed to adapt to the new competitive conditions in a world market that has expanded considerably and become internationalised. Moreover, tourism demand is by its very nature volatile, and fluctuates in response to such factors as exchange rates and the weather, as well as the political stability I have already mentioned. Against this background the temptation is great for governments to take one of two extreme courses: either to shore up existing tourism structures with hefty subsidies, or to take the opposite tack and allow the tourism sector to sink or swim on its own. Neither option is recommended. Nor is any state in a position to hold back structural change in the largely liberalised tourism markets. States can on the other hand help to ensure that better use is made of existing tourism potential, which is still considerable in the OECD countries, by providing the best possible framework conditions for businesses to operate in.

What advice would you give governments that are anxious to turn their tourist industry around in the years ahead? Are

there any models of excellence that can be followed?

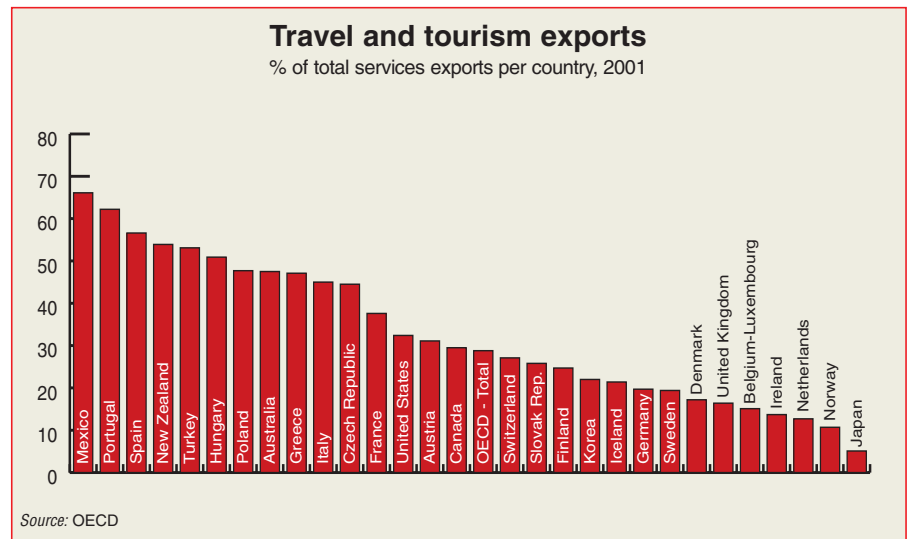
Peter Keller: Basically the economy must be able to provide tourism services that are both satisfactory and reasonably priced. In contrast to the international travel industry, traditional destinations have fragmented structures, reflecting the small businesses that dominate this sector. By promoting co-operation in the preparation of tourism products and services and a joint approach to the market, the state can help make up for the disadvantages that go with insufficient size and ensure that better use is made of the tourism potential. One must also not lose sight of the fact that tourism is extremely dependent on the public domain for such basics as beautiful landscapes, monuments that are worth visiting, functional transport infrastructure and guaranteed public security. A state able to provide efficient services and assure well-kept amenities offers advantages for tourism.

Some OECD governments are considering restricting early retirement to be able to manage future pension costs. Do you see this type of initiative as a risk, given the importance of the senior market for all-year tourism?

Peter Keller: Households basically spend money for travelling on the basis of their lifetime income expectations. Generally speaking, they do not travel less after retirement than before, preferring to set money aside when they are still at work or to earn a little extra when they are retired so as to ensure that their standard of living remains the same – and that includes travel. But arrangements made for retirement are less important to tourism than, say, steady economic growth, which creates prosperity and the essential preconditions for sufficient travel budgets.

In the 1970s and 1980s much was written about the leisure society, that technology would free us from mundane work and allow us to concentrate on more hedonistic, leisurely pursuits. Was this all a pipe dream or are people taking more holidays than ever before?

Peter Keller: Tourism is currently undergoing structural change. A new tourism with two opposing trends is



particularly noticeable. On the one hand, the need to deal with ever greater flows of tourists has inevitably led to the industrialisation of tourism. We have today an important international travel industry with tour operators, airlines and hotel chains. These large firms make the best of local growth potential by applying global strategies. They use natural and cultural attractions in their business models. At the same time they increase their operating efficiency so as to bring down the cost of travel and holidays.

On the other hand, thanks to the constant increase in productivity, higher incomes and travel budgets in the developed nations, a kind of “experience economy” has been created that provides personalised services and caters for all possible aspects of human well-being in the fields of physical, mental and even spiritual health. Small and medium-scale tourism in the traditional destinations in OECD countries stands to benefit considerably from this basic innovation. They can customise their holiday offers to the individual’s needs.

Some argue that the development of tourism has a role to play in helping to eliminate poverty. What could be the contribution of OECD countries in this respect?

Peter Keller: When it comes to tourism the poorer countries enjoy what is sometimes termed “the advantages of backwardness”.

Compared to the more advanced countries, indeed they are often richer in “nature capital” and traditional culture. They benefit from the fact that differences in productivity between them and the industrialised nations are not great in tourism, which is a labour-intensive industry, and their wages are low. The poorer countries are forced, however, to import large amounts of goods in order to meet the standards of comfort and quality expected in international tourism. Know-how transfer, direct investment and facilitated market access can prevent “leakages” and the net currency effect of tourism can be improved.

What about new forms of tourism, like ecological tourism? Is this economically sustainable? And space tourism?

Peter Keller: Tourism is a dream factory. Consumers will always be ready to go to great lengths and part with large sums of money to enjoy that “special travel experience”. Travel to the last remaining wide-open spaces and areas of natural beauty is a lucrative niche market. A trip to the Antarctic is very expensive. As for leaving our “blue planet” for a bit of space travel, the current price tag is in excess of US\$20 million. It is unlikely that spaceships will go the way of the motor car and airplane in the 20th century and become cheap and accessible to all and so drive a new chapter in tourism. The sky may be the limit after all. ■

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