

Tourism Industry Intelligence

Strategic Information for Decision-Makers

Destination China

March 2003

A growing economy

China's Gross Domestic Product rose from US\$880 billion (7.4 trillion yuan) in 1997 to US\$1.2 trillion (10.2 trillion yuan) in 2002, an average annual increase of 7.7% when calculated on constant prices. China's GDP is projected to grow 7% in 2003.

Increasing arrivals

In 2001, China was the 5th largest tourist destination in terms of arrivals. In 2002, China was expected to receive 97 million visitors and in 2003, China is projected to receive 100 million inbound tourists. Hong Kong, Macao and Taiwan had the highest number of arrivals to China in 2002. Other major sources of visitors for China with double-digit growth were Republic of Korea, the Philippines, Malaysia, Indonesia, Thailand, Mongolia, Singapore, Japan, Australia, Britain, the United States and Canada.

Increased tourism income

Total income from domestic and international tourism is projected to reach US\$75 billion by 2003, an 8.5% increase over US\$69 billion in 2002. Foreign tourism income is expected to reach US\$21.5 billion in 2003 up from US\$20 billion in 2002 while domestic tourism is expected to generate US\$53 billion in 2003.

Increased participation in tourism

About 24 of the 31 provinces, municipalities and autonomous regions have made tourism one of their pillar industries. Travel agencies in China have increase in both number and size. **By the end of 2001, there were 10,532 travel agencies**, of which 1,310 (42 more than 200) dealt with international travel services and 9,222 (1,497 more than that in 200) organise domestic tourism, according to the Chinese National Tourism Association. By 2001, **foreign investment in star-rated hotels amounted to 592 out of a total of 7,358 star-rated hotels in China**. Already, China has introduced a ranking system for its tourism areas, selecting 'Top Chinese Tourist Cities' according to standards formulated in collaboration with the *World Tourism Organisation*.

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The future

China has chosen "cuisine travel" as its 2003 theme for tourism. Different areas of China will explore typical tourism products under this theme. China will also host the Olympic games in 2008 and this presents another growth opportunity for tourism. China's stable political situation and wealth of history augurs well for its future tourism development. **By 2020 China is expected to receive 145 million visitors of which 33.7 million will be foreigners generating US\$75 billion in foreign tourism receipts**. With China hosting the 15th meeting of the World Tourism Organisation in October 2003, there is the opportunity to highlight China's latest tourism achievements.

Source: <http://english.peopledaily.com.cn> and www.traveldailynews.com

Market & Consumer Trends

Travellers with Disabilities Could Spend \$27 Billion Per Year

People with disabilities could spend at least \$27 billion per year, if certain needs were met. These include a "meet and greet" at airports and preferred seating as top issues for the airlines, while lodging issues include the need for rooms close to amenities and staff members that go out of their way to accommodate guests with disabilities, this is according to a study conducted by Harris Interactive which polled 1,037 people with disabilities. **People with disabilities spent \$13.6 billion on 31.7 million trips in the past year.** However, the modifications suggested by the survey could increase expenditures by people with disabilities by 100% per year.

European youth travel significant

International travel has become an integrated part of the life-style of youths aged 15 – 25. More and more youths are traveling on holiday, to visit friends, to study, for business and other purposes. Young travellers make up 21% of French travelers, 14 % of German travellers and 12 % of British travelers. **Worldwide, young people account for an estimated 17% of all international trips**, showing the importance of youth tourism.

Destination Watch

Seventh Year of Increased Arrivals for France

France retained its position as the world's most visited destination with a total of 76.7 million arrivals in 2002, an increase of 2% on 2001, according *French Secretary of State for Tourism*, Leon Bertrand. The increase signifies the resilience of tourism in the face of a difficult international context marked by terrorism and economic uncertainty. **France witnessed growths from markets closer to home, most notably from Italy, Spain, Greece and Portugal.** The level of spending by overseas tourists rose by an estimated 2.4%.

Tourism proves resilient in Asia Pacific

The Asia Pacific region registered an average annual growth of more than 6% in international arrivals and over 2% in tourism receipts in the second half of the 1990s – despite the Asian economic and financial crisis of 1997 – 1998, which had significant impact on demand. In 2001, although receipts stagnated, the region overall recorded a further 5% growth in arrivals. In 2002, **there was an 8% increase in arrivals**, according to *World Tourism Organisation* data. There were indeed differences in performance from one destination to another and those destinations that are already suffering due to image problems will likely show no improvement now that war has begun.

Eco-Monitor

Environmental impact of war

In the preparation for war there is an indirect impact in a diversion of resources from ecological protection to military spending and through the pollution caused by arms production and direct impacts through weapons testing and military training. **In war there are not only civilian casualties but also the incidence of environmental destruction through the release of industrial chemicals.** Modern weapons rely on toxic chemicals for much of their explosive force and propulsion. When a heavy bomb goes off, it creates temperatures of approximately 3,000 degrees Celsius; this not only annihilates all flora and fauna but also destroys the lower layers of soil which can take from 1,500 to 7,400 years to regenerate. **Modern wars are much more devastating as there is an unparalleled destruction created in a short time span by toxic munitions, unexploded weapons, the physical and biological effects of damage to soil and landscape; and the human suffering resulting from the disruption of social systems.**

Secrets of Success - Southwest Airlines

Launch date:	1971
Chairman of the Board:	Herbert Kelleher
President, :	Colleen Barrett
Base:	Love Field Drive, Dallas
Fleet:	375 Boeing 737 jets
Employees:	35,000
Passengers carried in 2002:	63 million
Booked reservations:	83 million
Top 10 Airports served:	Phoenix, Las Vegas, Baltimore/Washington, Houston Hobby, Chicago Midway, Dallas, Oakland, Los Angeles, Nashville and San Diego

30th consecutive year of profitability

For 2002, Southwest reported its 30th consecutive year of profitability, with annual net income of US\$241 million compared with 2001 net income of US\$511 million. At the end of 2002, Southwest Airlines had a total operating revenue of US\$5.5 billion. Southwest also has the best performing stock over the past 30 years according to Money Magazine.

US\$75 million reward for employees

In what could be considered to be the worst year in aviation history – bankruptcies of many airlines, Southwest has been a shining star. James Parker, Chief Executive Officer has announced that **the company has been able to reward its dedicated employees with a US\$75 million contribution to the company's profits.**

Doubling of employees in 10 years

In ten years Southwest airlines has more than doubled its employees from 14,000 in 1993 to 35,000 in 2002. In fact Southwest received 243,657 resumes and hired 5,042 new employees in 2002. *Fortune* ranked Southwest Airlines in the top five Best Companies to Work for in America.

Specific niche market

Unlike other airlines, **Southwest has created a new market – short haul air transport**, with fares often 60% below competitors. Southwest's average one-way airfare is \$84.15 and the average trip length is 720 miles. Southwest targeted those persons who would choose flying ahead of driving in order to save time. **Quick turnarounds and secondary airports are therefore a key strategy to enhancing the speed of short-haul travel.**

Commitment to employees and customers

What also distinguishes Southwest from other airlines, is its commitment to its employees and customers. In fact, **its employees are its first and most important customers**; if the company can make them happy, they in turn will work hard on behalf of the company. "We want people to have fun at work" says Colleen Barrett, President, *Southwest Airlines*. Barrett nurtured and produced a culture within Southwest which is truly extraordinary, where people are cared for, says Herbert Kelleher, *Chairman of the Board and Chairman of the Executive Committee of Southwest Airlines*. In addition, Southwest employees are unmatched in terms of productivity and it is not unusual to see Southwest pilots helping flight attendants clean the cabin in a tight turnaround. Interestingly Southwest is 81% unionised and is among the most unionised airlines in the world.

Triple crown award for 5 consecutive years

Southwest was recognised for its excellent financial strategy and its ability to adapt to change successfully in the face of strategic and operational challenges by *The Economist Intelligence Unit* at its "2002 Global Corporate Achievement Awards". Southwest also won the Triple Crown award for 5 consecutive years for having the fewest customer complaints, best baggage handling, and best on-time performance.

Source: iflyswa.com, Financial Times, National Public Radio, 2002

Editorial

Now that war has begun, the travel and tourism industry moves from a period of uncertainty to one of anxiety. The world braces for more terror attacks and travel and tourism which just showed a remarkable resilience, is facing yet another challenge. While tourism has not collapsed during the face of adversity, the airline industry is still facing economic woes and the war will exacerbate this. Globally the economic downturn will be further worsened however it is while the world is in turmoil that it is the time when persons feel the need to travel and get away from it all. It is therefore critically important that service providers continue providing quality service in these challenging times. Given the resilience of the industry in the past, one can only hope for a very short and contained war, as prolonged war will have major social, economic and environmental impacts.

Trends to Watch

Impact of an Iraq War on travel and tourism

A prolonged war in Iraq would **destroy more than 3 million jobs in the global travel and tourism industry and eliminate more than US\$30,000 million of economic value (gross domestic product) in 2003**, according to *World Travel & Tourism Council* research. The impact of a prolonged war will not, however, have a uniform impact on all countries. The world's largest economy, the USA, will suffer a massive shock with an estimated decrease in the economic value of its travel and tourism industry of 3.7% and the loss of 450,000 jobs. The UK will see the economic value of its travel and tourism increase by 1%. The same is also true for Germany with a 0.8% increase. The overall impact is expected to be negative. Assuming that the war is short and contained, it is estimated that, in 2003, **the value of the travel and tourism industry will account for 195 million or 7.6% of the world's jobs, US\$3,527 billion of economic value or 10.2% GDP.**

World tourism arrivals surpass 700 million

The preliminary statistics for 2002 as shown for the first time in history that the **number of international tourism arrivals has exceeded the 700 million mark** according to the *World Tourism Organisation*. Despite the grim expectations and debates on crisis 2002 ended with a 3.1% increase in arrivals to 715 million. This figure represents **22 million more arrivals than 2001 or 19 million more than 2000**. Europe remains in first place while Asia and the Pacific has the number two spot (previously held by the Americas).

Airlines will ease ticket changes during war

America's major airlines – American, United, Delta, Northwest, Continental, US Airways and other airlines will make it easier for passengers to change tickets during the war period. **Passengers will avoid paying penalties if they want to reschedule their flights or even pick new destinations.** This move serves to reassure passengers that they can go ahead and make their plans to travel.