

Travel and tourism

A new itinerary

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Both as destinations and as new sources of tourists, emerging economies are transforming the travel industry

WHEN you arrive at Dubai International Airport, the bus journey from your aeroplane to the terminal building takes almost 15 minutes. This is not because Dubai is inefficient—far from it—but because for a small country it has a huge airport, which is in the throes of expansion. The airport will still be too small to cope with the swelling inflow of travellers, so Dubai's rulers are building another one, at Jebel Ali, a port town 35km (20 miles) away, which is due to come into full operation in 2017. Designed to handle 120m passengers a year, it is expected to be the world's busiest airport.

Booming emerging economies are the great hope of the world's travel and tourism industry. Dubai is the most shimmering example. It has only a tiny percentage of the United Arab Emirates' oil reserves, and so is straining to turn itself into a regional hub for finance, travel and high-class tourism. Three palm-shaped island-resorts are being built: the Palm Jumeirah (pictured), the Palm Jebel Ali and the Palm Deira. The Burj al-Arab, curved like a sail and on another artificial island, is the world's only seven-star hotel—with its own helipad, naturally. Dubai also boasts the Middle East's first indoor ski-slope.

About 30% of Dubai's GDP depends on travel and tourism, but Sheikh Mohammed bin Rashid Al Maktoum, Dubai's ruler, wants the industry to grow much more. He is the driving force behind the construction of Dubailand, a tourism and entertainment complex divided into seven theme worlds that are Dubai's answer to Disneyland. By 2015 Dubailand is aiming to attract 15m tourists, roughly 40,000 visitors daily.

No wonder, then, that last month the top brass of the World Travel & Tourism Council (WTTC), the industry's main lobby group, held their annual meeting amid Dubai's glitz. They might have found lots of reasons to be gloomy: a weak dollar, sky-high oil and food prices, looming recession in America and a credit crunch on both sides of the Atlantic. Yet the tourism barons were fairly chipper. They hope that Americans will still travel, albeit more parsimoniously. And they think that travellers to and from emerging economies will make up for some of the flagging *Wanderlust* of the developed world.

Ready for take-off

The rise of emerging economies marks the third revolution the travel industry has undergone in the past 50 years. The first came in the 1960s, in the shape of cheap air travel and package tours. Rising incomes enabled people of modest means to travel more, to farther-flung parts of the globe, and to take advantage of "all-in" offers that may have included sightseeing trips, scuba diving or camel rides. The second was the advent of the internet, which has allowed millions to book flights, hotels, hire cars and package tours without going near a high-street travel agent.

Now fast-growing emerging economies—not just Dubai but also the BRICs (Brazil, Russia, India and China) and others, such as South Korea and Vietnam—are changing the world of travel once again, either as destinations or as sources of newly affluent travellers. Often, citizens of these countries are visiting similar,

emerging lands. Last year, for example, Russians made a total of 34.3m trips abroad, up from 29.1m in 2006. Turkey was their most popular destination, followed by China and Egypt. The Chinese head the table of visitors to Vietnam.

The WTTC claims that travel and tourism is the world's biggest industry in terms of its contribution to global GDP and employment. The lobby group forecasts that global travel and tourism will account for \$5.9 trillion of economic activity in 2008, or about 10% of global GDP, employing 238m people. It expects employment to rise to 296m in the next decade.

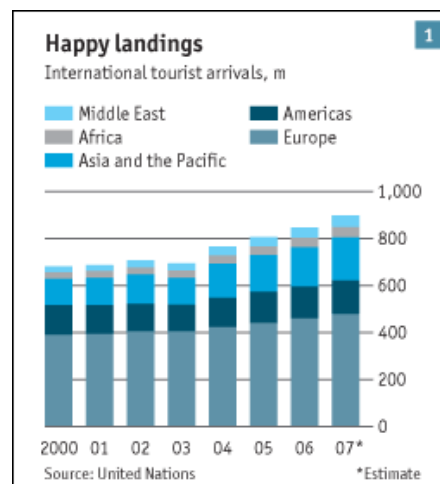
In fact, assessing the scale of the industry is not straightforward. When all travel and tourism is lumped together, so that everything from airlines to cafés counts, it is no surprise that the WTTC's total is so large. As a rule, restaurants do not record whether they are serving tourists, business travellers or locals out for a meal.

The United Nations World Tourism Organisation (UNWTO) has resorted to monitoring international tourist arrivals only. It therefore knows where tourists are going to, but has a much less accurate idea of where they have come from. Travel and tourism data from developing countries, in particular, are unreliable. And many of the industry's jobs, such as tour guides or souvenir salesmen, go unrecorded. Officially, the tourism business in Sicily is sizeable, but it would be bigger still if untaxed and undeclared jobs were counted.

Never mind the difficulties of definition and measurement: the industry, from any angle, is huge and growing. It accounts for a large part of many countries' foreign-exchange earnings. For many developing countries, it offers an important route out of poverty. And further expansion and democratisation of tourism, centred on emerging economies, is under way. Having once worked in tourism, an increasing number of citizens of those countries are beginning to become tourists themselves.

According to the UNWTO, international tourist arrivals grew by 6% last year, to 900m (see chart 1). The total has gone up by almost 100m in two years. Last year the Middle East welcomed 13% more international tourists, or 46m in all. Arrivals in Asia and the Pacific were up by 10%, to 185m—with much of the extra travel coming from elsewhere in the region. Africa saw an increase of 8%, to 44m. This year, the UNWTO predicts, growth of international tourism will be fastest in Asia and the Pacific.

Forecasts for growth are even less reliable than in other industries, partly because tourism is vulnerable to shocks such as natural disasters or terrorist attacks. José Antonio Tazón, boss of Amadeus, a travel-technology company, points out that global firms are less exposed than local ones. They can make up for lost business in a region affected by catastrophes with business in other parts of the world.



A dollar won't stretch that far

For the next year or two, the travel industry is likely to find its long-standing customers in rich Western countries a less than reliable source of growth. As American families plan their holidays, many will be worrying about the frailty of their country's economy, the rising cost of petrol and—for those venturing outside the United States—the weakness of the dollar. They are delaying booking in the hope of nabbing cheap, last-minute deals.

They certainly seem to be spending less. On May 7th *Orbitz*, an American online travel-firm, posted a first-quarter net loss of \$15m compared with a net loss of \$10m a year earlier. The mainstay of its business is domestic bookings, which were 6% lower in the first quarter than a year earlier, at \$2.4 billion.

About 85% of American travel and tourism is domestic. Only one-fifth of American citizens have passports. Those thinking of going abroad will need more tempting than usual. Some hotels in European cities are offering deep discounts to American travellers to make up for the weakness of the dollar. WorldHotels, a hotel-marketing company, says that Americans can book rooms at a one-to-one euro-dollar exchange rate—a saving of roughly one-third at today's rate—at 52 of the European hotels on its books. Nevertheless, WorldHotels saw a 15% drop in business from Americans at its European hotels during the first quarter of this year.

Yet the industry remains confident that people will travel, even if they spend less. "One of the last bits of discretionary spending people cut is their holiday," argues Thomas Middelhoff, chief executive of Arcandor, the German retailer that owns Thomas Cook, a travel company.

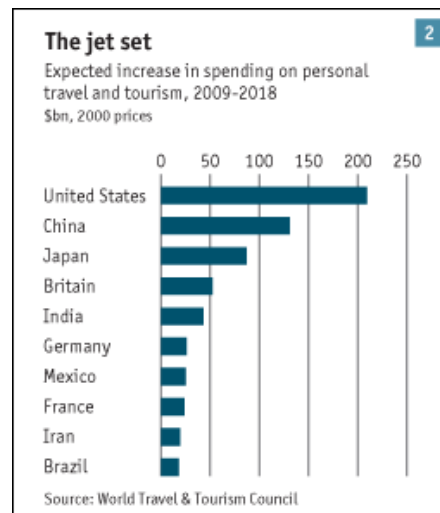
Some European travellers, by contrast, will at least have the benefit of a strong euro. Within the continent,

there are other pluses. The expansion of low-cost airlines is boosting short-break travel. The extension of the passport-free Schengen area to nine more countries makes trips within Europe easier. The Euro 2008 football championship in Austria and Switzerland, the Zaragoza International Expo in Spain and Liverpool's reign as Europe's cultural capital are also expected to be good for business. That will help the European Union remain the biggest contributor to global travel and tourism, with 27.5% of the share of the world market and more than 10% of the industry's total workforce.

Even so, Europeans are likely to feel the slowdown of the economy and the impact of the high price of oil. British Airways recently upped its fuel surcharge, which now stands at £158 (\$312) for a return long-haul flight to Britain. On May 7th easyJet, a low-cost airline, unveiled a £57.5m loss for the six months to the end of March. Granted, that is usually the company's weaker half-year, but the loss a year before had been only £17.1m. The trouble was the rising cost of fuel, which now accounts for 28% of easyJet's cost per seat. All this means tourism in the EU will grow by only about 2% this year, reckons the WTTC, compared with worldwide growth of 3-4%.

For faster growth, the industry will have to look to emerging economies. These are becoming increasingly well established as places to visit. Now they are starting to provide more visitors too. According to McKinsey, a consulting firm, by the middle of the next decade almost a billion people will see their annual household incomes rise beyond \$5,000—roughly the threshold for spending money on discretionary goods and services rather than simple necessities. Consumers' spending power in emerging economies will rise from \$4 trillion in 2006 to more than \$9 trillion—nearly the spending power of western Europe today.

Some of that extra purchasing power will go on travel, at home and abroad (see chart 2). Western companies are flocking into the developing world to prepare for these new tourists. "The Middle East, India and China are the next big thing," predicts Bill Marriott, the chairman and chief executive of Marriott, an American hotel chain. He thinks that the industry will be bigger in the Middle East, where he is planning to build 65 hotels by 2011, than in India. China will dwarf even the Middle East.



The new travellers

Last year the number of visits abroad by the Chinese reached 47m, 5m more than the number of foreign visitors to China. The Chinese also made 1.6 billion trips at home—a staggering total, but not much more than one each. According to WTTC forecasts, Chinese demand for travel and tourism will quadruple in value in the next ten years. At present China ranks a distant second, behind the United States, in terms of demand, but by 2018 it will have closed much of the gap.

Other emerging economies have woken up to the spending power of Chinese tourists. Mexico is one: AeroMéxico will begin direct flights between Mexico City and Shanghai at the end of May. The plan is to fly twice a week. In Vietnam, home to one of the fastest-growing tourist industries in the world, Chinese and other Asian tourists are overtaking Westerners. In the first 11 months of last year 507,000 visitors came to Vietnam from China, along with 442,000 from South Korea and 376,000 from America. The Tourism Authority of Thailand is also counting on more Chinese custom. It forecasts that 1.3m Chinese will visit the country this year, 10% more than last year (when visitors were put off by Thailand's unsettled politics).

To speed up the development of tourism and other industries, the Chinese government is racing to build roads, railways and airports. In January it said that it planned to add 97 airports by 2020 to the 142 China had at the end of 2006. The number with an annual handling capacity of over 30m passengers will grow from three to 13. According to the state media, investment in infrastructure will see double-digit growth every year for the rest of the decade. Between 2006 and 2010, \$200 billion is expected to have been invested in railways alone, four times more than in the previous five years. In June the world's longest sea-crossing bridge, a 36km six-lane highway across Hangzhou Bay, is due to open. This will halve the travel time between Ningbo and Shanghai, two of China's busiest ports, to about two hours.

Asia's other rising economic giant is lagging behind China, both as a source of tourists and as a tourist destination. Last year India had only 5.5m foreign visitors, a tiny share of the world market: the country of the Taj Mahal and the Himalayas ranks below Bulgaria and Bahrain. Fewer than 10m Indians travelled abroad, though about 600m Indians made trips at home. Andhra Pradesh, home of many religious sites, got the lion's share of visits, whereas foreigners flocked to Delhi and Maharashtra, India's most urbanised state. Travel on the subcontinent can be bewildering even for Indians, owing to more than 20 official languages and innumerable dialects. Many moan as much as foreigners do about uncomfortable transport, strange food,

unusual bowel movements and the lack of decent hotel rooms.

The subcontinent's biggest problem is the poor state of much of its infrastructure. The government plans to spend more than 20 trillion rupees (around \$500 billion) on infrastructure in the five years to 2012. India's tourism ministry says it spent 4.6 trillion rupees on 248 projects in the year to March. India's main airports are undergoing expensive facelifts with lots of private-sector money. Parts of Mumbai's Chhatrapati Shivaji International Airport are gleaming; but elsewhere people sit with their saris drawn over their mouths to stop themselves inhaling the dust as plasterboard is machine-sawn nearby. At Indira Gandhi airport in Delhi, immigration officials will think nothing of clocking off with four or five people left in the queue, who then have to go to the back of another line. An official will stamp a traveller's visa—and a few yards later a guard will check that it has indeed been stamped.

Some investors are backing the country's breathtaking beauty against all the inconvenience and bureaucracy. Marilyn Carlson Nelson, chief executive of Carlson, a privately owned travel group which owns Radisson hotels and Regent Seven Seas Cruises, sees great promise in India. Carlson is developing around 50 hotels in India compared with only ten in China. Manny Fontenla-Novoa, chief executive of Thomas Cook, a travel company, is equally optimistic about India's potential. In March Thomas Cook bought Thomas Cook India, the subcontinent's largest foreign-exchange and second-biggest travel business, dating back to the 1880s, from Dubai Financial Group. Joint ventures in Russia and China are next on Mr Fontenla-Novoa's list.

Clouds on the horizon

What might stop tourism's latest revolution? Political violence is one possibility. Developed countries are no strangers to terrorism, but the dangers in emerging economies are greater. This week's bomb attacks in Jaipur, a popular spot on the Indian tourist trail, are a bloody reminder. Kenya, a country that depends on tourism for much of its foreign income, lost about half its business in the wake of political violence after elections in December. Natural disasters are also likelier to cause worse devastation in poorer places. However, Mr Tazón of Amadeus points out that "the industry has proved to be very resilient." It recovered quickly after the terrorist attacks on September 11th 2001, SARS, the outbreak of the war in Iraq and the tsunami in December 2004.

Another possible obstacle is the growing concern, especially in Western countries, with the environment. During the 1960s and 1970s, when tourism was growing explosively in American and Europe, few gave much thought to the consequences for the planet. That has changed. Philippe Bourguignon, vice-chairman of Revolution Places, a travel business, says that greenery cannot be dismissed as merely the flavour of the month.

The industry, which contributes 5-6% of all carbon emissions, seems worried. Green strategies are multiplying. In April Travelport, a travel-technology company, introduced the Travelport Carbon Tracker, which allows travel agencies and companies to measure and analyse carbon emissions and hence to help "sustainable travel decision-making". Hotels are keen to show that they conserve water (do you really need a clean towel every day?), recycle rubbish, and save electricity by using low-energy light bulbs. Airlines order less thirsty planes. Eco-spas powered by wind turbines and solar panels, and safaris based on conservation are vying for the customer with a green conscience.

Marriott's efforts are a case in point. In April the hotel firm and the Brazilian state of Amazonas signed an agreement to protect 1.4m acres of endangered Amazon rainforest in the Juma Sustainable Development Reserve. Marriott is chipping in \$2m to pay for an environmental management plan administered by the newly created Amazonas Sustainable Foundation that will support employment, education and health care for the approximately 500 people who live in the Juma reserve. Over the next ten years Marriott aims to reduce energy and water consumption at its hotels by 25% by, for instance, introducing solar power at up to 40 hotels. "After years of lip service, companies like Marriott are really being proactive," says Michael Johnson, dean of Cornell University's School of Hotel Administration.

For all this concern, emerging economies are much more interested in rapid growth than in ecology. And holidaymakers, wherever they are from, seem unwilling to give up flying or driving just yet. Mr Fontenla-Novoa sees little evidence that an environmental conscience plays a big part in customers' travel planning. Westerners have had their decades of fun. Now the rest of the world wants a turn.