Destination Theory: How can we merge demand and supply sided approaches?
Keynote Speech, 3rd Advances in Tourism Marketing Conference, School of Service Management, University of Bournemouth, 8 September 2009

Global Financial and Economic Crisis: What are the Implications for World Tourism?
Conclusions of a study prepared for UNWTO on the impact of the financial crisis on world tourism, UNWTO Madrid, September 2009

Tourism Growth and Global Competition

Trends in tourism labour market: Is tourism a driver of employment in developed countries?

Gaining competitive advantages through productivity-led growth: The case of developed countries

Exchanges, sharing and development: tourism in the globalised society of the XXI century
Report of the Strategic Committee of the World Tourism Organization WTO, 6th Meeting, Alexandria (Egypt), Madrid, 2002

New Paradigm for International Tourism Policy
Destination theory: Merging demand and supply side approaches

3rd Advances in Tourism Marketing Conference, School of Service Management, University of Bournemouth, 8 September 2009

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1. The questions to be asked: Thinking about the essentials of destination marketing

Introduction: Lacking coherent body of destination marketing knowledge

To win new visitors and to increase the number of repeaters is a strategic success factor for tourism related firms. Or, this crucial managerial task is not sufficient in the field of tourism which is demand driven. In fact, travel choices and tourism consumption are not only taken for products provided by firms. They depend on the destination. Complementary marketing of destinations is therefore a necessity.

NTO’s and DMO’s are commissioned by the tourism related industry and the governments to promote destinations. They developed a specific experience on how to promote destinations in cooperation with the tourism related industry which offers the products.

Despite the fact, that these tourism organizations exist since more than one hundred year, there is no congruent body of knowledge with a theoretical background in this field. Managers often apply just common marketing concept for the purpose of the destination marketing. They use analogies for explaining the characteristics of its characteristics. The scope of the marketing activities differs from organization to organization. The evaluation of the performance is most of the cases more qualitative than quantitative.

The following thoughts must be considered as an essay to adapt essential concepts in the field of economics such as new economic geography, industrial organization or institutional economics to give destination marketing a better theoretical foundation and - at the same time - to contribute to improve the evaluation of the performance of tourism organization.

Hypotheses on the market process and the institutional structure

First set of hypothesis: The building and the promotion of destinations is a market process and not only a matter of management.

How can we explain the market potential of destinations? Destination managers do not decide about the size of the destination or the hierarchy between destinations!

How does competition in the field of destination function? There is a first imperfect competition between destinations and a need for differentiation strategies!

Which is the most efficient destination marketing structure?

Destinations are market places where single firm first compete and then cooperate by outsourcing the destination promotion!
Second set of hypothesis: Destination marketing works only with an institutionalised cooperation between the private and the public sector.

Is there a need for subsidising tourism organisations? The image promotion is a public good and transaction costs for destination marketing are high!

How can the cooperation between the private and public sector become more efficient and performance oriented? The destination marketing is a business subsidized by the State. Without institutionalised cooperation between the private and the public sector, destination marketing cannot be efficient and performing.

2. The resource potential: Looking for a new destination concept

Resources and value of destinations

The building of destinations is based on market processes. The key notion is the willingness to pay of the visitors which depends not only on the supply of goods and services but also on attractions. These attractions can be natural, cultural or manmade.

Attractions can take the form of so-called destinations goods. Positive externalities such as the flower decoration of a city are such goods. Social resources such as restaurants using the charm of public places can also be considered as destination goods. Last but not least, public goods such as monuments or a protected landscapes are also destination goods.

The willingness to pay for attractions gives the destination a value which can be used for branding and pricing. Unique attractions create and strengthen a brand of a destination which gives to the SME’s operating under the umbrella of the destination a rent. More than that, a high willingness to pay for a destination allows firms to apply a value based pricing. They can ask prices above the usual market prices. This is very important for SME’s which suffer from cost disease and need therefore to overcome lacking efficiency by the best prices they can obtain on the markets.

Destination building process and hierarchy between destinations

The attractions are endogenous growth factors which determine together with the exogenous growth factors such as the market potential and the transport cost the size of a destination. The importance of attractions has an impact on the number of visitors. Important attractions allow firms to increase the returns and become bigger. The more famous these attractions are the more they attract firms which establish around them. Agglomeration impacts such as an airport or a shopping street occur in this case.

The attractions are also the basic reason for the hierarchy between destinations. Bigger attractions and bigger firms throw a shadow on their hinterland where the firms must live with constant economies of scale. They cannot become bigger. This explains why there are Five-star hotels in Petra in the middle of a desert and Bed&Breakfast in the rural areas of Scotland.

First conclusion:

The economic destination concept shows the limits of marketing management which cannot explain the destination building process, the size of a destination and the hierarchy between destinations. Demand and supply are equalized by the prices which include a mark up for destination goods and not only the costs of tourism related services.
3. Nature of competition: Understanding the competition between destination

*Imperfect competition between destinations*

From a demand side view, the destination is the visitors’ first choice. They choose in general first the destination and only as a second choice the bundle of services they want to consume. In the field of tourism exist therefore first a competition between destinations and second a competition between products.

The uniqueness of destinations influences the character of the competition. Since the destinations are different, competition is imperfect. The castle of Schönbrunn is in Vienna and not in Paris where there is the Eiffel Tower. When a destination is emerging in the market this uniqueness makes competition even monopolistic since no other destination can offer in the shorter term the same.

*Uniqueness and differentiation strategy*

To make use of their uniqueness and their quasi-monopolistic situation, destinations have the opportunity to choose a differentiation strategy when they position themselves on the markets. Differentiation is the necessary in the field of tourism since competition has become global.

In fact there is no specialization of only few countries in the field of international tourism as it is the case in the car industry or the wealth management. The ongoing globalization process led to a proliferation of destinations which asks for a better differentiation.

*Globalisation and concentration on the best places*

Globalization is diminishing partly the advantages of uniqueness. This irreversible process is enhancing the hierarchy between the destination since visitors tend to go more and more to the best places.

Second conclusion:

There is a first competition between destination and not between firms. This competition is not perfect since the destinations are often unique. They should use in that case differentiation strategies. Globalization led to a proliferation of destination and a concentration of the demand on the best places.

4. Institutional structure: Organizing the destination market

*Destination as a market place*

The destination is first of all a market place where providers of tourism goods and services are competitors. They have to survive as single firms in the competitive environment of a destination. The tough competition between them in the small space of a given territory makes them stronger. The cluster theory such as Porter’s diamond can explain the strengths of such market places which are some sort of a competitive unit with a specialization and high level of quality and the ability to meet critical consumers.
The company is the constitutive unit

This micro-economic concept is based on the firm which is the constitutive unit of the destination. If the destination and the product are the same, competition is eliminated by the creation of one single firm. This is the case of centrally planned resorts, leisure parks or cruise ships. They are destinations and firms at the same time. They can integrate the destination marketing into the firm.

This is not the case for a destination with a multi-optional offer. These destinations are constituted by a number of smaller or bigger firms. They have no other choice than to cooperate if they want to profit from the advantages the destination can offer to them.

Destination marketing is the traditional form of vertical cooperation

Therefore, firms which operate under the umbrella of the destination do not only cooperate horizontally with others of their industry. The vertical cooperation of firms from different industries of a destination is the traditional form for assuring destination marketing. Firms agree to outsource destination marketing to an organization which they control.

Third conclusion:

Destinations are market places where producer and consumer meet. The competitive unit of the market place is the firm which has to cooperate vertically if it wants to profit from the advantages of the destination goods. If the vertical cooperation is successful, destinations with multi-optional offer can do as well as integrated resort. They can overcome the negative impact of the small size of their firms by cooperation which increases their market power and improves their competitive position.

5. The public character: Stimulating the promotion of destinations

Character of public good and transactions cost as rationale

Destination marketing is not only a matter of business. There are reasons which led the States to support the promotional activities for destinations. First of all, the promotion of the image of the destination has the character of a public good. No firm can be excluded from the benefits of the promotion. Nobody would offer such promotional services. Furthermore, the vertical cooperation under the umbrella of the destination is expensive. The transaction costs of the cooperation are high in the field of the complementary destination marketing.

The prisoner’s dilemma

The States support mainly for this reason the destination marketing organizations at the national, regional and local level. If they do not support these organization a country, a region or a place could fall in a so called “prisoners dilemma”. Competitors which get subsidies from the State could do better and improve by economies of scale their market position. NTO’s and DMO’s without support could lose market shares. The positive externalities in terms of working places and income get lost when the visitors spending in a given territory is neglected.

State’s leadership through contractual means

The support of destination marketing organization by the authorities makes it necessary to establish a set of goals and to measure the performance through an efficient monitoring and evaluation. The destination marketing must contribute to the overall economic objectives of a given State. The
supervising authorities have to fixe binding performance goals and ask the tourism organizations for efficient strategies corresponding to a specific vision and a business model.

*Fourth conclusion:*

Image promotion has the character of a public good. The SME’s operating under the umbrella of the destination cannot fully pay the transaction costs of the destination marketing. Privatization of the tourism organizations is not an issue of political debate since governments are caught in a prisoner’s dilemma and the sector’s lobbying is strong enough for maintaining subsidies.

5. **The strategic scope: Implementing public-private partnership**

*Public-private partnership through membership structures*

The fact that the States support the destination marketing has not only a strong impact the budget of tourism organizations which are beneficiaries. **It also creates a need for a clear definition between the role of the State and the private sector.** The strong interdependencies between the two sectors are also asking for specific forms of cooperation.

The authorities cannot achieve their goals without the private sector and vice-versa. The two parties have common long term goals which converge. **In such a case, the institutionalization of public-private partnership through member- or shareholder structure is an investment into the future.** It allows a steady financing of promotional activities which is crucial. But it makes also necessary to define the roles of the State and the private sector in the field of destination marketing.

Public-private partnerships ask for a legal form which allows the private sector to join the tourism organization through membership. This status gives possibilities to influence the strategy of the organization. It also implies that the members share the burden of the destination marketing with the authorities.

**Common goals and clearly defined missions**

There are today in developed countries with open and liberal market economies some principle about the division of work between the State and the private sector when it comes about fixing the mission to tourism organizations. **The international competitiveness is the common goal.** There is also a consensus that tourism organizations should play a complementary and therefore subsidiary role in the field of tourism marketing as a whole. The destination marketing is a system where the coordination of the missions and the bundling of the resources are crucial.

The missions of tourism organizations are different depending on the territorial level they act. **The National Tourism Offices (NTO’s) have to assure a leading and innovative role in the field of destination marketing.** They are not only responsible for branding and positioning the destination abroad by selecting the markets. They have to create and transfer knowledge to the regional and local tourism organizations. They also have to bundle the financial resources available for the promotion of a given country. **The regional and local tourism organization have to coordinate their goals and measures with the NTO.** Their mission is broader. They have to assist the local providers of services for the design of the supply and the guarantee of the quality. They have to concentrate on the after selling services.
**Multiplying the financial resources and controlling the performance**

Once the missions are clear, there is a need to multiply the subsidies from the State by co-financing actions of the tourism related industries and the sponsoring sectors. The principle for this coordination is simple. The State’s money is seed money which allows the production of destination marketing services for the tourism related industry and other sectors of the industry. Whereas basic services such as market intelligence and branding are free of charge, additional services near to the market should be paid or sponsored by the partners.

The financial involvement of the State and the economy asks for a vision and a business model which can be shared by the partners. It needs the use of a transparent marketing mix and an efficient controlling.

**Fifths and last conclusion:**

The institutionalization of a public-private partnership is crucial for defining the mutual missions and the financing of tourism organizations. It implies a legal framework and a membership structure of the tourism organization. The tourism organization has to put forward a business model and a performant controlling system.

These are some modest inputs for a coherent economic theory on destination marketing.
Global Economic Crisis:
What are the Implications for World Tourism?

Foreword

This report has been prepared for the Word Tourism Organization (UNWTO) by Dr. Peter Keller, under the supervision of UNWTO’s Market Trends, Competitiveness and Trade in Tourism Services Section. Dr. Keller is Professor and Director of the Tourism Institute of University of Lausanne and former responsible for tourism at Switzerland’s Federal Government. Dr. Miriam Scaglione, Senior Researcher, Tourism and Economic Institute of the University of Applied Sciences Valais, Switzerland, supported the author in the field of forecasting, data mining and statistics.

This report is based on the study “Global Imbalances and Tourism Growth: How can Tourism Face New Risks and Uncertainty” which was prepared by Dr. Keller for UNWTO. It took into account all the data available from the main intergovernmental economic agencies and state of the art literature about crises.
1. Thinking about crisis: How do they occur?

1.1. Economy-wide fluctuations around the long term growth-trend are usual in market economies

The world economy grew strongly and steadily from 2004 to mid-2008. Tourism was a catalyst of this explosive growth since it increased on a worldwide scale with an above average growth rate. During the boom, nobody expected a global financial and economic crisis that would seriously slow down the world economy. By flooding the economies with cheap money, leading central banks even tried to reduce the economy-wide fluctuations for avoiding recessions. It has been ignored that demand for goods and services fluctuates always more or less strongly around the long term growth trend. The market economy is a dynamic system where demand fluctuates in the short term and supply structures change in the long term. There are periods with rapid economic growth, and periods of relative stagnation. Periods of decline can suddenly follow periods of boom. Unprecedented events reflecting imbalances of the market mechanism can lead to crisis.

Crises lead to abrupt slowdowns of the demand and to an eventual recovery and a return to growth. Extraordinary events take different forms which can be represented graphically: V-shaped and U-shaped curves stand for shorter crises, L-shaped curves mean years of recovery, as in the 1930’s. So far the current crisis seems to take the form of a U-shaped curve, with a gradual fall and a slow recovery.

1.2. Crises are shocks for the economic system

There are many theories which try to explain strong economy-wide fluctuations. Some economists consider crises as shock to the economic system. Such shocks occurred in the last two years with the financial crisis and the strong oil price increase. A functioning financial system which is able to provide money for growth is vital for economies. The financial system and the real economy are closely linked together. A systemic financial crisis when financial institutions or assets suddenly lose a large part of their value can freeze the credit system and reduce investment. An oil price shock has the impact of a tax which is put on producers and consumers since oil cannot be substituted in short term.

An example for the interdependency between the financial system and the real economy was the oil price shock by mid-summer of last year. Oil prices rose to a record level of US$ 148 per barrel. Investors shocked by losses in the credit market went out of it and invested in the oil market where the strong demand and expected shortages raised the price. Expecting a decline in demand because of the starting economic slowdown, private and public investors took their money out of oil. In only few months, oil price decreased to its pre-shock level. These developments had positive impacts in the sense that they reduce the danger of inflation which exists since the governments had to sustain the financial system and the economy with large amounts of money.
Shocks are *exogenous developments* which impact on sectors such as tourism by influencing demand. They can worsen structural problems of tourism economies. But they have nothing to do with *endogenous structural crisis*. International tourism will continue to grow in the long term since its market potential is far from being exploited. It is for many developed, emerging and developing countries a strategic sector with a strong growth future. The current financial and economic crisis is not a crisis of tourism.

1.3. Forecasting of unexpected shocks is not possible

Economists try to predict economy-wide fluctuations in production or economic activity over several month or years. They also explain the impact of the behavior of economic actors in the case of crises. Their aim is to make growth steadier by learning from former crises. They think of rules to make the economy more resistant. Last but not least, they discuss the respective roles of the market forces and of the State in the case of crises.

There is a common understanding *that forecasting is difficult if what happens is extraordinary and unique*. It is also known that the longer the time horizon of the forecast, the less precise it is. Economic activities are dynamic and complex. The rationality of market players has its limits. Crises are often generated by exaggerations. Euphoria can turn quickly into pessimism which does not facilitate the planning of public and private economic players who want to know the short and long term future to prepare their decision-making. When forecasting is difficult, knowledge about demand behavior during previous crises can help.

1.4. Public-private partnerships are necessary to overcome crisis

Uncertainty and panic behavior often start when unprecedented shocks occur. If basic components such as the financial system doesn’t function anymore, States and their agencies have to become active with rescue actions. Banks which have a major impact on the stability of the financial system must be recapitalized and be freed of their toxic products. In case of important recessions, fiscal policy measures are needed for maintaining a sufficient level of investment and consumption in a given economy.

Public interventions are in general only successful when they are implemented together with the private sector. Their aim must be to enhance the self-healing power of the economies. Shocks and crises often lead to leaner structure and improved institutional rules. They have a “purifying character”. These processes must be supported by the States. Their impacts on economic crises are dampened when there are stabilizing forces which maintain a sustainable level of investment and consumption. Efficient social security systems can play the role of a stabilizer and guarantee that final consumption does not fall too much.
State programmes for stimulating investment have the same goal on the supply side. They prevent that necessary investments are stopped or postponed, but their impact is not always targeted and might come too late. Investments in tourism infrastructures are particularly important in tourism since this sector will return to growth as soon as the economy recovers from recession.

2. Understanding the current financial and economic crisis: What is new about it?

2.1. Globalization has made the world richer but also more vulnerable to crises

The irreversible globalization has changed the world forever. Introduction of open market economies in more and more countries has increased the worldwide division of work. Deregulation at home and liberalization at the boarders have improved productivity and boosted growth. Free capital flows have supported growth worldwide while allowing banks to diversify their credit risks. Cheap money and affordable commodities have made growth steady and strong. Globalization has contributed to get millions of poor people in emerging and developing countries out of poverty. Developed countries invested in emerging markets, where they outsourced their production and even their research and development. Strong exports of commodities, goods and services stimulated the catching-up process of the emerging and developing countries. Travelling abroad, particularly long haul travelling became affordable to more people. International tourism was an important driver of globalization. It reduced disparities between rich and poor regions and, through market forces, stabilized the imbalances brought about by the globalization process.

The world economy has become increasingly integrated and interdependent. The world community is becoming aware that it has a common destiny. However, living, working and trading together is also creating problems. The externalities derived from the strong and massive growth have created financial, social and ecological imbalances, which have lead to crises of global nature and occurring at increasingly shorter intervals. Tourism also has been affected by these crises as the sector can only develop in a prosperous, peaceful and environmentally friendly global context (Figure 3).

2.2. A credit boom and an exploding price bubble in a single country led to a global economic crisis from which no sector or economy could decouple

After a period of strong and long growth, the current economic crisis showed the downside of the dynamics of globalization. The combination of a credit boom and a housing bubble led in the last two years to a severe financial crisis, which has been followed in the current year by a recession that has spread all over the world. The increasing degree of integration of the world economy made it impossible for countries to decouple from both crises.
The impact of both crises has particularly hit developed countries, first in their financial sector and then in the real economy. For many years, they took advantage of the fact that US consumers did not save and spent their money, keeping the export and growth wheel going. Emerging countries have had high growth rates for years, but their growth engines cannot contribute too much to dampen the worldwide recession. *These countries depend on the export of commodities, goods and services to developed countries, where they have invested their strategic reserves.* It is probable that the economic crisis will throw millions people, back into poverty. Direct investments as a driver of poorer economies will probably fall to half of their 2007 levels (World Bank, 2008).

International tourism is no longer a homogenous market between developed countries with similar preferences and products, even if developed countries do still cover 60% of the world market. *Emerging and developing countries have caught up, with their part of world’s total international arrivals increasing to 40% in a few decades.* Most of these countries have not yet fully exploited the huge opportunities of the fast growing and largely liberalized tourism world market. The internationalization of demand is a positive trend. International tourism an export category, which injects with a high multiplier impact into the economic cycle of a given country.

2.3. **A functioning financial system is a prerequisite for economic growth**

Nobody predicted that losses in an unimportant part of the US real estate market would lead to *failures of financial institutions, to a loss of confidence between contracting parties in the banking sector, to a climate of mistrust and of total risk adversity, freezing the credit system and obliging States to rescue banks which they considered to be too big to fail.* So long as the wheel kept turning, it did not matter that banks were operating at forty times leverage, people on benefits were being given mortgages, or that nobody knew who owned how much of which toxic securities or what any of it was worth..

The systemic crisis of the financial system resulted from *a series of failures which today are a matter of analysis.* By lending money to the subprime mortgage segment, banks took risks that were too big. They pooled the bad risks and put them as shares on the market. They outsourced the evaluation of the risks to rating agencies and stimulated bank managers to increase their returns by selling credits too cheaply. By supplying the banking system with cheap money and promoting private house ownership, central banks and governments also contributed to the financial crisis. The integration of the global financial markets has delivered large welfare gains. *The financial sector plays a unique role in the economy as it acts as an intermediary between parties that need to borrow and parties willing to lend or to invest.* Without such intermediaries, it would be difficult for companies to conduct business and widespread failures of financial institutions or a freezing of capital markets would reduce the supply of capital to real economy. *A functioning financial system is, therefore, a prerequisite for growth of the economy.* It has, as a system, the character of a public good.
2.4. **The failures in the financial system led to a strong global recession**

The financial sector’s part of the world economy is small, amounting around 5%. But banks, with their core business in the field of savings, credits and emissions, are a driver of growth. They transform illiquid assets into liquidity which is used to finance growth. The financial system and the real economy are therefore closely linked together.

The *fast and massive growth of the world economy in recent years was largely financed by debt.* Firms invested without having equity. Consumers spent borrowed money. The failures of financial system led to a stop of the debt-based growth of the global economy. Stock market values of firms fell dramatically. Producers stopped investing and consumers started to save money. The *demand for investment and consumption has decreased at the worldwide level.* Important developed economies have had two quarters of negative growth. The growth rates of the emerging countries have also diminished significantly.

*Important intergovernmental think tanks such as the International Monetary Fund (IMF) and the Organization for Economic Co-operation and Development (OECD) forecast a strongly shrinking output of the world economy in 2009* (OECD, 2009). Unemployment rates in major economies are increasing. Negative feedback between the financial crisis, which despite the strong rescue actions of the governments is not yet over, and the real economy, where pessimism about the conjuncture is still high, makes confidence of producers and consumers unlikely to return in the short run. Capital flowing away from emerging countries, which suffer from low exports and commodity prices, worsen the situation.

3. **Overcoming the ongoing crisis: Why is tourism strongly hurt and at the same time resilient to crisis?**

3.1. **Tourism is highly sensitive to economy-wide fluctuations**

Tourism follows the same growth path as the overall economy and trade even if the reasons behind this growth are different. Tourism growth tends *to exceed that of the overall economy in good times, and contract more severely when the economy falters.* International tourism grew by 6, 4% in the last boom year of 2007, which was significantly above the growth rate of the world economy. For the current year, the IMF forecasts a negative growth of the world economy of -1, 3% and, according to the World Tourism Barometer (April 2009 Interim Update), UNWTO expects international tourism to stagnate (0%) or even decline slightly (-1% to -2%).

The reaction of the tourism demand on conjuncture changes shows in general a certain *time-lag.* Business travel tends to react quickly to recessions since firms cut travel costs. In the field of leisure
tourism, households in the countries of origin adapt their travel budgets. A recession does not affect all tourism markets and destinations in the same way. There are always winners and losers and business travel, which has the character of production costs, is, as usual, suffering more from the recession than leisure tourism.

Business travel shrinks because trade has been contracting strongly in developed and emerging countries since September 2008. The financial crisis has impacted the wealth of the upper class. As a consequence, high-end tourism got hurt. The current and the forecasted losses concern long haul travel more than nearby or home markets which are cheaper and can profit from short stays and excursionists.

3.2. Visitors respond to crisis by adapting their travel and consumer behavior

Visitors are acquainted with economic slowdowns and recessions. They learnt to adapt their travel choice and their travel expenditure to the economic constraints they are exposed to. From an economic point of view, leisure tourism demand is income and price elastic. Visitors react to perceived changes in income and prices and they adapt their travel decisions and consumption to their available travel budgets. In times of recession, expectation of short-term future earnings and job security determine travel decisions and visitors spending. Some take no or fewer days, some renounce long haul trips or make their decisions very close to their departure, and many take less expensive holidays.

The current financial and economic crisis has destroyed huge fortunes. Those who borrowed money have to pay back their debts. Unemployment is rising in important markets of origin. Despite this situation, people will continue to travel. They do not renounce travel but they will travel nearer and for shorter periods, thereby spending less money. They use the large spectrum of substitution possibilities which exist in the field of tourism to compensate for their weaker purchasing power.

Tourism as a demand-driven sector has the ability to be resistant towards crises and to recover strongly after crises. There is no demand crisis in the tourism sector. Tourism has become an “essential” need of industrial societies.

3.3. Efficient strategic management of tourism-related industries and diversified supply structures may dampen the crisis’ impacts

The global economic crisis hit international tourism industry first and most strongly where big corporations operate with global strategies. This was particularly the case of air transport and the hotel sector, which are the core business of international tourism. Airlines as a whole which, has returned to profitability after 9/11 only in 2007, face declining numbers of passengers, increasing losses and heavy debts. The overnight spending and revenue per room have, according to reports from major hotel chains, been decreasing by double digit rates.
Bigger corporations which operate on the international level are equipped to handle a demand that is becoming more and more volatile. They have crisis management strategies and can react in a flexible way to the falling demand. They adapt the pricing to different markets of origin. They cut their fixed costs by variable salary arrangements. They handle their variable costs by reducing capacities and frequencies. Airlines can reduce the number of operated planes without diminishing their network. They can easily change business class seats into economy class seats. These measures can increase occupancy and profitability.

On the destination side, those with a diversified supply structure and a large spectrum of services can better respond to the elastic demand in times of crises. Their attractions allow them to apply value-based pricing and to ask for good prices even if there is recession. They do not need to reduce quality or dump prices. On the other side, it is a fact that there are in most cases no real crisis management strategies among the small firms which operate under the umbrella of the destination. Resorts which only offer services to specific market segments and, at the same time, rely heavily on long-haul demand are suffering the most from the current economic crisis. This is particularly the case in the developing countries, where the falling tourism demand together with the reduced exports, the diminishing foreign direct investments and shrinking remittance from expatriates is contributing to difficult already economic situations.

3.4. **Governmental rescue programmes must be targeted and limited in time**

Governments have to stimulate macro-economic demand. They prepare fiscal policy programmes to stimulate the economy-wide demand for consumption and investment. The best instruments are general tax reduction on the demand side and investments in infrastructure on the supply side. The question is if specific tourism-related measures should be integrated into the framework of such fiscal policy programmes. The rationale for including tourism in fiscal policy programmes is the fact that visitors’ expenditure stimulates demand and contributes to a better utilization of the existing capacities of economies, thus creating employment and income.

This macro-economic function of tourism is the main reason not to cut back on expenditures for existing tourism promotion measures during periods of economic crises. The necessity of additional specific crisis tourism programmes has to be assessed from case to case. If such measures are taken, they need to successfully stimulate demand, to be urgent, exceptional limited in length. It is not possible to fight against a global economic crisis with sector specific measures. But subsidiary State support may be necessary for maintaining the level of investment in tourism facilities and a steady market communication for destinations (Figure 4).

In some countries, the financial crisis has led to tighter banking credit conditions for small tourism enterprises which has increased their capital costs and made investment for rejuvenating their facilities difficult or impossible. Important investments in tourism infrastructures are often cut or postponed in
times of recession. All these measures reduce the demand for investment and prolong the crisis. Subsidiary incentives for the financing of tourism related investment in the framework of larger fiscal policy measures are in such situations welcomed. Increased budgets for National Tourism Organizations (NTO) are justified if they focus on markets of origin which remain resistant to the crisis. In that case, consumer-oriented measures, particularly sales promotion of affordable products, must be taken.

4. Being prepared for the future: what to do when the economy recovers?

4.1. If a crisis lasts long and is deep, consumers may change their behaviour

Economic shocks and crises have normally a limited impact on demand during a limited period. However, if they are long lasting and strong, travel behavior and tourism lifestyles can change. In this case, price and income elasticity play an important role.

In the short term, price shocks, such as the major increase of gasoline prices, have reduced the car owners’ mileage for daily life and leisure purposes, as the example of the United States shows. At the same time, the economic crisis and the fact that the consumers lost income and had to pay off debts, made them buy smaller cars which consume less oil (Figure 5).

Where lifestyles are concerned, the ongoing economic crisis may led for the first time to a significant reduction of tourism expenditures of wealthy people with high purchasing power. Before the current crisis, high-end demand was considered to be price inelastic. Experts believe that the market for luxury goods may become smaller since some new luxury brands will disappear. So far, one of the results of the current crisis is that the US American consumer engine, which kept the world economy going, has slowed down. This will have impact on international tourism expenditure and shifts in regional market priorities may occur.

4.2. Productivity-led growth makes tourism related industries fitter for the unexpected

Tourism capacities grew strongly in the boom years, with supply often developing stronger than demand. Growth was based on cheap money and low prices for commodities such as oil. The efficiency and the quality of growth suffered from these developments and necessary structural changes did not occur. Crises unveil structural weaknesses, but they also offer the opportunity to learn from misguided developments.

The current global recession may be long lasting and deep. Important structural changes cannot be excluded. The structure of tourism related industries and firms such as airlines and hotels which rely highly on international visitors will consolidate. This process could lead to bigger and more profitable
structures but could also increase the prices visitors will have to pay. It will push smaller enterprises into a niche.

All the enterprises will have to increase their ability to sell and to earn money in open markets by encouraging entrepreneurship and developing efficient mechanisms for innovation, using IT, investing in facilities and human resources, developing new products/markets and increase the size of the firms. New visions and explicit business models are needed (Figure 6).

4.3. The current crisis slows down the implementation of the Millennium Development Goals

The global economic crisis is a fall back for the world economy. Developed countries in particularly are in deep recession. It is only the significant growth of two big countries – China and India – which has kept growth going slightly in the emerging countries. Poor countries are suffering from these developments. The export of their commodities or transformed goods has significantly slowed down. Foreign direct investment has rapidly diminished. The prices for commodities in the field of energy and food have gone down. International tourism flows are weaker.

These developments imply that the implementation of important tourism-related Millennium Development Goals, particularly in the field of poverty alleviation, has slowed down. It will no longer be possible to redistribute more wealth without growth. The surprising increase in the price of agricultural goods, which rose in comparison with other sectors for the first time since the Industrial Revolution, has been interrupted by falling prices.

4.4. Tourism policy must build confidence and contribute to structural change

The current crisis has shown how much tourism depends on financial and economic developments. The oil price shock of last summer was an alarm for tourism stakeholders and made them aware of the dependence of today’s travelling on scarce and non renewable energy resources. But the shocks and crises have again proven that tourism is an important part of the world economy, which reacts to changes in conjuncture without itself falling into crisis. Tourism is rather crisis resilient.

The ongoing financial and economic crisis has reminded policy makers that there is no certainty in economic and social life. Uncertainty means that we never know when economic shocks and crises occur. Nevertheless, tourism exchange is only possible if uncertainty is transformed into calculated risks through efficient management of crises and change by all stakeholders. Since the current crisis is by nature global. Intergovernmental organizations have an important role to play in overcoming it. This is particularly the case in tourism, where territory-bound authorities and providers of services lack transparency and information in the case of crisis. UNWTO is aware of this situation and has therefore been monitoring the ongoing crisis since its beginning and has been analyzing its impacts on tourism. The organization has kept its stakeholders informed through its different instruments, such as the UNWTO World Tourism Barometer, and at the major technical and organizational meetings. It has
also set up a Tourism Resilience Committee for building confidence and for exchanging best practices on specific crisis management measures among members and stakeholders.

Knowing the limited scope of short term support measures for a single sector, UNWTO has put forward a “Roadmap for Recovery” which aims to prepare the future of world tourism when the economy recovers. It is true that successful tourism policy is essentially a long term structural policy. The lessons to take from the ongoing crisis are that firms and destinations with efficient production and distribution structures survive hard times better than others. Governmental policies should therefore stimulate productivity-led tourism growth for making the sector more profitable and fitter for crises by encouraging innovation and cooperation.

Another important lesson is that tourism policy needs to be integrated into the overall economic, social and environmental policies. Tourism should be included in fiscal and economic recovery actions. Developing domestic tourism is not only a social need but could play a role as a sort of automatic stabilizer of conjuncture in poorer countries. Last but not least, the oil price shock showed clearly that the development of clean energies is the main measure to make the sector less dependent on commodities, which will become more expensive in the future.

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World Tourism Organization
Capitán Haya 42, 28020 Madrid, Spain
Tourism Growth and Global Competition
Introduction, 43th Congress of AIEST, Malta, August 2001

Dr. Peter F. Keller, Professor and Director of Tourism Institute, Business and Economic Faculty HEC University of Lausanne, President of AIEST

Tourism is undoubtedly one sector of the economy that has been growing at a relatively fast rate for decades. Global competition and the related structural changes create problems for certain destinations and companies. There is no guarantee of growth for all. This introduction deals with the new conditions in the world tourism market. The strategic questions are concerned with existing tourism problems such as uneven distribution of growth, below-average productivity, lack of capital for SME’s, management problems and imperfect competition. A conceptual framework section discusses the various theories which the AIEST is considering in relation to the opportunities and limits for tourism growth. And finally the conclusions highlight success factors that can ensure steady tourism growth in the field.

1. New world market conditions

There can no longer be any doubt about the fact that tourism has been a rapidly growing sector of the world economy for the past half century. Temporary slumps and the inevitable ups and downs have done nothing to alter the long-term trend of growth. The World Tourism Organisation's forecasts and projections of the demand for cross-border tourism constantly fall short of the reality (Table 1). Although no comparative international data exists it is safe to assume that internal tourism has also been growing considerably in the emerging and developing countries (WTO, 2001).

International tourism's steady growth is a result of the co-incidence of a number of variables all contributing to acceleration of the process of globalisation. The introduction of a market economy in a large number of emerging and developing countries and transitional economies -- including China, India and Russia -- and the associated liberalisation at the national boundaries, accompanied by deregulation of the domestic market have brought about a major division of labour on an international scale and greater general prosperity. On the Indian subcontinent alone, with a total population of around one billion, there are already a million or so "dollar millionnaires". This new worldwide economic growth and prosperity has greatly benefited tourism, causing more people to travel for business reasons and an ever greater number of households to save money to "see the world". Technological progress in the areas of transport and communications have also contributed, making travel much cheaper and thus more accessible to the general population (AIEST, 1996).

As globalisation gathers speed the range of products and services available worldwide continues to grow. In just a few years indeed there has been a veritable explosion in the supply of products and services. The world tourism market has seen the addition of new destinations, and enormous sums have been invested in the development of existing destinations. In Europe alone, despite the already high level of tourism development, a million new hotel rooms have come onto the market in the past 10 years (WTO, 2001). Unlike other sectors of the economy, tourism is not limited to a handful of highly specialised countries. Even quite recently, at the last meeting of the United Nations Conference on Trade and Development (UNCTAD) in May 2001 in Brussels, which was devoted to the problems of the world's 49 least developed countries, the international community of nations made it clear that it viewed tourism as a valid path of development that could enable the poorest nations to achieve rapid growth, hastening their integration in the world economy (UNCTAD, 2001).
Table 1  Comparison of original WTO forecast and actual, 1990 - 1998

- International Tourist Arrivals in Europe*

<table>
<thead>
<tr>
<th>Year</th>
<th>Forecast</th>
<th>Actual</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>millions</td>
<td>average growth rate</td>
</tr>
<tr>
<td>1990</td>
<td>284,2</td>
<td>4,1</td>
</tr>
<tr>
<td>1995</td>
<td>317,4</td>
<td>2,2</td>
</tr>
<tr>
<td>1998</td>
<td>349,1</td>
<td>3,2</td>
</tr>
</tbody>
</table>

*  Growth is usually measured in terms of real value added, mostly represented as the real growth rate of GDP. This indicator is not yet available in the field of tourism.


As globalisation gathers speed the range of products and services available worldwide continues to grow. In just a few years indeed there has been a veritable explosion in the supply of products and services. The world tourism market has seen the addition of new destinations, and enormous sums have been invested in the development of existing destinations. In Europe alone, despite the already high level of tourism development, a million new hotel rooms have come onto the market in the past 10 years (WTO, 2001). Unlike other sectors of the economy, tourism is not limited to a handful of highly specialised countries. Even quite recently, at the last meeting of the United Nations Conference on Trade and Development (UNCTAD) in May 2001 in Brussels, which was devoted to the problems of the world's 49 least developed countries, the international community of nations made it clear that it viewed tourism as a valid path of development that could enable the poorest nations to achieve rapid growth, hastening their integration in the world economy (UNCTAD, 2001).

The rapid growth of tourism worldwide has greatly altered conditions in the world market. The range of choice open to consumers is now immense. Today competition between suppliers of tourism products and services and between destinations is global. This has resulted in the creation of an international travel industry (Tour Operators, Airline Companies, Hotel Chains) which on the basis of global strategies specialises in identifying, developing and marketing local tourism potential on an industrial scale. This has resulted in on-going structural change in all tourism related branches in the traditional tourism countries, mainly involving small businesses. The speed of growth of tourism varies greatly from one continent, country, destination and company to another. There is no guarantee for an individual destination or firm that growth will be either steady or balanced. In a great many cases tourism stakeholders have to deal with either too much of it or too little.
2. Strategic issues
The growth of tourism is a function of the overall economic growth. It does however have its own internal dynamics, and therefore requires a more in-depth analysis between the tourism sectors of different countries as well as a comparison of tourism growth in these countries with the growth of the world economy. In fact, there are two benchmarks to consider: the growth of the competitors and the growth of tourism compared to the economy as a whole. Further more, it is always worthwhile to remember that the tourism industry consists in fact of two different sectors: the so called “Travel Industry” and the destination oriented SME’s. They have different functions, industrial structures and problems. In this context there is a series of research questions, both theoretical and practical, that deserve our attention. Many of these are given consideration in the various contributions to this publication (Table 2).

Table 2 Growth of Tourism and Global Competition

<table>
<thead>
<tr>
<th>Strategic Questions</th>
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<tr>
<td><strong>The myth of growth</strong></td>
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<tr>
<td>Is tourism destined to become the most important of all sectors of the world economy?</td>
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<tr>
<td>How will such growth be distributed?</td>
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<tr>
<td><strong>The productivity gap</strong></td>
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<tr>
<td>How can the below average productivity of tourism be increased to improve competitiveness in factor markets?</td>
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<tr>
<td><strong>The management challenge</strong></td>
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<tr>
<td>How can SMEs in tourism generate new growth?</td>
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<tr>
<td><strong>The lack of capital</strong></td>
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<tr>
<td>Are there reasons why investors should consider investing in tourism, a sector where risk is high and profitability low?</td>
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<tr>
<td><strong>Imperfect competition</strong></td>
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<tr>
<td>What is the role of the state in stimulating growth in conditions of global competition between destinations?</td>
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<tr>
<td><strong>The sustainability of tourism growth</strong></td>
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<tr>
<td>What are the possibilities and limits of growth in a given territory?</td>
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2.1. The myth of growth
The strong and steady growth of tourism has in fact given rise to a kind of myth of growth in this sector. Indeed tourism growth has become a sort of holy grail. For years tourism’s destiny to become the biggest sector of the world economy in the foreseeable future has been a favoured topic of conversation by the international community. This thesis is based in the fact that international tourism has been growing faster than the world economy for the past 25 years due to high income elasticity on the demand-side. The tourism export industry, which has now been redefined at the international level, is growing faster than the export of either commodities or the most of the services (WTO, 2000). It has
however been demonstrated, at least in the case of the industrialised nations, that export rates are higher for certain progressive services, while rising prices for tourism services can have the effect of restraining growth.

Presumably only the new international concept of tourism satellite accounts (TSA), which will however require a few more years before it comes into general use, will permit a more precise analysis of this controversial subject (OECD, 2000). In fact, TSA will give the empirical data we really need to analyse the growth in tourism and the growth of tourism compared to the general economy. The necessary measure of growth are the real value added of tourism related services and their part of GDP. What is important at the practical level is also the distribution of tourism growth among individual suppliers and destinations. Here it is a country’s stage of development that is particularly important. It is a well known fact that in the area of international tourism, the emerging and developing countries offer the best economic framework conditions for rapid and extensive growth in the tourism field (Keller, 2001). With increasing levels of development, in the highly specialised traditional tourism countries, the contribution which tourism makes to gross domestic product (GDP) and exports also tends to increase, and this has been proven on an empirical basis (Rütter, 2001).

2.2. The productivity gap

The generally low productivity of tourism-related key industries compared to other sectors and the economy as a whole acts as a restraint on growth. Productivity is especially a problem in the core segments of tourism, hotels and catering. Indeed in these branches labour productivity is significantly below the average for the economy as a whole in the industrialised nations. Companies are forced to compensate at the level of prices, which makes these markets less competitive on price internationally. As a result of this “cost disease” the domestic factor markets for labour and capital are often not competitive.

The question that arises is how to improve growth, as measured in terms of value added per employee, in the core sectors of tourism. This calls for an ever greater utilisation of the new information and communication technologies (NICT) to rationalise production and marketing of the chain of tourism services. The NICT are the drivers of transformation in tourism (see the contribution of Chr. Laesser and S. Jaeger in this volume). In the travel trade, and in part with tour operators and airlines, the new information and communication technologies could substantially reduce the cost of managing organisational processes, despite rates of production which are rapidly increasing. These technologies are only now being introduced in the small-to-medium-sized tourism enterprises and destinations. The greatest progress has been with the state-supported "electronic destination management systems". That said, much still needs to be done for the introduction of management system that will help rationalise SMEs in tourism elsewhere.

2.3. The management challenge

The small size and fragmented nature of the destination oriented tourism enterprises inevitably means that the existing growth potential is not sufficiently exploited. The internal growth possibilities in small businesses are limited. However the disadvantage of small size can be overcome through co-operation. An important question for the entrepreneur at the strategic level in this context is whether or not to make products and services or buy them on the market, or indeed to seek partners. Co-operation makes most sense when there is know-how transfer and the transaction costs of co-operation are not greater than the economies of scale and scope that are the objective of the operation.
The small-to-medium-sized tourism enterprises of most destinations do of course also have their own genuine strong points. They enable individual tourists to choose from a wide selection of services of all kinds. The trump cards of these smaller tourism businesses are as follows: multiple options for the customer in the products and services on offer in the destinations, customisation and personalisation of services, specialisation in "niche" areas, and enough flexibility to adapt to the changing requirements of visitors. These must be used to greater effect. For indeed they are not being exploited fully at present, with the result that a large number of products and services now find themselves at the mature end of the product life cycle. Much of the dynamics of the starting-up and winding-up of companies in fact lies in the restaurant industry which requires relatively little investment. The question that arises is, how to regenerate the offer of existing SMEs in innovative ways that will help to stimulate new growth (see the contribution of H. Pechlaner and L. Osti in this volume). In this context one wonders why there are so few "start-up" companies in tourism, companies which begin small and after a "take off"-phase grow into major players. Tourism lacks growth-oriented business models and business plans capable of stimulating new growth.

2.4. The lack of capital

The more capital-intensive a small-to-medium-sized tourism company is the more difficult it will have in financing investments. There is a real lack of capital today for SME’s particularly in the traditional areas of tourism. In many cases it is no longer possible to find financing for new installations or equipment, which results in a cementation and rigidification of the structures. Refinancing the renovation of such structures is difficult and increasingly expensive. This is due to the structural risks involved in this sector, relating to seasonal fluctuations in demand and a whole series of other exogenous risk factors such as exchange rates and the weather. These impact on occupation rates, earning power and profitability. It is for this reason that tourism-related branches like the hotel sector are rated by the banks as high in risk and low in profitability. The basic financing of investments is therefore in many cases uncertain. The rate of interest on credit is generally high.

New thought needs to be given to alternative financing solutions for the infrastructure and superstructure in tourism that is needed to ensure a steady rate of growth in this sector. The smaller tourism businesses were not able to take advantage of the bull market in the stock exchange of past years in the same way as other industries. A stock market quotation works only for the firms of the travel industry and companies that are horizontally and vertically integrated in a major unit. New funds and new ways to finance investments are also important. This has given a real shot in the arm to professionalisation and management. An example for “going public” is the Swiss company Téléverbier, which operates a large ski resort and which has now allied itself with the French cable car holding, "Compagnie des Alpes."

In contrast to the newly competitive countries which often receive considerable support from the international development banks, the traditional tourism countries find that state support in the form of tax relief or favourable credit conditions is drying up and is in any case not sufficient. Another question that needs to be addressed concerns the requirements that have to be met to enable small-to-medium-sized tourism enterprises once again to have access to venture capital.

2.5. Imperfect competition

In an era of global competition between destinations, the state has a new part to play. Favourable framework conditions can improve a country's competitive position. Another question is whether or not a growth-oriented economic policy needs in a horizontal sector such as tourism incentive systems
to ensure that the best use is made of the existing growth potential. This is particularly apt at present in view of the fact that tourism has to some extent been dependent on state funding in the new tourism countries. A state that don’t promote tourism finds itself in a "prisoner's dilemma". For while the result of tourism promotion is distortion of competition, countries that do not promote it will simply lose market share. This new situation requires a rethink of the tourism policy strategies and instruments that have been employed so far (AIEST, 1999).

2.6. The sustainability of tourism growth
Tourism growth leads to positive and negative externalities in society, in the economy and in the environment. these can either strengthen or weaken growth in the sense of systemic feedbacks. The authorities responsible for tourism constantly have to deal with either too much growth or too little, both at the policy level and in the field. The big question therefore is what level of growth can be considered optimal, as well as sustainable. The question must always at the beginning of considered in relation to a specific area or location.

3. Conceptual framework
Our work on the research topic of the 51st AIEST Congress "Tourism Growth Tourism and Global Competition“ is based on current problems and related questions with regard to strategy (Table 3). The conceptual framework for the contributions is supported by a wide spectrum of growth theories, both new and classical, approaches based on industrial economics, and theories of entrepreneurial growth (Arrous, 1999; Guellec, 2001, Weirmair, 2001).

3.1. Growth and development of tourism countries
It is worth remembering that the growth question is supply-oriented. It is all about broadening the range of available products and services. Growth is a phenomenon that involves a real, linear, and long-term trend. It don’t take care of short-term fluctuations in the economy and cyclical changes as well as any eventual "supply shocks" that may occur (Solow, 1970). This neo-classical view of growth seems to find confirmation in the sharp fluctuations that are common in tourism. External supply shocks of a temporary nature, such as the Gulf War or the Asian economic crisis, have merely slowed growth for a limited period in regions including Europe, the Middle East and the East-Asia/Pacific. The path of growth has not been affected however and remains steadily upwards.

Another paradigm of the neo-classical theory of growth is particularly relevant here. The emerging economies of the developing and transitional countries, which have opened themselves to the world market, are trying to make up for lost time in the area of tourism. It is in these countries that the rate of growth in the field of tourism is the highest (Keller, 2001). In contrast tourism demand in the highly specialised and developed tourism countries with advanced economies seems to be growing only slightly. Tourism's contribution to GDP and exports thus tends to fall, as has been empirically demonstrated (Etat du Valais, 2001). Nonetheless it is the industrialised countries that exhibit the greatest endogenous growth potential in such areas as public and private capital or knowledge. In fact, tourism grows faster in lesser than in more developed countries. The question not yet answered is if tourism tourism growth is faster than the general growth of the economy in emerging countries.
Growth opportunities in tourism vary in relation to the level of economic development. In contrast to other sectors of the economy, which tend to concentrate in a few chosen locations, more and more countries are able to specialise in tourism. Even the countries that supply the world's raw materials ("primary producers") such as the Arab nations and certain African countries, and the poor "Malthusian countries" are managing to successfully develop international tourism. It is not certain therefore, as the new growth theory would have us believe, that tourism countries with a high level of output as well as a high level of accumulated skills do better than the less developed countries (Sachs, 2000).

3.2. Growth of productivity and profitability of tourism SMEs and destinations

Competition is the main motor of growth in market economy systems. It is competition which has created the new conditions in the tourism world market that are leading to structural change. The "benchmark" in tourism in this context is the “Travel Industry”, which produces in accordance with the principles of industrial economics, and which increases productivity with the help of economies of
scale and scope. In a fragmented and destination-dependent sector such as tourism the supply of products and services can only be renewed and updated through innovative co-operation. An optimal blend of competition and co-operation stimulates innovation, and results in more efficient and therefore more productive structures, thus creating favourable conditions for growth (Teece, 1990).

The industrial economics approach most relevant to tourism is basically market-oriented. This explains the performance and thus the growth of sectors with the market structure, the technological progress, the competitive strategies and the peculiarities of both supply and demand (Scherer, Ross 1990). This approach is relevant to all tourism-dependent industries of the economy. Thus for example the fragmented structures of the hotel sector with its predominantly small businesses can be made more efficient, productive, easier to finance and hence more profitable with the introduction of information technology and a strategy based on co-operation, all of which is good for growth.

3.3. **Growth strategies and business models for tourism firms**

The growth of tourism enterprises depends above all on what resources are available -- such as human capital, the financing available for investments, and the use of technology. Company size and the knowledge and experience available also play a major role (Weirmair, 2001). These factors influence both the internal and the external growth of tourism enterprises.

The small-to-medium-sized enterprises that make up the tourism sector often lack the necessary management expertise that would enable them to make the best use of the resources at hand. It is for this reason that there is a lack of truly innovative business models. It is also true that the techniques of entrepreneurial growth are not sufficiently understood (Bieger, Belz, 1998).

3.4. **Incentive systems and sustainability of growth**

Demand in the tourism sector benefits a wide range of companies and branches. It creates additional jobs of all kinds in tourism regions and new sources of income. These positive externalities can be put to better use in the fragmented and mainly small-business tourism sector with approaches based on welfare economics, with the help of subsidies in public goods, incentive systems for market launches and the development and marketing of products on the basis of partnerships (Williamson, 1997). Furthermore, the fragmented structure of supply in the destinations and the small size of the companies concerned lead to relatively high transaction costs, which can also be a reason for state intervention for the purpose of promoting growth.

The negative externalities of tourism development raise a number of basic questions. In some cases they impose limits to tourism growth. From the global point of view there is the problem of ecological scarcity. The law of entropy tells us that in the long-term there is no solution for the irreversible exploitation of finite resources, or the pollution that goes hand in hand with this process (Georgescu-Roegen, 1971). Due to the new situation of global competition and the growing importance of price-based competitiveness, doubts are now being expressed if the qualitative growth strategy really works. It is not possible to increase value added with the same number of visitors eternally (Smeral, 1999).

4. **Conclusions**

Finally there is the question as to whether or not a wide-ranging discussion of growth problems in tourism is useful mainly from the theoretical point of view or as practical matter. Tourism growth
depends to a great extent on macroeconomic dimensions. From a theoretical point of view however it can be helpful to test the validity of the individual paradigms of various growth theories for tourism. From a more practical point of view it is interesting to identify among the determinants of growth the key factors for successful tourism development (Table 4).

It is also essential from a supply-oriented point of view to note that the creative powers of the market hold the key to the tourism growth process. In this context it can be taken for granted that the macroeconomic trends towards a service- and experience-based economy are basically positive from the point of view tourism growth. This can benefit individual companies on the condition that they are ready to constantly update and upgrade their products and services to new market requirements, extending the range and improving the quality. And they must not be reluctant to develop new markets (Keller, 2000).

Table 4 Growth of Tourism and Global Competition

<table>
<thead>
<tr>
<th>Determinants of Tourism Growth</th>
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<tr>
<td><strong>Significant trends</strong></td>
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<tr>
<td>Creative forces of the market</td>
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<tr>
<td><strong>Production factors</strong></td>
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<tr>
<td>Access to resources</td>
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<tr>
<td><strong>Innovation creation mechanism</strong></td>
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<tr>
<td>Human capital and R&amp;D</td>
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<tr>
<td><strong>Market</strong></td>
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<tr>
<td>Range and Quality of products</td>
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<tr>
<td><strong>Industrial structure</strong></td>
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<tr>
<td>Size and network of firms</td>
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<tr>
<td><strong>Institutional framework</strong></td>
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<tr>
<td>Incentive system of the state</td>
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The conclusion that can be safely drawn from the discussion on growth in tourism is that tourism enterprises are dependent on the following: factorial mechanisms for the creation of innovation, an ability to access the factor markets for labour and capital, efficient industrial structures, and as a general rule state-run incentive schemes. The tourism destinations and companies that stand the best chance of growing are those that can count on enough well-qualified staff, sufficient funds for research and development, good access to the capital and credit markets and an efficient platform for cooperation between companies.

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Trends in tourism labour market: Is tourism a driver of employment in developed countries?


Prof. Dr. Peter Keller, Director, Institute for Tourism, Business and Economic Faculty HEC, University of Lausanne, President of AIEST

1. Tourism is an experience economy whose part at the total employment is higher as the part of tourism at the GDP.

Tourism is part of the experience economy which is the new 4th sector. It is more labour intensive than the industry and the industrialized services such as banks or insurances. The part of tourism employment at the total employment is therefore higher than the part of the value added of tourism at the GDP.

It is for this reason that tourism is considered as an engine of growth. There is some evidence that tourism employment as whole follows the development of overall employment in developed countries. The sector has reached its maturity in the traditional tourism countries. In Switzerland, the employment in the hotel and restaurant industry declined for a longer period at the same rhythm as the industry. It returned to growth together with the industry during the period of world economic boom which took place between 2004 and 2007.

2. The impact of employment differ between the tourism characteristic and relevant industries

The impact on employment of tourism is different between the characteristics tourism industries which could not live without visitors. Switzerland, a traditional tourism country with a positive tourism balance, has collected the data of employment for its new Tourism Satellite Account which takes the year of 2005 as a reference.

Accommodation and food in restaurants and hotels are the core industries of tourism which offer 50% of all tourism related jobs. The rationalization potential in the traditional hotel and restaurant industries is nearly exhausted. There is a need of additional workers when the demand grows on a longer period. This has not been the case of the passenger transport industries in tourism which contribute with 12% to the total employment. They rationalize more and more their services and do not create additional working places.

The travel agencies and the tourism organization which add 9% to tourism employment are rather labour intensive as it is the case of the tourism related employment created in the field of “Culture, Sports and Entertainment” which occupies only 5% of the total of tourism related working places.

The part of the industries which are connected or not specific to tourism depend is with 24% relatively high. The connected industries are relatively labour intensive. The reason for this is that tourism connected sectors such as the retail business or the health care for visitors is labour intensive but these sectors try to reduce employment.
3. The below average productivity of the incoming sector reduces its competitiveness on the markets

The offer of the tourism labour market is heterogeneous since numerous small and big enterprises produce for its service and value chain. The tourism related industries can be divided in two groups regarding their specific function in these chains. The international travel and tourism industry deals with the outgoing business informing, organizing and transporting visitors. The small enterprises which operate under the umbrella of the destinations welcome, lodge feed and entertain visitors.

The international travel and tourism industry exploits with standardized products and rationalized processes worldwide local growth and employment potentials. This industry operates under condition of price competition and crowding out conditions and increase productivity by cutting costs for human resources to maintain a certain margin.

The small enterprises of the destinations are lesser productive than the average of the enterprises of developed economies. They suffer from the cost disease. They have to fill the productivity gap with higher prices which makes them lesser competitive on international markets and particularly on domestic factor markets.

4. Foreign employees compensate the lack of personal in the more or less regulated hotel and restaurant market

The aggregated tourism demand grows faster as the GDP in the case of economic booms and slower in the case of recession. It reacts more than proportionally to economic and other crises which occur in the era of globalisation always more frequently in shorter intervals.

The strong fluctuation of the tourism demand impacts on the employment. Most of the tourism demand is income and price elastic. Visitors travel lesser, shorter and above all in a more economic way for reducing their expenditures. The tourism employment shrinks in such a case. The actual financial and economic crisis is particularly harming tourism since the so called “high end” tourism has fall down. In former times, rich people had a price inelastic behaviour which allowed creating and maintaining of working places.

5. Foreign employees compensate the lack of personal in the more or less regulated hotel and restaurant labour market.

The hotel and the restaurant industries of most developed countries depend more than other industries on foreign labour force. These industries compensate their lack of personal for lower qualified workers but also for specialized employees such as cooks and waiters on the domestic labour market by foreign employees. Immigration assures a sufficient number of employees which will probably even shrink more in their domestic markets in the next years for demographic reasons.

Foreign labour force makes the hotel and restaurant sector more competitive on the markets.

The employment of foreign employees can induce a general decrease of the level of wages in the field of the hotel and restaurant sector if immigration is free. If minimal wages are guaranteed by the State authorities, this level will not decrease strongly. Governmental actions against social dumping make the economy less competitive because of the higher salary costs. But they also lead to some advantages since good salaries attract better qualified employees. The free circulation of professionals with the European Union e g Switzerland under the regime of anti-dumping measures to
an immigration of employees to which contributed to an optimal allocation of human resources and respective growth in the hotel and restaurant industries.

6. The increase of labour productivity leads to more attractive and better remunerates jobs.

The emerging economies offer today the best framework conditions for fast growth which is essentially based on production factors such as foreign direct investment and abundant and cheap labour force. For improving their competitive position, developed countries have to increase their labour productivity which means not only a more efficient use of the resources and the production factors. It is even more important to sell tourism services by in open markets to a good price. Enterprises and industries need to be efficient and at the same time have to improve their ability to sell and to earn.

In practice, it is possible to fill the productivity gap either by additional efforts in the field of quality of services and experiences for which the visitors are willing to pay or by externalization of the services to the customers. Value base pricing or self service are the options. Both strategies need new and intelligent forms of tourism which take into account the specific framework conditions and the needs of the visitors. Both strategies also stabilize the employment since increasing and decreasing employment is in balance.

7. The increase of labour productivity doesn’t only depend on higher education

The increase of labour productivity depends a lot on the so called innovation creation mechanism. They can change the structures of tourism supply. Education and vocational training are part of these mechanisms. Well educated and trained human resources are on the long term important drivers of productivity growth. In the short term, learning on the job and in the destination is also important. Research and development institutions should transfer the knowledge from the universities and other research units to practice. Finally, hard work, social competencies such as empathy or friendliness also contribute to increase labour productivity.

The Bologna Treaty influenced heavily the education system in tourism. The vocational training got more and more an academic touch. There are three to five years courses at universities about tourism related matters. The link of tourism science with the practice is often lacking which has a negative impact on the promotion of conceptual and strategic thinking in the field of tourism. At the same time, the training on the job and in the destination is not enough taken into account. Furthermore, the need of the tourism sector for skills and expertise for basic tourism functions such as cooks, waiters or drivers is equally neglected. Low quality of employees and shortage of competent experts contributes to a decrease of service quality and value added.

8. The future employment in tourism in developed countries will grow in a moderate way

Employment will grow in the field of tourism if all the stimulating and restraining factors are taken into account. The growth of employment in tourism will more or less follow the growth the economy as a whole. The development of unique services and experiences is labour intensive which should create working places.

But tourism will also suffer from the stronger fluctuation of the tourism demand which will happen since macro-economic imbalances remain after the current crisis. Providers of services produce in their majority for a mass market since tourism has become an essential of developed countries. They have to adapt their services and their prices to a demand which has become more
**income and price elastic.** For overcoming a potential lack of personal which could occur in the future, a balance between innovative forms of services and self-services must be found.

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Gaining competitive advantages through productivity-led growth: The case of developed countries

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1. The problem: increasing competition on the global visitors’ market and the local factor markets for developed country with specialisation in tourism

Tourism is considered by politicians as a wonderful remedy against economic odds for whole countries, remote regions, dying industrial zones or left inner-cities. They may be partly right. Most of the countries of the world have attractions which are considered by people with available travel budget as worthwhile to be visited. There in almost all countries investors who develop these resources for attracting visitors (Keller, 2008).

International tourism is in some European countries one the rays of hope in time where conjuncture is not at its best, where the export is weak and where the governments are paralysed because of high debts. International flows and receipts increased last summer significantly in France, Spain and Italy but also in Croatia despite it short season and difficult macro-economic environment.

International tourism is growing since grew in the last six decades exponentially which means that the rate of growth increases as time goes on. The growth curve gets steeper and steeper and will in the longer term approach the abscise. The curve will change into a logistic one and the growth rate will slow down. This point is not yet reached since the globalisation process goes on.

We have nevertheless to face in Europe’s developed countries increasing price competition on the largely globalised world market where the market prices matters for staying competitive. The more the European economies return to stronger growth the more the core of the tourism related industries with stagnant services will have difficulties to compete on the factor markets for capital and labour with more productive and faster growing industries (Baghwati, 1984).

It is therefore important to discuss how the competitive position of the European tourism countries can be enhanced without falling into the trap of the price competition which is based on low costs and low salaries. A new understanding of competitiveness and productivity will be presented which should allow European tourism to create in a dynamic way more value added and more attractive jobs (Keller, 2008).

2. Theoretical foundation: a new understanding of competitiveness and productivity for developed tourism countries

2.1. The enlarged understanding of competitiveness
What does competitiveness mean for developed tourism countries?

A long time, the price level was the criteria to define competitiveness of countries, countries and firms. The lowering of the costs through outsourcing the production to cheaper countries was often the
strategy of economic policy. Translated to the firm, competitiveness was simply defined as surviving at conditions of perfect competition by producing at world market prices. Each company which can offer to costs that correspond to the market price is therefore competitive even if its profit is nil.

Price competition helped developing countries to grow. It led to big surpluses in the trade balances and important currency reserves of emerging countries which were used for strategic economic policy. In the long run, price competition is not possible since it neglects often social welfare and ecological sustainability. The solution of these problems is expensive and will lead with the increasing of the level of development of the emerging countries to higher expenditures and price levels. The ability to compete on the price must therefore be considered as a volatile competitive advantage.

The new definition of competitiveness includes socio-economic and socio-ecological goals such as the creation of value added and employment, the advances in technology, the efficiency of the political system and the reduction of waste and pollution. At the firm level, the implementation of these goals needs the building of high capability to sell and to earn by creating competitive advantages through putting new products on the markets and changing the market condition and by effective and efficient production and distribution of these products. This understanding of competitiveness combines differentiation strategies which help to reduce competition with effective and efficient production and distribution for creating durable competitive advantages.

The new understanding of competitiveness of a country is very much linked with productivity. Indeed productivity determines the level of prosperity a country can gain through its economy. It also is decisive for the rates of return on investment in an economy which are the driver of growth. A competitive country is a one which is growing (WEF, 2012).

The new notion of competitiveness includes also cluster advantages. Firms exploiting the resources of a given place, induce external impacts which help also competitors. They create agglomeration advantages such as the availability of human capital or the reachability of consumers with high purchasing power. These factors explain the cluster concept visualised by Porter’s diamond which explains competitiveness on the regional level (Porter, 1990). This concept can be applied to tourism destinations.

2.2 Productivity-led growth matters the more a country gets developed
Why is there a need for analysing the productivity of the tourism sector?

Since Adam Smith productivity has been accepted as a major source of growth. Growth is a positive change in size of a given economy measured by the production of its value added for a year, before taxes. Productivity measures the economic performance of the resources employed and the products sold. It is the twin of competitiveness (Keller, 2001).

Growth can be more input-led or more productivity-driven. An economy can grow essentially by an increase in the quantity of inputs of resources such as wilderness, unspoilt landscape, capital and labour. It can also grow by research and development, innovation, the uniqueness of the product and the destination, organisational knowledge, or leaner structures. The more the resources are scarce the more productivity-led growth is becoming important (Keller, 2008).

Emerging countries develop their tourism essentially with input-led growth. They have still unexploited resources and mass tourism friendly framework conditions such an abundant labour force, a low cost level and weak currencies. They attract foreign investments and visitors. They can grow in a fast and massive way by an always higher input of production factors. Their competitive advantage
disappears with the ongoing development when their resources become scarcer and the costs are increasing. If they cannot produce cheap anymore, their competitive advantage disappears.

The situation is completely different in developed countries which have exploited their resources. They cannot build new resorts. They suffer from labour shortage since other industries and sector can pay higher salaries. They have to face high cost levels which exist in prosperous countries. They have to ask higher prices to visitors and can under these circumstances attract less foreign investment for rejuvenating the tourism related facilities and structures. Developed tourism countries need therefore productivity-led growth.

The differences in productivity between tourism countries are huge. They reflect the differences in productivity of the national economies. The most highly developed tourism countries have the highest value added per employee. They are on the way to productivity-led growth. However, the emerging economies and developing countries are catching up. Their productivity gains are higher than those of the tourism-dependent economies in the industrialised world. The value added per employee is lowest in the poorest countries where the relative advantages of backwardness such as abundant but often unskilled human resources and their low level of prices are not sufficient to compensate the disadvantages of their low level of development (Keller, 2001).

2.3 The tourism related core business has a labour productivity problem

Is there such a thing as a productivity gap in tourism?

Tourism is often considered as an industry or a sector of itself. This holistic concept is a pure abstraction. It can lead to irrelevant results when it comes to analyse supply-side questions. Tourism as a whole seems to follow the productivity growth of the average of the economies in developed countries. This is the case in highly productive Switzerland which has a strong productivity growth. A look on statistics industry by industry, there is a productivity problem in the hotel and catering industry where about 50% of the value added of tourism in developed country is created. These core industries of tourism are mostly small and labour intensive. The situation is better in developing and emerging countries where the hotel facilities adapted to the needs of the tour operators are bigger and the labour force cheaper.

Small firms cannot win economies of scale and scope. They are not able such as big companies, to lower their costs. Their labour-intensive services cannot be rationalised such as the banking services which are more and more outsourced to the customers forced to take their money at automats and pay their bills by electronically. Tourism related companies and industries which offer full services to customers suffer from the cost-disease (Baumol, 1991). Their lack of productivity compared to other sectors and the economy as a whole has to be compensated by higher prices, which limits their ability to compete on the international markets. More productive sectors can pay more to their employees on the labour market (Keller, 2008).

Industries with lower productivity shrink normally compared to more productive industries. Their part at the GDP is diminishing. This can be the case in saturated tourism areas which are not able to rejuvenate the comfort, the quality of the convenience of their supply or to improve the distribution of their products.
2.3 There is a need to a new understanding for the productivity of tourism related services

Can tourism be as productive as other sectors and the economy as a whole?

Productivity means the efficiency with which inputs of human, capital, natural and cultural resources are used for developing tourism services and experiences. But productivity has also to do with the prices these services can command by their uniqueness and their quality on open and competitive markets. The notion of productivity has not only a physical but also a monetary aspect. Goods and services are productive when they are produced in an efficient way and sold at a good price.

The physical aspect of productivity cannot only be associated with cost reductions by rationalizing and diminishing human resources or by standardizing and industrializing services. A higher effectiveness and efficiency of the input means also increasing the research raising working skills, increasing research and development or investing in innovation and technology.

Even if produced efficiently, goods and services will not be profitable if they cannot be sold. The success of a business and its products depends on its ability to create value to the customer, to distribute in a targeted in a targeted way and to offer attractive and affordable prices. If a hotel is able to brand, position and sell its services in highly competitive markets and earn with the selling enough money, it can be just as profitable as a manufacturing business even if the latter is more efficient in using its resources.

3. Ways to increase productivity

3.1 Productivity strategies of companies

How can companies overcome the productivity gap?

Productivity depends essentially on the companies. Only companies can create wealth. But the increase of productivity needs also an environment where business can take successfully place.

There are different strategies to overcome the existing productivity gaps such as the increase of customer value and the externalization of services. Small companies industries with stagnating services such as lodging; catering or wellness can only choose the solution of adding customer value. Tourism related industries with progressive service can try to externalize.

The customer is willing to pay more for excellent services based on high quality, comfort and convenience. The companies can exploit this willingness by putting a mark-up on their market prices. The strategy to increase quality is expensive and fits only if the potential visitors have a sufficient purchasing power. In this case the demand is price-inelastic and absorbs price increases. The only way to offer price reductions for small companies which are obliged to practice value based pricing is the increase at the same time the occupancy rate.

The popularization of tourism led in developed countries to an externalization of services to the customer. The transport, the accommodation and the catering industry reduced the services or developed forms of self-service such as non controlled trains, non serviced apartments or buffets instead of table service.
The upper tourism market segment where micro-economic externalities such as prestige or the snob appeal of being different from others exists is somewhat limited. One of the two big German tour operator estimates that this market segment represents 8 up to 10% of the market. For the majority of potential visitors price increases matters. Their willingness to pay is limited by their purchasing power.

3.2 The industrial structure as advantage:
Which are the advantage of the international travel and tourism industry?

The small size of the companies which operate under the umbrella of the destination in developed countries give them the opportunity to react in a flexible way to the changing needs of the market and to personalize their services. Nevertheless if they increase their size they can also increase productivity if the market absorbs the additional capacities.

The network impacts and the corresponding productivity gains have benefited the small-to-medium-sized enterprises (SMEs in the traditional tourism countries. The benefits include the possibility of booking hotel rooms around the clock, the utilisation of value based pricing through yield management system and the outsourcing of the management.

On the other hand SME’s operating under the umbrella of the destination have not the capacity to make economies of scale and scope like the international travel and tourism industry which belong tour operators, airlines, hotel chains but also booking portals. These industries took over the risk to open new markets in developing and emerging countries. They made tourism global and are able to compete on prices thanks to their productivity gains.

Bigger companies can produce cheaper and offer more to the visitors. A hotel chain can maximize its turnover by its yield management and frequent traveler system. It can minimize its costs. When the number of night spent increases the costs by unit shrink. It can offer more facilities such as spas or shopping arcades.

Recent studies showed that small tourism related companies which increase their size are able to achieve higher productivity gains than bigger companies of the international tourism travel industry which are in a consolidation process and have to face price competition which can lead to shrinking economies of scales (Laesser, 2008).

3.3 The internalizing of cluster advantages
How can destination clusters make tourism companies more productive?

Tourism companies operate in general under the umbrella of destinations. Destinations are clusters which are built around major attractions. They provide destination goods for which potential visitors are willing to pay a mark-up on the prices of the providers of services. When the attractions are unique and outstanding more visitors come which allows companies to become bigger, to increase their returns and to profit from agglomeration impacts such as the access by an airport or the supply of important leisure and sports facilities. The attractions give a value to the destination in the form of a brand. The value of the brand can be internalized into the product of the companies operating under the umbrella of companies which can ask higher price. They can practice “value based pricing” which increases their productivity (Keller, 2009).
The destination is in the field of tourism the competitive unit. The visitors chose first the destination and then only the bundle of services that they want to consume. Under these conditions, small companies of the heterogeneous and fragmented tourism related industries can obtain productivity gains by cooperation which is a way to win size, gain market power and reduce costs of production and distribution. Cooperation is a market coordination mechanism which only makes sense if it reduces costs, increases learning curves or compensates lacking competences (Keller, 2004).

3.3 The role of the developed states for tourism promotion

Why is the state a co-producer in the field of tourism?

First of all, productivity depends on the firm. Only firms can create wealth. But productivity depends also on the business environment. Productive enterprises need attractive public goods, functioning infrastructures, highly skilled labour, low taxes etc. It also influenced by the macro-economic policy and other framework conditions such as security and safety. The actual debt and currency problems do not only create global imbalances but they influence also international tourism flows and the competitiveness of tourism countries.

The state plays in the field of tourism an important role as regulator, promoter, and territorial manager and above all as producer of public goods. It is a co-producer of destination goods such as nature, landscapes and cultural heritage or monument or museums. It puts forward tourism related infrastructure such as airports and motorways for facilitating access to the resorts. Tourism productivity relies on the quality and the quantity of these goods since their values is internalised in tourism products.

In its role as territorial manager, the state and its territorial units has to look for the optimal size of destinations by carrying about capacities. Physical planning is the most efficient instrument to avoid further costs of transport and construction costs. By protecting destination goods, the state contributes also to sustainable tourism. Last but not least, it is the state which has to put forward a tourism friendly business environment and corresponding macro-economic framework conditions.

4. The role of education and research

4.1 Labour productivity as a benchmark

How can productivity be measured in the field of tourism?

Tourism demand follows on the worldwide level the same growth path as the economy as a whole. The recent financial crisis and its impact on the real economy showed that there is no decoupling from worldwide economic developments. This is also the case of the highly income elastic tourism which grows stronger than the economies as a whole but fluctuates more around the growth trend. It makes therefore sense, to use the same concept of measuring productivity as the economy as a whole.

The best known and most meaningful expression of economic productivity is the labour productivity. It can be defined as value added per employee. This key indicator makes the performances of the different sectors comparable. The Tourism Satellite Account (TSA) is a recognised instrument to measure the labour productivity in tourism as a whole and in the individual tourism related industries since it extract the tourism related value added per employee from the National Account. The notion of value added by employee has two aspects. It reflects the ability to earn money but also the ability
to sell the products in open markets. These two characteristics make a tourism economy competitive. Productivity and competitiveness are two sides of the same medal.

To refine the concept of labour productivity in depth, it is possible to construct a series of indicators which summarize the most important variables influencing productivity at the business, the industry and the destination level. These variables concern the effectiveness and the efficiency of the input and the output for the production and the distribution of tourism related goods and services. They can be formalised in a model and measured allowing the governments, the professional associations and the business sector to continue to improve the productivity of their efforts.

4.2 The innovation creation mechanism as assets for the future

Finally, it is not the current performance of a given economy which really matter. More important for future productivity growth are the “innovation creation mechanism” such as the human resource development, the diffusion of knowledge and the applied research ad development. These factors determine together with the experience of the professionals the future productivity growth (Keller, 2005/2006).

A performing education and vocational training system which allows learning on the job and in the destination, supports a dual vocational training system by combining schooling with internship in companies and organisations and contributes to the creation of management competences, are crucial for tourism. In this context, academic and polytechnic universities can play a certain role by making students thinking and preparing them for the professional life and by doing research which does apply the right theories to the relevant problems of practice.

I agree that empiric research is absolutely necessary for making tourism aware of potential new solutions for becoming more productive. It is also a necessity to educate student for understanding and mastering the complex tourism system. A look on the proliferation of academic and polytechnic universities and institute and the shortage of specialists back stage and of kind workers front stage, throws some doubt if economically effective and efficient education and training systems can be established. We are unfortunately on the way to the “Academisation” of tourism which is not productive from an economic point of view.

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Structural Changes and Challenges for Tourism Economy

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Abstract

In the past quarter of a century the irreversible process of globalisation has led to an unexpected major extension of the market, and has thus changed the face of world tourism. The share of international arrivals in developing countries and emerging economies, as recorded in the accommodation sector, has increased to more than one third.

Despite this new source of competition the development of tourism has continued in the industrialised countries. Since the world tourism market has been extensively liberalised, competition between destinations is on the increase. The loss of a almost monopolistic competitive position has accelerated restructuring in the traditional tourism countries.

The tourism industry is still failing to give sufficient consideration to this new situation (Weiermair, 2002). Many theoretical concepts have been overtaken and need to be examined afresh as a result. The questions should not be limited to the operational and corporate levels of tourism. Successful business management in tourism also depends to a great extent on location advantages, destination goods and last but not least the promotional strategy adopted by the State. The destination is the basic competitive unit of tourism. The sectors of the economy that depend on tourism are among the few that are able to commercialise public, or mixed public and private goods, and to capitalise on these.

1. New competition between destinations

1.1. Impact of the globalisation process on tourism

What is the nature of competition in tourism?

Tourism as an industry is defined by the demand for its products and services. Potential visitors first choose their travel destination. Only then do they decide on the package of services they wish to consume at the destination. It is for this reason that competition in tourism is not only between companies but also between destinations. The latter are in fact the basic competitive unit of tourism (Keller, 2006).

Competition between destinations obeys certain laws. It is to a great extent dependent on local attractions, which either already exist as location advantages or can be created by tourism promoters. Since the endowment with attractions varies, there can be significant differences between one destination and another. The competition between them is thus imperfect.

Competition at the level of destinations increasingly has still a monopolistic character. The greater a destination’s uniqueness the more competitive it will be. This position can be defended from the beginning through the periods of development and boom. There can be no “hyper competition“
between destinations, for those who wish to visit the Castle Schönbrunn must go to Vienna to do so – not to Bern or anywhere else.

Another result of the irreversible globalisation process has been a proliferation of destinations. Today’s would-be tourist has any number of destinations from which to choose. The choice is most likely to fall on destinations which are the most attractive from the point of view of distance and money.

1.2. **International demand and local uniqueness:**

Does the process of internationalisation destroy local uniqueness?

The proliferation of destinations has led to an internationalisation of demand as well as to the emergence of an international travel and tourism industry. This industry is made up of tour operators, airline companies, hotel chains and car rental companies, which increasingly make use of industrial processes to cope with the flow of visitors. They take full advantage of the most attractive local potential in order to diversify their business risks.

Internationalisation on the demand side and industrialisation on the supply side have resulted in increasing uniformity in potential visitors' expectations with regard to the quality of tourism installations, equipment and services, in a never ending spiral. The market has thus influenced the creation of a sort of *minimum standard of comfort and service quality*, which today is accepted worldwide and which even the small-to-medium-sized enterprises (SMEs) of destinations ignore at their peril (Keller, 2004).

This increasing uniformity on the supply side has not however weakened the desire of potential visitors for the most outstanding, and uniquely authentic destinations. These destinations would be well advised to adopt *differentiation strategies* in order to take advantage of the demand potential created by globalization. Such strategies amount to local life insurance in conditions of global competition. They require making the greatest possible use of existing natural and cultural resources in tourism production.

1.3. **Destination goods and spatial concentration**

Is tourism an all-purpose cure for regions with economic difficulties?

The virtues of tourism are not widely recognised in economic or political circles. If anything, banks tend to shy away from investing in this sector, which they see as risky and generally weak in terms of productivity.

Despite this fact, tourism is often seen as an all-purpose cure for regions with economic problems. Remote areas, those with natural environments close to pristine conditions, regions whose traditional industries have disappeared, and deserted city centres are all considered suitable for the promotion of tourism development. In many cases efforts are made to develop tourism niche activities. It seems however those projects like these often manage to keep their head above water only with the help of State funding -- but there are no statistics to indicate the failure rate.

A glance at the economic growth strategies of many countries and regions reveals plans for massive development of tourism. This is mainly due to an overestimate of the real tourism development potential, and because the essentials of “economic geography” are not being given due consideration. Not enough attention is being paid to the fact that it is the number and importance of the existing attractions that determine the potential size of a destination.
Attractions are public and mixed goods as well as externalities of development, known as destination goods. These include beautiful landscapes, attractive sports infrastructure and flowery decorations on the window sills in picturesque old towns. And it is these natural, cultural or manmade attractions that determine the willingness to pay of the potential visitor and thus the value of a destination. The best known destinations are in fact genuine brands, competing for the world’s tourists. These brands make “value based pricing” possible and allow local companies to take full advantage of the purchasing power of visitors and earn monopoly profits.

Major attractions are the resources of tourism, exerting a major influence on the formation of a destination. A large number of visitors lead to increasing returns to scale for companies, and also to agglomeration advantages. These advantages include airport and motorway links, sports centres and streets devoted to shopping. Local companies can internalise these advantages in their range of products and services at no cost to themselves.

The big tourism centres throw a shadow over the hinterland, where development is consequently hindered. It is clear from the market development trend that as destinations mature, demand will increasingly be concentrated in the best locations with the biggest attractions.

### 1.4. The destination as a marketplace or a corporation

Can destinations be managed like companies?

Tourism is the act of travelling to a new location to spend time doing things that are not part of one’s normal daily routine. The destination, as the object of the act of tourism, is spatially and geographically defined. The building of a destination is the result of a market economy process, on the basis of endogenous factors such as the available attractions and exogenous factors such as distance and the relevant travel costs.

The destination is thus of the greatest importance in tourism. In the traditional tourism countries, a large number of independent and competing service providers bring to the market a multioptional range of products and services for individual tourists. The destination is in this case a marketplace.

Making proper use of a brand and protecting it in any case requires efficient vertical cooperation between individual companies and branches at the level of the destination. It is for this purpose that tourism organisations were created. They perform the corporate functions in the area of destination marketing, and contribute to the destination’s competitiveness.

Such destinations are not however corporations in the same way as the consolidates of North America, which copy the model of traditional multioptional tourism locations and standardise it on the basis of industrial business models. The traditional destinations are not fully integrated tourism companies managed in a normal, hierarchical manner.

### 2 Challenges in the business environment

#### 2.1. Entrepreneurship and the academic approach to tourism professions

Are there too few entrepreneurs and too many theoreticians in tourism today?

In the early days, tourism was a business for "self-made men". It was developed in what became the traditional tourism countries by dedicated pioneers, who with the help of their own professional
abilities and expertise managed to create the hotel and catering establishments, and other installations and services fundamental to tourism. They were independent innovators, able to draw on implicit knowledge and experience in the area of tourism.

Those who followed in the footsteps of tourism’s pioneers adopted their entrepreneurial style to the dynamics of different stages in the life cycle of destinations. These were promoters, engineers, marketing specialists and financial experts. The degree of academic specialisation in the industrialised world is high. However, most of the destination-orientated small businesses operate without explicit business models and tend to be driven by developments rather than trying to influence developments proactively (Keller, 2006).

In contrast to real entrepreneurs, there seems to be no longer any shortage of theoreticians. A “plague“ of them perhaps, as the universal trend is towards a proliferation of institutions devoted to vocational training, university specialisations and research in tourism. Society and the political world view this development with benign interest.

Despite all the efforts however therei is often a lack of solid individuals scientifically trained to think in terms of concepts and with the ability to bring us closer to solutions to the problems that face tourism. All too often academic pursuits are confined to ivory towers high in the clouds, dispensing dogma that is mainly of Anglo-Saxon derivation. For these academics the high road to paradise is paved with conferences and publications. Moreover our aging societies suffer from a growing shortage of professional people trained in tourism, and of specialists in general.

2.2. Learning curves and innovation

Does innovation exist in the tourism industry?

When it is no longer sufficient to simply deploy more resources in the form of either labour or capital, entrepreneurs begin to think in terms of innovation. The way to health is seen as passing through the so-called “creative” destruction of the status quo and the concomitant solution whose banner is “Out with the old, in with the new!”. This applies equally in tourism and is indeed the theme of this conference.

Or, the question of what is really new cannot be answered easily. There is often no distinction between rising learning curves and step-by-step innovation. Tourism is above all a field which applies the innovations of others, rather than itself being a motor of innovation as a source of new growth. The question of innovation in tourism is a challenge to both scientists and policymakers (Keller, 2006).

One must indeed ask oneself whether or not major investments for the purpose of making innovation a matter of routine - which means investments in education as well as research & development - are worthwhile in a sector in which at first sight “creative imitation“ seems a less costly way of bringing about change.

2.3. Managing cooperation:

Is there too much cooperation in tourism, or too little?

It is an undeniable fact that tourism, which is mainly a fragmented industry made up of small businesses, is dependent at the level of the destination on cooperation. By working together it is possible to overcome the drawbacks of inadequate size. Cooperation is in any case is a must when
attempting to open up new markets or to introduce new technology such as a computerised reservation system.

In the real world of tourism cooperation often follows a formula: "Everyone participates" or "Everyone who pays participates". The coordination mechanisms of a market economy and the industrial economic knowledge are both neglected. In this context a company needs to consider what it wishes to produce by itself, and what it wants to buy in from the market. Only when it has decided these points should it begin to think about the possibility of cooperation.

The answer to the question of cooperation is really quite simple. Cooperation should take place when it pays or when it is a matter of necessity. The advantages must be plain to see. A rising learning curve or a reduction in costs are sufficient justification for cooperation. A company which finds itself in a position where it can no longer cope alone needs to think urgently about cooperation. This is the case for destination marketing or for a reservation system which cannot be operated by a single firm.

In all other cases the emphasis should be on “do it yourself”. The disadvantages of inadequate size in tourism -- which as we have said is a fragmented industry consisting of small businesses -- are in most cases easily overcome through internal and external growth. The bigger the company the more it will be able to reduce costs while offering more to the customer. It will then be in a position to achieve growth with increased productivity.

2.4 Private initiatives and rent seeking

Are subsidies more important than private initiatives?

It has been said that entrepreneurs in different sectors of the economy should accept the existing framework conditions in their home market and make the best of them. He also holds that unfavourable framework conditions force entrepreneurs to perform at their best, citing the example of the Dutch flower growing industry (Porter, 1990).

In the real world however much more energy goes into trying to change framework conditions in a company’s favour through lobbying efforts, if at all possible. With this “rent seeking” the aim is to look for advantages in the political give-and-take, with the help of power and money. No sector can be barred from rent seeking. Finally, policy functions for the most part on the basis of a “public choice” approach. In policymaking the programme is determined by whoever is the most convincing and can shout the loudest.

But State subsidies to individual sectors of the economy are certain to dwindle in the years ahead in the market economies of the industrialised world. Entrepreneurs who hope to survive will have to make the best of what they have, and with all the resources at their command to seek, find and use the most profitable business opportunities.

3. Challenges at the level of economic framework conditions

Do the poorer countries have better framework conditions for tourism than the wealthier countries?
3.1. **Level of development and growth**

The basic hypothesis concerns the question whether or not poorer countries have better framework conditions for rapid and massive growth in the area of international tourism than do the wealthier nations. Another question is whether or not the traditional tourism countries have reached the limits of saturation. The latter question is supported by the fact that developing countries are catching up and have often higher growth rate than developed countries. They benefit from natural beauty and cultural resources the world has yet to discover. They also have a plentiful work force that accepts relatively low wages, which in a labour intensive industry like tourism is a key factor.

It is normal that the wealthier nations in the area of international tourism will grow more slowly and to a lesser degree than the emerging tourism countries, in view of their already high state of development. The international exchange of tourists nonetheless continues also in the favour of the industrialised nations, which account for more than 60 per cent of the tourism flows. International tourism is "competition between equals", explained to a great extent by a demand-side approach summed up in the phrase "love of variety" (Keller, 2003).

Despite selective disadvantages in the area of resources and prices, the more developed countries enjoy considerable competitive advantages in tourism. Their situation is made easier by the fact that the new rivals frequently have to overcome infrastructural and ecological bottlenecks and their prices tend to rise to international levels in line with their level of development.

The strength of the industrialised tourism countries is precisely their high level of development. The tourism-dependent companies and sectors in these countries are in a position to offset higher prices -- that reflect higher costs and exchange rates -- with higher quality. In this context public goods including attractive infrastructure, security and a generally high standard of living play a significant role -- all advantages for which the companies are indebted to the public sector (WEF, 2007).

If we assess performance on the basis of revenue per guest and value added per employee, then the more developed countries are undoubtedly very competitive indeed. The fact that many of these countries have been unable to fully tap the potential of tourism is above all due to the self-inflicted problems of tourism-related sectors of the economy.

3.2. **Productivity gap and growth**

*Has tourism itself to blame for relatively low productivity?*

Those who lobby on behalf of tourism are often suspected of seeking subsidies, in the same way as the agricultural lobby, so as to compensate for productivity that is lower than that of the economy as a whole. It is true that tourism dependent small-to-medium-sized enterprises (SMEs) are unable to match the productivity of other sectors, simply because the services they offer are labour intensive. *It is because of this so-called “cost disease” that tourism’s share of gross domestic product (GDP) continues to shrink in the more advanced economies (Baumol, 2001).*

The accusation levelled by those in the mainstream economy, who take a paternalistic view of tourism as a “poor cousin“, that the productivity deficit is self-inflicted is wrong. Labour-intensive services will clearly be less productive than the generation of electricity by hydropower for example, which is the sector with the highest labour productivity. For electricity is produced by the power of running water rather than by human labour. The productivity of labour is only part of the story however.
Indeed, if the total factor productivity is considered in all its aspects, tourism performs much better, for it is less capital intensive.

In any case it is not just productivity that determines a sector’s competitiveness. Productivity does of course help to reduce costs and push up profits. In the last analysis however being competitive means being able to sell and to earn money. In this context it matters little whether the goods and services sold are based on “high-tech“ equipment, or just an overnight stay in tourist accommodation. Whoever makes a good profit on each client will also do well in terms of productivity taken as a whole. This is particularly true in the tourism sector (Keller, 2006).

3.3. Market order and the role of the State

*Why is “less government” the best government to ensure a flourishing tourism dependant industry?*

Finally we come to the question, what is the role of the State in tourism (Keller, Smeral, 1998). This can no longer be decided purely on the basis of market-order policy arguments. The reason is that today, in addition to competition between companies and between destinations, there is also competition between countries and regions.

The competitive position of a company depends to a great extent on the goods and services provided (or not provided) by the State. A *lean State with low taxes which nonetheless achieves high performance is the ideal*. The performance of the State is particularly important to the tourism sector, in which the State must be viewed as a sort of co-producer.

The State has a real influence on the success of tourism -- or the lack of it. Functional infrastructure, protection of the natural environment, and more attractive museums are all things that companies can incorporate into their products as a rent. It improves their competitiveness on the international market (WEF, 2007).

Another important location factor is the presence of *first-rate research institutes backed by an educational system that meets high standards*. Here too there is need of the spirit of enterprise, and as in the private sector, for greater competition, as well as a reduction in administrative burdens and limitations, and indeed a complete redefinition of the State-controlled incentive system.

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Exchanges, sharing and development: tourism in the globalised society of the XXI century

Report of the Strategic Committee of the World Tourism Organisation, 6th Meeting, Alexandria (Egypt), Madrid, 2002

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1. Tourism, an accelerator of globalisation

1.1. The dialectics: between internationalisation and localisation

The term “globalisation” comes from globe, a miniaturised reproduction of our planet earth. It refers to a process which is making the world smaller, as it grows closer together. The process of globalisation is leading to ever greater networking and integration in all areas of life. It is a dynamic and multi-faceted process that is clearly creating a global condition for all of mankind.

The process of globalisation seems irreversible. It does however stimulate counterforces, which tend to compensate for the increasing integration and which are themselves bringing about a renaissance at the local level. In the economic sphere, industries of all kinds increasingly face international competition. This is leading to contraction in many industries, for thanks to ever greater productivity it is possible to produce more and more with less and less manpower. This frees funds for investment in a growing service economy that produces locally and is to a certain extent tied to a given location.

The development of tourism is strongly affected by the globalisation process. As a result of growing prosperity demand is being extensively internationalised, while supply is influenced by local conditions. The globalisation process is only beginning to impact on tourism. This impact is particularly noticeable at the level of competition, and it is accelerating structural change in destinations. It is forcing governments and indeed the international community as a whole to rethink traditional tourism policy strategies.

1.2. The coincidence of accelerating factors

Globalisation is not a new trend. Adam Smith, one of the founders of the modern science of economics, was also among the first to point out the importance of the division of labour on an international scale. What is new in the present era is the rate at which the process is gathering momentum. The acceleration began with the transition from fixed to flexible exchange rates and the liberalisation of capital transfers and financial transactions. Another new aspect is the intensification of the process of globalisation brought about by information technology, and its geographical extension to cover all markets. Globalisation is no longer limited to the leading industrial nations, i.e. the United States, Western Europe and Japan. The emerging economies and developing countries are increasingly being integrated in the world market.

The forward-going process of globalisation is driven by the coincidence of fundamental economic, political and technological changes occurring in the same time frame. The gradual conversion to a market economy of the world’s major planned economies as well as many of the emerging and
developing countries has significantly increased the size of the global marketplace. Deregulation of internal economies together with liberalisation at the boarders between nations has resulted in increased competition, greater productivity, more growth and a general improvement in living standards. Competition has created favourable conditions for a new leap forward in technological progress. Fundamental innovations in the area of transport and telematics have helped to speed up the global process of integration.

The general variables of acceleration have also greatly influenced the development of tourism. Growing prosperity has enabled many people in the countries newly admitted to the world market to put aside money for travel and for spending. The increased speed of travel together with the lower rates offered by the world’s airlines has helped to develop international tourism. The globalisation process provides confirmation for David Riccardo’s theory of comparative costs. All countries that have opened their borders to tourism have been able to make use of their relative cost advantages and competitive advantages and to earn cash and hard currency thanks to the spending of tourists.

1.3. Influence on the structure of the world tourism market

The process of globalisation has substantially altered the basic conditions of the world tourism market, leading to an enormous extension of the market. Demand for international tourism is developing at the same fast rate as the air transport sector -- both of which have benefited greatly from globalisation -- and slightly faster than the rate of growth in world trade and the world economy in general. This has led to a proliferation of destinations and worldwide competition between them. At the same time there has been an incredible increase of capacity in tourism’s leading segment, the accommodation sector, where the additional supply has put pressure on prices with a negative impact on the “ability to earn”.

About two thirds of cross-border tourism is still concentrated in the most industrialised countries (OECD Countries). This market is characterised by similar demand preferences and a comparable supply of products and services. Tourism exchanges can be explained by the “love-of-variety” aspect of the new theory of foreign trade. The industrialised economies have the advantage of being able to count on a strong home market and neighbouring markets, reducing the risks associated with globalisation. In recent years though we observe a remarkable growth in intercontinental tourism involving these same countries. However they are subject to increasing competition from the new destinations, which benefit from certain advantages in terms of costs and exchange rates.

The developing countries and emerging economies have succeeded in increasing their share of the international market. Indeed a relatively small group of large countries which in the past few years has attracted 90 per cent of the flow of private capital, has been the most successful by far. This is especially true of 12 East Asian countries, of China, India and Latin America. The poorest developing countries participate but little in the globalisation process, with the exception of a few island nations. A topic that is increasingly being discussed by the international community is the potential which tourism development might offer for the alleviation of poverty and the integration of these countries into the world economy.
2. The new challenges facing the operational tourism sector

2.1. The new tourism markets of the global village

The spread of information technology and networking has brought the “global village” that much closer, creating a global leisure time culture which is increasingly linked to events and appearances by the stars of show business, relayed around the world by the mass media. It is difficult for a tourism attraction to achieve the necessary level of attention in this virtual world and to make the public want to travel. The new virtual reality has considerably altered the process of selecting a travel objective. So-called “travel prototyping“ allows potential visitors to make a brief virtual tour of a given destination before making a final decision. The distribution system makes prices and performance more transparent today.

The consumer has a much stronger position in the globalised shrinking world. In recent years the worldwide trend has been for potential visitors to have the same comfort expectations with regard to all kinds of infrastructure as well as for the quality of service they expect. This has led to new international standards of comfort and quality, making it increasingly expensive and difficult for new destinations to enter the market. To satisfy the demands of the more critical consumers of tourism the poorer countries are often forced to import goods and services, which alters the net currency effect of potential earnings from international tourism.

The creation of a common tourism culture worldwide means travellers increasingly seek unique and typical experiences from the destination. This can involve either unique scenic beauty or cultural attractions, or destination-like products such as theme parks and cruises. The success of the world summit devoted to the “International Year of Ecotourism 2002“ may well be an indication that, after the levelling brought about by the “global village“, travel will increasingly depend on existing natural, scenic and cultural differences in the years ahead.

2.2. The new production conditions and the market power of transnational producers

At a time when customer expectations all over the world are increasingly the same with regard to tourism infrastructure and suprastructure, the framework conditions in the countries are very different. Thanks to the liberalisation of capital transfers and financial transactions investors are in general interested in the projects that guarantee the highest return. The level of costs in a given country in particular plays a significant role in the investment decision. Due to the failure to liberalise the “labour“, the mobility of manpower is very limited indeed. In countries with high wage costs there is therefore a tendency to export the least productive enterprises and branches to places where these are cheaper.

In tourism, as a location-dependent industry, it is not possible to transfer production abroad. A country’s economic framework conditions are therefore particularly important in the context of location competition which now takes place on a global scale. In emerging economies and developing countries where production benefits from cost advantages and the exchange rate are often favourable, the competitive advantages can be substantial. But they can be put to good use only if the state is able to provide functional and attractive conditions in terms of infrastructure, safety and hygiene.
The international travel industry makes the best possible use of the new conditions of production. Tour operators, airline companies and hotel chains have developed global strategies for exploiting the existing local tourism potential. These operate from the big economic centres and control the “outgoing” markets of the industrialised countries. They take advantage of economies of scale and their market dominance, in negotiations with suppliers of tourism goods and services in the destinations.

2.3. The new tourism destinations and the traditional tourism countries

The consequences of globalisation are by no means the same in all countries, and very much reflect the state of development in each. The emerging economies and developing countries have to contend with the international travel trade’s ability to control the market. However unlike the industrialised nations they have a plentiful supply of manpower and major advantages at the level of wage costs. It is for this reason that they attract considerable investment.

The competitive advantages of the less developed countries are often ephemeral however. With increasing development there is usually an increase in the cost of production factors. This rapidly increases prices to the average international level. This upward levelling of prices reduces the competitiveness of the emerging tourism countries. Moreover excessive and overhasty growth often results in infrastructural bottlenecks. Eliminating these inevitably pushes costs up higher still and contributes to a general increase in prices in the emerging tourism countries. Another advantage enjoyed by industrial countries is that they are better able to control the consequences of growth for infrastructure and the environment. The services the state offers in both these areas are well developed. However they suffer from less favourable economic framework conditions in the international competitive arena.

The ability of the industrialised nations to compete on price is offset by the hardness of their currencies and generally high wage levels. The labour market policies of the Western European countries in particular, which share a high level of qualifications, high wages and well developed social services, are less compatible with strong growth in tourism. Due to the lower level of productivity associated with tourism services the sectors of the economy that depend on tourism suffer from the so-called “cost disease”. They have difficulties to compete in the domestic factor markets for capital and labour. Furthermore they have to compensate for their lower productivity through higher prices, further weakening their international competitive position.

3. Tourism development, an opportunity for all humanity

3.1. Tourism as a strategic sector of the world economy

The globalisation process does not meet with the same reaction in all sectors of the political arena. This liberal economic political concept has been publicly associated with a number of sins: “economic terrorism”, the “dictatorship of the financial markets”, a supposed trend towards monopolisation, growing unemployment, and alleged social dumping. As a matter of fact however the world economy needs urgent growth in order to combat poverty and to solve the problems of the environment. The influence exerted by the financial markets results in imposing greater discipline on the spending habits and economic policies of governments, which keeps inflation in check and creates worthwhile growth opportunities. The introduction of information technology has pre-empted any attempt by the big industries to seize power, and its captains are now having to concentrate
increasingly on their “core business”. They reduce the spectrum of activities and recourse to “outsourcing” and spin-offs, in a context of “downsizing”. This is good news for the small-to-medium enterprises (SMEs). Nor is it true that globalisation eliminates jobs, for it creates new jobs in industry for the emerging countries while in the industrialised countries it replaces dying industries with an increasing number of labour-intensive services.

This major worldwide economic trend is contributing to the growth of tourism. Thanks to the exponential rate of growth, tourism has become a strategic sector of the world economy. It is the only export sector that is not limited to a few specific locations and has a country specialisation below the average. As well as the most industrialised nations the players now include the emerging economies and developing countries, and countries whose economies depend on raw materials. Even the Malthusian and isolated economies have in recent years made a successful entry into the tourism world market. In this context the impact of the spending of visitors in cross-border tourism plays a decisive role. They bring to the poorer countries much needed foreign exchange, to the extent that the net currency effect is sufficiently large. In the most industrialized nations it leads to a major value added creation thanks to the high multiplier effect, as can be seen from the new tourism satellite accounts (TSA). From the point of view of regional economies tourism can be viewed as a redistribution tool for labour and income, from the well-to-do and highly functional economies to the poorest and most problematic economic areas.

It is in the interest of the community of nations to create the most favourable possible framework conditions for tourism, in view of the economic potential and positive externalities which tourism offers national economies. Obstacles to travel and currency restrictions should therefore be removed as much as possible. The development of tourism regions is also a worthwhile undertaking for the poorer countries, from the point of view both of natural and cultural resources. In such cases the prerequisites for the financing of investments need to be seen to, including know-how transfer, training of the workforce and the necessary infrastructure credits. Furthermore the governments concerned need to ensure that installations and services are in place to guarantee the highest possible quality in terms of safety, security and health. At the level of the nation state incentive systems are needed which, in conditions of global competition, will be capable of making the best of the existing tourism growth potential.

3.2. Tourism, an intercultural laboratory for the world of tomorrow

Globalisation tends to level cultural differences. In doing so however it leads to a counter reaction. Indeed it stimulates a renaissance of local culture, which acquires new importance. In many cases an attempt is made to protect local cultural identity with isolationist strategies that try to fend off all foreign influences. In such cases we can only agree with Octavio Paz that “all cultures are born from blending, from encounters, and from shocks. Inversely, it is isolation that causes civilisations to die”. For local cultures the chance to absorb different cultural influences is an opportunity not to be missed. The multicultural trump cards acquired abroad help to strengthen awareness of one’s own local cultural identity, and the need to preserve the greatest possible cultural diversity as an essential part of the heritage and wealth of mankind.

Tourism can help to prepare people for a new symbiosis between local identity and the multicultural influences that are necessary for the peaceful development of this world. Tourism centres are in fact intercultural laboratories. The culture of the visitor’s source country, tourism lifestyles that
increasingly resemble each other and the closely related service culture, plus the traditional local culture, all these add up to an explosive mix. The globalisation process in any case helps to soften the culture shock between visitors and local residents. People familiar with the ways of foreigners are less likely to allow foreign cultures to dominate them. The traditional theory of acculturation therefore needs to be reconsidered in this era of globalisation.

The face of tourism has changed. It is more and more that of an “experience economy”. This new fourth macroeconomic sector absorbs free members of the workforce, to compensate for the deficits of modern societies. Productivity gains have provided new means that can be put to use for psychosocial innovations to improve man’s corporal, emotional, intellectual and spiritual well-being. These new developments are leading to a renaissance in travel culture. Standardised and industrialised forms of tourism, which address themselves exclusively to enjoyment seem destined to lose their importance in the long term.

3.3. Saving this blue planet

The globalisation process is aggravating the problem of environmental pollution. The world the astronauts in space perceived as a “blue planet” cannot be managed in the same way as a company. The ecological ramifications are too complex. The time needed to understand the implications of a phenomenon like greenhouse effect and its regional impact, to assess what countermeasures are necessary and to prepare these, seems to be longer than the time it would take to prevent environmental problems from becoming worse. The second law of thermo-dynamics means that this planet’s lifespan is limited.

We nonetheless need to ask ourselves in particular how additional mobility and new tourism developments can be brought under better control from the ecological point of view. The question that keeps recurring is whether in future all the inhabitants of planet earth will be able to enjoy the same lifestyle, and attitudes to work and travel as the “privileged few” have done so far in the most developed countries -- in view of the staggering additional consumption of resources and increase in pollution that would result. The measures to improve the quality of the environment being prepared or implemented at present may make it possible to give a positive answer to that question.

The community of nations should see to it that the most important rules in the context of a general policy to protect the environment in the area of tourism are effectively applied around the world. The "polluter pays“ principle makes it an obligation for tourism enterprises to internalise environmental costs in their prices. On the basis of the principle of co-operation the tourism industry should ensure, by means of ecological intermediate processes, that environmental standards are improved, in the interest of travellers and visitors. Finally the competent authorities should see to it, in accordance with the holistic principle, that the costs and benefits (or drawbacks) of projects that use the environment for the purpose of tourism are made absolutely clear in the planning stage, and that the damage is kept to a minimum with the help of regional planning measures.

Conclusions

Tourism is today one of the most popular forms of individual happiness. It creates a great many positive externalities such as encounters, work and income in poor and rich countries alike. In this age of globalisation it is a sector that should be automatically taken into account in the formulation of policies that affect all other areas of life.
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New Paradigm for International Tourism Policy


Prof. Dr. Peter F. Keller, President of the Tourism Committee of the OECD

TOURISM – A STRATEGIC ECONOMIC SECTOR

Tourism and globalisation

The process of economic globalisation is unstoppable. Advances in information and communications technology are leading to the virtual integration of mankind. Liberalisation at borders and deregulation within countries are increasing productivity and prosperity. Households in emerging economies are, for the first time, able to put aside a travel budget, as incomes in these countries close the gap with the industrialised world. Also, the increasing division of labour on an international scale is boosting the volume of business travel.

For tourism destinations, spending by foreign visitors is an export, with powerful multiplier effects that can increase a country’s level of development. International tourism itself leads to development in destination countries, helping to dismantle economic disparities between individual countries. Tourism is thus an important market economy mechanism for the redistribution of wealth between rich and poor nations.

Tourism brings together people of different cultures and creates trust between the various actors. It leads to the development of common or shared preferences, modes of behaviour, institutions and norms. In short, tourism accelerates the process of global economic integration.

Global demand - local production

Globalisation has resulted in the internationalisation of tourism demand. Cross-border travel is on the increase and continental and intercontinental markets are growing fast, while domestic tourism markets in the most open and developed nations are stagnating. Visitors have an increasing number of destinations and an ever-wider range of products and services from which to choose. The traditional OECD tourism countries have lost their monopoly position in the world market. The internationalisation of demand has also increased the intensity of competition. It is now possible, for example, to choose between a winter skiing holiday in the northern hemisphere or sunning on the beach in the southern hemisphere.

However, a corollary of internationalised demand is the decentralisation of supply. While tourism demand is now genuinely global, the supply of tourism-related goods and services still has to be local. The supply of tourism products and services is necessarily decentralised because tourism is based on the interaction between service providers and visitors, which invariably occurs at the place of consumption. Production depends on local policy environments, and, due to varying local production conditions, the unstoppable process of globalisation has resulted in competition between tourism locations.
The industrialised nations thus find themselves facing a new kind of competition from countries whose resources are still very much intact and which enjoy favourable business conditions in terms of wage levels, prices and currency. In an industry as labour-intensive as tourism, the magnitude of the differences in wage levels between developed and developing countries plays a major role.

**Growth and the level of development**

In these circumstances, one question that arises is whether the conditions for rapid tourism growth are better in the developing countries than in the developed ones? This argument is supported by the fact that the ratio of value added to gross domestic product (GDP) in the tourism sectors of industrialised nations is in a downward spiral. Other industries and economic sectors are more productive and therefore tend to grow faster. A country’s level of development has a considerable influence on tourism growth.

The poorest countries still face significant barriers to market entry, however. The main problem is the high levels of comfort and service quality that visitors all over the world now expect. To meet these expectations requires considerable investment in expensive infrastructure and training. Also, the share of imports in tourism production is generally high, leading to an outflow of currency and raising the risk that poorer countries are obliged to seek foreign loans. On the other hand, poorer countries can also profit from the "relative advantages of backwardness" which are based on resources such as important natural capital, a still vivid traditional culture or a plentiful labour force with a still low level of wages (see also Chapter II "Services Trade Liberalisation and Tourism Development").

**Box 1.1. A new Paradigm for international Tourism in developed countries**

The globalisation process strengthens worldwide competition and stimulates structural change in tourism. The steady growth of international tourism ensures that this process is not a zero-sum game. It creates new market potential for the OECD countries. Their unique attractions increase the willingness to pay and the expenditure of their potential visitors. It has to be taken into account that tourism related industries in developed countries are not only under global competitive pressures. They also have to compete in factor markets (e.g. for labour and capital), with other sectors that are more productive. It is therefore necessary to promote productivity-based growth in tourism in OECD countries. Tourism-related industries must increase their competitiveness in domestic factor markets and use scarce resources in more efficient and more innovative ways in order to develop and to market competitive products. The State can stimulate this process by offering macro-economic stability, a tourism-friendly business environment, attractive public goods and an innovation-oriented tourism policy.

The more developed nations are beginning to put the shock of globalisation behind them, but also suffer from business conditions which can be unfavourable for tourism, such as high wages and hard currency. On the other hand, they benefit from the advantages that go with a high level of development, earning more per visitor and achieving higher added value per employee (Box 1.1).

**Strong international market position of OECD countries**

The speed and quality of tourism growth are thus very different in countries with different levels of development. While developments in the world tourism market have strengthened competition and accelerated restructuring in the traditional tourism countries of the industrialised world, it has also led to dynamic and lasting growth in all countries.
The strongest growth in recent years has been in the largest emerging economies, which have attracted about 90% of direct investment and are now enjoying a boom. These countries are in the process of closing the gap with the industrialised world. While the growth and share of the world tourism market of the poorer developing countries remains very low, today about 40% of international tourism takes place in the emerging and developing countries (Figure 1.1).

While it is true that the industrialised nations have lost market share, the OECD countries nonetheless continue to occupy a strong position in the market. This can be explained by the fact that the market itself has grown enormously in the past 50 or so years. In 1948 at the time of the creation of the OECD Tourism Committee (Box 1.2) there were about 25 million international arrivals worldwide. Following more than 50 years of growth averaging 6.5% a year, this number has multiplied to over 800 million. The OECD countries, which have strong domestic markets and a growing market of same-day visitors, still account for 60% of all international arrivals.

Figure 1.1: Impact of the globalisation process on the world tourism market

<table>
<thead>
<tr>
<th>Developed countries</th>
<th>Emerging and developing countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competition between equals</td>
<td>New competition</td>
</tr>
<tr>
<td>Similar preferences</td>
<td>40%</td>
</tr>
<tr>
<td>---------------------------------</td>
<td>------------------</td>
</tr>
<tr>
<td>Comparable products</td>
<td>60%</td>
</tr>
</tbody>
</table>

Source: P. Keller, 2007

Box 1.2: OECD Tourism Committee

The OECD Tourism Committee was created in 1948 with the aim of using tourism as a tool for economic development and co-operation in the context of the Marshall Plan. The OECD Tourism Committee gathers high-level officials from national ministries in charge of tourism and statistical offices. It meets twice a year, and also organises ad hoc meetings and conferences.

At the heart of the committee's work is its development of best-practice research and guidance on issues commonly faced by tourism administrations in developed countries. The information produced is highly influential, affecting the way that governments organise and evaluate their support for tourism, encourage innovation in the sector and create the conditions needed to stimulate investment and boost competitiveness.
Its main focus is on economic and tourism policy issues. A more coherent worldwide approach to sustainable development by public tourism policy is another priority. The OECD Mandate 2007-2011 for the Tourism Committee indicates the following missions:

a) “maximise the economic, social and environmental benefits of tourism through medium and long-term strategic development, soundly-developed tourism policy and greater coherence between tourism and other policies (e.g. transport, environment, security, trade, taxation or migration);

b) promote, in a globalisation and decentralisation context, sustainable tourism development as a source of economic growth, job creation and poverty alleviation in both major centres and regional areas;

c) improve the infrastructure and image of destinations to make them more attractive to the local population and visitors and more competitive to investors for the benefit of the whole economy;

d) contribute to the advancement of international co-operation in the tourism sector.”

For more information: www.oecd.org/cfe/tourism.

The exchange of tourists still mainly involves industrialised countries which have only small differences in their levels of development. The demand preferences of these tourists are similar as are the products and services on offer. Potential visitors look for unique attractions and unforgettable experiences. Their expectations are also similar in terms of comfort and service quality and their demand for leisure travel can be explained by a desire for change and the “love of variety”.

**Long-run demand potential**

The global opening of markets has created the conditions for dynamic tourism growth, with tourism having become a strategic sector of many countries’ economies. As an industry, tourism is not limited to a few geographical sites, as in the case of automobile manufacture or the asset management of banks, but is geographically widespread within many countries. Even the poorest countries are able to participate in the world tourism market. By reaching outlying areas, tourism can help to overcome poverty and it also helps emerging countries to earn the hard currency they need to build up their economies.

The macro-economic importance of tourism has also increased for the industrialised nations. Tourism-related exports make a significant contribution to the balance of services (Figure 1.2). In OECD countries, tourism accounts for between 2% and 12% of GNP and between 3% and 11% of employment (see Chapter III "Country profiles - Statistical reviews"). It enables these countries to use the potential of their existing production apparatus more fully and thus has a positive impact on employment, both in the cities and in rural problem areas.

So it can be demonstrated that the globalisation process is not a zero sum game for tourism. The exponential growth of the world tourism market makes it possible to exploit the remaining growth potential to the full. In the industrialised countries, tourism is still focused mainly on domestic and neighbouring markets. The potential for the globalisation of tourism in the industrialised countries is still far from exhausted. The development of some new intercontinental markets has just begun.
A heterogeneous industry structure

Before considering productivity issues in tourism it is necessary to define what is meant by tourism, distinguishing it from other sectors of the economy. In fact tourism can only be defined in terms of demand. The money spent by visitors goes to a variety of different companies and industries, including companies of all sizes in both trade and industry. These offer either labour-intensive services that are in a phase of stagnation, or rationalised services of a progressive nature. Tourism is both a service and a self-service industry.

The structures of tourism are constantly evolving. They initially come into being in response to demand for a “package” of tourism services. Here there is an important distinction to be made between demand for tailor-made tourism services and for those tourism services that are produced industrially as a “package” for the mass market. Tourism is, in fact, distinguished by a dual structure (Figure 1.3).
In the traditional tourism countries the creation of tourism resorts and destinations resulted in a fragmented sector made up of small-to-medium-sized enterprises (SMEs), devoted to looking after visitors during their stay. However, the increasing popularity and internationalisation of travel also brought about the emergence of an international travel industry, which from the agglomerations in developed nations organised the travel services to the destination of their choice on an industrial basis. These are the tour operators, airline companies, hotel and catering chains, and car rental companies.

Both these ways of organising travel have their strengths and weaknesses. The small business sector is in a position to tailor and personalise its services to the needs of the individual visitor. They are also able to adapt to rapidly changing market requirements. Visitors to destinations have a wide variety of options from which to choose. At the end of the day, however, the prices charged for individual services in destinations can be high, and thus competition between destinations has to be based on quality. Personalised tourism is expensive.

The international travel industry on the other hand applies international strategies to the exploitation of existing local tourism potential. Its products are standardised. Most of the big corporations are able to develop new tourism markets while their very size allows them to cut costs and to offer the customer more for less. Incremental increases in productivity are essential for economic success in the travel industry, where competition on price is increasingly important and costs have to be cut to the bone.

*The need for production-based growth*

Global competition has given new urgency to the question of productivity in the supply of tourism services in industrialised countries. In these countries, tourism-related industries have to compete with emerging and developing countries, which have plentiful resources to offer and can also produce these services at a lower cost, giving them a competitive advantage. In developing countries, tourism productivity is often higher than in the rest of the economy, not least because tourism is an industry that produces for the world market.
The situation in industrialised countries is quite different. These have industries that are more productive than tourism, and therefore grow faster. The ratio of value added to GNP in tourism tends to fall in the most developed countries. Furthermore natural, landscape and labour resources are increasingly scarce. In conditions of global competition, tourism products and services have to compete at least partially on price.

For these reasons, industrialised countries need to strive for growth based on productivity gains and use the remaining resources sparingly. Production efficiencies in the services sector need to be improved further in order to bring down unit costs. The quality of the experiences offered needs to be assured. Increased productivity will improve the competitiveness of tourism, making it easier to adapt pricing to the competitive environment and will also raise the rewards to labour, making it easier to attract and retain qualified workers.

Tourism - an “experience economy”

Tourism-dependent sectors of the economy are not homogeneous. They are in the business of creating experiences and are part of the new “Experience Economy“. A whole package of services is designed, developed and commercialised for visitors to enjoy as experiences. The tourism industry is a kind of “dream factory”, with the manufacture of unforgettable experiences requiring high quality levels.

Indeed, productivity in tourism depends on the quality of the experience, reflected in the perceived satisfaction of the visitor which is a subjective judgement. Anything that contributes to the efficient production and marketing of quality experiences helps to promote productivity in tourism.

The productivity of tourism-dependent industries is a complex issue. It can be defined as the inputs in terms of units of human resources, capital and natural resources required for the provision of a service. The magnitude of those inputs measures the efficiency of production. However, the products and services offered also have to be sold efficiently to the markets. The value of a tourism service is thus measured by the price that can be charged, which depends both on the efficient employment of the factors of production and on efficient marketing in tourism markets.

Low labour productivity in core industries

Hotels and catering - two core industries of tourism - offer services which are labour-intensive. The small-to-medium-sized enterprises (SMEs) in these sectors are in a phase of stagnation with no room for further rationalisation, and thus suffer from a “cost disease”. Compared to other economic sectors in industrialised countries, their productivity is low.

SMEs in tourism have to compensate for their lack of productivity through increased prices. This weakens them in two ways. Their services become more expensive, and efforts to procure land, human resources and financial capital become more difficult, because they must compete in those factor markets with enterprises that are more productive.

A whole series of measures is required to improve the productivity of labour in tourism-dependent SMEs, both at the company level and in general. SMEs are already able to take advantage of the network externalities of information and communication technology. For example, hotels can now advertise themselves and take direct bookings via the internet, offering the potential to achieve higher
occupancy rates. SMEs can grow internally or externally. By extending their capacities they can achieve greater size and thus bring down their fixed costs. They can take advantage of cooperation or mergers to offer customers more. By consistently improving quality and the utilisation of capacities, they will be able to charge higher prices.

**Key factors in tourism competitiveness**

It has been argued that increased productivity is one way to improve the competitiveness of the tourism industry. Productivity gains in tourism-dependent industries and SMEs in developed countries are important for their economic survival. As productivity rises, higher wages can be paid, improving the industry’s competitiveness in labour, capital and real estate markets. This is also a way to offset the effects of hard currency. Finally by making possible a higher return on investment, increased productivity also helps to attract more investment in tourism installations and equipment.

Competitiveness in tourism depends above all on the firms themselves, which can be said to be “productive” when they manage to sell their services and earn income. The ability of poorer countries to sell and earn is based on an abundance of low-cost resources. In emerging economies this is driven by a high volume of investment. In industrialised nations, productivity gains at corporate level increasingly require entrepreneurship and innovation, making it possible to operate cost-effectively and to develop markets more intelligently with the help of new products and marketing approaches.

Competitiveness at the corporate level is not, however, sufficient in itself to ensure success in today’s hotly-contested tourism markets. The real key to success is a favourable macro-economic business environment. To be truly productive, tourism enterprises need qualified staff, better information and greater know-how, attractive infrastructure, top-quality suppliers, the removal of administrative obstacles, low taxes, plenty of competition and highly qualified research facilities.

**DESTINATION ISSUES**

**Attractions as destination goods**

Demand in tourism is driven by two fundamental motives which make people want to travel: the need to escape the pressures of daily life and relax, and the desire to see and experience something new and different. Here the role of attractions is fundamental.

Attractions are the “raw materials” of tourism, and are location-specific. Perhaps only agriculture is as dependent as tourism on a given location. The geographic location of attractions leaves tourism-dependent industries, beginning with hotels and restaurants, no choice but to locate themselves as near as possible to the attraction that draws the visitor. Thus it is in the vicinity of these raw materials that tourism industries take root and flourish.
Chief among these attractions are natural resources, landscapes and the “magic” of a certain place. All of these are free goods. The increasing development of tourism makes them into public goods, which must be protected and cared for with government help. They can also be marketed and become economic goods, once access is controlled and carrying capacity restricted. What are known as “destination goods” include social resources and mixed goods, i.e. goods which are both private and public – beaches and ski slopes for example. Positive externalities – for example, flower displays on the balconies and windows of local homes that increase the attractiveness of a locality - are also destination goods.

**Building a destination**

Attractons are given an economic value by the visitor market. Potential visitors choose their travel destination on the basis of something special and unique about its attractions. This also determines their willingness to pay. The more famous the destination the higher the price visitors are ready to pay for the services they will need (Figure 1.4). Tourism-dependent businesses in the vicinity of these attractions can take advantage of this. A famous attraction has the same characteristics as an established consumer good brand name. It generates profit for individual companies, enabling them to demand prices that are significantly higher than their production costs ("value based pricing"). Unlike the international travel and tourism industry, price-based competition hardly exists between destinations, even though they compete for tourists in other ways.

**Figure 1.4: Endogenous process of destination building**

![Diagram](image)

Source: P. Keller, 2006

Attractions play an important role in the creation and growth of destinations. The more important the attraction, the greater will be its endogenous growth potential. Really big attractions draw large numbers of visitors, generating increased returns and raising the possibility of internal growth for local firms. There will also be growth in the number of firms, bringing new agglomeration advantages such as the creation of airports, motorways or the development of attractive shopping streets. Local companies can internalise these agglomeration advantages in their products, offering customers more for their money, and can benefit from economies of scale and lower production costs as a result.
Decentralisation of supply and the hierarchy of destinations

Attractions are found all over the world, hence the decentralisation of supply in the world tourism market. Virtually all countries have tourism attractions, and the most important tourism countries are generally those with the greatest number of major attractions (Figure 1.5).

There is in any case a hierarchy of destinations. The market for the most attractive destinations is truly global. Generally, less attractive places or less well-known attractions appeal mainly to domestic markets. Tourism resorts also cast a shadow on the development of tourism in the hinterland. The big hotel chains are all present in the major tourism centres, but, in the neighbourhood of these centres, the hinterland is often restricted to niche products of the “bed & breakfast“ variety. There is naturally a concentration of demand on the best locations when a destination life cycle tends to maturity.

Figure 1.5: The decentralisation of the tourism offer

<table>
<thead>
<tr>
<th>Highly developed countries</th>
<th>„Catching up“ developing countries</th>
<th>Raw material producer countries</th>
<th>Less Developed countries</th>
<th>Countries with isolated economies</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>Malaysia</td>
<td>Russia</td>
<td>Peru</td>
<td>Azerbaijan</td>
</tr>
<tr>
<td>79</td>
<td>17.5</td>
<td>19.9</td>
<td>1.6</td>
<td>1.2</td>
</tr>
<tr>
<td>USA</td>
<td>Turkey</td>
<td>Bahrain</td>
<td>Madagascar</td>
<td>Uzbekistan</td>
</tr>
<tr>
<td>51.1</td>
<td>20.3</td>
<td>4.5</td>
<td>0.3</td>
<td>0.3</td>
</tr>
</tbody>
</table>

Examples by country (millions tourist arrivals, 2006 data)

Source: Adapted from J. Sachs, 2007

Imperfect competition between destinations

Local attractions are catalysts for the economic development of a location, but can only realise their economic value by investment in installations, equipment, products and services. It will then be possible to attract tourists, whose spending will help to increase local employment and income. Tourism makes use of natural, cultural and man-made attractions, and in so doing enhances the overall attractiveness of a destination.

Places which are interesting from the cultural and leisure points of view as well as for the quality of life will also be able to attract direct investment. Moreover, they are ideal locations for companies and strengthen the local production brands in export markets.

The unique nature of attractions in one sense diminishes competition between destinations. When destinations are neither comparable nor interchangeable, there can be no perfect competition. Attractions differentiate destinations in tourism. When it comes to differentiation strategies, the producers of tourism products benefit at least temporarily from a monopoly position.
THE ROLE OF ENTREPRENEURSHIP AND INNOVATION

“Creative destruction” and the improvement of tourism structures

The advantages of a given location in terms of attractions have a considerable influence on the travel decisions of potential visitors. It is only after the client has decided on a destination that the question of products and services arises. So there is competition between destinations, which depends to a great extent on the quality of the products and services available. In view of the constantly changing requirements of visitors, suppliers of tourism products and services must update them regularly.

Over time, tourism products come to the end of their life cycle, as can be seen from the saturated markets for seaside holidays and skiing. Destinations can go out of fashion and fall into oblivion without warning. To avoid this danger they need to reinvent themselves constantly, explore new markets, develop new products, and invest in new installations and equipment, while improving production structures and constantly seeking to innovate.

In conditions of global competition between destinations, industrialised countries need to question themselves constantly, and be ready to adapt to changing conditions in tourism markets. This process of "creative destruction" or the improvement of existing structures requires the most open kind of competition.

Entrepreneurship as a scarce resource

Innovation means making a conscious effort to develop products that are new and more profitable, which is one of the main tasks of the entrepreneur. In a market economy, investors and capitalists are free to seek the most profitable opportunities for making their businesses grow. Innovation is a must, and is by definition unique. Innovation is based on truly original thinking, creating more or less revolutionary products to bring to the market. Such products are usually the work of independent innovators, who stand apart from the mainstream of increasingly technocratic or bureaucratic managers.

These independent innovators are pioneers in the true sense of "entrepreneurship", able to anticipate new social trends for which they will develop new products, processes and forms of organisation. The tourism structures of today are above all the result of entrepreneurs who were not afraid to take risks in the Schumpeter sense and who, with total commitment and at great personal risk, changed the way people do business. It is to such people that we owe today’s outstanding luxury hotels, leisure parks, hotel chains and "low cost carriers".

In many cases, the innovators in tourism originated in small family businesses. Hilton and Marriott in the USA for example, developed the most successful standardised hotel chains mainly to meet the needs of business travellers. An attack on the monopolies of traditional national and network carriers was first launched by two pilots from Southwest Airlines and has led to an explosion in low cost airlines in all continents.

In tourism, an industry dominated by SMEs, the barriers to entry for would-be entrepreneurs are not always particularly high. The various branches of this sector of the economy offer many opportunities
for the independent operator. What is lacking in many cases, however, are explicit business models. Entrepreneurs are a rare breed in everyday tourism.

*Characteristics of the innovation process in tourism*

In tourism, the transition from individual and corporate learning processes to innovations is a fluid one. Learning by doing is extremely important. When an activity is constantly repeated, productivity is bound to increase eventually. No special resources are required for this learning effect. Change and technical progress is in that case a side-effect of productive activity. The tricks can be learned by a second and third firm and so on until they become generalised in a process of "creative imitation" that requires no investment in research and development (Figure 1.6).

![Characteristics of the innovation process in tourism](source: P. Keller, 2006)

Tourism also depends to a great extent on fundamental socio-economic innovations which cannot be foreseen, and over which it can have no influence. These often lead to major market transformations. Such a fundamental social innovation was the introduction of the paid holiday which popularised tourism for the mass market. Basic innovations in the transport sector also resulted in unexpectedly radical changes in tourism. First the railways, then the automobile and finally the airplane caused distances to shrink rapidly, dramatically reducing the time needed for, and the cost of travel. Conditions were then ripe for the growth of large tourism resorts, the spread of tourism across the world and the development of remote markets. Today, tourism is in the throes of a new revolution under the influence of information and communication technologies, which is making production far more efficient.

Tourism is also an activity that very gradually absorbs a great many adaptive innovations, many of which have had a major impact on tourism production and marketing processes. The introduction of
the credit card, for example, has made payments much easier, reducing the cost of transactions and currency exchanges.

**Innovation-creation mechanisms**

The level of development is less important for industrialised countries than the so-called innovation-creation mechanisms. These help to dismantle barriers to innovation in the areas of education as well as the production and dissemination of knowledge, in turn improving labour productivity in tourism. Creative entrepreneurs, well trained managers and specialised, sector-specific know-how together with inputs from research and development combine to create a business climate that leads to the improvement of existing structures and the ability to take full advantage of a destination’s potential for endogenous growth.

Education creates personalised knowledge in the form of human capital. It takes effect only in the long term and is just another variable in the field of tourism, together with personal commitment and diligence, all of which help to improve the productivity of labour. "Learning on the job and by using" in tourism, as a sector very much identified with newcomers to the labour market, is as useful as the nearness of the learner to the market. Learning is optimal at the level of the destination, where there is "face to face" communication between the customer, management and the “pupil”.

Innovation-creation mechanisms include the production of knowledge, which is to be found outside the company. Productivity increases when a company is able to participate in knowledge pools in its own sector or at the level of the national economy. The dissemination of knowledge promotes innovation and ensures its implementation by means of a series of gradual steps. In this context, innovation soon leads to the improvement of products in tourism, a sector numerically dominated by small businesses.

Efforts in the area of education and the dissemination of knowledge help to make innovation a matter of routine, at least at the level of the destination. Tourism associations and organisations have an important role to play here, as the catalysts of innovation and above all as platforms for cooperation. Without cooperation between the various service providers, it is much more difficult to improve tourism structures (see also Chapter II “Enhancing the role of SME's in the Global Tourism Industry”).

**THE BUSINESS ENVIRONMENT AND COMPETITIVE TOURISM DESTINATIONS**

**Liberalisation and deregulation**

Tourism is an industry that has been widely internationalised. It has been subject to extensive liberalisation at borders. On the demand side, barriers to travel such as currency restrictions and departure taxes need to be dismantled, while customs and immigration controls tend to be carried out in a more efficient and “visitor friendly” manner than previously. On the supply side, it is the rules of the General Agreement on Trade in Services (GATS) of the World Trade Organization that matter.
In fact, world tourism market liberalisation is well-advanced on the demand side. The principle upheld by the OECD Tourism Committee, that “tourism must go both ways“, is widely observed. Currency restrictions between OECD countries have been lifted. Tighter security regulations and procedures, introduced in the face of international terrorism threats, are a problem nonetheless when it comes to the efficient operation of border controls, and are costly both in terms of time and money.

On the supply side, the closer integration of those countries that make up the bulk of the world tourism market is being encouraged through increasing cooperation within various intergovernmental bodies. In line with the OECD decisions, the Global Relations Strategy of the OECD’s Tourism Committee (Box 1.3) is a case in point, building ties with selected emerging economies in an effort to make the world tourism market more homogeneous.

### Box 1.3. A new political agenda for the OECD Tourism Committee

In response to global challenges, the OECD Tourism Committee has developed a new political agenda. A main objective for the Tourism Committee is to reinforce the global coherence in public policies linked to tourism. Currently, the OECD is therefore working on some of the major issues affecting the globalised economy in the field of tourism:

i) Innovation, productivity and growth in the field of tourism (forthcoming publication on Entrepreneurship and Innovation in Tourism);
ii) Review of economic and policy impacts of border security measures on travel and tourism with a view to enhancing coherent strategies and policies that can help to mitigate the negative impacts of the security measures on travellers, on the travel and tourism industry and on national economies;
iii) Analysis of climate Change and Tourism issues (OECD publication on *Climate change in the European Alps*);
iv) Internationalisation of SMEs and Services Trade Liberalisation and Tourism Development (see chapter II);
v) Economic measurement of tourism services: best-practice research on the use of data from Tourism Satellite Accounts to inform tourism policy and support business in the framework of the broad economic agenda; and
vi) Analysis and case studies on the role of tourism and culture in making regions/areas more attractive, not only for visitors but also for residents and for investors.

A focus point for the OECD will be the 2008 high-level Tourism Committee which will discuss key topics related to the governance of tourism in the globalised economy. In support of these actions, the Tourism Committee has also significantly broadened its links with non-member economies, the private sector and other international organisations active in tourism.

For more information: [www.oecd.org/cfe/tourism](http://www.oecd.org/cfe/tourism).
**Macro-economic stability and the business environment**

Stable macro-economic conditions do much for the development of tourism. A booming economy stimulates demand for tourism, which is very much dependent on the business cycle. Sustained growth makes it possible to invest in the necessary infrastructure and superstructure. Both effects help to take fuller advantage of the potential of tourism installations and facilities, ultimately leading to full employment. Keeping inflation at bay helps to contain the price of tourism services.

While good macro-economic relations are important prerequisites for the successful development of tourism, they are not sufficient in themselves. A business environment favourable to companies in the tourism sector is also necessary. As explained above, this includes a full range of economic, financial and location policy measures.

**The state as co-producer of destination goods**

The state normally makes available a substantial supply of destination goods, including protected and carefully-maintained natural sites and landscapes, cultural monuments and museums. The state is also mainly responsible for the development of the means of transport that ensure that destinations are accessible.

The state is thus a co-producer in tourism (Figure 1.7). It creates the policy environment necessary for potential growth in tourism while its services contribute substantially to making destinations attractive to potential visitors. A country’s competitiveness in tourism is defined largely on the basis of the services provided by the state. (Of course, tapping the existing tourism potential can only be done by tourism operators since the state is rarely engaged in filling airline seats or hotel beds.)

![Figure 1.7: Main areas of State intervention in the field of tourism](source: P. Keller, 2007)
**Territorial management and environmental protection**

A successful tourism sector means that more people will use existing transport, accommodation and protected areas’ facilities. Indeed, visitors are above all interested in beautiful landscapes and an uncontaminated environment. In the case of the suppliers of tourism products and services on the other hand, it is the utilisation of these resources that is of prime concern. This leads to conflicts of interest between the need for protection and the need for development. Therefore regional planning and environmental protection policies both have a direct bearing on tourism.

At the local level, careful planning is necessary to achieve an optimal balance between the need for development and the need for preservation, so as to prevent the squandering of resources and keep environmental pollution to a minimum. It is also important to ensure that natural and cultural landscapes that have remained intact continue to be protected and preserved over the long term.

Some of the environmental problems affecting tourism are global in nature and can only be resolved by the international community acting in concert. An obvious example is the issue of climate change, which is now having a direct impact on the essential resources of tourism. For example, melting glaciers and the lack of snow in lower parts of the mountains are a threat to skiing in the Alps, an important and lucrative area of recreation for world tourism. Climate change is forcing tourism-dependent sectors of the economy to adopt expensive adaptation measures. There is increasing political pressure to tackle the problem by introducing measures to limit growth in certain sectors, such as the taxation of flights or even the imposition of travel restrictions. The main target for reductions is the industrialised world.

From the point of view of simple efficiency, general measures affecting all areas of life are preferable to sectoral measures. Climate protection is in fact going to be much more expensive in the industrialised countries, where the level of protection is already high, than in the poorer countries. From the point of view of tourism policy, preference should be given to measures such as technology transfer and compensation payments to the less developed countries, in the framework of the so-called flexible mechanisms of the Kyoto Protocol.

**Innovation-oriented incentives for tourism growth**

Finally, another question that arises is whether the creation of a tourism-friendly policy environment will be sufficient or whether specific incentives are needed to promote tourism. It is important in this context that whatever promotional measures are taken do not distort competition at the international level.

It is fundamental in a market economy that specific measures taken in a given sector should be limited to eliminating any kind of market failure or market inadequacy. These are the rules the industrialised nations follow when it comes to implementing tourism policy measures. No one opposes state support in areas such as education, research and development, innovation and cooperation, destination marketing and the financing of tourism infrastructure. The instruments in each case vary from country to country.
To the extent that they are implemented efficiently, promotional measures can make a contribution to the socio-economic output of tourism and in this way considerably strengthen the associated positive externalities for growth and employment in given territories.

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