

The impact of the 2001-2002 crisis

on the

hotel and tourism industry

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1. Introduction¹

The hotel and tourism industry has been suffering particularly from the combined effects of a general economic downturn that began to show itself early in 2001 and the shock wave from the events on September 11th of the same year. The general economic downturn had already started to reduce the industry's previously strong 4½ per cent annual growth rate to well below 4 per cent. The impact of the September 11th events on tourism was dramatic. The whole industry lost an additional 10 per cent or more of its business worldwide, with certain countries experiencing falls of up to 30 per cent. The extreme market lows remained for at least three months, plunging the industry's growth rate for the whole year 2001 into negative territory of somewhere between -1 per cent and -5 per cent. Although signs of a recovery have been observed since January 2002, it is proving slow to take hold. More recent events have raised new security concerns worldwide. They include the terrorist attacks in Bali, 12 October, and in Mombasa, 14 November 2002. The Moscow hostage drama, late October, also contributes to an increased feeling of insecurity in the international sphere as does the perspective of a possibly aggravating conflict in the Middle East.

Forecasters had predicted that tourism would return to its pre-September 11th levels in 2003. Recent reports, however, of the renewed decline in the third quarter of 2002 of certain performance indicators, suggest that a longer recovery period is to be expected. A flat performance, i. e. continued stagnation, now seems more likely. Longer-term predictions now suggest that the industry's pre-2001 growth rates will not be regained before the year 2004 and that it will take the market until 2005 to get back to its - outstanding - year 2000 volume.

Employment figures in the sector have reacted more slowly to the crisis, but the negative effects will be longer lasting. Employers at first hesitated to reduce staff

¹ In view of the disastrous impact of the terrorist attacks of September 11th 2001, the International Labour Organization (ILO) convened a meeting in October 2001, with an informal framework involving representatives of Governments and Employers' and Workers' organizations in the hotel, catering and tourism sector from different member States. The meeting reviewed the impact of the events and the social partners formulated their recommendations on how the crisis might be overcome quickly, and how the social impact of other events affecting the tourism sector in the future might be limited. The ILO constituents made a number of recommendations (see Annex). The ILO provided the meeting with information about the developments in the hotel and tourism sector after the events of September 11 and posted three updates before the end of 2001

levels, although reducing costs on personnel through shorter hours and lower fringe benefits. The common tendency, particularly in the service sectors, is for staff lay-offs to be partially compensated by increased productivity. Consequently, the longer the crisis lasts, or the slower the industry recovers, the more jobs are lost irretrievably.

According to estimates by the *World Travel and Tourism Council* (WTTC), the events of September 11th and subsequent developments will have caused more than six and a half million jobs to be lost in the travel and tourism industry over the years 2001 and 2002 – some 6.9% of the total employed, as compared to a normal growth that could have been expected in normal times without the impact of a crisis. This estimate does not include those related sectors providing inputs to travel and tourism, where employment may have suffered in similar proportions.

Although **international** tourism is generally highlighted for statistical convenience, the crisis has had an important impact on **domestic** tourism levels as well, particularly in the United States, where much of the internal tourism involves the use of air transport. Both international and domestic tourism tend to reflect the general level consumer confidence. Travel and tourism are the types of product on which consumers can easily make substantial savings if they need to, e.g. by purchasing lower quality services, by taking shorter leave or by spending their vacations closer to home. Adjustments like this have undoubtedly been made by consumers in order to adapt to the present increased economic and psychological pressures on travelling.

Nevertheless, there have been some initial signs of recovery in leisure tourism as can be observed in tour operators' business in early 2002. These signs serve, in a way, to illustrate both the extent to which leisure tourism suffered immediately following September 11th and the fact that the crisis phase immediately thereafter in this particular sector seemed actually to be quite short. One contributing factor might have been that the promotional campaigns undertaken by the tourism industry to mitigate the negative effects of the crisis, accompanied by measures taken to support small enterprises. They have also had a much greater effect on

leisure tourism than on business travel. However, general economic constraints continue to force consumers to apply various types of savings measures such as avoiding air transport, choosing cheaper destinations, staying for shorter periods of time, and booking late. Another point worth noting is that developing countries are not benefiting proportionately from any recovery in leisure tourism because of their heavy dependence on foreign tourists, and particularly on long-haul tourists.

Business travel (which falls under the generally accepted definition of tourism if one night is spent outside the usual living sphere) is recovering more slowly, if at all. Corporate travel professionals are not expecting to see a recovery in business travel for at least another year. Although in terms of numbers, business travellers may account for no more than one-fifth of the total travelling population, they contribute nearly one-half of the industry's total revenue because of their high frequency of travel. It has been observed that, in light of the economic downturn, travel managers of corporations and businesses are moving to re-negotiate contracts in order to reduce business travel costs.

Most affected countries have taken measures on a central, regional or local level, aimed at mitigating the effects of the tourism crisis. To varying degrees, losses in long-haul international tourism have been successfully compensated by gains in international tourism from within a region. This is the case, for example, with certain European countries and with Canada, and some therefore ended the year 2001 registering positive growth in their levels of international tourism. Domestic tourism in many developed countries benefited from reduced outbound tourism because many clients who were previously long-haul tourists now favour surface travel, and cheaper, shorter trips.

Major and, at times, remarkable measures were taken to stimulate consumer demand and support the industry by sectoral bodies, including national tourist boards and ad hoc committees composed of tourism authorities and industry representatives in public-private partnerships. Governments have been participating financially in advertising campaigns, quality improvement programmes, tax relief schemes, or the granting of subsidies to small and medium-sized enterprises (SME's).

Despite the fact that the developments in tourism after 11 September 2002 are

those of a crisis with a beginning and hopefully with an end, they seem to have introduced or at least accelerated lasting changes in consumer demand for tourism products. Specialists agree that patterns such as "sea, sand and sun" may get out of fashion as may the desire of many tourists to travel as far as possible and to places as exotic as possible. New trends show an inclination to stay closer to home and make sure that holidays are an "experience," be it in the area of cultural enrichment, in the area of sport or other. Providers are challenged to meet those specific types of demand by developing higher value products and at the same time compensate a tendency of consumers to spend less money. Developing countries are particularly challenged in order to compensate for long distance travel, language differences, and less complete infrastructure to receive tourists other than in beach resorts.

2. Data

For most countries, knowledge of the volume of border crossing tourism is largely limited to the numbers of arrivals and the expenditure by international tourists in the host country published with varying delay by governments and presented annually by the *World Tourism Organization* (WTO). Some more frequent statistical surveys are carried out based on samples covering also domestic tourism and especially hotel performance indicators, but these do not produce figures representative of the total size of the industry. Only a dozen countries have so far started to develop statistical instruments to measure the whole tourist industry (Tourism Satellite Accounts), and at present results are published only after long delays. Estimates that are available are based on different methodologies and hardly comparable. When it comes to employment figures, however, there are hardly any other sources available.

Another complication is that definitions of the 'tourism' market or industry vary according to the particular perspectives of the different organizations. For example, is 'travel' included or not? (It is by the WTTC). In this paper, wherever possible, efforts are made to indicate the scope of particular figures or information quoted.

3. The direct impact of September 11

3.1 The overall impact

In 2001 until September 11th, travel and tourism had been growing at the annual rate of 3.8 per cent and was expected to maintain that level of growth for the full year. In the event, according to WTTC estimates, travel and tourism demand worldwide in 2001 ended 1.3 per cent down on the previous year. The real decline for the whole of 2001 as compared to the expected growth was therefore 5.1 per cent (Table 1 below), of which it has been estimated that as much as 4.4 percentage points can be attributed to September 11th alone (85%).

In 2002, the year-on-year decline of travel and tourism was expected to continue, with WTTC forecasting last spring a slight decrease by 0.4 per cent for the whole of 2002. The forecast was adjusted in fall when WTTC estimated a flat performance as compared to 2001. On the assumption that last year's pre-September 11th growth of 3.8 per cent would normally have continued throughout 2002, this would mean another real annual decline for tourism of close to 4 percent, of which around 3 percentage points can be attributed to the events of September 11th alone (70%). For an estimate of the total impact of the crisis after September 11th on travel and tourism growth over the two years 2001 and 2002 combined, see column H of *Table 1* below.

Table 1
Travel and Tourism (T&T)
The Estimated Impact of the Crisis in 2001 and 2002

	2001			2002			2001-2002
	(A) PRE 9/11 FORECAST	(B) ACTUAL RESULTS	(C) CRISIS IMPACT	(D) PRE 9/11 FORECAST	(E) UPDATED FORECAST	(G)=E-D CRISIS IMPACT	(H)=C+G TOTAL CRISIS IMPACT
	Full Year Estimate 2001 Real Growth Over 2000	Full Year Results 2001 Real Growth Over 2000	Real Growth Loss	Full Year Estimate 2002 Real Growth Over 2001	Full Year Estimate 2002 Real Growth Over 2001	Real Growth Loss	Real Growth Loss
	(Per cent)	(Per cent)	(Per cent)	(Per cent)	(Per cent)	(Per cent)	(Per cent)
T&T Demand	3.8	-1.3	-5.1	3.8	-0.0	-3.8	-7.4
T&T Industry Employment	2.1	-2.5	-4.6	2.3	-1.7	-4.0	-8.6
	(thousands)	(thousands)	(thousands)	(thousands)	(thousands)	(thousands)	(thousands)
T&T Industry Employment	1,602.6	-1,879.3	-3,481.9	1,827.3	-1,350.6	-3,177.9	-6,659.8

In 2001, OEF (Oxford Economic Forecasting, Ltd.) generally estimates that 85% of the variance can be attributed to the events of September 11th (15% to independent recessionary events). In 2002, this factor decreases to 70% associated with 9/11 (30% to independent recessionary events).

Source: World Travel and Tourism Council (WTTC): *The Impact of Travel and Tourism on Jobs and the Economy - 2002 plus; Special Report on September 11th Impacts*; released 17 March 2002; up dated by ILO based on: WTTC: *The Travel and Tourism Economy 2002; Special End of Year Update*, 8 November 2002.

3.2 Receipts from cross-border tourism in 2001

The effect of the crisis on the level of revenue from international tourism in 2001 is shown in *Table 2* below. The positive growth trend that prevailed throughout the 1990's was brought to an end in 2001 by a drop in the industry's income from international travellers of some 5.2 per cent at constant US Dollar prices. It should be noted that the receipts from international tourism dropped deeper than the number of international arrivals, shown in the next section, due to new general consumer preferences for shorter stays and cheaper services.

Table 2

International Tourism Receipts

	International Tourism Receipts (billion)					Growth rate % current prices		Growth rate % constant prices	
	1990	1995	1999	2000	2001	00/99	01*/00	00/99	01*/00
US\$	263.4	406.5	456.3	474.4	462.2	4.0	-2.6	0.6	-5.2
Euro	206.8	310.8	428.1	513.6	516.1	20.0	0.5	17.2	-2.1

*Based on data collected by WTO up to June 2002

Source: World Tourism Organization (WTO)

3.3 Border-crossing tourist arrivals in 2001

Table 3 below shows estimates from the World Tourism Organization of international tourist arrivals in 2001. In an attempt to separate the effect of September 11th from the effect of the general economic downturn in 2001, the first eight months and the last four months of the year are shown in different columns.

Table 3

Border crossing tourist arrivals by regions and sub-regions

	2001 (estimates)						
	Million	Annual growth (per cent)		Growth as compared to the same period in 2000 (per cent)			Million
		2000/ 1999	1990 - 2000	Jan. - Aug.	Sept. - Dec.	Year total	
World	697.5	6.8	4.3	2.9	-8.6	-0.6	692.7
<i>Africa</i>	27.6	3.4	6.1	6.1	-1.4	3.8	28.5
<i>Americas</i>	128.4	5	3.3	0.3	-20	-5.9	120.8
North America	91.2	4.9	2.4	-0.1	-23	-6.8	85
Caribbean	17.4	6.9	4.3	2	-15	-3	16.9
Centr. America	4.3	8.9	9	8.8	-15	1.8	4.4
South America	15.5	2.3	7	-2.2	-16	-6.2	14.5
<i>Europe</i>	402.7	5.8	3.6	1.8	-6.2	-0.6	400.3
Northern	44.2	1.2	4.3	-3.8	-7.3	-4.8	42
Western	141.2	4	2.2	2.3	-7.7	-0.7	140.2
Central and Eastern	76.1	4	5.7	2.8	-7.6	-0.3	75.8
Southern	126.6	8.8	3.6	2	-1.9	0.8	127.6
East Mediterra- nean Europe	14.7	26.2	7.1	7.2	-17	-0.1	14.7
<i>Middle East</i>	23.2	13.2	10	0.4	-11	-3.1	22.5
<i>South Asia</i>	6.1	5.4	6.8	1.4	-24	-6.3	5.7
<i>East Asia and the Pacific</i>	109.1	12.7	7.2	9.6	-4.2	5.5	115.1

Source: World Tourism Organization (WTO), June 2002

The number of international tourist arrivals worldwide fell by 0.6 per cent in the full year 2001, compared to the year 2000, but there were important differences between regions and countries both for the full year and for the four-month period after September 11. The worst losses were felt in the Middle East and the Americas, particularly North America, where international tourist arrivals were down by 6.8 per cent in the whole year 2001, but by as much as 22.6 per cent in the last four months compared to equivalent periods of the previous year.

Some more detailed figures published earlier by the World Tourism Organization provide the basis for an analysis of the impact of September 11 on specific countries. Countries most affected by the September 11th events were the United States, with international tourist arrivals having fallen to their lowest point between September and November, on average over 30 per cent below the level of the same period the previous year. Countries in the immediate neighbourhood of the US also received significantly less tourists than at the same time the previous year, e.g. Canada: (-19%), Cuba (-26%), Dominican Republic (-25%), Mexico (-24%) and Jamaica (-20%).

In general, all countries that would normally have expected a high proportion of their incoming long-haul tourism to originate from the United States experienced steep declines in international tourism in the first three months following September 11. In Europe, those worthy of note include the United Kingdom (-12 %), Germany (-17%), Switzerland (-16%), Italy (-11%) and Austria (-9%) - and elsewhere, the Philippines (-25%) and Australia (-21%). Some other countries amongst those whose tourist industries are important elements in their national economies suffered badly such as Egypt (-55%), Tunisia (-25%) and Morocco (-22%).

These preliminary figures served to confirm earlier predictions that the three types of tourist destinations likely to be most affected by the events of 2001 were:

- countries highly dependent on US outbound travel;
- destinations a long distance from their main generating markets; and
- countries of the Muslim world

In addition to security aspects, the general economic downturn in 2001 also contributed to the poorer performance of international tourism in 2001 compared to the previous year. Here, the main causes are to be found in those major sending countries such as the US, Germany, and Japan. South American markets suffered from economic instability in Argentina. An additional factor for the US as a receiving country, which lost as much as 2.5 per cent on international arrivals in the first nine months of the year, was its strong currency.

Among the countries performing worse as a destination for the full year 2001, compared to the year 2000, were the US (-12.6%), Argentina (-9%), Brazil (-8%), the UK (-6.6%), Mexico (-5%), Germany (-5.5%), Italy (-5%), the Dominican Republic (-5%), Jamaica and the Bahamas (both -4%).

Other countries experienced a significant drop in their 2001 total tourist numbers year-on-year because, rightly or wrongly, they were associated with security risks, and this was for various reasons not necessarily connected to the September 11th events. These countries included Egypt (-16%), Nepal (-22%), and Sri Lanka (-16%).

By contrast, there were some countries, notably in Europe bordering at the East Mediterranean Sea and in Southern Europe that in 2001 continued to receive higher numbers of foreign tourists than in the previous year, probably because they provide a convenient alternative to long-haul destinations for many European tourists. Thus Turkey (+12%), Croatia (+12%), Slovenia (+11%), Spain (+3%), Greece (+2%) and Cyprus (+1%) all benefited in 2001. It was also observed that several emerging tourist destinations in Europe showed strong growth in the full year 2001, notably Bulgaria (+14%), Slovakia (+13%) and Estonia (+9%). France (+1.2%) also recorded some growth in 2001 versus their previous year totals, benefiting from their familiarity and proximity with European holidaymakers and even compensating a temporary 20 per cent drop immediately following September 11th which was probably due the sudden lack of Americans visiting Europe.

Australia and New Zealand reported a short period of decline in inbound tourism immediately after September 11th, but most of these losses were partly offset by something of a boom in numbers of foreign tourists later in the year. Some countries, such as the UK, Germany, China and Canada continued to send record numbers of tourists to this part of the world throughout 2001. They did not prevent, however, a year-on-year decline of 2.7 per cent in numbers of international arrivals, mainly accounted for by 4th quarter decreases from Japan (-28.9%) and the US (-17.5%).

Notably, the region with the best performance as tourist destination in 2001 was

South East Asia and the Pacific, which in spite of a decline after 11 September still ended the year with a growth of 5.5 per cent, mainly due to intra-regional tourism. Performing regions were also Africa and Central America, albeit on a small basis in absolute terms.

3.4 The United States

The United States is the country whose hotel, travel and tourism industry was most seriously affected. According to the US Office of Travel and Tourism Industries, the total number of international arrivals fell by almost 11 per cent over the whole year 2001. This was largely because of a dramatic 30 per cent drop in September, moving to a 34.0 per cent loss in October, with an average 31.8 per cent loss of business over the last four months of the year compared to the same period of the previous year. October was the worst month. The numbers of international arrivals slowly started to recover in November (*Table 4*).

Table 4
Non-resident arrivals to the U.S.
By world region or country of residence
2001

	Total	Canada	Total overseas
Change from same period the year before (per cent)			
October	-34.0	-24.3	-39.3
November	-29.2	-21.0	-34.1
4 th Quarter	-31.8	-22.8	-36.9
Year 2001*	-10.7	-7.8	-13.67
Count (million)			
Year 2001*	45,5	13,5	22,4

Source: U.S. Office of Travel and Tourism Industries, International Trade Administration, Department of Commerce, 14.3.02

* Source: U.S. Department of Commerce, quoted by Travel Industry Association of America (TIA), December 2002

Certain countries supplying travellers to the US performed worse than others because they were more seriously affected by economic crises. These included Brazil (-49%); Germany (-46%) and Japan (-45%). But all of the top 10 markets experienced steep falls of around 20 per cent or more, as is shown in *Table 5* below. By the end of the year, however, it was the German market that had performed worse than any other, which is probably due to generally nervous consumer behaviour in the light of the country's poor economic performance.

Table 5
Top 10 markets for tourism to the US
Arrivals
Change in 2001 and projection for 2002

	2001/2000 (Sept.)* (Per cent)	Year 2001/2000** (Per cent)	Year 2002/2001** (Per cent)	Count 2001 (million)
Canada	-19	-7.8	0.9	13.5
Mexico	-30	-7.4	2.6	9.6
United Kingdom	-27	-10.7	1.5	4.2
Japan	-45	-18.5	-3.6	4.1
Germany	-46	-24.6	-1.6	1.3
France	-34	-14.0	-1.6	0.9
South Korea	-20	-5.3	5.1	0.6
Brazil	-49	-22.7	-1.2	0.6
Venezuela	-21	-1.1	-8.6	0.6
Italy	-40	-19.8	3.7	0.5
Total international		-10.7	-0.1	45.5

*Source: U.S. Department of Commerce, International Trade Administration, Travel and Tourism Industries, 19.12.2001

**Source: U.S. Department of Commerce, International Trade Administration, Travel and Tourism Industries, quoted by Travel Industry Association of America (TIA), December 2002

Demand for accommodation in the US is estimated to have suffered a far more modest decline than international arrivals, another indication that domestic tourism was less affected and it was long-haul travel that suffered most. Accommodation demand had already declined by 6.0 per cent in the third quarter of 2001, as compared to the same period in 2000. However, the decline in the fourth quarter was markedly greater (6.5%), but still only a fifth of the decline in international arrivals.

Early forecasts by the *Travel Industry Association of America* already suggested that after the 7.6 per cent drop in 2001, the recovery in consumer expenditure levels on travel in the US would be slow in 2002, with an annual growth rate of only 2.2 per cent. Leisure trips in March, April and May 2002, for example, were 4 per cent below

the level in the same period a year ago.

Overall, first quarter 2002 international arrivals to the US were down 12 per cent (8.3 million compared to 9.5 million in 2001). Four of the top markets - the United Kingdom, Germany, the Netherlands and Switzerland - posted declines for the first quarter of 2002, but the declines are less than those recorded in the pre-September 11th months in 2001. Mexico and Spain are the main markets posting positive growth in numbers of arrivals through the first quarter 2002, at +22 per cent and +6 per cent respectively versus the same period last year.

Recovery in the US is not being enjoyed equally by all sub-sectors of the industry. Leisure tourism services are recovering faster, for example, than the sub-sector catering for business travellers. In both the US and in Canada, where large advertising campaigns featured domestic attractions, resort destinations are being filled by leisure tourists driving their cars instead of flying. However, on another dimension, according to a sample of hotels monitored in the USA (40-42), the full-service hotels suffered a decline in their Revenue per Available Room (RevPAR) of 13.5 per cent in the first six months of 2002, although operating expenses were reduced by 9.1 percent as compared to the same period in 2001. Profits (defined as income before deductions for capital reserves, rent, interest, income taxes, depreciation, and amortization) declined as much as 21 per cent.

The *Marriott* hotel chain had publicized similar results at an earlier stage. The continued decline in the more profitable business travel had forced its RevPAR down by an average of 12.7 per cent. *Marriott* said its earnings for the first quarter 2002 were down 32 per cent versus a year earlier, on income that had dropped by 4 per cent.

The US accommodation industry is estimated to save US\$3.4 billion in 2002 through cost-cutting measures that were put in place in 2001. Without these actions, profits would have decreased by 18.5 per cent to US\$13.7 billion in 2002.

However, more recent developments seem to limit recovery expectations for 2002. The negative wealth effect of the recent sharp decline in stock values, the general erosion in consumer confidence in the US, increasing frustration with the inconvenience of air travel and heightened fears of a war against Iraq, will restrain lodging demand growth and encourage continued discounting through the end of 2002.

Marriott reports, for US properties across its lodging brands, a decline in RevPAR by an average of as high as 6.8 percent in the 2002 third-quarter.

PricewaterhouseCoopers forecast RevPAR in the US to decline by 2.3 percent this year but to increase by 3.5 percent in 2003. The more robust outlook for lodging has, however, been delayed to 2004. In particular the business travel industry is forecast to continue its downward move this year with income falling 4.3 per cent. It is expected to stabilize in 2003 with a gain of still less than 1 per cent.

Overall travel expenditures in the US are expected to virtually stagnate in 2002 and strengthen to an annual growth rate of 5.0 per cent by 2003 (*Table 6* below), reaching US\$555.6 billion, still below that of the year 2000.

Table 6

Travel Expenditures in the United States

	2000	2001	2002*	2003*
Total (US\$ billion)	570.5	537.2	535.3	555.6
<i>Annual Growth (per cent)</i>	<i>7.1</i>	<i>- 5.8</i>	<i>-0.4</i>	<i>5.0</i>

* Forecast

Source: Travel Industry Association of America (TIA), October 2002

The Travel Industry Association of America observed that by August 2002 the annual rate of decline in US hotel and motel receipts was running at – 1.3 per cent. However, the trend was positive, because the decline was as high as - 5.9 per cent for the month of June 2002. The decline in the level of employment in

hotels and motels, however, improved at a slower pace, with as high as - 4.7 per cent in August against - 5.2 per cent in June. Employment in eating and drinking places fell by -1.8 per cent in August, even worse than in than in June (-1.3) and contrasting with the positive, albeit equally declining, levels of growth in receipts of 3.7 per cent and 5.5 per cent respectively (see *Table 7*).

Table 7

**Hotels and Restaurants in the USA
Annual growth rates for June and August 2002/2001**

	Hotel/Motel		Eating and drinking places	
	Receipts	Employment	Receipts	Employment
June 2002/June 2001 (per cent)	- 5.9	- 5.2	+ 5.5	- 1.3
August 2002/August 2001 (per cent)	- 1.3	- 4.7	+ 3.7	- 1.8

Source: Travel Industry Association of America (TIA), Economic Research, Industry Performance Indicators, November 2002

The drop in outbound tourism from the USA is still being felt in many countries, but most strongly in Europe. The number of American tourists in France in April 2002 was almost one-third less than in the same month a year earlier. In the United Kingdom, the number of American tourists in the early months of 2002 was 10 per cent less than in 2000 - the last "normal" year before a combination of foot-and-mouth disease and fears of terrorism sent American and most other visitor numbers into free fall. And the number of American visitors was down 11 per cent in the first half of this year in Rome, Florence, Venice and Naples, compared to the same period a year before.

3.5 Other countries

Japan published figures recently, as shown in *Table 8*, based on reports by Japanese travel agents indicating that by November 2001 they had suffered a drop of 21 per cent in their total business since September 11th. They reported a record level of cancellations representing 52.1 per cent of all the overseas package tours with departure dates between September and November. The

number of Japanese travelling abroad was down 9.1 per cent at the end of 2001 versus the previous year, according to a report released in January 2002. Whereas in May 2002 the number of bookings of foreign trips through Japan's top 50 travel agencies was still 6 per cent less than the previous year, July and August, the peak season, have been especially slow, with 10 to 20 per cent fewer bookings than in the previous year. By contrast, the numbers of visitors to domestic destinations were up by 4.6 per cent to 2.07 million. In the period immediately following September 11th, the largest travel agent (JTB) saw an increase of 19 per cent in their bookings for domestic tours departing during the October-December period.

Table 8
Travellers within, to, and from Japan

	2001 estimate		2002 prediction	
	Thousands	Growth (per cent)	Thousands	Growth (per cent)
Total	341,310	-0.6	340,130	-0.3
Domestic Travellers	325,110	-0.1	323,490	-0.5
Overseas Visitors to Japan	4,730	-0.6	5,140	8.7
Travellers to Overseas Destinations	16,200	-9.1	16,640	2.7

Source: JTB Corporation, quoted in Travel Impact Newswire, 16.1.02

China experienced some impressive growth in both domestic and inbound tourism, with domestic tourism developing particularly strongly. Total annual revenue from tourism has grown on average by 12.7 per cent over recent years, much faster than the gross domestic product (GDP) which grew by an average rate of 7.4 per cent. More than 73.34 million overseas tourists visited China during the first 10 months of 2001, an increase of 5.7 per cent on the same period of 2000, or almost double the world's average growth rate for 2001 before September 11th. The total amount spent by overseas tourists in that period grew by 9.3 per cent to US\$14.8 billion. Over two-thirds of the revenue is still,

however, from domestic tourism.

Spain's tourist industry, which directly employs more than a million people and accounts for 12 per cent of the economy, is suffering a protracted crisis, recording 10 per cent less visitors for the first six months of 2002 compared to the same period the previous year. The number of German visitors to Spain in July 2002 was 20 per cent lower, pushing down the hotel occupancy rate by 5.5 per cent. Reservations made by German tour operators tumbled by as much as 37 per cent. The crisis is attributed partly to growing unemployment in Germany, but also to price increases in Spain, with German tourists preferring cheaper destinations such as Turkey and Croatia.

In **Switzerland**, tourist numbers for the six-month winter season 2001-02 were a dramatic 6 per cent down on the previous year's winter season result. Yet this was still 1.4 per cent above the average for the previous five winter seasons. Increased domestic tourism seems to have stepped in to replace international visitors, whose numbers dropped by 10 per cent. The number of tourists visiting from the US was nearly 20 per cent less and from Japan 31 per cent less than in the same period the year before.

Overnight trips to **Canada** were up by 0.6 per cent for the first five months of 2002 compared to the same period in 2001, boosted by an increase in US travellers entering Canada by car (accounting for 9.9% of the total). On the other hand, the number of Canadian tourists to the US or overseas was still down by 7.2 per cent (at 1.5 million) in May 2002, which represented something of a recovery because it was down 11.3 per cent for the five months before, compared to the same period a year ago.

The government of **Morocco** predicts that tourism revenues will have dropped by US\$700 million by the end of 2002, down by one-quarter on the total revenue of US\$2.7 million reached in 2001. Morocco's tourist industry recorded a 43 per cent revenue drop in January 2002 compared to January 2001. The industry currently employs over half a million people, serving some 2.4 million foreign tourists annually.

Major markets supplying most of **Australia's** tourists showed dramatic falls in outbound tourism during the 12 months to July 2002, with the number of visitors from neighbouring New Zealand dropping by 25.5 per cent, from the UK by 17.7 per cent and the United States by 8.4 per cent, according to the *Australian Bureau of Statistics*. Overall, international visitor arrivals have fallen 8.4 per cent to 409,400 from January to July 2002, compared to the 446,900 tourists for the same period last year. These results were attributed September 11th mainly, but Australian tourism leaders feel under pressure by the lasting downturn, leading them to reconsider their whole marketing strategy. A return to pre-September 11th levels of international arrivals was still seen as being a long way off.

After the bomb attack of October 2002, the Australian tourism industry fears negative effects of tourists avoiding Asia. Singapore and Bangkok are stopovers on the most popular route from Europe to Australia. Any disruption to the flow of tourists to them would have a severe knock-on effect on Australia. Industry reports in late October 2002, however, suggested the tourist numbers from all markets would remain largely unaffected as a result of the 12 October Bali attacks.

4. Employment

Employment numbers in the tourism sector do not react immediately to a decrease in business because the special characteristics of employment relationships in the sector allow for some labour cost reduction to take place before workers finally become unemployed. Flexible working arrangements such as part-time or on-call working are common for at least one quarter of the labour force and help to avoid their complete unemployment in a business crisis, albeit with reduced income. Employees accounting for almost another quarter of the total have full time but temporary employment contracts and are the first victims of formal unemployment when reducing their working time and income becomes insufficient to address the income crisis of the enterprise. Employers usually hesitate, however, to reduce their core of trained staff. Only if a crisis persists, businesses tend to re-structure and workers are eventually laid off permanently.

Jobs then remain lost, even in times of recovery.

As described earlier (*Table 1*), the WTTC estimates a 7.4 per cent drop in tourism demand over the years 2001 and 2002 combined, instead of the 3.8 per cent growth that had been anticipated previously for each of these two years. The sector is now seen as being in a state of stagnation, which is a dramatic change in fortune considering its previously very high growth rate.

The WTTC estimated that over 6 million jobs would have been lost in the tourism industry worldwide in the years 2001 and 2002, which represent 8.6 per cent of employees, or one in every 12 jobs in the industry.

The process of attempting to derive employment estimates from demand estimates has to take into account that normal growth may not result in increased employment because normal growth is achieved largely through gains in labour productivity. WTTC estimated therefore that a growth of demand by 3.8 per cent would have entailed a growth of employment by only 2 per cent. Given this proportion, the dramatic effects on employment forecasted by WTTC can be better appreciated.

WTTC foresees a modest recovery of employment in the travel and tourism industry worldwide in 2003. However, with a growth of 1.7, the year 2003 will still end with a 6.4 million jobs lost as a result of the crisis compared to the expected normal annual growth rate of 2 per cent in that year.

The *Travel Industry Association of America* (TIA) estimates that 19 million Americans were employed directly or indirectly by the travel industry, with an annual payroll of \$174 billion. The year 2001 ended with **domestic** travel volumes and expenditure down 3.5 per cent and 7 per cent respectively, and volumes and expenditure from **international** travel to the US down 12.6 per cent and 11.2 per cent respectively. Employment in the whole industry in the USA was down 5.8 per cent for the year, with an estimated 1.1 million jobs lost.

High volume tourist destinations such as Las Vegas, Orlando and Honolulu are

expected to have suffered major losses in 2002 due to cutbacks in travel. Among 315 metro areas examined by the *Milken Institute* at the end of 2001, many jobs would be lost as a result of the events after 11 September 2001 in New York, Los Angeles and other big cities. A ranking of industries (at the 3-digit level of the International Standard Classification of Industries) most affected by job losses after September 11th shows the hotel and catering sector represented by the top two categories listed (see *Table 9*). The *Milken Institute* forecasted heavy job losses for the years to come as well, although at a decreasing rate. Over two-thirds of the estimated 760,000 total direct jobs expected to be lost in US metropolitan areas were in core sectors related to travel and tourism.

Table 9
Net Job Losses in 315 Metropolitan Areas of the United States
(Thousands)

	2001	2002*	2003*	2004*
Eating & Drinking Places	-17.95	-150.56	-174.18	-105.22
Hotels & Motels	-49.17	-140.61	-99.40	-38.64
Miscellaneous Amusement & Recreational Services	-33.00	-100.36	-76.28	-42.30
Scheduled Air Transportation	-46.16	-85.89	-35.19	-28.63
Total of core tourism related sectors	-145.83	-477.42	-385.05	-214.79
<i>Total Job Loss (all sectors)</i>	<i>-172.53</i>	<i>-758.92</i>	<i>-587.07</i>	<i>-340.97</i>

* Forecast

Source: Milken Institute: *Metropolitan Economies in the Wake of 9/11*; January 12, 2002.

5. The year 2002 and beyond

Taking a longer-term view, it may be concluded that the September 11th events merely served to exacerbate an already established downward trend by adding,

for a limited time only, some extra ingredients such as the perception of heightened insecurity. The general economic downturn in 2001 had already started to affect all forms of consumption and travel and tourism was probably one of the sectors that suffered most because it is a market in which consumers can easily make savings. Indeed, future variations in the level of consumer expenditure on tourism will probably be driven mainly by variations in levels of present and expected household income.

The *Travel Industry Association of America* (TIA) undertook three Travel Confidence Surveys in the US, one from 21 to 22 September, another from 12 to 13 October 2001 and the third from 2 to 4 November 2001. In these polls, only 14 per cent of respondents cited safety as their top travel concern. On the other hand, 42 per cent cited economic concerns as reasons for not travelling. Nonetheless, the fear factor continued well into 2002 as a strong deterrent to travel in the US and the health of the industry continued to be affected by federal alerts, air-travel-related accidents and other concerns.

A German survey of 8,000 households showed that in March 2002 only one person in ten claimed to make travel decisions on the basis of security considerations, compared to November 2001 when the proportion had been almost one person in three.

It has been predicted that tourism would recover slowly and regain the levels of before September 11th by the third or fourth quarter of 2002. This forecast would be in line with experiences from previous security crises affecting tourism, albeit local, whose effects lasted for about one seasonal cycle. The continuing economic slowdown in the western world, as well as more recent terrorist activities targeting tourists in Djerba, Bali and Mombasa, however, are having an added effect on the tourism crisis. The year 2002 has been one of rather little growth or even slight decline of tourism performance indicators, with the possible exceptions of the Asian Pacific region and South Africa which has recorded double digit growth of tourism out of Europe in 2002, or China which does continues to grow rapidly both as a destination and as a market.

Estimates by large tour operators are usually good indicators of the volume of

business in leisure tourism, which represents roughly two-thirds of all travel and tourism activities. *Preussag*, a major German tour operator, was expecting the poor performance of the winter season 2001-2002 improve for the summer season. By June 2002, however, summer bookings in Germany were down 14.2 per cent on a year earlier, even worse than in winter, when total *Preussag* bookings were down by 10.9 per cent.

Surprisingly, the German Travel Agents and Tour Operators Federation expected much better results in financial terms than in numbers of bookings, which suggests a scenario of structural changes in the leisure travel business leading towards higher quality demand. According to German tour operators, because of higher price levels, total turnover for the 2000/01 season which ended in October grew by twice as much (+ 6.8%) as the number of bookings (+3.2%), reaching a total of Euro17.4 billion. For 2002, despite bookings being down, German tour operators expected a turnover close to that of 2001, mainly because certain customers are making higher value choices even if they go for shorter stays.

In general, tourism demand was in the last 12 months or so subject to important structural changes including a re-distribution of demand between countries and regions. Leisure destinations located close to important markets have prospered; domestic tourism has made a difference; long-distance international air transport has suffered more than international tourism in general due to increased short distance trips across borders; business tourism and conventions, luxury hotels, and cruises during the winter season were particularly affected, while social tourism, rural tourism, rail and road travel made gains. This is why the decline in business revenues was generally sharper than the decline in the number of travelers.

Among the destinations receiving European tourists, short-haul destinations have generally benefited at the expense of long-haul destinations, with demand for North America showing the greatest fall in 2002 so far (-13%). The main long-haul destination to buck the trend has been China, but a number of other Asian destinations and South Africa have similarly recorded double-digit growth out of Europe this year.

International arrivals to countries in the European region will show little change in 2002 over last year which closed with a decrease of -0.6% in international tourist arrivals in Europe (Table 3 above). Preliminary figures for the first six to eight months of 2002 indicate a small decrease in the region of -0.2% to -0.3%).

As of November 2002, preliminary results show that Northern Europe has suffered the biggest decline in tourist arrivals in Europe. The other sub- regions have been more successful, especially the Mediterranean countries and 'new' destinations such as Turkey, Croatia and Bulgaria.

Austria, as a typical short haul destination for European markets saw foreign leisure arrivals grow by a massive 12% in the first half of 2002. This growth, however, is expected to have eased to a rate of only around 2% for the whole year.

For France, preliminary data on international arrivals (classified hotel accommodation only) suggest that the lucrative US market remained down by no less than a fifth in the first eight months of 2002 as compared to the same period in 2001, whilst growth in the Canadian market was replaced by decline. All international arrivals together performed at a low 0.5 per cent growth, as the performance of the major generating markets within Europe has been considerable with tourists from the UK (almost half of foreign clients of classified hotels) increasing by close to 7 per cent, and arrivals from Germany (another quarter) still increasing by 14 per cent. The nascent trend towards short-haul, short - break holidays seems to be re-configuring the intra-regional European market, with France being perhaps the main beneficiary.

Germany as a destination lost 3.3% in the number of foreign overnight stays for the first half of 2002, according to preliminary data, which, however, was still 0.2% higher than in the same period in 2000. Most of the loss is due a decrease in long haul tourists such as from the Americas (-14.6 %). Arrivals from within Europe suffered much less and still grew by 0.9 per cent. Those markets whose growth is worthy of mention in the first six months of 2002 are the Netherlands (2.9%), Switzerland (4.0%) and Norway (6.7%), Russia (9.3%) and China (13.1%). Still, Germany remains out of favour with some important markets, such

as the UK (-6.7%), France (-3.4%), and Italy (-2.3%).

Foreign travelers to Italy remarkably did not decline substantially, but expenditures did. They dropped by as much as 11 per cent in the first six months of 2002 as compared to the same period in 2001. This phenomenon is likely to exist also elsewhere, but figures on 2002 are still scarce. A slight growth of foreign arrivals to Italy is anticipated for the remainder of 2002 which will close with a growth of 0.9 per cent.

Tourist arrivals at Spain's frontiers increased in the first two quarters of 2002 by comfortable 6.9 percent, but only by 0.2 per cent in the second quarter as compared to the same periods in 2001. The summer period may not have been any better.

It was, however, in the United Kingdom, where after a weak winter and spring period, July 2002 arrivals exceeded those of the year before by as high as 15 per cent and even those of July 2000. Expenditure increased less, but still by 7 per cent. Estimates on the whole of 2002 see arrivals increase by comfortable 6 per cent, but expenditure by as high as 9 per cent indicating that off season tourists spend more money than the (younger) summer holiday travelers.

Canada had continued growing as a destination for foreign tourists during the crisis year 2001, albeit at a slower pace, since most of foreign travelers came from the USA and increasingly used surface transport, in part substituting Canada for a long haul destination elsewhere. In the first six months of 2002, however, the number of foreign tourists from the USA slightly shrunk (by 0.2 per cent), and the receiving of overseas tourism, which had been down in 2001 by 8.4 per cent (arrivals) and 4 per cent (expenditures) continued declining by 13 per cent (arrivals), reducing anticipated overall growth of foreign arrivals in 2002 to only 0.1 per cent.

Japan receives one international traveler only for five Japanese outbound tourists. Out of the modest number of less than 5 million that do arrive, it is estimated that over a quarter are in Japan on business and that half of this market originates from Asia. Having suffered in 2001 only a slight 0.3 per cent decrease of the

annual growth rate for all tourism, with a higher growth rate for leisure tourists of 0.9 per cent, Japan is estimated to benefit in 2002 from an impressive growth in foreign arrivals of 16 per cent, to a large extent due to an increase of the number of tourists from China.

Outbound tourism from Japan, important for many destinations in the world, is currently forecast to record modest growth in 2002 of a maximum 1-2% after a 9% decline in 2001.

The Pacific Asian countries have been doing well as destinations in spite of the world crisis in 2001 and 2002. High GDP performances in mainland China, India and South Korea suggest the trend of Asian intra-regional tourism will continue.

India as a source country appears to record strong double-digit growth in 2002, albeit on a small basis. Inbound tourism in India, however, after dropping in 2001 by a moderated 4.2 per cent (arrivals) and 5.5 percent (expenditures), continues suffering from the conflict with Pakistan and the closeness to Afghanistan.

Northeast and Southeast Asia are driving the region's growth — both as destinations and as markets. During 2001, almost 65% of international visitor arrivals in Northeast Asia came from within Northeast & Southeast Asia. For destinations within Southeast Asia the proportion was over 64%.

China has continued to show strong growth in 2002. In the first eight months of 2002 foreign arrivals in mainland China increased by more than 16%.

Good increases of inbound tourism have also been registered by Thailand and Vietnam. However, the impact of the Bali tragedy on the region's tourism remains to be seen.

Elsewhere in the developing world, only South Africa and Central America and perhaps the Caribbean are expecting slight increases of inbound tourism in 2002 over 2001's level.

The USA has been one of the source markets hardest hit by all crisis factors together: the events of 11 September 2001, the continuing threat of terrorism in 2002 and the economic recession. Outbound trip volume fell by 12% in the first

half of 2002. US outbound travel demand expressed in terms of total spending is forecast to fall by a relatively modest 2% for the full 12 months of 2002, after a decrease of 5% in 2001. As a destination, the Americas overall are expected to still suffer a 6% drop in demand in 2002.

Outlook on the year 2003

Some general estimates anticipate for 2003 a slight growth of tourism worldwide of up to 2 per cent. A strong growth of 4 per cent or more is predicted for 2004. Such forecasts seem to have the unanimous support of the specialist community, but the risks are also clear: they depend on the absence of further terrorist attacks; more selective reactions by consumers who should not stop travelling altogether when security threats in fact are limited to a location; the development of the conflict in the Middle East and its oil price implications; and last not least on the general prospects of disposable income. In any case, forecasts by renowned specialists and organizations seem to be highly insecure.

Due to the continuing weakness of the world economy, travel and tourism demand in 2003 is likely to be substantially slower than projected earlier, with business travel in particular hit hard by the pressures on companies to cut costs and bolster their profitability. International visitor spending is now expected to recover by a modest 1.6% in 2003 after falling 10% over the previous two years, leaving international visitor spending in 2003 more than 20% below what might have been expected if it had grown by a more typical 5% a year since 2001.

For foreign tourist arrivals to certain European countries in the years to come, forecasts indicate different growth rates. Austria will remain at a modest 2 per cent growth of foreign leisure trip arrivals in 2003. A modest turnaround, with growth of 2% to 3% is expected for the next 12 months also in Germany. In France, international arrivals are expected for 2004 to be back to the pre-2001 growth rate of over 4 per cent, albeit under the assumption that long haul tourism to France will recover. Foreign visitors to Italy in 2003 are expected to increase by 2.7%, making a total of 39 million. Likewise, a growth rate between 2 and 5 per cent is assumed for the near future in Spain.

For the USA, the expectations of the Travel Industry Association of America concerning the growth of international visitor arrivals and expenditures in the years to come are reflected in Table 10. They appear rather optimistic as far as the expenditures are concerned.

Table 10
USA: International Visitor Arrivals and Expenditures

	2000	2001	%	2002	%	2003	%	2004	%
Arrivals (million)	51.3	45.7	-11	46.7	2	50.6	8	54.4	8
Expenditure (USD million)	82.000	72.300	-12	76.400	6	84.200	10	92.400	10

Source: Travel Industry Association of America (TIA)

Forecasts for Canada's foreign tourist arrivals see a growth of 3 per cent each in 2003 and 2004, but astonishingly a slowing down from 2005 on.

6. Possible effects of the terrorist attack in Bali

A car bomb outside a nightclub in the popular resort of Kuta Beach in Bali (Indonesia) killing almost 200 and injuring over 300 could have had a major effect on the international tourism industry, as tourists were targeted specifically. In any event, the terrorist attack will bear on the performance of the industry in the region of South East Asia and the Pacific, the only region still experiencing strong growth in its tourism flows after September 11, 2002. Probably, the whole region will be affected, as experience shows that tourists' and tour operators' decisions and preferences reflect rather superficial perception of geographical locations and of cultural profiles of destinations.

Bali and with it the whole of Indonesia will suffer badly from the effects of the attack, whereas the impact on other countries in Asia is more difficult to anticipate, as especially East Asia and the Pacific had been experiencing strong growth in spite of the global tourism crisis of 2001. In addition, Asia's tourism

more and more relies on growing intra-regional and domestic tourism which, hopefully, will be affected less by the Bali event less than was transatlantic travel after September 11th, 2001.

Indonesia's inbound tourism had done well in the years following the economic crisis of 1997-8 which it overcame as early as 1999 in terms of tourist arrivals. Receipts from international tourism, however, remained in 1999 (the latest available figure) as much as 25 per cent short of what they were in 1996, which indicates cheaper tourist arrangements or shorter stays per arrival. In 2001, the whole region of East Asia and the Pacific was little affected by the impact on tourism of the events of 11 September: due to a high growth rate in arrivals before September 11, the region still closed the year with a growth of 5.5 per cent (Table 3 above).

Estimates indicate that immediately after the attack of 12 October, Bali's tourism industry virtually collapsed: Airlines cancelled and re-routed a number of their scheduled flights; tourists went home or left to other nearby destinations such as Fiji and the Philippines. As a result, hotel occupation rates tumbled from a comfortable 70 per cent to less than ten per cent. In absolute terms, it can be estimated that from an average of 100,000 tourists present in Bali at any time, not more than 15,000 stayed on. Moreover, it can be assumed that the tourists who stayed on were of Indonesian origin as they represent 15 per cent of all visitors to Bali, and those who left were foreign tourists, leaving behind a devastated tourism economy, especially as far as foreign exchange is concerned. An estimated 5.1 million tourists visited Indonesia in 2001, contributing 5.3 billion dollars to Indonesia's balance of payments (about 9.2 % of total exports). Most of these tourists appear to end up in Bali at one stage or other.

Bali's Minister for Culture and Tourism estimates that the island's tourism economy employed a portion of 65 per cent of the total labour force, i.e. 1,1 million out of the 1.71 million people in employment in Bali with a resident population of 3 million. The hotel and restaurant sector alone produced in 2000 a share of 21 per cent of Real GDP and probably employed an even higher share of the labour force. An estimated drop of 80 per cent in tourism activities would therefore put a total number of close to 300,000 people out of employment in the hotel and restaurant sector, and three times as many in the whole tourism

economy including the supply sectors. It can only be hoped that the first wave of tourist cancellations will be overcome before it destroys the jobs irretrievably.

As Bali is considered a magnet for tourists to come to Indonesia and also visit several other parts of the country, the Minister for Culture and Tourism estimates that as many as 2.7 million people may be out of their jobs across Indonesia soon if tourism does not recover quickly. He said that Tourism employed more than seven million people in the South East Asian archipelago and last year brought in 4.7 billion dollars in revenue, or about 10 percent of Indonesia's gross national product (GNP).

Due to slower economic growth and to extra public spending to promote tourism after the Bali bomb attack, Indonesia's public finances will slide deeper into the red, by about 1.5 per cent of gross domestic product next year, up from an earlier projection of 1.3 per cent. The Indonesian economy is now forecasted to expand by just 3.5 to 4 per cent in 2003, down from an earlier estimate of 5 per cent.

Prospects to overcome the crisis are not so bad, though, if the steady high growth of international tourism to countries of the region is taken into account (Table 3 above). Asia was the only region in the world that maintained strong, albeit uneven growth in tourism during the difficult period after its economic crisis 1997-98.

A great deal is due to the growth of intra-regional tourism in Asia. During 2001, around 65% of international visitor arrivals in both North East Asia and South East Asia came from within the north eastern plus south eastern Asian region.

Prospects of intra-regional Asian tourism count in that from China a total of seven million people traveled overseas in the first half of 2002. The main markets for Indonesian tourism, however, are still Japan and Australia, where Indonesia will make special marketing efforts to counteract the tourism break down after the Bali bombing.

Budget tourists from neighboring countries like Singapore and Malaysia, as well as

many domestic visitors from Indonesia's main island of Java, are replacing tourists from Japan, Australia, and Western markets. Until the end of 2002, their presence largely prevented major layoffs in Bali's tourism industry to occur. But the changing face of Bali tourism means the average visitor stays for a shorter time and spends much less than before -- less than half, according to some estimates. Rooms were available in package tours for as little as 25 US Dollars a night. The discounts mean that the income of workers employed in Bali's tourism industry will get squeezed, even if job losses remain modest.

The terrorist attack in Bali will also have a negative impact on the outbound tourism economy of Australia and put a number of Bali travel specialists in Australia out of business. Bali and other islands in the Indonesian archipelago are popular and cheap destinations for Australian families, backpackers and surfers. According to the *Australian Bureau of Statistics*, in the seven months to July 2002, 144,400 Australians visited Indonesia, amounting to 7.5 percent of outbound tourists.

The Asian region may suffer from indirect effects of the bombing in Bali unnecessarily. This concern was expressed by the Association of South East Asian Nations (ASEAN) when it rejected warnings and advice issued by Western countries including the United States, Britain, Australia and Japan. Such advice had covered all of south east Asia, where tourism accounted for 10.8 percent of GDP and 8.2 percent of employment last year.

7. Measures taken to counteract the negative impact of the crisis

National tourist authorities and tourist boards, as well as the tourism industry itself - at local and national levels - have reacted in a number of ways. One way, for example, has been to make their destinations more attractive to customers. In many cases, special committees were set up to deal with the situation after September 11th. Partnerships were established between the private sector and public authorities to tackle problems of financial bottlenecks, e.g. the funding of marketing campaigns or the prevention of bankruptcies in the sector.

The measures taken range from price reductions introduced by individual enterprises in the areas of travel, hospitality, tour operating, culture and recreation, to large-scale advertising campaigns by tourist authorities. These have often depended upon substantial injections of finance by both the industry and governments.

Advertising campaigns strongly address the domestic tourism markets. For instance, a campaign run by the *Travel Industry Association* of America (TIA) features the slogan "See America." A comprehensive plan of action was developed by the *Travel Industry Association of America* to enable the industry and government to work together to reassure the public that travel is safe while rebuilding consumer confidence in travelling both to and within the United States. The USA *Small Business Association* (SBA) approved a total of US\$21.6 million on disaster loans for small travel agencies. The average loan size was US\$50,579. One of the reasons was that SBA recognized the hardships facing travel agencies nationwide in the rapidly changing travel market, especially after September 11th. The SBA also recognized that travel agencies were dramatically affected by reduced airline commissions and advances in technology, specifically the use of the Internet.

A campaign by the *Canadian Tourism Commission* (CTC) invited Canadians and near-border Americans to re-discover or discover Canada. In fact, the Canadian Government has been supporting a massive marketing campaign by contributing the equivalent of US\$13 million to help the hotel industry recover from a loss of US\$3.5 billion incurred in 2001.

Austria also ran a major campaign to attract European tourists to their winter sports resorts aimed at replacing missing overseas visitors. One of the most impressive programmes to boost tourism is being developed in the **United Kingdom**. To overcome the country's deep crisis in international tourism, the British Government and a number of British tourist industry organizations have announced they will back a new international campaign, boosting marketing support for the British tourist industry to the tune of £ 40 million. The government will provide up to £20 million for this new initiative addressed to seven main market countries and aiming to recover at least half of the estimated £2 billion

lost by the tourism industry last year. The campaign features over 1,000 special offers put together by both big and small companies throughout the industry, giving discounts of sometimes as much as 50 per cent.

The **New Zealand** government announced that it is to make US\$2.5 million available for the expansion of New Zealand's official tourism classification and quality-grading company, *Qualmark*, in order to help attract more tourists through improved quality of services.

Another example of government support is that of **India** where, among other relief measures implemented, a 10 per cent expenditure tax on all food and beverages served by hotels was lifted in federal budget announcements in the spring of this year.

In **Japan**, the government is providing financial support to the troubled travel industry, of which 99 per cent consists of small and medium-sized enterprises. The government's credit association is doubling the maximum loan guarantee for tourism enterprises and government-affiliated financial institutions are doubling the ceiling for unsecured loans.

In general, the tourism sector has been given increased attention by public authorities as a result of the 2001-2002 crisis. Even in **southern Europe**, which did comparatively well immediately after the September 11th, both State authorities and the public were sensitized by the crisis and initiatives for private-public partnership increased. One example is a special Euro-Mediterranean group that has been set up on the initiative of **Spain** and **Tunisia** to encourage tourism cooperation between the countries of the European Union and Northern Africa.

The industry's endeavours to cut costs, however, strongly affect employment. For example, in a ranking of the 12 types of measures practised most frequently by the US lodging industry to reduce costs, staff reductions and the reduction of working hours are at the top of the list (*Box 1*). Six of the first seven measures listed affect staff directly, not to mention any indirect effects from other business reductions.

It is not just ordinary staff but also managers that are losing benefits. Management incentives are predicted to reach only 0.3 per cent of revenues in 2002, or 80.6 per cent less than in 2000, the peak year.

Box 1

**Ranking of most frequent cost reduction measures
in the U.S. lodging industry after the events of September 11th**

1. Employee reductions
2. Reductions in hours employees work
3. Reductions of expenses on advertising, renovations, maintenance and bonuses
4. Reductions in the number of restaurants open and/or reduction in hours of operation of restaurants and room service
5. Change of food service from waiter to buffet
6. Reduction of hours of others services, including bell staff, doormen, concierge and spa
7. Postponement of training programs
8. Reduction in amenities, such as the number of selections of soaps, complimentary bottles of water
9. Employee teams to identify cost savings
10. Reduced decorations (lobby flowers, candles in restaurants, less use of linens)
11. Eliminating high food cost items
12. Pay reductions and deferring or skipping regularly scheduled salary adjustments

Source: PricewaterhouseCoopers

In a number of countries, some measures as described above have already been taken. Others will need more time to develop.

The ILO has monitored the developments in the industry with particular emphasis on human resources development (see Footnote 1), because it was recognized that information on the employment effect of the crisis is still scarce. There is also a need to find more examples of positive action taken by enterprises, social partners and governments aimed at mitigating the impact of the crisis on employment and working conditions. Furthermore, improved methods of measuring the impact on employment of developments in tourism, as well as a series of case studies on good practices, will help to strengthen the capacity of the tourism sector to handle human resources challenges both in normal times and in times of crisis.

In cooperation with different partners, the ILO is prepared to assist developing countries in the modernization of their training systems in the tourism sector in order to help reduce their vulnerability to increased international competition. Raising the quality of services is one possible way of helping to rebuild tourists' confidence after a crisis and it might also have a chance of increasing customer loyalty to a particular destination. As discussed earlier, however, one of the special characteristics of tourism is that customers are able to react quickly to any perception of even a relatively small security risk, because they can easily adjust their plans or make savings if they need to. These reactions can have a significant effect on a country's revenue from tourism in a very short period of time.

The ILO is developing a Tourism Labour Accounts System which is a methodology to measure employment and working conditions in the tourism sector. It will help interested member states to collect and analyse relevant labour data on a continuous basis and in connection with the Tourism Satellite Accounts whose methodology was approved by the United Nations Statistical Commission in 2000.

The ILO will continue posting information about developments in employment and working conditions in the Hotel, Catering and Tourism sector as far the data presently available permit.

Annex: Recommendations by ILO constituents²

In view of the disastrous impact of the terrorist attacks of September 11th, the *International Labour Organization* (ILO) convened a meeting in October 2001, with an informal framework involving representatives of governments and Employers' and Workers' organizations in the hotel, catering and tourism sector from different member States. There were also representatives present from Workers' and Employers' organizations acting at the international level.

The meeting reviewed the impact of the events and the social partners formulated their recommendations on how the crisis might be overcome quickly, and how the impact of other events affecting the tourism sector in the future might be limited.

The ILO constituents made a number of recommendations addressed to Governments, such as:

- Recognize to a still greater degree the critical role that the hotel and tourism sector plays in the economy and afford it an appropriate place in national strategic economic planning.
- Organize widely supported campaigns and projects to promote tourism in general. Develop additional tourism strategies, including strategies relating to domestic and intraregional tourism, to moderate the negative effects of the cyclical nature of tourism.
- Adopt policies aimed at increasing the number of people for whom tourism opportunities are available, including special provisions to encourage those on lower incomes to engage in tourist activities.
- Encourage consultation amongst the social partners at national and local levels in the hotel and tourism sector to mitigate the negative effects of the crisis and promote tourism in general.
- Respond to joint approaches by employers' and workers' organizations in the sector to initiate temporary measures to reduce costs (including a review of all tourism-related taxation) during the crisis period to maintain employment and acceptable conditions for the operations of the industry.

² International Labour Organization, *Informal Meeting on the Hotel and Tourism Sector: Social Impact of Events Subsequent to 11 September 2001, Geneva, 25-26 October 2001, Report of the Discussion*. (<http://www.ilo.org/public/english/dialogue/sector/techmeet/imhct01/index.htm>)

- Assist employers' and workers' organizations in setting up education and training programmes principally designed to retain employees within the industry and enhance their opportunities for a secure future in the industry. In particular, provide state-supported education and training opportunities where possible as an alternative to unemployment, noting that state investment in such training might involve overall costs not necessarily higher than the cost of providing for an unemployed worker in the sector.
- Allocate significant funding to assist the sector and its workers who suffer temporary or permanent loss of employment and income as a result of any downturn in tourism.

Recommendations addressed to employers' and workers' organizations included the following:

Recognize the value of national-level and local-level joint approaches by the social partners to respond to issues arising from the current tourism crisis based on the following principles:

- commitment by the social partners to seek mutually agreed ways to extend employment, avoid and limit employment losses and, wherever possible, to prioritize the reintegration of workers facing short-term job loss as a result of the crisis;
- development of joint approaches to governments calling for action to reduce the impact of a decline in economic activity as a result of the crisis.