CHAPTER 1.6

Investment: A Key Indicator of Competitiveness in Travel & Tourism

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The World Travel & Tourism Council (WTTC) and Oxford Economics have long recognized the importance of Travel & Tourism (T&T) investment, an appreciation that has been reflected in annual research spanning more than a decade. In 2011, we are enhancing this research—and making it more user friendly—by aligning our analysis of the direct industry contribution of Travel & Tourism even more closely with that of the UN Statistics Division–approved *Recommended Methodological Framework for Tourism Satellite Accounting (TSA: RMF 2008)*.

At the same time, however, we will continue to draw attention to the fact that the approach of the recommended TSA framework understates the full economic impact of Travel & Tourism, since it ignores the indirect and induced effects of the sector. A prime example of these consequences is T&T investment, which is not a component of the direct economic impact of the industry but is an important aspect of the broader indirect impacts, as well as a critical element for determining future capacity and competitiveness.

The importance of investment in Travel & Tourism

This chapter addresses the importance of T&T investment for the industry's performance and outlook, and considers the implications of recent investment trends for its future prospects.

Investment in T&T products and infrastructure is not only essential for destinations to maintain and expand capacity, but it also allows for and encourages improvements in quality, competitiveness, and productivity. Historical data and our joint research over the past decade confirm that both new capital projects and major refurbishments—both of which are classified as investment—are integral to current and future destination performance.

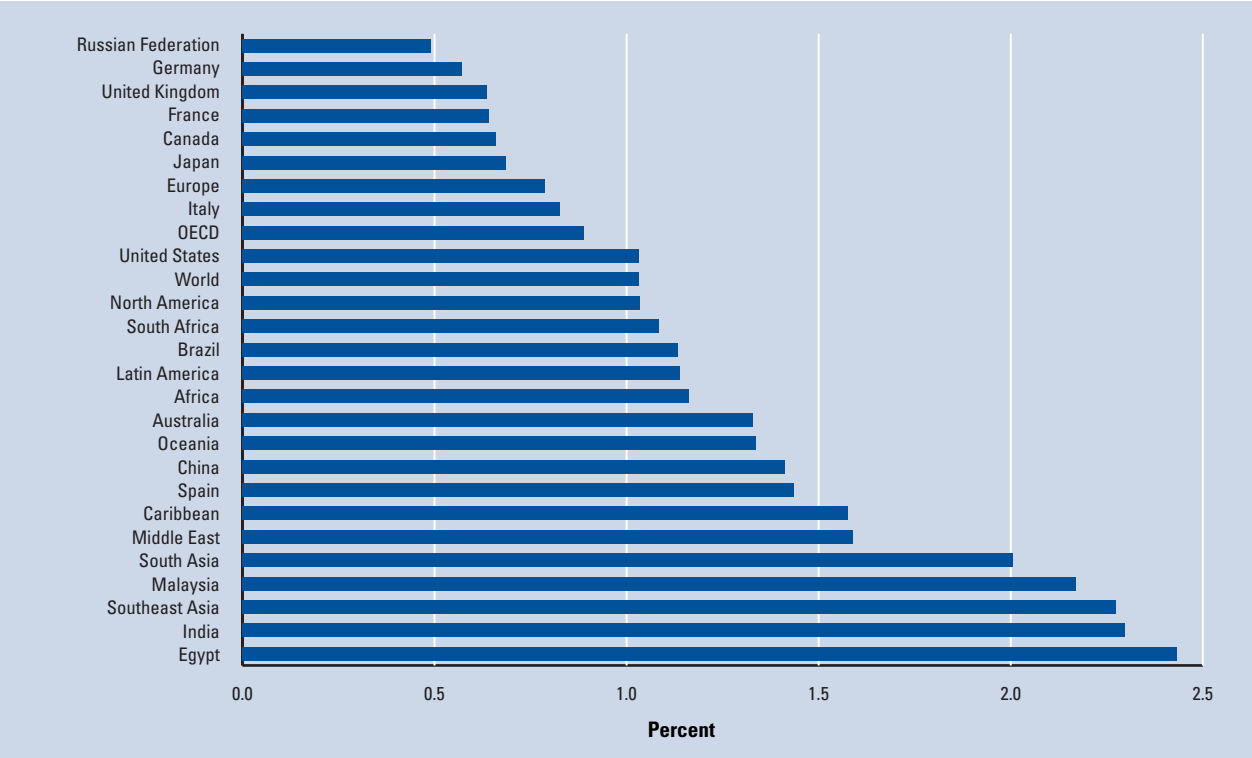
Proposed capital projects may remain constrained by limited access to finance, however, even in locations where demand is growing strongly. In contrast, there is also evidence of overinvestment in some destinations despite the clear upturn in industry performance, now that the global economy has emerged from recession.

Nevertheless, even in destinations where existing T&T infrastructure is sufficient for the current volume of demand, and even where there is excess capacity, the industry's capacity is not necessarily directly aligned to evolving consumer preferences. Visitors from emerging source markets often distinctly prefer more mature destinations, and all markets tend to be unpredictable: their tastes evolve over time in line with their individual definitions of both basic home comforts and luxury goods. This means that T&T investment remains important at every stage of the global business cycle.

Why investment in the T&T industry matters

From a national accounts perspective, investment includes expenditure on goods that are expected to be used for

Figure 1: T&T investment spending as a percentage of GDP, selected countries and regions (2006–10 average)



Source: Oxford Economics research for WTTC.

an extended period of time, as well as expenditures that change the value of previous investments still in use, such as major refurbishments and upgrades. At an economy-wide level, investment is typically split into three component parts: machinery and equipment used for commercial or industrial purposes; residential investment, which includes owner-occupied and rental housing (highly relevant for segments of the T&T industry such as the holiday home market, guesthouses, etc.); and nonresidential investment, including buildings for commercial or industrial purposes (such as hotels).

T&T investment fits within the above definition and includes capital investment spending by tourism-characteristic industries as well as spending on specific tourism assets by other industries. Some of the most important T&T investments are:

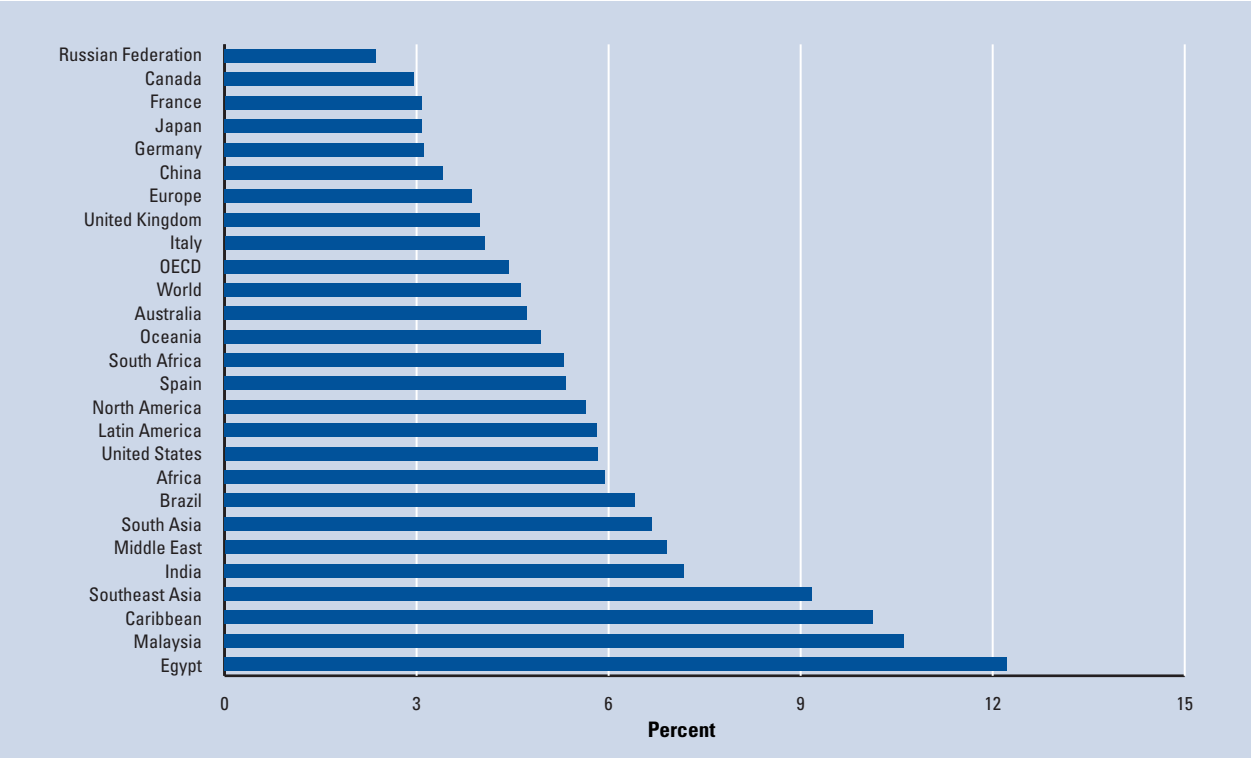
- accommodation development and major maintenance, including new building structures, and furniture and equipment to "fit out" hotels and so on, as well as holiday homes;
- passenger transportation, such as aircraft and cruise ships, for specific tourism use;
- capital projects and refurbishments designed to attract visitors; and
- "green" investments within the industry, such as solar and retrofit schemes to enhance energy efficiency.

Other forms of related investment, such as spending on transport infrastructure (e.g., road and rail construction and improvement), should not be exclusively assigned to T&T investment spending. Passenger transport infrastructure is included in this category only if it has been put in place specifically, or primarily, for use by visitors; examples include access routes or water supplies to serve new resorts or attractions, according to the recommended TSA framework.

All these forms of investment are important for the future of Travel & Tourism for the following reasons (note also that some of these apply to different industries across the economy, although some are primarily relevant for Travel & Tourism):

- Investment increases the sector's capacity to support a greater volume of travelers and visitors. An obvious example is increasing the number of hotel beds or conference facilities to accommodate more visitors. Insufficient supply capacity acts as a bottleneck to growth, which could mean diverting business to other destinations and/or lead to upward pressure on prices, which affects competitiveness.
- The motivation for investment, however, is not always about volumes of demand and capacity. Investment can also be for maintaining current capacity and standards through major refurbishments, enhancing the quality of the industry's product (e.g., upgrading a hotel's star rating), improving

Figure 2: T&T investment spending as a percentage of total economy investment spending, selected countries and regions (2006–10 average)



Source: Oxford Economics research for WTTC.

productivity and efficiency (e.g., adopting new technology), or improving environmental sustainability (e.g., green investments).

- Capital projects that attract visitors are a different case. For these, the motivation is likely to be to stimulate additional demand and to gain or retain market share. Indeed, investment that enhances the quality of the industry's product offering, whether for visitor attractions or accommodations, may also generate additional domestic and international tourism.

Global T&T investment closely tracked global tourism spending from the late 1980s to the mid 2000s, although it is likely that there was some dual causality over this period. The growth in spending would not have been possible without the increased capacity brought about by investment growth. This is clear from even a quick look at the growth in airline fleet sizes or hotel room supply over this period, as there was no significant drop in occupancy rates. However, the immediate year-to-year cyclical movement of investment may lag total spending. For example, investment continued to grow in 2001 when the spending cycle had already turned. This phenomenon is partly due to the nature of many capital investment projects, such as hotel or resort construction, which can take several years to plan and implement.

In contrast, T&T investment over the period 2005–08 is estimated to have grown significantly faster than global tourism expenditure, rising by 37 percent compared with an increase of only 11 percent in global tourism spending. This period coincided with the wider boom in the global economy and global investment, supported by relatively cheap, easy-to-access finance.

However, as the global economy entered recession for the first time since World War II and the global financial system cut back dramatically on lending and raised the cost of borrowing (despite historically low central bank interest rates), investment in Travel & Tourism fell back sharply. Indeed, T&T investment corrected much more harshly than the drop in global tourism spending.

Strong growth in hotel investment was sustained during the early part of the downturn because of the length of time projects take to reach completion, although this activity has now fallen back. Many developers still sought to complete projects in order to recoup some of their investment outlay, rather than scrapping projects completely midway through construction. Furthermore, in some cases, hotel projects were completed ahead of schedule and at a lower-than-budgeted cost. This situation has been helped by the wider downturn in construction and greater global availability of construction labor.

Figures 1 and 2 present a comparison, for selected countries and regions, of the importance of T&T investment in terms of overall economy GDP (Figure 1) and overall investment in the economy (Figure 2). The comparison demonstrates that, typically, fast-growing emerging economies have a higher investment rate (as a percentage of GDP) than more mature economies. This is because they are at a different stage of economic development,

but it says little about the actual importance of T&T investment to overall investment in the economy.

By way of example, between 2006 and 2010, on average, Spain, Singapore, and China are each estimated to have had higher ratios of T&T investment to GDP than the Caribbean region.

However, T&T investment makes a much greater contribution to the Caribbean economy overall—between 20 and 25 percent of total investment in the region is attributed to Travel & Tourism—compared with China, for example, where T&T investment accounts for less than 10 percent.

To understand the differences in T&T investment to GDP ratios across countries and regions, two factors are key: the relative importance of the industry to the economy in each country and the relative stage of development of each economy, with emerging economies generally needing to invest more to catch up with more mature economies.

For the different types of markets, there is a correlation between the two measures of investment intensity. Looking first at the developed markets, at one end of the spectrum are mature economies, such as Germany, where—given the size of other industries—the direct contribution of Travel & Tourism to GDP is low. It therefore comes as no surprise that T&T investment as a share of GDP in Germany is among the lowest across the list of countries and regions considered. By contrast, T&T investment, as a share of GDP, is much higher in Spain because tourism itself matters much more to the Spanish economy. But it is also important to note that investment as a share of GDP is especially high for Spain for the period in question, since it coincided with a wider investment boom that, with the benefit of hindsight, was clearly unsustainable.

Turning to emerging economies, some markets of interest have significantly higher T&T investment–to-GDP ratios than would be expected given just the current size of their T&T industries. This applies to economies such as Russia, which has a particularly small T&T industry. Similarly, T&T investment in China and Singapore as a share of total investment is three times lower than it is in Spain, yet as a share of GDP it has been marginally higher than in Spain over the last five years. The upper left portion of Figure 3 shows economies that exhibit a lower-than-average T&T contribution to GDP, but a much-higher-than-average investment intensity.

For emerging economies, T&T investment will help to expand capacity and potentially generate increased demand to allow future growth in Travel & Tourism, thus generating a larger contribution to total GDP.

Measuring investment in the T&T industry

WTTC, in conjunction with Oxford Economics, produces annual research into the economic contribution of Travel & Tourism to the global economy, including the contribution of investment. As already indicated, beginning in 2011, this will incorporate a new methodology that follows closely the conceptual structure of the recommended TSA framework of 2008.[1] This new research will not only align concepts and methodology with the TSA framework, but will also be aligned exactly with any specific country results created by national statistical agencies—assuming these countries do have Tourism Satellite Accounts (TSAs) of their own. This approach will continue to allow direct comparison across countries and regions while at the same time providing interim results for those countries lacking the resources to undertake a full and costly TSA.

The direct contribution of Travel & Tourism to GDP reflects the "internal" spending (total spending within the particular country) on Travel & Tourism by residents and non-residents for business and leisure purposes, as well as government individual spending—individual government T&T spending that is directly linked to visitors, such as cultural (e.g., museums) or recreational (e.g., national parks) services provided by government. This is calculated to be consistent with the output of tourism-characteristic sectors such as hotels, airlines, airports, travel agents, and leisure and recreation services that deal directly with tourists.

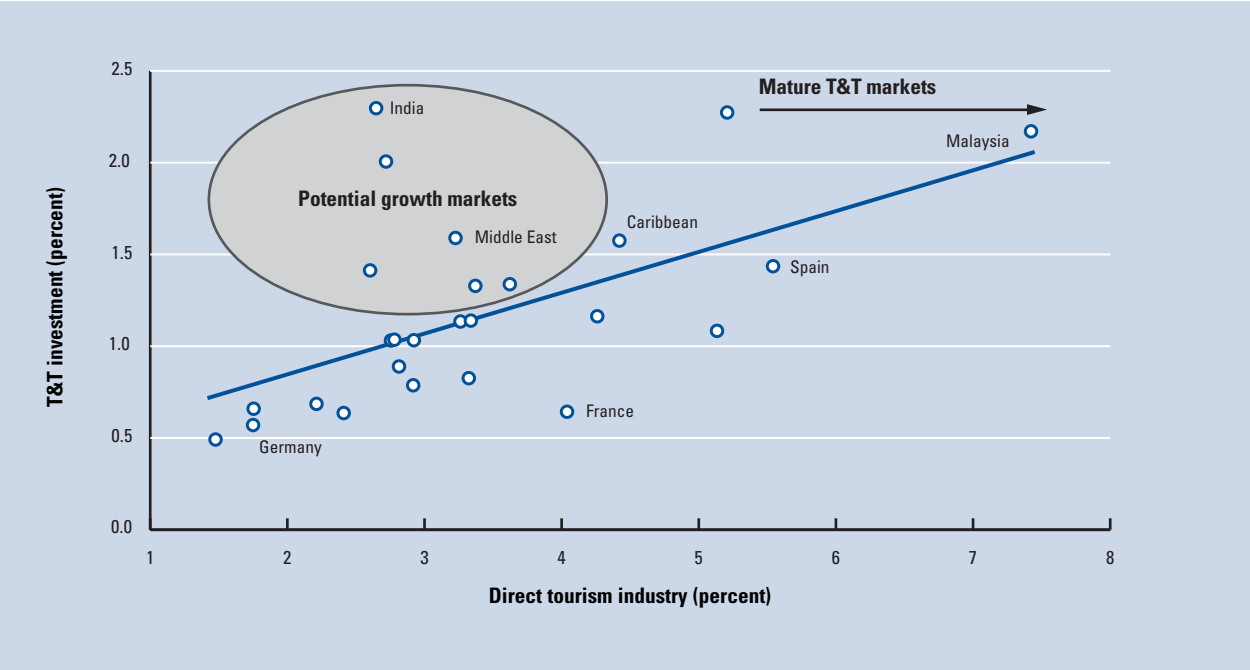
Direct T&T GDP is calculated from total internal spending by "netting out" the purchases made by tourism sectors. In reference to the UN Statistics Commission–approved TSA methodology, the calculation is consistent with calculations in Tables 1 through 6 of the TSA framework.

However, to fully calculate the total contribution of Travel & Tourism to GDP, wider effects, including capital investment, must be considered as well. T&T capital investment is calculated as the sum of spending on:

- accommodation for visitors, comprising: *hotels; vacation/holiday homes; and other non-residential building primarily dealing with tourists, including restaurants, airports, and recreation and cultural services, as well as land improvement for tourism purposes;*
- passenger transportation equipment, primarily including two key components: *aircraft and cruise ships*; and
- other machinery and equipment specific to tourism-characteristic products, as well as investments specific to tourism-characteristic industries.

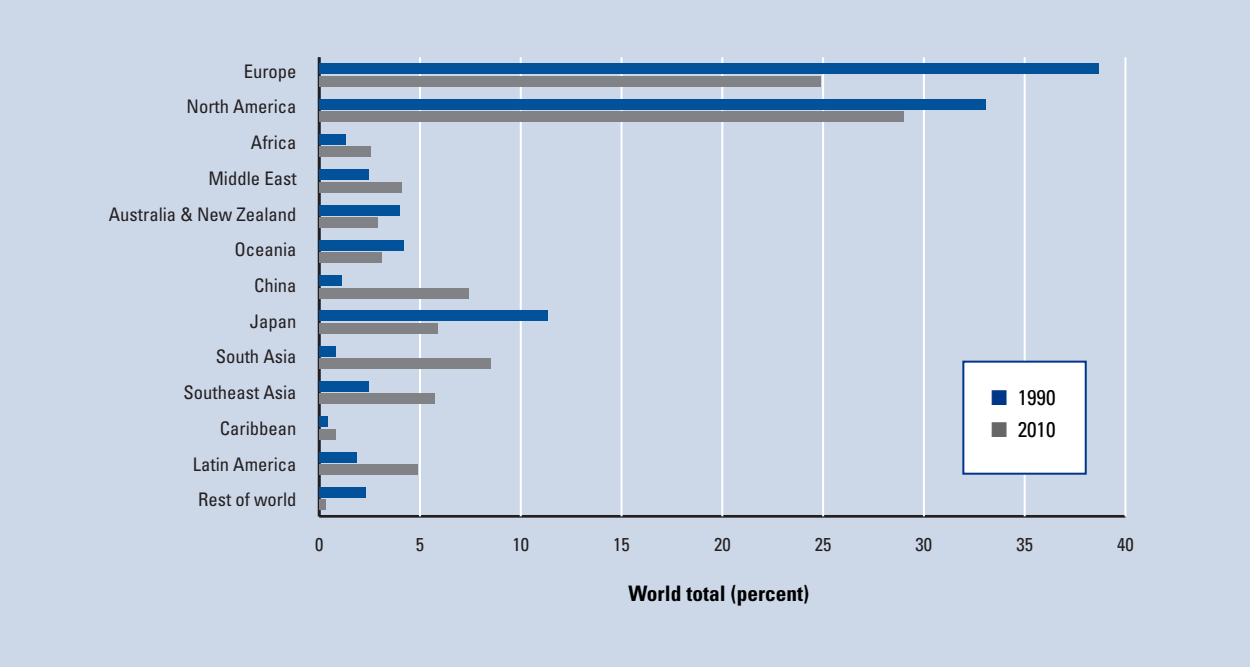
Not surprisingly, T&T investment is correlated with broader investment activity in the economy as a whole and is clearly influenced by similar factors such as the availability of credit. However, it is not a fixed share of total economy investment, as Figure 4 shows. At both the global and the country levels, the share varies over

Figure 3: Direct T&T industry and investment spending as a percentage of GDP, selected countries and regions (2006–10 average)



Source: Oxford Economics.

Figure 4: Share of world T&T investment



Source: Oxford Economic research for WTTC.

Table 1: Change in T&T investment spending, selected countries (US$ billions, 2000 prices)

Country/Region	1995–2001	2001–03	2003–08	2008–10	1995–2010
United States	54	–27	65	–34	58
India	–1	1	20	15	37
China	4	0	30	–9	24
Australia	1	5	–1	2	7
Germany	6	–7	11	–4	6
Brazil	5	–4	8	–3	6
Italy	5	2	2	–4	5
United Kingdom	11	–5	0	–2	4
Canada	3	0	3	–1	4
Egypt	0	0	2	–1	2
Russian Federation	–1	0	3	–1	1
South Africa	1	0	1	0	1
Japan	–6	4	4	–2	1
Spain	–3	3	4	–3	0
Malaysia	–1	0	0	1	0
France	1	–7	7	–3	–2
Rest of world	28	–1	44	–14	57
World total	**109**	**–35**	**205**	**–61**	**218**

Source: Oxford Economic research for WTTC.

time. In fact, Travel & Tourism's share of global investment had been gradually rising until the onset of the global recession, despite major residential and office property booms.

Trends in T&T investment and industry implications in 2011

Global T&T investment closely tracked global tourism spending from the late 1980s to the mid-2000s along a stable upward trend path. Over the period 2005–08, global T&T investment growth began to significantly outpace global tourism spending growth. More recently, between 2008 and 2010, as the global economy entered recession and easy access to finance dried up, investment in Travel & Tourism fell back sharply and corrected much more severely than the drop in global tourism spending.

Table 1 presents estimates of the change in Travel & Tourism investment by major countries over key selected periods. The period 1995–2001 represents the period of steady growth in global T&T investment and spending. Data for 2001–03 reflect challenges for global Travel & Tourism, as both 9/11 and SARS adversely affected activity, while several key economies (including that of the United States) entered recession. In 2003–08, T&T investment growth began to significantly outpace global tourism spending growth. And, finally, 2008–10 spans the global recession.

Over the entire period 1995–2010, global T&T investment increased by approximately US$218 billion (measured in 2000 prices); over half of this increase is attributable to China and the United States alone. As expected, given China's long unbroken period of economic growth, T&T investment continued to expand in 2001–03 while investment in the rest of the world declined.

The growing importance of Chinese T&T investment is evident in Figure 4. Its share of global T&T investment has risen significantly over the last 20 years, mainly at the expense of Europe and Japan. Other regions have also increased their share—notably Africa, the Middle East, and South Asia—but even their combined increase is smaller than China's.

Of course, one critical concern is whether China has overinvested in Travel & Tourism. This concern is based on the estimated slower growth in T&T spending over the same period during which investment has expanded rapidly. Clearly, China has been investing for the future, since a rapidly expanding middle class and international business travel market will sustain strong growth in T&T spending in the years ahead. But there is still a risk of underutilized capacity and low returns on investment.

By contrast, in Europe, where T&T investment expansion was much more aligned to actual demand trends, which fell back sharply during the world recession, there is the opposite risk of underinvestment. This could have implications for future capacity, productivity, and competitiveness. A lack of geographical competition and alternative destinations could allow prices to rise excessively, which would be detrimental to price competitiveness in long-haul markets. However, the

effect on non-price competitiveness in terms of quality and alignment with evolving market preferences is of greater concern.

Conclusions

Investment in T&T products and infrastructure is essential to enable destinations to maintain and expand capacity for future growth and to improve quality, competitiveness, productivity, and sustainability.

Since the late 1980s, T&T investment has shown good growth, especially between 2003 and 2008. But this has arguably occurred too quickly in some destinations. The world recession and the end of relatively cheap, easily accessible finance have corrected some of this excess. Conversely, and potentially of great concern, is that underinvestment in some markets, even at this early stage of recovery, may result in insufficient capacity and a future lack of competitiveness.

As the global economy moves on from the important crossroads it has now reached, the implications of potential over- and underinvestment in different destinations will start to be felt. Even in destinations where existing T&T infrastructure is sufficient, or where there is excess capacity, changing consumer preferences and aging products mean there will be a continual need for investment.

WTTC and Oxford Economics will continue to track T&T investment across individual countries and regions as a key component of the total contribution of Travel & Tourism to the global economy, while remaining consistent with the recommended TSA framework.

Note

1 See UNSD / EUROSTAT / OECD / UNWTO 2008.

Reference

UNSD / EUROSTAT / OECD / UNWTO (United Nations Statistics Division / Statistical Office of the European Communities / Organisation for Economic Co-operation and Development / World Tourism Organization). 2008. *2008 Tourism Satellite Account: Recommended Methodological Framework (TSA: RMF 2008).* Statistical Commission, February 26–29, Item 3 (f) of the provisional agenda, "Tourism statistics." Available at http://unstats.un.org/unsd/statcom/doc08/BG-TSA.pdf.