CHAPTER 1.5

Travel & Tourism as a Driver of Employment Growth

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Travel & Tourism (T&T) is one of the leading job creators in the world. The industry employs more than 98 million people directly,[1] representing over 3 percent of all employment. When indirect and induced impacts are included, the industry contributes to around one in every eleven jobs worldwide.[2] The share of world employment in Travel & Tourism is greater than that for the auto manufacturing and chemicals manufacturing industries combined, across every region of the world. Furthermore, the outlook for the industry is relatively positive: job growth in Travel & Tourism is forecast to average 1.9 percent per year over the next decade, compared with 1.2 percent annual growth forecast for total jobs in the global economy.

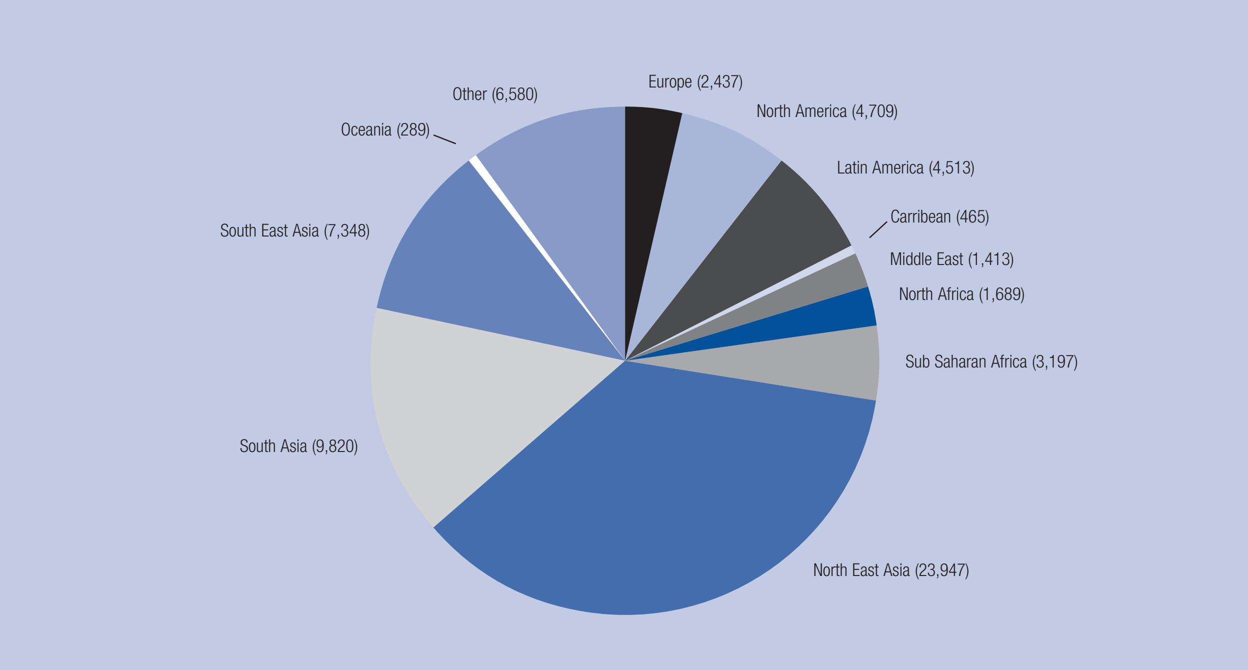
This chapter summarizes recent research by the World Travel & Tourism Council (WTTC) and Oxford Economics on jobs in Travel & Tourism using proprietary data for 20 countries, including both emerging and advanced economies.[3] Travel & Tourism was benchmarked against selected sectors for all regions of the world, and the research examined metrics that include Travel & Tourism's contributions to gross domestic product (GDP), employment, growth, export contribution, the strength of linkages, and job creation potential. Benchmarking the T&T industry provides perspective on its size and growth relative to other industries; it also helps to show how the industry can play an important role in driving employment growth.

The industries chosen as comparators in this research were selected because they have a breadth and global presence similar to Travel & Tourism. These industry sectors are relatively easy to define, and therefore to quantify. They include some that have recently benefitted from overt and well-publicized government support (the multibillion dollar bailout of the US automobile industry in January 2009 is a very recent example). The industry sectors benchmarked against Travel & Tourism in this research are:

- mining, including the extraction of oil, natural gas, coal, and metals;
- education, including all levels of educational services;
- chemicals manufacturing, including drugs and medicines, plastics, rubber, paint, polishes, ink, perfumes, cosmetics, soap, cleaning materials, fertilizer, pesticides, other chemicals;

The research and analysis presented in this chapter was based on custom research completed by Oxford Economics. The input-output portion of the analysis used data generated by the respective national statistics or economic agencies. Some of these data are maintained by and were obtained from Eurostat; for other countries these data were obtained directly from the relevant national agency.

Figure 1: Regional contribution to global T&T total employment growth, thousands of jobs (2012–22)



Source: Oxford Economics, mid-year update 2012 of annual economic impact figures.

- automotive manufacturing, including motor vehicles and parts and accessories;
- communications, including postal services (national and private) and telecommunications; and
- financial services, including banking, investment services, and insurance.

Understanding the significance of Travel & Tourism in many countries and its potential as a driver of employment growth is crucial, especially with the high levels of unemployment or underemployment now prevalent in many countries.

JOB CREATION AND ECONOMIC DEVELOPMENT

Over the last two decades, Travel & Tourism has played a more and more important role in the economic development of many countries. Increased travel across the globe has been driven by growth in real incomes; greater amounts of leisure time; improved and highly accessible transportation systems; ongoing globalization of business linkages, including supply chains; highly effective communication systems that facilitate marketing; and a significant number of new tourism services.

Although initial infrastructure investment is needed, as more people travel, additional tourism infrastructure is built and people are employed to service the needs of the tourists. The more visitors go to a destination, the more hotels, restaurants, and ancillary tourism services are needed and the more jobs in Travel & Tourism are created. The benefits of the Travel & Tourism–related jobs are then further multiplied through the economy to the suppliers that support the industry.

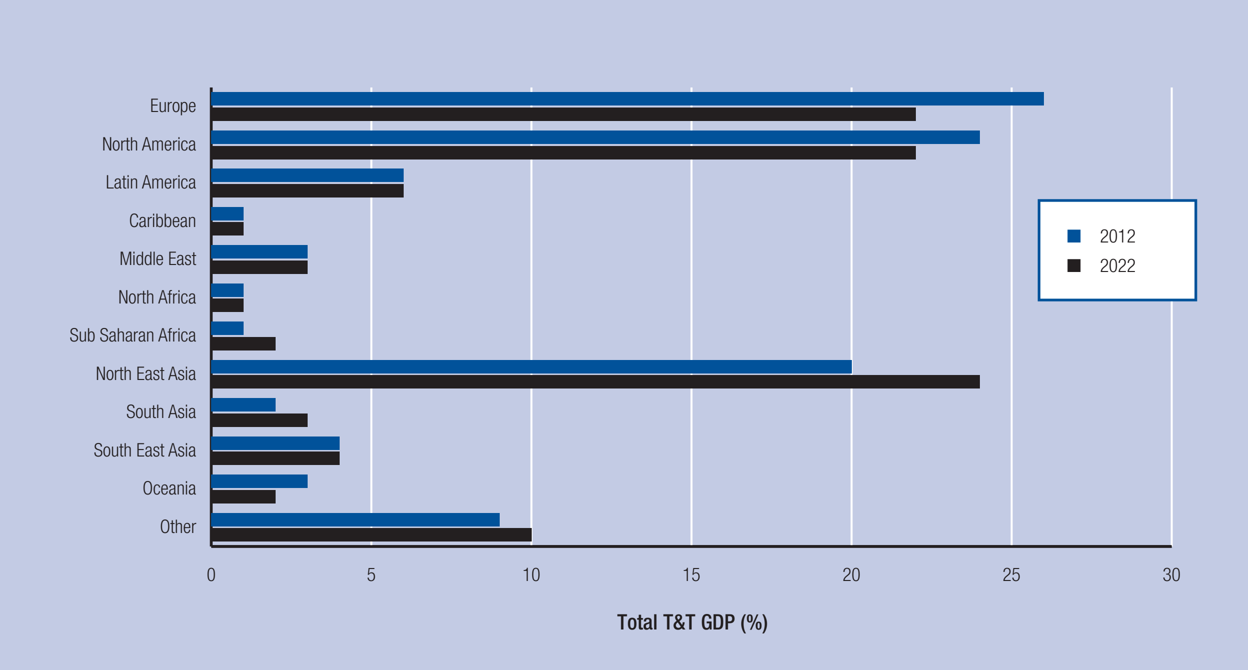
Travel & Tourism is a particularly attractive option for stimulating development in rural and low-income countries and regions that have previously relied heavily on subsistence agriculture, natural resource extraction, or informal self-employment. Tourism development may also be welcomed by local populations because it can generate stable employment and income while promoting cultural heritage and traditions—all elements of a destination that are particularly attractive to visitors.

Although the rise in emerging-market destinations explains some of the observed strong growth in T&T employment, many countries are also shifting away from manufacturing to service economies. These service economies are much more labor-intensive than mechanized, manufacturing economies. As this shift from manufacturing to the service sector increases, so the share of T&T employment out of total employment will probably increase, as will the share of tourism's contribution to total GDP.

Employment in Travel & Tourism as a share of total global employment followed a general upward trend throughout the 1990s and the early 2000s, falling back in more recent years partly because of cyclical patterns and changes in the destination mix for global Travel & Tourism. By the mid-2000s, direct employment in the industry edged over 3.5 percent.

The T&T sector tends to follow the general business cycle in an exaggerated way, with growth stronger than average during periods of expansion and job losses more severe than average during recessions. During

Figure 2: Contribution to global T&T GDP by region, 2012–22



Source: Oxford Economics, mid-year update of 2012 annual economic impact figures.

periods of economic slowdowns, disposable income growth slows and leaves fewer resources available to consumers for travel, resulting in both fewer trips and less-expensive travel options. Seeking out cost savings, leisure travelers might choose a closer-to-home destination (which potentially increases visitor numbers in some destinations) or a shorter holiday package, or reduce their budget for eating out and purchasing souvenirs. Business travel budgets also typically come under pressure during economic downturns, as they are often viewed as an area where companies can save costs. Of course, the dynamics operate in the opposite direction during expansionary periods.

In the late 1990s, global employment in Travel & Tourism was growing at rates of up to 4 percent per year. The pace of growth slowed along with most major economies during the downturn in 2001 and 2002, and the change in employment in Travel & Tourism was more pronounced than it was for employment overall. During the expansion of 2003–06, global employment in the industry returned to its role of outpacing overall employment growth; again, it suffered harsher-than-average losses during the most recent recession in 2009.

Employment recovery has now begun and the forecast expects employment growth in Travel & Tourism to outpace overall employment growth. The annual economic impact research carried out by WTTC and Oxford Economics found, in part, that T&T direct employment is expected to grow at an average 1.9 percent per annum over the next 10 years, compared with total employment growth of 1.2 percent each year through to 2022. This premium can be partly explained by the continued rise in T&T demand from emerging markets. Indeed, looking at the economic impact of Travel & Tourism as a whole, Oxford Economics expects the industry's contribution to GDP to grow at an average annual rate of 4.2 percent over the next 10 years, stronger than overall global growth predictions of 3.6 percent.

BENCHMARKING JOB CREATION REGIONALLY

In all regions of the world except for Africa, employment in Travel & Tourism is expected to be stronger than overall employment growth (Figures 1 and 2). While T&T employment in Africa is still expected to grow by 2.3 percent per year for the next 10 years and reach 2.9 percent of total employment by 2022, the industry faces a number of infrastructure and investment challenges in the region that are holding back its progress, and the transition to service economies on the continent is not as advanced as it is in other parts of the world. Still, with 8 million direct employees in Africa, Travel & Tourism is one of the leading employers in the region, surpassing the direct job creation of each of the chemicals manufacturing, auto manufacturing, communications, mining, and financial services industries.

Incomes continue to rise in Latin America and the Middle East. These regions are expected to lead Travel & Tourism employment growth, with annual growth rates forecast at 2.4 percent and 2.5 percent, respectively. In the Middle East specifically, increased T&T development is also contributing to a wider strategy of greater diversification away from a reliance on hydrocarbons. With 1.8 million direct employees, Travel & Tourism is one of the leading employers in the region, surpassing the job creation of all comparative industries except education. Travel & Tourism directly employs more than twice as many people in the Middle East than the mining industry (including oil extraction), although it is worth much, much less in its contribution to GDP.

Of the increase of 66 million T&T jobs forecast worldwide in the next 10 years, 62 percent are expected in the Asia Pacific region, an expected overall growth rate of 1.9 percent per annum from 2012 to 2022. Within the region, India and China were directly responsible for 48 percent of T&T jobs worldwide during 2011, compared with 43 percent across all other sectors of the economy. In Asia, there are seven times as many T&T jobs as auto manufacturing jobs and five times more than chemicals manufacturing jobs. Travel & Tourism directly employs nearly as many people as the region's entire education sector.

Over the same period, from 2012 to 2022, T&T employment growth in Europe is expected to trail the rest of the world with an annual growth rate of only 1.2 percent. The majority of Travel & Tourism in Europe is intra-regional and is impacted strongly by the ongoing debt challenges and fiscal adjustments in the region. Industry employment reached 10 million in 2011, and exceeds that of the automotive manufacturing sector by a factor of three.

The North American market—which has a higher proportion of people employed in Travel & Tourism than the other regions, at 4.4 percent—is expecting moderate growth of 1.5 percent per annum in the decade to 2022. Travel & Tourism directly supports nearly seven times more jobs than the automotive manufacturing sector and directly supports the same number of jobs as the financial services sector in the United States. In Canada, the industry employs more people than mining, automotive, and chemicals manufacturing.

ECONOMIC BENEFITS AND LINKAGES THROUGHOUT ECONOMIES

Measuring the contribution of one sector of the economy such as Travel & Tourism against the total requires an assessment of economic values on a number of levels. Impacts are measured on a direct basis (e.g., the people employed in a hotel), an indirect basis (e.g., the construction, including workers and materials, required to build a hotel), and an induced basis (e.g., the increased employment and GDP created by hotel and construction workers and the hotel guests buying food from a local shop). However, other issues—such as the strength of the linkages between tourism and other sectors of the economy, multiplier effects (changes in income and employment resulting from a change in expenditure), and leakages (the proportion of tourist expenditure that does not remain in the economy)—must also be assessed.

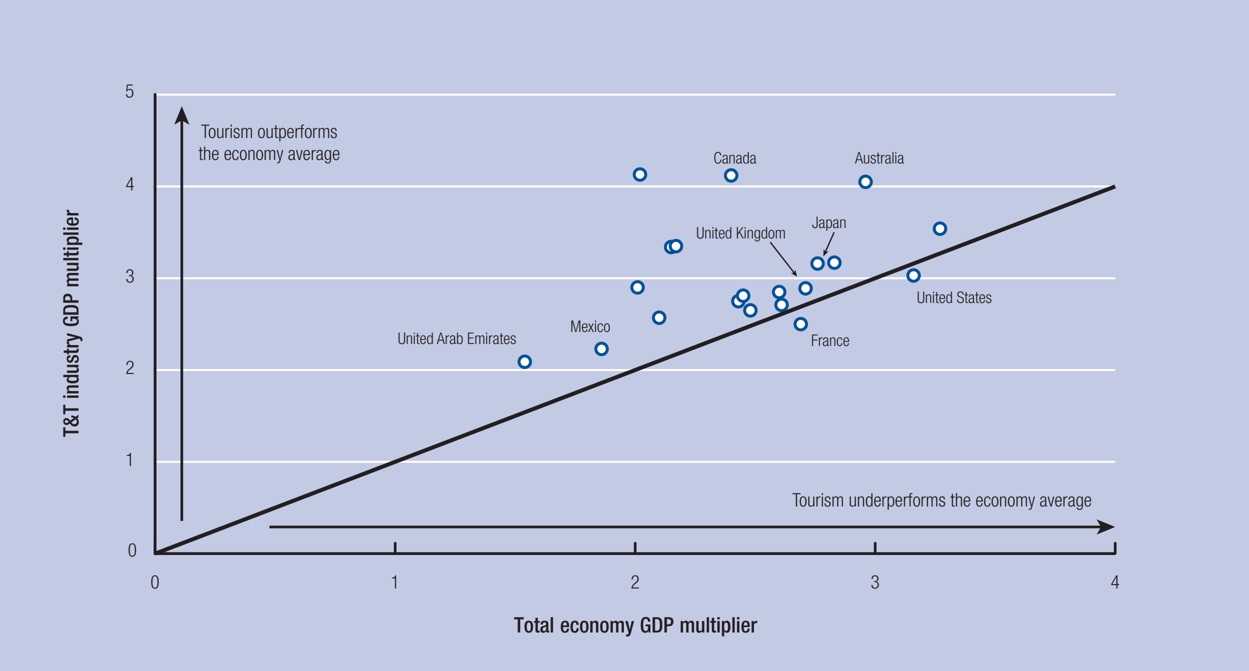
In 2011, Travel & Tourism generated US$2 trillion in direct contributions to the world's economy. This contribution to global GDP is more than double that of the automotive industry and one-third larger than the global chemicals industry. The T&T sector is three-quarters the size of the global education, communications, and mining sectors. With the addition of indirect and induced economic impacts, the total GDP impact of Travel & Tourism was US$6.3 trillion in 2011.

As well as being an important generator of direct employment and new job creation, broader economic benefits are generated by T&T activity. The industry has widely dispersed linkages throughout national economies, both in terms of industrial connections and because of its tendency to be less geographically concentrated than many other industries. The wide distribution of Travel & Tourism within countries is an important dimension to its economic value. Further analysis of the results of this research determine that Travel & Tourism ranks as the second-most evenly distributed industry in terms of employment and GDP across the 20 countries and six comparator industries analyzed (education, as expected, is closely linked to demographics and thus is the most evenly distributed among those benchmarked). As an industry with jobs that are impossible to send off shore, the benefits of Travel & Tourism have to be felt locally.

These strong industry linkages are also reflected in higher-than-average multipliers.[4] In 18 out of the 20 economies analyzed, one dollar spent on Travel & Tourism generates more total economic output than the average dollar spent in the economy as a whole. As can be seen in Figure 3, of the 20 countries studied, only in France and the United States is the value of Travel & Tourism's economic multiplier less than the total income average. This research compares the GDP multiplier for Travel & Tourism with the average economy multiplier for the other countries studied. On average, for every dollar spent across the 20 countries, 2.7 dollars are generated (this includes indirect and induced impacts); yet for every dollar spent on Travel & Tourism, 3.2 dollars are generated. Travel & Tourism's broader impact per unit of direct GDP also exceeds that of communications, financial services, education, and mining and reflects the integrated nature of the T&T industry within an economy. Only chemicals and auto manufacturing were found to have higher multipliers across the 20 countries analyzed.

In terms of job creation, one dollar spent on Travel & Tourism is more powerful than one dollar spent in other sectors across most of the 20 countries. The only countries where this is not the case are those in which agriculture remains a significant employer (such as China, India, and Indonesia). After education, Travel & Tourism is one of the top job creators, with an average

Figure 3: Comparing T&T and total economy multipliers, by income



Source: Oxford Economics.

of 50 jobs created for every US$1 million invested. US$1 million invested in tourism creates twice as many jobs as US$1 million in each of the financial services, communications, and auto manufacturing sectors.[5]

By analyzing input-output data looking at how output from one industrial sector may become input in another, these linkages between Travel & Tourism and the broader economy were identified and quantified, and include both supply chain and income effects. These relationships help to assess the ways in which the rest of the economy benefits from T&T linkages. Increased demand in Travel & Tourism usually spurs additional production in industries that rely heavily on domestic inputs, so the supply chain effects of Travel & Tourism are significant.

Industries can also be evaluated on the basis of how the income they generate flows to households and to other parts of the economy. The industries most supportive of economic development tend to be those that produce the most household income and retain a higher share of expenditure within the local economy. For example, on average across the countries analyzed, for every US$1 million that is spent in Travel & Tourism, US$701,000 in income is generated. This exceeds the income generated for automotive manufacturing, communications, chemicals, and mining. In terms of money retained in the local economy, of the countries looked at in this study, on average, 91 percent of tourism expenditures are retained while just 9 percent leaks out as imports. There are large variations to be found, however, and while other countries might experience far higher leakages, an import leakage in one country will be an export gain in another. On average, the share of income from Travel & Tourism retained in national economies is greater than the share from each of the mining, chemicals, and auto manufacturing sectors.

SUPPORTING BROADER ECONOMIC DEVELOPMENT

The development of Travel & Tourism can support broader economic development in part because the industry cuts across and is linked to many other industries in the economy, generating additional demand in a wide range of services and professions. In addition to the direct and indirect effects described above, Travel & Tourism can also produce other valuable spinoff benefits by contributing to infrastructure that other industries can use, and by boosting trade, skills, and investments.

Business travel, for example, is a vital contributor to the economy of most countries, both developed and developing, and represents almost a quarter of the economic benefit from Travel & Tourism as a whole. It is also highly correlated with export growth—as one expands, the other tends to as well. Causality tests have shown that rising exports have an almost immediate impact on business travel volumes, while travel itself stimulates trade in the following years by building relationships and helping to secure deals.[6]

Additional benefits accrue beyond the advantages reaped by the direct participants because trade advances economic development by lowering prices, creating economies of scale, allowing countries to focus on areas of competitive advantage, spurring innovation, and creating competition. The benefits that business travel brings to international trade also foster domestic and foreign investment. Foreign direct investments that result from business travel introduce capital, technology, skills, people, know-how, and demand for local supplies to the domestic economy; they also bring improvements in trade balances.[7]

In 2011, an estimated US$650 billion in capital investment, or 4.5 percent of total global capital investment, was driven by Travel & Tourism. The bulk of this is related to individual investments in facilities that directly benefit tourists, such as the construction of hotels and resorts, consistent with the definition of T&T investment in the 2008 TSA Recommended Methodological Framework. Beyond this benefit, Travel & Tourism may also drive infrastructure improvements that benefit local residents and the wider economy, in addition to tourists. The development of restaurants, bars, cafés, retail establishments, and other tourism-related businesses can help to improve the quality of life for local residents by expanding the choices available to them in their community. Moreover, Travel & Tourism may help to motivate the development of collective investments in public utilities and transportation infrastructure including roads, airports, harbors, electricity, sewage, potable water, and communications infrastructure.

POLICY IMPLICATIONS

The T&T industry remains under some pressure as the global economy continues on a path to recovery. Leisure travel demand has recovered in most origin markets, but business travel budgets remain constrained. This limitation remains, despite the clear benefits of business travel that may outweigh costs involved. On the supply side, some tourism promotion budgets remain lower than they were in earlier years, as public-sector cost savings are sought. Research from WTTC/Oxford Economics continues to make the case that cutting budgets and support for Travel & Tourism will have significant negative implications for the wider economy. Travel & Tourism is an important tool in economic development and growth strategy, and should be treated as such.

Travel & Tourism is a significant part of many national and regional economies around the globe, and supporting its expansion can be an integral part of a broader economic development strategy for both developed and developing nations as well as a potential tool for generating employment. It is essential for policymakers to differentiate between the global worth of the T&T sector and the relative importance of the industry to individual countries and regions. The contribution to GDP from Travel & Tourism may be small in the actual amount of income generated in a country or region, but if there is little alternative industry, its relative importance and the percentage of the country's GDP that it contributes may be large.

In the 20 countries looked at in this research, Travel & Tourism is one of the most important industries in terms of absolute size of employment and output, and industrial linkages are strong and widely dispersed. The industry can also drive domestic investment and attract foreign direct investment as well, all of which create employment, generate income, and provide additional quality-of-life benefits to local residents. On a comparative scale, Travel & Tourism makes a larger economic contribution to the global economy than some notable high-profile sectors. It is an important industry to support as a potential tool for economic development.

NOTES

1 WTTC 2012.

2 WTTC 2012.

3 The countries analyzed in the study are Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Jamaica, Japan, Mexico, the Russian Federation, South Africa, South Korea, Turkey, the United Arab Emirates, United Kingdom, and the United States.

4 These multipliers have been devised from the analysis of input-output tables across the identified countries. The methodology allows comparable multipliers to be calculated across both sectors and countries. WTTC/Oxford Economics 2012.

5 This multiplier is calculated according to the overall structure of industries- comparing the number of employees for a given level of industry output/revenue generated. We do not differentiate between the source of original investment or demand. It may well be the case that publicly funded projects have a different structure and return than privately funded development. However, we do not seek to make that distinction and a similar effect could exist for all industries.

6 WTTC 2011.

7 Oxford Economics 2011.

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