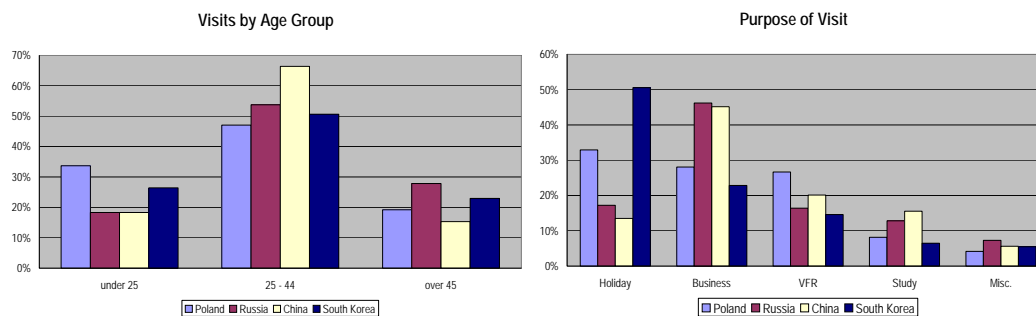


FORESIGHT is a monthly commentary on significant issues within the tourism sector. Each month, "Market Focus" discusses economic, social and political factors that underlie demand for tourism now and in the future. In addition, there will be a spotlight focused on significant tourism issues. This month, the markets Poland, Russia, China and South Korea are examined and we consider the importance of visits to Britain by British nationals living overseas.

### Market Focus – Poland, Russia, China and South Korea

A quarter of the world's population resides in these four countries, but they account for just 1.9% of visits to Britain and 3.0% of visitor spend in Britain. There is clearly an opportunity here, with many analysts expecting outbound visits from each of the four countries to grow at a rate well above that for more mature markets. Poland will join the EU at the start of May, Chinese students now favour studying in Britain over the US, an increasing number of the Russian elite want to enjoy the retail and luxury products Britain has to offer and many South Koreans are passionate about football. To ensure that the British economy benefits from these favourable developments VisitBritain has entered all four markets during the past year.

Each market has its own characteristics with respect to the nature of visits to Britain as can be seen from the following charts.



At the young end of the market Poland stands out, with a third of all visitors being under 25. Russia is the main market for the over 45s, whereas some two-thirds of visitors from China are aged between 25 and 44.

Marked contrasts can be spotted when studying the purpose for visiting Britain, with South Korea being the dominant market for "holiday" visits, whereas visitors from China and Russia are most likely to be on business trips. It is noticeable that holiday, business and visiting friends and relatives each account for around 30% of visits from Poland. Study visits are most popular from China and Russia.

These age and purpose profiles feed through to very different average spend per visit figures; visitors from Russia and China typically part with more than £1,000, compared to around £650 for a visitor from South Korea and just £460 for a visitor from Poland.

## Poland

Poland joins the EU on 1<sup>st</sup> May 2004 and even ahead of official membership is making its mark on the organisation, thwarting the hopes of Germany and France to reduce the share of votes it will have in future EU decision making. Poland is the "big hitter" among the ten new members, with a population 3 million greater than the combined total of the other nine.

One of the conditions of EU membership is that greater competition exists within the aviation industry, and this is good news for future prospects for outbound tourism from the new member countries as home-grown low-cost airlines spring up. The first such airline in Poland is Air Polonia, which in mid December started flying to Stansted eleven times a week. With visitors from Poland having the lowest spend per night of the four markets being considered, the biggest share for travel by the under 25s and just one in four of the annual 180,000 visitors travelling on business, value for money is a key selling point.

With the privatisation of former state enterprises, labour costs well below the EU average and a sizeable domestic market, Poland can expect a wave of inward investment following its membership. This should stimulate economic growth and increase business travel.

Demographically Poland is a very young country, with 42% of the population aged under 30, compared with 32% in neighbouring Germany. Products that appeal to the young travelling on a tight budget are vital if Britain is to benefit from Poland's flow of outbound visitors.

On the down side, Poland has high unemployment and low incomes compared to other EU countries. Latest OECD data tell us that one in five are out of work and GDP per capita is around a fifth of that enjoyed in Britain. GDP is expected to grow by a modest 4% in 2004. The farming sector is of huge importance, but extremely inefficient compared to agriculture across the existing EU. Reform and modernisation of the agricultural sector is a major challenge for Poland before it can fully benefit from potential EU subsidies.

## China

Forecasts suggest that by 2020 there will be 100 million Chinese travelling overseas, that is four times the total number of overseas visitors who currently come to Britain each year.

The purpose mix for trips from China described earlier is to a large extent driven by the fact that Britain does not enjoy "Approved Destination Status" in China, and as such only Business and Study visits are officially permitted. High level talks between the two governments continue, and the success of these for unlocking potential future growth can not be overstated, with the EU recently announcing that ADS had been granted to all Schengen countries. There is a real risk that Britain will lose out to its competitors if ADS is not granted in the near future.

Action taken by the British Government to make it easier for Chinese students to study in Britain is paying off, with figures from UCAS revealing that in 2002 British Universities admitted no fewer than 4,302 Chinese nationals, ten times more than at the end of the 1990s. The strength of interest in China for study in Britain is enormous - 28,199 Chinese applied to British Universities in 2002. It is not just University places that attract Chinese students, the Orient International Education & Cultural Exchange Centre estimates that there could be 60,000 Chinese undertaking some form of study in Britain.

China is widely recognised as a key driver of global economic activity. The IMF estimate China's GDP has grown by an average 9% a year since 1991, effectively trebling in size. Much of the economic success is due to China's ability to flood world markets with cheap goods. This has been feasible, not just because labour costs are very low, but courtesy of what many outside China consider an unfair exchange rate.

The Yuan is currently pegged to the US dollar. US manufacturers are calling for a rise in the value of the Yuan to stem the tide of cheap imports they claim destroy US jobs. However, Alan Greenspan, Chairman of the Federal Reserve Board, stated that were the Yuan to rise there would be no sudden upsurge in US manufacturing employment, rather imports from China would be replaced by imports from other growing Asian economies. China has said that it will move towards a freely floating exchange rate, but any relaxation is some way off. If the Yuan does appreciate the cost of overseas travel for Chinese citizens will become more affordable.

The exchange rate alone cannot account for China's success, an increasingly prosperous and vast domestic market is of growing significance. One spin-off of this increased prosperity is that 75 million Chinese are now on-line, and China will be the world's largest Internet market by 2007, with access growing at 30% a year. The Internet represents the only realistic means of communicating the information needed to entice and facilitate interest in overseas travel.

Despite double-digit growth in travel from China, for the foreseeable future only a tiny fraction of its 1.3 billion population will be in a position to experience the luxury of foreign travel. Nevertheless, if ADS can be achieved the travel trade in Britain must be ready to take advantage of this enormous market, eager to learn more about the outside world.

## **Russia**

Over 100,000 visitors from Russia came to Britain in 2002, contributing £120m to the economy. Getting a visa to visit Britain is still a barrier for a tiny minority of Russians, but the travel trade would be wrong to turn its back on the opportunities offered by investing in Russia purely because of this issue.

Britain is seen as an important destination among the wealthy elite, seeking culture, luxury breaks and boutique shops. Russian visitors are prepared to pay for a wide range of services, but expect high standards in return. Russians tend to make greater use of any sporting or spa facilities on offer at the hotel in which they stay than visitors from other countries.

The opportunity to participate in a sporting activity is a strong attraction. Golf is in its infancy in Russia - Moscow's first golf course was built in the 1990s and there are less than 3,000 Russians who regularly play – but interest is growing rapidly among the wealthy. Britain is well placed to exploit this. Polo is another sport appearing on the Russian social scene where Britain may be able to offer niche-market products.

Russia faces its fair share of challenges. The separatist rebellion in Chechnya that started a decade ago still generates frequent terrorist attacks on Russian targets. There are growing fears regarding the spread of HIV, with predictions that within a few years the number carrying the virus could reach 5 million. Much of the country's infrastructure is dilapidated after more than a decade with little or no investment. However, the Russian economy is defiantly resilient despite all this, with GDP set to increase by 6% in 2003 and a further 5% in 2004.

What matters more for the prospects of future outbound travel by Russians is the trend in household income. In the period January to September 2003 real disposable income rose 13.3% compared to the same period of 2002. The share of household spending on purchases of foreign currency rose from 5.7% to 7.6% over the same period. This signals a continued increase in the number of Russians able and willing to undertake overseas travel.

## South Korea

A quarter of the 90,000 visitors from South Korea to Britain travel as part of organised groups, often covering several "must see" European destinations. In the past few years there has been a decline in the number of visitors, peaking in 1996 at 134,000. The financial crisis of the late 1990s and a troubled IT industry are largely to blame for this reduction.

Getting to Britain is not that easy, a direct flight takes 12 hours and there are just eight flights a week operated by either Korean Air or Asiana. Building route capacity will be essential if strong future growth in outbound travel is to benefit Britain rather than other European destinations, including Italy and Switzerland, high on the list of long-haul choices for South Koreans.

There is a remote, but real, chance of political turmoil in South Korea, and not just because it is still technically at war with the North. A string of scandals have hit top business organisations, the opposition party and Government itself. Allegations centred on illicit funding of political parties. The fallout may influence Parliamentary elections due to take place in April.

These scandals have further dampened lacklustre consumer confidence, which has been pessimistic about the future for over a year. Strong export growth failed to offset weak domestic demand in November, as industrial production dropped 0.3%. Household debt continues to increase, and a leading credit card company looks set to enter receivership. Unemployment among the young is now a growing problem for South Korea.

On the plus side, as obtaining a visa to enter the USA becomes more difficult Britain stands to benefit from an upturn in enthusiasm for learning English as a Foreign Language (EFL) here, as South Koreans do not require a visa to enter Britain.

It is reckoned that 70% of the population have web access and 11 million (20%) have broadband access. The Government proactively encourages schools to be on-line for research and teaching, guaranteeing a web-literate youth market for the future. South Koreans are enthusiastic about football, and promotion of the FA Premier League and Britain's football heritage offers a key opportunity for stimulating interest in Britain. "Harry Potter" has proved a great hit in South Korea, making the connection between the book and Britain in the minds of South Koreans will help build a desire to explore beyond London on a visit to Britain.

## Summing Up

These markets offer huge potential in the long run and cannot be ignored, but risks abound. The Chinese Government may turn its back on market reforms and rein in overseas travel, relationships with Russia may cool if Mr Putin erodes democratic freedoms, South Korea may become mired in political and economic turmoil and Poland may find itself in the slow lane of a two speed EU. Thankfully these are unlikely scenarios. It is much more probable that all four markets will reward any investment aimed at stimulating interest in Britain and building suitable product ranges by providing a diverse mix of future visitors and revenue opportunities.

## Issue of the Month

### The Importance of visits to Britain by British nationals living overseas

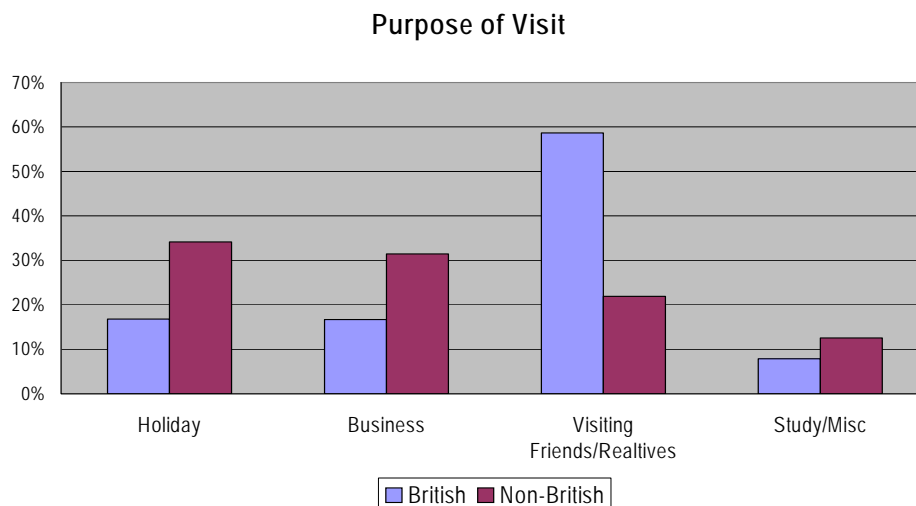
#### How important are visits by British nationals?

The International Passenger Survey tells us that in 2002 some 24.2 million overseas residents visited Britain. What is perhaps less well known is that one in every eight of these overseas residents is in reality a British national – that's more than 3 million visits a year.

During their visits British nationals spend some £1.5 billion, again around an eighth of total spending by overseas residents. With an average length of stay in excess of 11 nights (compared to less than 8 nights for non-British nationals), ex-pats account for 17% of all visitor nights.

It is clear then, that British nationals visiting Britain are a very important market segment. Whilst not homogenous, in general their needs and expectations will be different to nationals of other countries. Speaking English is not going to be a problem, and a fair degree of knowledge regarding life in Britain can be expected. Seeing "landmarks" such as the Big Ben or Edinburgh Castle will not be high on the list of "must do's" among many British nationals.

The different "purpose mix" for visits by British and non-British nationals can be seen from the following chart. The huge importance of visiting friends and relatives is clear, being three times more important than for non-British nationals. In contrast, British nationals are roughly half as likely to visit Britain in order to take a holiday or business trip than non-British nationals.



These statistics have implications across a number of dimensions. In the first instance the high share of "vfr" trips implies that many of those visiting will have access to "free" rather than paid accommodation during their stay, lessening the importance of the segment to the accommodation sector. Nevertheless, other sectors of the tourism industry can still reap the benefits of visits by British nationals, especially given their comparatively lengthy stays. For example, pubs, restaurants, entertainment and possibly sporting venues will feature among the activities undertaken by British nationals who are visiting friends or relatives. With an average nightly spend equivalent to non-British nationals, but less dependence on paid accommodation the "value" of this segment to the wider tourism industry is substantial.

British nationals can boost revenue during the off-peak season when other nationals are less inclined to visit due to variable weather – indeed, with lower prices British nationals may be most receptive to marketing campaigns focussing on quieter times of the year.

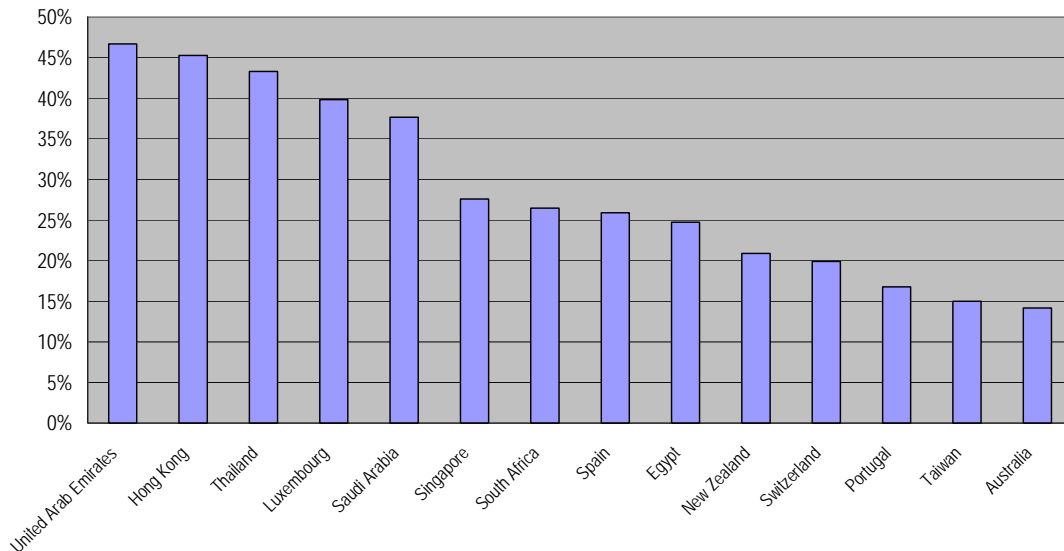
Finally, with six in ten visits being primarily to spend time with friends and relatives British nationals offer a great opportunity to improve the regional spread of revenue generated by inbound visits, as seven in every eight British residents who they are likely to be visiting live outside London.

### Key Markets

There are two ways of identifying which markets are the most important for visits to Britain by ex-pats - looking at the **relative** share of visits, and the **absolute** number of visits by British nationals from each country. The following chart shows the most important origin countries defined by share.

Half of visitors to Britain from UAE, Hong Kong and Thailand are British nationals. Not surprisingly high proportions of visitors from Saudi Arabia (38%), Spain (26%) and Portugal (17%) are ex-pats.

Share of Inbound Visitors that are British Nationals



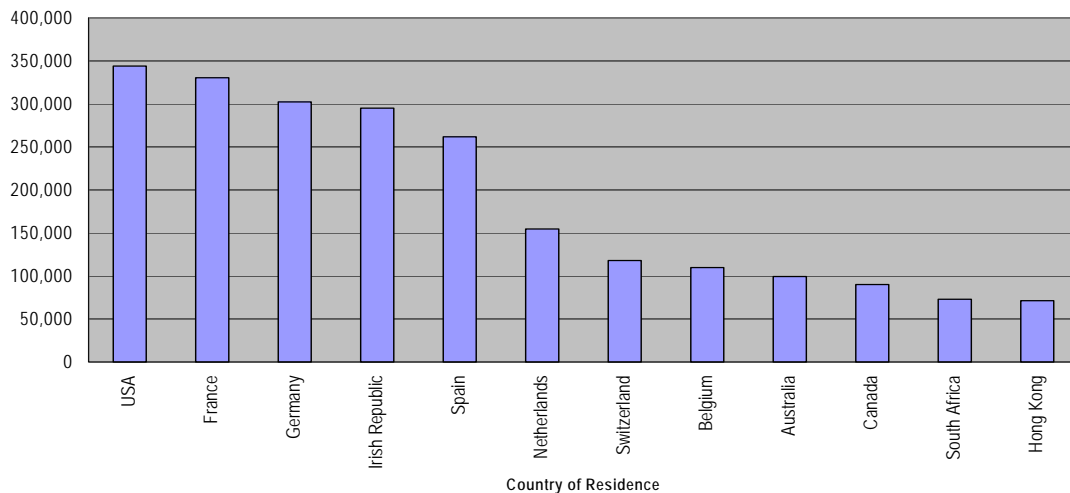
A couple of points are worth noting for specific countries. During the 150 years of British rule in Hong Kong citizens were entitled to British nationality. As a result, a significant proportion of British nationals visiting Britain from Hong Kong will not be “ex-pats” in the normal sense, but be of Chinese ethnicity and born in Hong Kong before 1997.

In the UAE around 1.5% of the total population were British nationals according to the December 1995 Census, more than half of the population were Indian, Pakistani or Bangladeshis, with less than one in four being true UAE nationals

Focussing on **volume**, rather than share paints a very different picture of the most important markets. The chart reveals that more than a quarter of a million British nationals visit Britain each year from the USA, France, Germany, the Irish Republic and Spain.

The twelve countries shown on the chart generate some three-quarters of all visits made by British nationals. In many of these countries VisitBritain works closely with ex-pat and British Association Magazines to ensure pertinent information on visiting Britain is readily available.

**Number of Inbound Visitors that are British Nationals**



### Loyal in the face of adversity

The trend over recent years has been for British nationals to grow in importance relative to non-British nationals, suggesting that “visits home” have been less susceptible to fears of flying after 11<sup>th</sup> September, Foot and Mouth Disease and so on. Trends in the number of visits, visitor nights and expenditure for the last five years is shown in the following Table.

#### Proportion of Inbound "Overseas Residents" who are British Nationals

	2002	2001	2000	1999	1998
Visits	12.4%	12.3%	11.4%	10.8%	9.9%
Nights	17.3%	16.7%	15.8%	15.4%	13.4%
Expenditure	13.1%	11.9%	11.4%	11.3%	9.8%

### In Conclusion

British nationals may not be the “traditional” tourist in the places they visit and things that they do, but they make three million visits a year and account for more visitor spend than nationals of any other country with the exception of US citizens. Understanding and responding to their particular needs may offer a “quick win” in spreading the benefits of inbound tourism across the year and throughout the regions of Britain.

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