

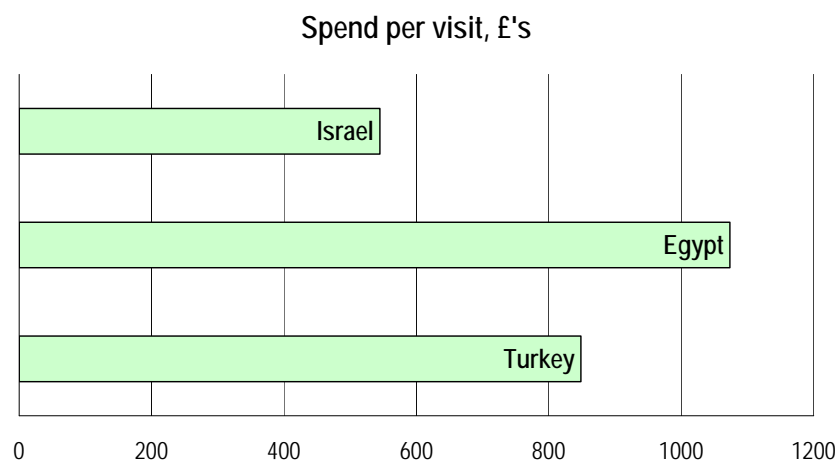
FORESIGHT is a monthly commentary on significant issues within the tourism sector. Each month, "Market Focus" discusses economic, social and political factors that underlie demand for tourism now and in the future. In addition, there will be a spotlight focused on significant tourism issues. This month Market Focus covers Israel, Egypt and Turkey and Issue of the Month looks at the importance of Foreign Direct Investment for inbound business tourism.

Market Focus – Israel, Egypt and Turkey

Back in the mid 1990s a quarter of a million visitors travelled from Israel to Britain each year (making Israel Britain's 17th largest inbound market in 1997), but the combination of global events and ongoing domestic terrorism have dented both the willingness of Israelis to travel and the nation's economic strength, thereby making overseas travel less affordable. Visitor numbers from Egypt have slipped back slightly from pre 11 September levels, but trends in travel to Britain from Turkey are strong, with early indications that 2004 will have kept pace with levels achieved in 2003.

Full year figures for 2003 show that 295,000 visitors came to Britain from these three markets, representing just over 1% of all visits, and that these visitors spent an estimated £210m (1.8% of total). The average daily spend for all three markets was around £75, compared with a global average of £58 for inbound visitors. Visitors from Israel spent on average a week in Britain, with those from Turkey staying for 11 days and those from Egypt nearly 15 days.

Differences in the average length of stay feed through to a wide range in the total value per visit achieved from each market as can be seen from the chart. All markets exceed the global average of £475 per visit, with visitors from Egypt spending over twice this amount.



Israel

It often appears as though when the Middle East peace process moves forwards a few inches it only takes a short space of time before events unfold that erode all the hard won progress. A sustained stable situation in Israel would unlock economic growth potential and restore healthy flows of high-value visitors travelling to Britain.

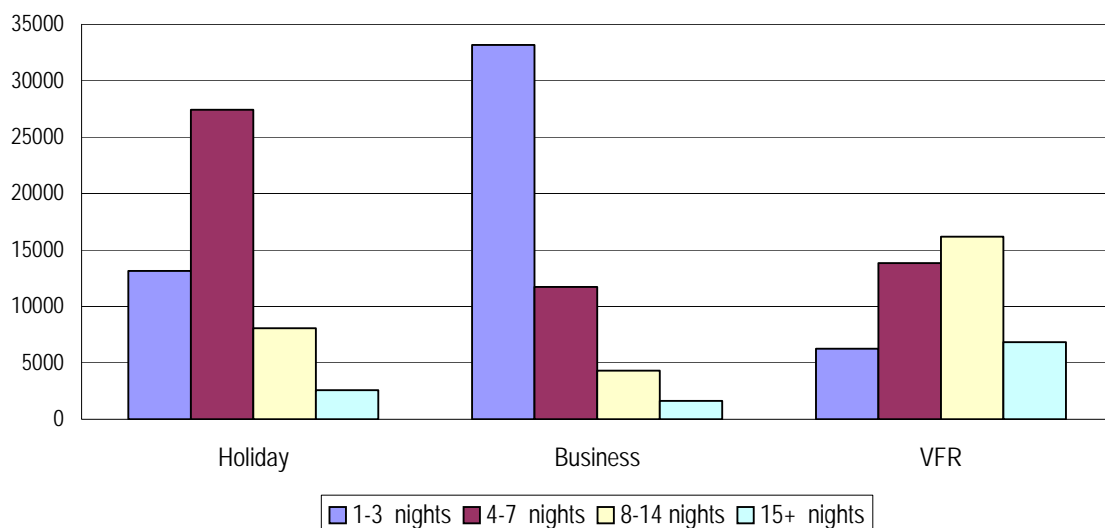
Israel has a population of 6.2 million (excluding the Occupied Territories), of whom more than half are under 29 years of age, with the US Census Bureau forecasting that this age distribution will result in the population growing by almost a third by the early 2030s.

There are longstanding business links between the two nations - Britain represents Israel's third most important export market and fourth leading supplier of imports. However, Italy tops the Israeli outbound destination league table, with almost twice as many annual visitors as Britain welcomes each year; Britain is the sixth most visited outbound destination.

Journey Purpose

The journey purpose mix for visits to Britain from Israel has a fairly uniform pattern, with each of "holiday", "business" and "visiting friends and relatives" accounting for around 30% of all visits, this being a fairly typical pattern for a quite mature outbound market. The chart shows the duration of stay for overnight visits falling into each of the three main journey purpose categories. We can see that although most holiday trips are 4-7 nights in duration there are many that last for less than 4 nights. For business visits it is the 1-3 nights duration category that dominates, whereas trips to visit friends and relatives are well represented in each length of stay category, including that for 15+ nights.

Visits from Israel in 2003



According to the IMF Israeli per capita income in 2005 will be unchanged with that achieved a decade ago, at a little under \$17,000 (equivalent to that of Portugal), with unemployment remaining at 10%, far higher than was the case throughout most of the 1990s. Adoption of new technology is high despite these economic woes, with a TNS survey finding that there were 2.5 million Internet users in Israel last year, representing approximately 40% of the population.

Egypt

This is the smallest of the three markets with around 41,000 visits to Britain in 2003, but as we have seen with a high spend per visit, making the market worth more than £44m per annum to Britain.

Egypt has a population of more than 70 million, with some estimates suggesting that 18 million of these live in Cairo. The majority of flights linking Egypt with Britain are from Cairo (with a flight time of around 5 hours), but scheduled services also operate from both Luxor and Alexandria.

British nationals living in Egypt accounted for 30% of visits to Britain in 2003, and it is little wonder then that around a third of all trips to Britain from Egypt are to visit friends and relatives. Visits "home" by British ex-pats might help explain the fact that Britain is the fourth most visited outbound destination from Egypt, behind Libya, United Arab Emirates and Kuwait, but well ahead of all other European destinations.

English is widely understood by the educated classes in Egypt and strong business ties exist between the two nations, with Britain being the largest non-Arab investor in the country. The British Council, which is active in both Cairo and Alexandria, nurtures cultural ties.

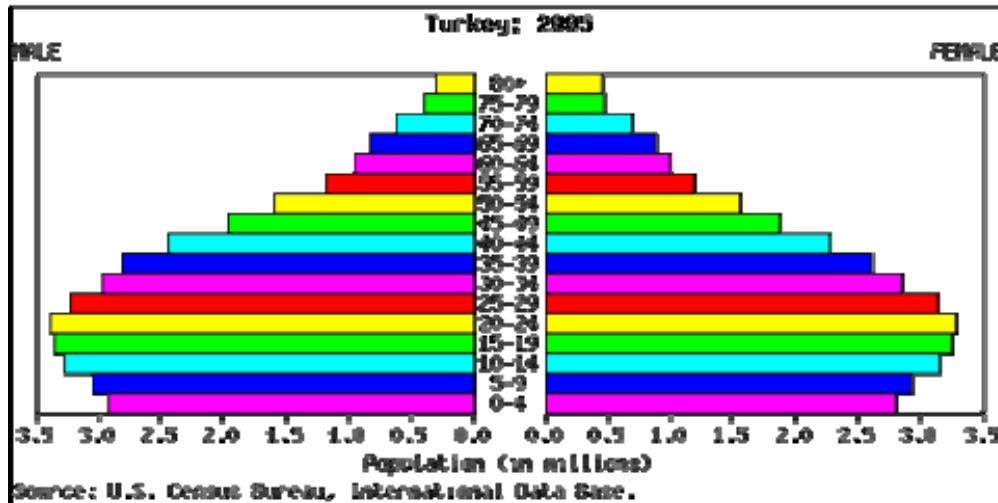
On the political front there are signs that Egypt might be bowing to international pressure to become more democratic, with President Mubarak having recently announced that multiple candidates would be allowed to stand for the post of President in the future.

Turkey

The Turkish Government is poised to begin negotiations with the EU this October with the eventual goal being full EU membership sometime in the next ten to twenty years, the British Government being one of the strongest supporters of Turkey's bid. Today most mature tourism destinations are starting to woo Chinese and Indian visitors as outbound travel begins to explode from these countries, but by the middle of next decade attention will be shifting to a new source market, namely Turkey, strategically located between Europe, Asia and the Middle East.

The Turkish population of 71 million is forecast to grow to over 80 million by 2020, and assuming that Turkey succeeds in joining the EU it will surpass Germany as the most populous EU country by 2023, giving it a considerable influence within the organisation. Not only is the population growing in size but compared to most EU nations it is a very "young" population as can be seen from the following population pyramid.

In many European countries there is an increasing imbalance between the number of retired citizens and those of working age able to fund their pensions through taxation. Eventual membership of the EU and greater political integration with Western Europe will no doubt accentuate the flow of young economic migrants from Turkey to a number of EU countries.



Economic progress

Economic growth approached double-digit rates during 2004 amid beliefs that Turkey is one of the world's most rapidly industrializing nations. According to the Economist 2005 and 2006 will bring further growth of at least 5%. Figures from the European Travel Commission New Media Review demonstrate that these economic improvements are feeding through into greater adoption of new technologies, with more than 10% of the Turkish population enjoying Internet access at the start of 2005 and TGI Global reporting that 43% of Turkish adults own a mobile phone.

Britain is the fifth largest investor in Turkey with exports and imports between the two nations currently growing at an annual rate that exceeds 20%. The level of British investment in Turkey will be one of the reasons for a very high share of visits to Britain being for business, indeed around three in every five visits were business related in 2003.

Despite some small anti-western terrorist attacks in 2004 there is a good deal of political stability in the country, with the potential for EU membership acting as stimulus for economic and social reforms, but the policy of greater integration with Europe is not without its detractors in Turkey.

Britain is the fourth most visited outbound destination from Turkey, behind Italy, Greece and Germany, demonstrating a keen awareness of Britain, especially as a destination for business tourism.

No short-term boom, but long-term potential

The next year or two should see a consolidation of visitor numbers travelling to Britain from these three markets provided that a greater degree of stability takes root in Israel and the wider Middle East. Over the longer term we can look forward to Israel regaining its place inside the top twenty inbound markets to Britain and the potential for Turkey to become a significant new market a decade or so from now.

Issue of the Month – Foreign Direct Investment and Inbound Business Tourism

A strong inbound business tourism market is essential for the overall success of British tourism, and in 2003 business visits represented 28% of all inbound visits, 14% of all inbound visitor nights and 29% of all inbound visitor spend. It is readily apparent then that although business visits tend to be short, at 4.2 days per visit compared with an “all purpose” average of 8.2 days, the average daily expenditure far exceeds that for other journey purposes. The typical business visitor spent an estimated £118 per day in 2003, compared to £65 a day for the average holiday visitor and £35 a day for the average VFR visitor.

Types of inbound business tourism

The likelihood of trade between any two countries depends not just upon whether each has something that the other wishes to purchase, but also on the level of investment that flows between the two countries, a concept usually referred to as “Foreign Direct Investment” (FDI).

The overwhelming majority of business travel is to conduct routine business as we can see from the table, accounting for six in every seven business visits. Attendance at conferences and large meetings accounts for around one in ten business visits and attendance at trade fairs or exhibitions accounts for one in twenty business visits.

Types of Business Visit		
	Visits	Spend
Routine Business	86%	82%
Trade Fairs and Exhibitions	5%	6%
Conferences and Large Meetings	9%	11%

Average spend per visit varies from £469 for routine business purposes (very similar to the global average spend across all journey purposes), through to £620 per visit for Conferences and Large Meetings and £677 per visit for Trade Fairs and Exhibitions.

The health of the British economy and those of our trading partners will be the single most important determinant of the volume and value of business tourism. If we look back over the past twenty-five years we can spot that the number of business visits to Britain fell in 1981, 1982, 1991, 1992, 2001 and 2003. The downturn in business visits in the early 1980s and early 1990s is clearly correlated with global economic malaise at those times, with a combination of economic downturn following the bursting of the e-commerce bubble and events of 11 September combining to drive down business tourism in the early years of the current decade.

Inbound Business Tourism Markets

Which markets are the most important for each type of business travel recorded in the International Passenger Survey? Figures for 2003 shown in the following table reveal that France and Germany dominate business travel, with USA also generating more than ½ million business visits in 2003. The same picture emerges for visits to Trade Fairs and Exhibitions but this time with Germany being the most important market. The USA is the market with the largest volume of visits to attend conferences or large meetings, followed by Germany and the Irish Republic.

Top markets for inbound business visits in 2003

Routine Business		Trade Fair/Exhibition		Large Meeting	
France	917,495	Germany	54,194	USA	82,286
Germany	809,782	France	32,319	Germany	70,093
USA	614,364	ISA	26,814	Irish Republic	58,951
Netherlands	493,600	Italy	25,955	Netherlands	52,133
Irish Republic	449,367	Irish Republic	25,786	France	51,991
Italy	351,575	Spain	22,590	Spain	29,153
Belgium	298,790	Switzerland	10,776	Belgium	27,436
Spain	284,688	Netherlands	10,604	Italy	21,559
Switzerland	165,569	Sweden	10,599	Sweden	21,401
Sweden	142,349	Belgium	10,388	Switzerland	18,722

Rather than looking at the volume of business trips from each market lets take a look at the share of visits from each market that are business related, as we get a very different "top ten" as can be seen from the table. Turkey and Hungary top the table, with business visits accounting for more than half of travel to Britain. The high proportion of business visits from China is no surprise considering that Britain did not enjoy Approved Destination Status in 2003. We can expect China to slip down the table now that ADS has been granted and the leisure market to Britain is free to expand rapidly.

	Business Visits (% of total)
Turkey	61
Hungary	50
China	47
Russia	43
Portugal	42
Czech Republic	37
Finland	37
Belgium	36
Netherlands	36
Germany	36
Global Average	28

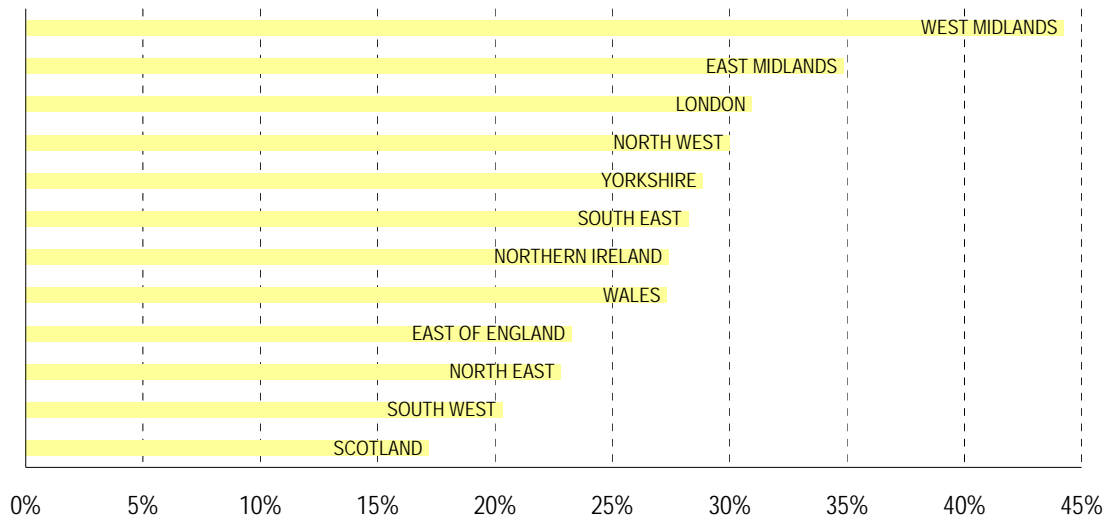
Belgium, Netherlands and Germany are the only markets from the earlier "top tens" to feature here, with other high volume markets such as USA (22% of visits) being below the global average for share of visits that are for business.

Not just for business, and not just London

That proportion of business travel that ebbs and flows with the economic cycle cannot directly be influenced, but there are a multitude of ways in which the tourism industry can work on these business visitors in order to generate higher returns. For example, there are those business visitors who extend their trip to undertake leisure activities either before or after the business element of the trip, there are those whose family members join them in Britain for some or all of the trip and those who having experienced Britain purely as a business visitor decide they must come back for leisure.

We can see from the following chart that business tourism is particularly important in the West Midlands where it accounts for 41% of inbound visits and 44% of inbound visitor spend and in the East Midlands where it accounts for 41% of visits and 35% of spend.

Business tourism share of inbound visitor spend



Foreign Direct Investment

Foreign Direct Investment (FDI) is the term used to describe the amount of investment in an economy whose source is companies that are based overseas. This investment can be in the form of a multinational company buying-up local firms, or setting up a fresh operation in the foreign country. There are a number of different types of FDI; inward FDI is the amount of investment in a nation that has a foreign owner and outward FDI is the amount of investment owned overseas by companies from a particular nation. "Flows" of FDI are the amount of investment taking place over a specified time period whereas a "stock" of FDI is the overall "book value" of assets owned by overseas companies in a given economy. It is widely accepted that stocks are a more meaningful measure than flows as these fluctuate from one year to the next.

The top three destinations for outward FDI stock held by UK companies are Netherlands, USA and Luxembourg, accounting for around three-fifths of the total stock of outward FDI. Looking at the biggest inward investors in Britain we find that USA, Netherlands and France top the table.

Britain is in the topflight for FDI

According to the United Nations Conference on Trade and Development (UNCTAD) the UK is ranked 3rd in the world behind the USA and Norway for its potential to attract inward FDI (based on 12 economic and policy variables). The more "international" an economy is, the greater we can expect the stock of FDI to be. UNCTAD figures show that in 2003 the stock of inward FDI in Britain was valued at \$672bn, more than 8% of global Inward FDI, and the stock of outward FDI to be \$1,129bn, 14% of global outward FDI, putting Britain second only the USA in terms of both inward and outward FDI. Clearly then the UK has an economy that is outward facing, a standpoint from which business tourism is a clear beneficiary.

The Organisation for Economic Co-operation and Development recently conducted a study of 26 of its members, revealing that the UK had the lowest barriers to inward FDI. The US

Department of Commerce notes that the UK is the top destination for US investment in the European Union, winning a third of all US investment. According to Tokyo Keizai Britain tops the European league table for investment from Japan, with Japanese companies employing almost 100,000 people in Britain, Fujitsu alone employing 20,000.

Think London, an inward investment agency, conducted research in 2004 showing that inward investment accounts for a quarter of London's economic output and that foreign companies employ more than half a million people in London.

FDI and Business Tourism

The majority, but not all, of those employed by foreign companies in Britain will be British nationals, those who are not tending to be employees of the company who move to Britain due to their company's investment here. For example some Honda managers are Japanese nationals who are temporarily resident in Britain. Those foreign workers based in Britain will potentially develop ties that in the future will enhance the likelihood of leisure visits to Britain.

Outward FDI from Britain can help boost business tourism too, as senior overseas employees are periodically asked to attend meetings in the company's UK offices. In the past outward FDI was often associated purely with the manufacturing sector of the economy, but this is no longer the case. A rapidly developing trend is for FDI in the form of "offshore workforces" employed in so-called "back office" service sector functions. Here the investment might not only lead to "business" trips, but also to leisure trips by those employees wishing to gain a better grasp of the English language or British culture, thereby boosting their career prospects back in their home country.

VisitBritain Inbound Business Tourism Activity

Figures for the first three-quarters of 2004 show that the number of inbound business visits grew at more than 9% compared with the equivalent period of 2003, and that spend by business visitors rose by an annual rate of 11%. There is enormous further growth potential for FDI and inbound business tourism and VisitBritain is striving to ensure that Britain can make the most of these opportunities. Primarily the VisitBritain focus is on the "MICE" (Meetings, Incentives, Conferences and Exhibitions) sector as this is where those marketing Britain as a destination can have the greatest influence.

VisitBritain's efforts are spearheaded by business tourism specialists in our overseas offices who focus on researching best prospects, building databases, implementing a B2B Customer Relationship Management strategy and ultimately, converting enquiries and leads into real business.

Central to the VisitBritain business tourism strategy is a major Britain presence at leading international exhibitions such as IMEX (Frankfurt) and EIBTM (Barcelona) as well as regional events in Asia, Australasia and North America. This year Britain is chairing both the EU and the G8 and this provides us with an excellent opportunity to promote some of the country's top venues that are being used for high-profile meetings.

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