FORESIGHT
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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, a spotlight is focused on a significant tourism issue. This month 'Market Focus' looks at Singapore, Malaysia and Thailand, and 'Issue of the Month' explores Britain's international tourism balance of payments deficit and investigates whether our position is any different from that of other leading tourism destinations.

Market Focus – Singapore, Malaysia and Thailand

Last year Britain welcomed over 220,000 visitors from these three markets (0.7% of all inbound visits), with the visitor economy benefiting to the tune of £210m (1.5% of all inbound visitor spending) according to figures from the International Passenger Survey[1]. Although this marks a decline compared with 2004 it is likely that short-term issues such as the 2004 Boxing Day tsunami will have influenced travel patterns, with strong economic growth across Asia likely to restore a more positive trend in the near future.

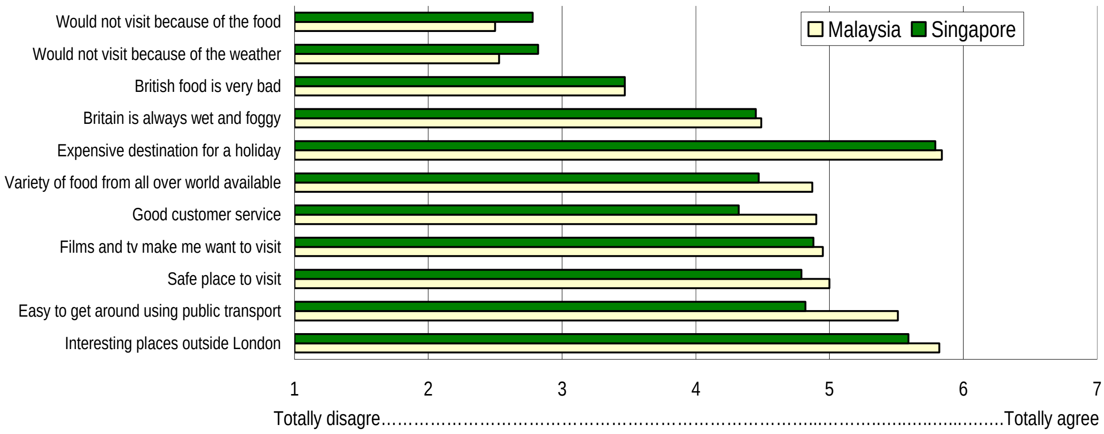
Perceptions

We are able to learn a great deal from examining the results of the Anholt-GMI Nation Brand Index. Each quarter, a worldwide online panel of consumers (including those in Malaysia and Singapore) is polled on their perceptions of the cultural, political, commercial and human assets, investment potential and tourist appeal of a number of developed and developing countries. In the most recent wave for which data is available the UK was ranked 2nd by Malaysians and Singaporeans (in each case Japan was the top ranked nation). Looking just at the Tourism rankings Singaporeans placed Britain in fifth spot, and Malaysians placed Britain in sixth spot.

An additional set of questions included in May 2006 asked respondents to respond to a set of 'positive' and 'negative' statements about Britain, where a score of 1 indicates that the respondent 'totally disagrees' with the statement and 7 indicates that the respondent 'totally agrees' with the statement. Covering a selection of the questions asked, the following chart reveals that for respondents in Malaysia and Singapore the 'positive' statement gaining the highest level of agreement was that there are 'Lots of interesting places to visit in Britain outside London' and the 'negative' statement gaining the highest level of agreement was that 'Britain is an expensive destination for a holiday'.

One of the most important messages to take away from the chart is that although somewhat negative perceptions about British weather and mediocre perceptions about British food may be in evidence, these are definitely not 'show-stoppers' with respondents in both Malaysia and Singapore strongly disagreeing with the statements suggesting that poor weather and poor food would deter them from visiting Britain.

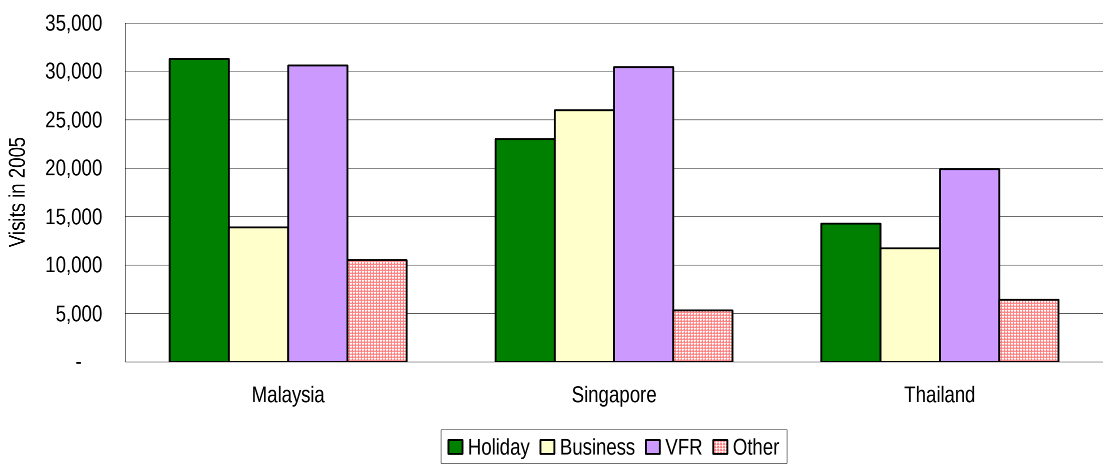
Statements about Britain - positive and negative



Purpose of visit

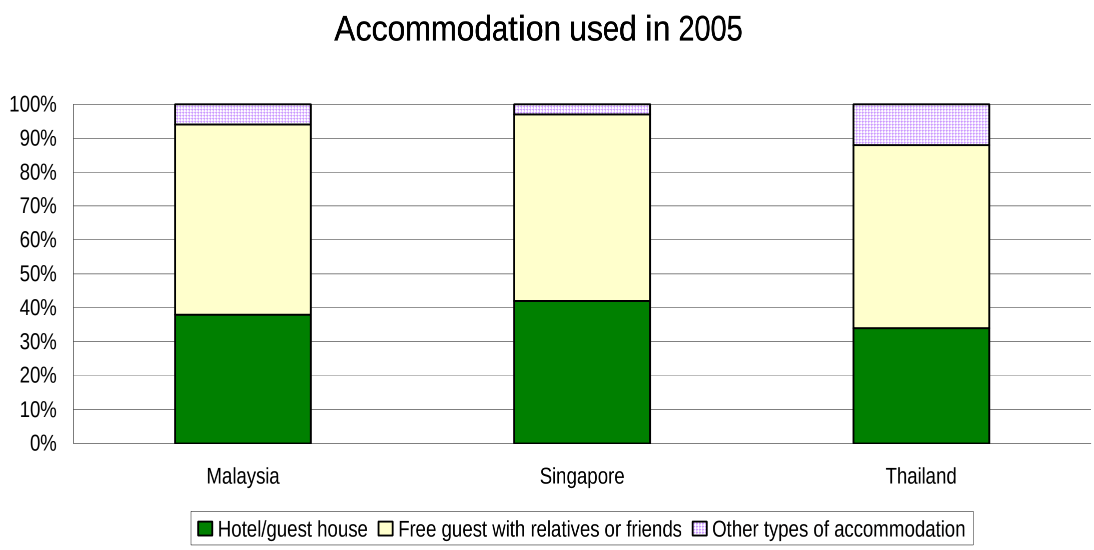
The chart that follows highlights distinct similarities in the mix of journey purposes for those visiting the UK from Malaysia and Thailand, with ‘holiday’ and ‘visiting friends and relatives’ trips having a larger slice of the cake than ‘business’ visits. Singapore generates slightly more business trips than it does holiday trips. Study visits make up a large proportion of the ‘other’ category and figures from UCAS show that in 2005 1,878 Malaysians, 618 Singaporeans and 264 Thai students entered UK Universities, demonstrating the attraction of Britain as a place to study for those living in South East Asia.

Journey purpose mix



The high tendency for the purpose of visiting Britain from these markets to be to ‘visit friends and relatives’ feeds through very clearly into the distribution of accommodation types used as is apparent in the following chart. More than half of visitors from all three markets stay free of charge with relatives or friends, with between one-third and two-fifths staying in a hotel or guest house. By contrast if we look at the picture for all inbound visitors to the UK we find that just

40% of visitors are staying as a free guest of friends or relatives and 44% are staying in a hotel or guest house.



Visitors from all three markets are more likely than the average inbound visitor to spend at least one night in London, with 61% of visits from Malaysia and 59% of visits from Singapore spending time in London, compared with 52% of those from Thailand (the figure for all inbound visitors in 2005 was 46%).

Market Profiles

VisitBritain 'Market Profiles' are available for all markets in which VisitBritain operates, including the three markets being covered here this month. Market Profiles can be downloaded free from www.visitbritain.com/research. Below we focus on the very latest developments in these three markets.

Singapore

The Economist are reckoning on a strong expansion in the Singaporean economy throughout 2006 and 2007, with an annual average growth rate of almost 6%. The main drivers of this growth are private household consumption and investment by businesses.

Singapore Airlines recently provided some good news for the be-troubled Airbus company when the Asian carrier announced plans to purchase a further nine Airbus A380's and 20 of the new wide-bodied model of the A350. Despite well-publicised delays in the delivery of Airbus A380s, it is still expected that Singapore Airlines will be the first airline to bring inbound visitors to the UK onboard the 555-seat plane around the turn of the year.

Malaysia

A major exporter of commodities such as palm oil and rubber the Malaysian economy has been one of the beneficiaries of the recent rise in global commodity prices, with the overall rate of economic expansion expected to remain well above 5% per annum through to 2007. The government recently cancelled plans to build a new bridge linking the south of the country to Singapore and this is thought to be one of a number of issues that has led the former Prime Minister to indicate that he plans to produce evidence of government corruption.

Thailand

There have been many months of political turmoil in Thailand with no parliament and only a caretaker government in place. Opponents of the charismatic Prime Minister Thaksin Shinawatra remain focused on removing him from power once and for all, but as yet it is unclear whether planned elections for October will take place.

Despite all this the economy has been performing well, bolstered by generally healthy levels of activity across South East Asia. The Asian Development Bank forecast that economic growth will gradually move above 5% in the months ahead.

The political uncertainties in Bangkok are not the only issues causing concern in Thailand, in remoter regions towards the Malaysian border there is continued insurgency, with hundreds of murders and bomb attacks during recent months with no sign that the situaion will improve.

Finally there is the issue of bird flu, with the World Health Organisation recently confirming the first human deaths in Thailand from H5N1 in 2006, this brings the tally of cases in the country since the onset of the disease in 2004 to 24, of which 16 have been fatal.

Visitors to the UK from Bangkok will soon be flying from the new Suvarnabhumi Airport as it is due to take over from Don Muang Airport before the end of the year. Thai Airways recently signalled that it believes its best prospects for growth are by developing new routes to India, China and other destinations within Asia.

Outbound growth, but where are they going?

As touched on last month in Foresight Asia is one of the fastest growing markets for generating outbound tourism, an honour that the region is likely to hold for some time to come. However, recent research by the United Nations World Tourism Organisation found that 78% of international tourists in Asia come from another Asian country.

For Thailand the UNWTO analysis found that 85% of all outbound spending was within another Asia Pacific destination, with most trips abroad being for a one week period to a single foreign destination. With intra-regional low-cost airlines emerging across Asia set to encourage further short to medium haul travel, Britain will need to work hard to ensure we retain our market share for travel from these markets.

Provisional IPS figures for the first six months of this year indicate that the number of visits to the UK from South East Asia is at a very similar level to those recorded during the first half of 2005. Planned VisitBritain activity to help boost travel from the region includes a Best of British campaign to be launched in late September in conjunction with British Airways promoting the regions of Britain, and further development of a Shop Till You Drop campaign demonstrating the vast range of shopping possibilities on offer in the UK.

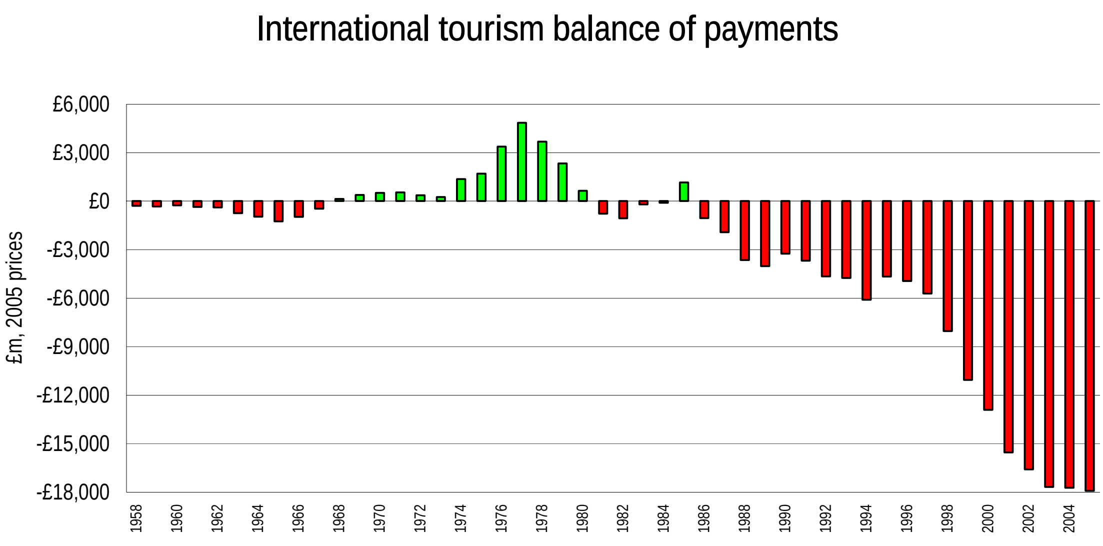
Issue of the Month - Britain's international tourism balance of payments deficit

As we found last month in Foresight, Britain is the sixth most visited destination by international tourists, the fifth highest earner in terms of international tourism receipts and according to the Anholt-GMI Nations Brand Index very much in the top flight for destinations that tourists aspire to visit 'if money were no object'. So, given all this why does the UK have an international tourism balance of payments deficit of very nearly £18bn, and how concerned should we be about it?

History lesson

Britain has been a leading destination for international tourism for many decades, but the array of options on offer to Britons elsewhere in the world has been increasing, with the fall of the iron curtain, development of low-cost airlines and expansion of the EU all opening up new outbound travel possibilities to UK residents. Furthermore, increasing numbers of destinations across the globe recognise that tourism can deliver on objectives such as economic growth, job creation and bolstering foreign currency reserves and are thus investing heavily in marketing themselves to Britons and other leading source markets for outbound travel.

We can see from the following chart that in only fourteen of the past forty-eight years has the UK enjoyed an international tourism balance of payments surplus, with the most recent occasion being in 1985. It is evident that the UK ran a surplus continuously between 1968 and 1980, and that it was the period 1998 to 2003 that resulted in the steepest year-on-year increases in the deficit.



So what might the explanation for the surplus during the 1970s be? Economics probably plays a fairly major role in understanding what was going on. The UK went through a period of economic malaise, including the 'three day week', 'winter of discontent', rising unemployment and so on, all of which meant that UK residents were faced with stark decisions about how to use their disposable income, but perhaps of more relevance is inflation.

The average annual rate of retail price inflation in the UK between 1968 and 1980 was 11.9%. By contrast the average annual rate of inflation between 1958 and 1967 stood at 2.9%, and in the period 1998 to 2003 it was a mere 2.4%. There is a correlation then between periods of high inflation and a tendency towards the UK to have an international tourism balance of payments surplus, with low inflation being associated with periods of deficit. What is of particular relevance is whether the UK rate of inflation is at odds with the rate in destinations being visited by UK residents and in the home country of visitors to the UK. This was regularly the case in the mid 1970s, when for example, the rate of inflation in the UK for 1975 was 24.2%, whereas in the USA it was 9.2%.

This means that in relative terms a visitor to Britain from the US in 1975 would have been spending around 24% more in Sterling terms than in 1974 simply to buy an equivalent set of goods and services, whereas the UK resident going to the US had only a 9% increase in order to enjoy the same set of goods and services from one year to the next. It is unsurprising then that, in terms of Sterling, the UK visitor economy was experiencing faster year-on-year growth in earnings from overseas residents in the mid 1970s than overseas visitor economies were earning from UK residents.

A further pivotal factor in the late 1960s was the imposition of tight 'exchange controls' by the Wilson government. These 'controls' meant that an outbound UK tourist was only allowed to take £50 out of the country in any single year between 1966 and 1970.

More favourable economics, for UK residents that is, help us understand what has driven the growth in the deficit in recent times. Back in 1980 the UK was the 24th richest nation per head of population measured in purchasing power parity terms, but by next year the International Monetary Fund reckon that the UK population will, in per capita terms, be the sixteenth richest nation.

Supply as well as demand

As we discovered in last month's edition of Foresight there is a strong correlation between the rate of economic growth and that of outbound travel from a country, but in the case of Britain not only has the population been getting much better off, but the ease with which people can travel abroad has been revolutionised by the emergence of low-cost airlines developing a web of point-to-point route networks from just about every regional airport in the UK over the course of the past decade.

The new carriers have not been shy in advertising their low fares, ensuring people become inquisitive about visiting a multitude of destinations across mainland Europe that they had probably never before considered as a possible leisure destination. Increasingly widespread access to the Internet in Britain has ensured that the process of booking foreign travel is not just cheaper, but also far easier than it was a generation ago, giving rise to the opportunistic 'weekend in Bratislava'.

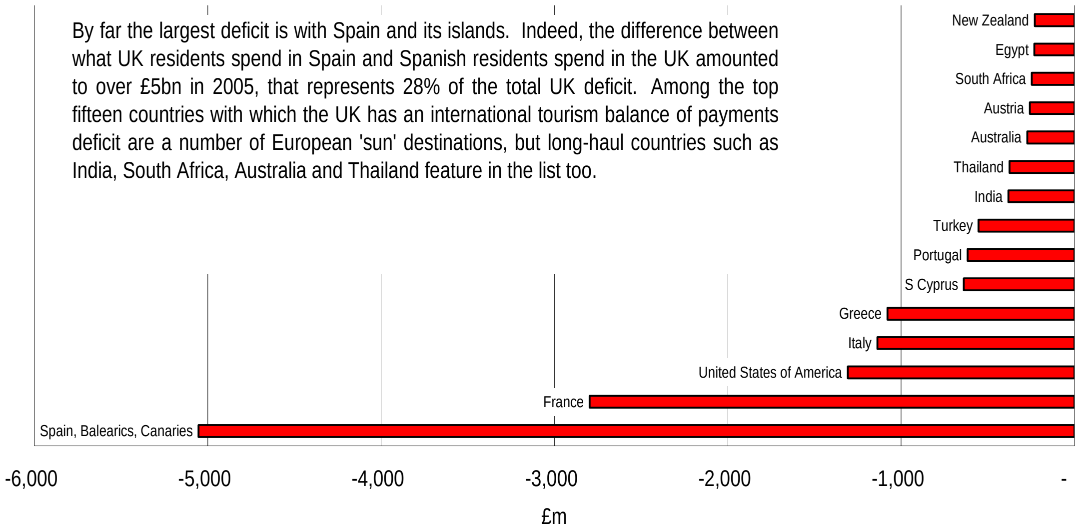
Looking back to earlier decades the advent of the jet airliner made international travel to and from the UK increasingly feasible, with the arrival of the Boeing 747 at London's Heathrow airport early in 1970 being a key milestone, as has been the impact of the European Union in dismantling 'barriers to entry' into the aviation sector, thereby allowing fresh-blood to ensure air fares remain competitive.

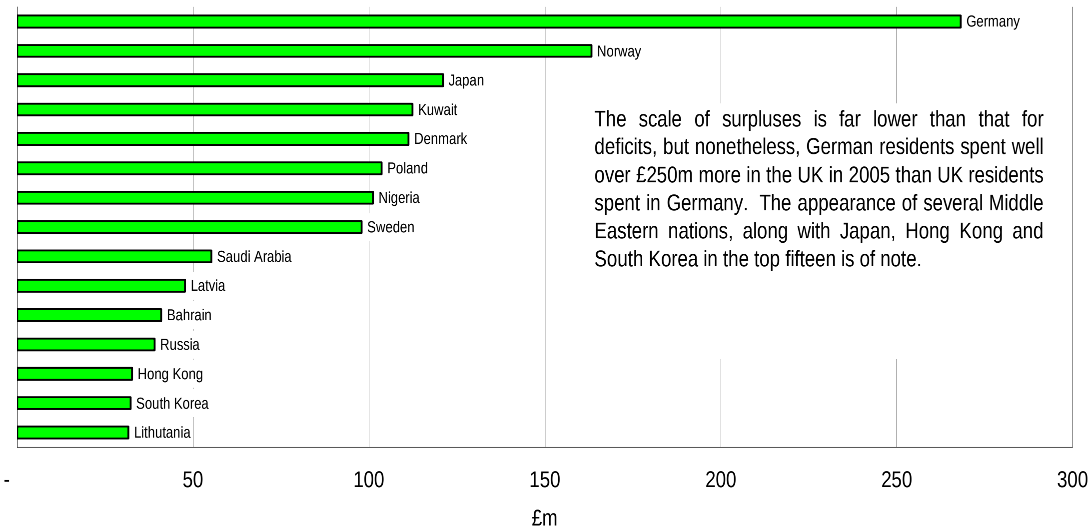
The growing popularity of outbound package holidays in the 1970s and early 1980s was fostered by a highly competitive outbound sector that sought to take advantage of increasing levels of disposable income, the availability of airline capacity for both scheduled and charter services and the responsiveness of UK consumers to ‘sun and sea’ messaging.

Does the UK have a deficit with each and every country?

No, although the UK may have an overall international tourism balance of payments deficit that is fast approaching £18bn, it is definitely not the case that the UK operates a deficit with each and every country. The following charts reveal the fifteen countries with which there was the greatest difference (in 2005) between what UK residents spend there and what residents of that country spend here for deficits and surpluses respectively.

Overall in 2005 the UK operated an international tourism balance of payments deficit with 127 countries and a surplus with 68 countries.



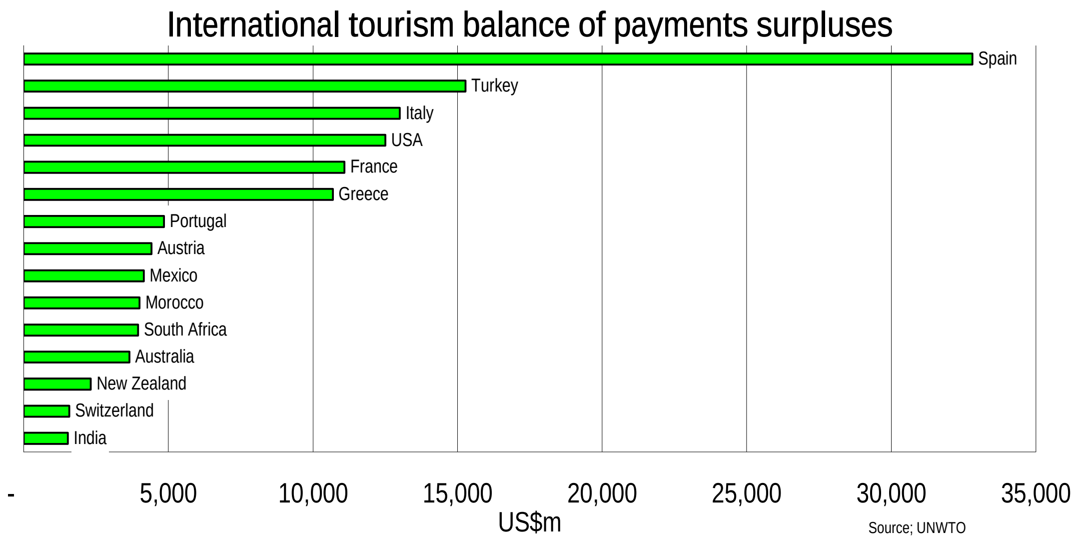


Are we alone?

Clearly at a global level there is no international tourism balance of payments deficit or surplus, as all outbound expenditure is inbound expenditure somewhere else. However, we can take a look at figures compiled by the United Nations World Tourism Organisation to get a clearer picture of which countries operate with a surplus, and which, like the UK, with a deficit. The two charts that follow show fifteen countries that have a significant international tourism balance of payments surplus, and fifteen with a significant deficit.

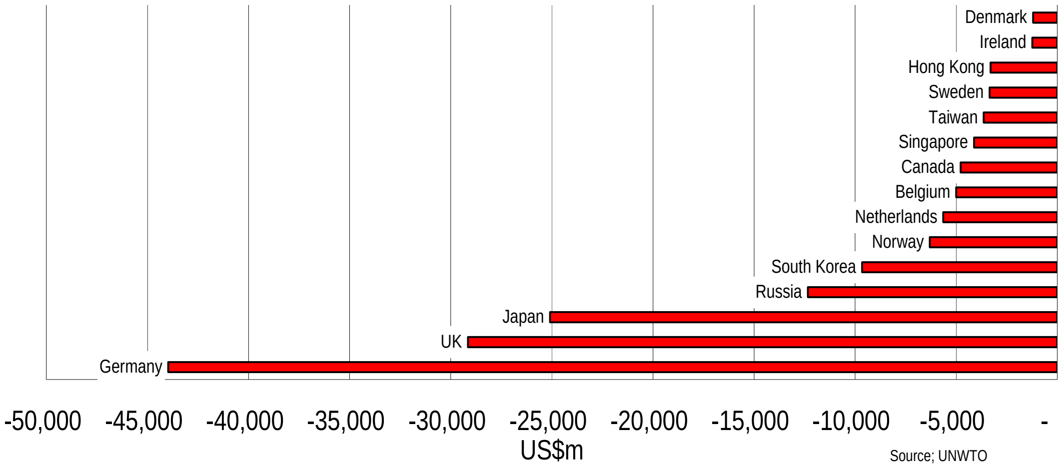
We can see that a number of 'sun' destinations such as Spain and Turkey top the table for countries operating with a surplus, along with countries such as France and Italy that have both beach and mountain resorts ensuring year round inbound visits, along with key city break destinations such as Paris and Rome.

Countries such as Spain, France and Italy also have a strong 'second home' market, resulting in a high propensity for taking domestic holidays as an alternative to foreign travel. It is worth noting that there are a number of 'developing' destinations with a significant surplus such as Morocco and India.



Turning to those countries with a deficit, we see that the UK is in second spot, but with a deficit considerably lower than that of Germany in 2005. Japan is close on the heels of the UK, but there is then quite a gap to Russia, with a deficit in excess of $12bn. Along with Japan there are a number of developed Asian countries with a deficit such as Singapore and South Korea.

International tourism balance of payments deficits



Is the deficit a 'problem' and can it be 'solved'?

Having established that the UK shares in having a deficit with nations such as Germany and Japan we can dismiss the argument that something has to be done to address the deficit 'because all other similar market led mixed economies operate with a surplus', because this is clearly not the case.

The deficit can shrink if one or both of two things happen, namely there is a step change upwards in the rate at which inbound visitor spending to the UK increases, or UK residents spending on overseas travel ceases growing or even declines.

A raft of VisitBritain activity is underway to ensure that the UK visitor economy benefits from the expected growth in travel from emerging markets such as India, China and Eastern Europe, in addition to recapturing some of the ground that has been lost in certain more mature markets including the USA and Japan. In addition, innovative campaigns led by Enjoy England, for example 'Outdoor England' and 'Just Relax', are designed to ensure that UK residents fully appreciate the varied delights on their own doorstep before opting for travel overseas.

Promoting domestic tourism is almost certainly going to be more effective than punitive measures aimed at deterring outbound travel through, for example, higher aviation taxation or limiting airport capacity. The reason for this assertion is that, as we have seen, UK residents are among the wealthiest in the world, and are thus more able to afford any additional travel costs imposed on international travel than many of our inbound visitors. The result of trying to stifle outbound demand might be for the international tourism balance of payments deficit to get even worse, as UK residents are able to out bid potential inbound visitors for restricted, or more expensive, supplies of airline seats.

A further unpalatable scenario in which the international tourism balance of payments deficit may diminish would be if the UK economy significantly underperformed all other leading economies for a sustained period of time, leading to high rates of unemployment across Britain. Under this scenario inbound visitors' personal economic circumstances would mean they could better afford to visit Britain, or any other destination, than Britons would be able to afford foreign travel.

Deficit, what deficit?

Throughout the above discussion we have spoken about the UK's 'international' tourism balance of payments deficit. There is an important, and sometimes overlooked reason for this. If we look at how much is spent by tourists, both inbound and domestic, within the UK and compare this with how much is spent by UK residents on overseas trips there is certainly not a 'UK tourism' deficit.

Overnight domestic tourism in the UK was worth almost £23bn in 2005, with 'same day tourism visits' worth an estimated £29.8bn back in 2002 (the latest year for which a figure is currently available). So if we add together these two figures with the £14.3bn spent by inbound visitors to the UK last year we soon realise that total tourism spending in the UK is around twice that which is spent by UK residents overseas.

Figures for the first six months of 2006 give us further reason to be upbeat, as these show that although spending overseas by UK residents was 5% up on the same period of 2005, spending in the UK by overseas residents had risen by 6% indicating that the size of the deficit should remain stable in the immediate future.

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