

**New Threats to Employment
in the
Travel and Tourism Industry - 2003**

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The combined effect of a prolonged lack of economic dynamism in the world; safety concerns in view of recent security events, and hostilities in the Middle East; and the Severe Acute Respiratory Syndrome (SARS) have caused a new downturn in the travel and tourism industry that started in March 2003.

The impact of SARS, if it is not contained soon, has the potential to profoundly change the lifestyles of large populations far beyond their travel and tourism behavior. It might affect all of the world's service industries, in particular, those which involve the ability of people to get close to each other such as on public transport and in shopping areas. Since methods of transmitting the virus responsible for SARS are not completely known yet, people may start to avoid non-essential activities that involve personal contact with others.

Traveling, shopping and dining out are being replaced by telephone or internet contacts which include orders for home delivery of grocery and prepared food. The impact on the economy could be a multiple of the effect that SARS presently has on tourism, as it would affect residents alike. In particular, the impact on employment would be devastating, as large portions of the services sectors affected are in the hands of labour intensive small and medium sized enterprises.

The worldwide travel and tourism industry is threatened by a crisis much deeper than the slump it has suffered in 2001-2002. If the situation does not improve soon, it is estimated that by May 2003, no less than 5 million jobs may be lost in the worldwide travel and tourism industry. This represents over 6 per cent of the industry's total employment.

If these losses materialize, they will add to the six and a half million jobs which were previously estimated to be lost as a result of the crisis in the travel and tourism industry in 2001-2002 (see ILO: *The impact of the 2001-2002 crisis on the hotel and tourism industry*, January 2003). Taken together, all job losses from the crisis of the travel and tourism industry has been suffering since 2001 would represent 14 per cent of all jobs in the industry or one in seven.

The travel and tourism industry represents over 4 per cent of GDP and over 3 per cent of employment worldwide. If indirect effects are calculated in, its portion rises as high as 11 and 8 per cent respectively. Direct employment in the industry's enterprises already amounts to about 80 million jobs. In certain tourism-oriented countries, the travel and tourism industry accounts for more than ten per cent of direct jobs, such as Spain or the Caribbean. It is certainly the most important employer worldwide after agriculture and public services. The travel and tourism industry and its suppliers together are estimated to provide close to 200 million jobs globally, or one in every thirteen. As a rule of thumb, one direct job in the travel and tourism industry generates employment in up to two jobs for the industry's suppliers.

The slump comes after a strong global economy had propelled an international tourism boom in the late 1990's. In the peak year 2000 alone, the number of international trips increased by a record 4.5 per cent from the year before. In the year 2001 the industry suffered disastrous effects from the events of 11 September and declined by around 1 per cent on an annual basis. Although tourism demand has traditionally bounced back one year after any crisis motivated by security problems, it did not grow significantly, if at all, during 2002. This is measured by the performance data of the hotel industry, tour operators and airlines in spite of an

increase in traveling across international borders recorded by the World Tourism Organization (WTO).

In early 2003, the travel and tourism industry developed some optimism. After it had been suffering an economic downturn which started in 2001 and worsened after the events of 11 September that year. It grew very little during 2002 and was stagnate in the last quarter due to security incidents in Djerba, Bali and Mombasa. The optimism dampened as early as March by a general reluctance to travel in view of the hostilities in the Middle East. The Asian and Pacific region experienced few effects until it was exposed to new fears coming from a new disease.

Business travel, which is suffering the most, generates far more than half of the hotel industry's profits as business travelers roughly spend twice as much money compared to leisure tourists. The sub-sector has been suffering severely since 2001 due to the general economic downturn. More and more companies are now deferring business travel and are relying on supplementary methods of communication such as video-conferencing and other electronic means. New habits of communication are feared to eventually replace traveling even when things return to normal. This would have a devastating long-term effect on the hotel and airline industries, as video conferencing could cost airlines between 5 and 10 per cent of their bookings over the next 18 months. The recently booming "meeting, incentive, conference and exhibition" business, known as MICE, is the main victim.

Revenues from business travel in Asia represent a fifth of the \$250 billion global business travel industry and will fall by about 5% this year. That compares with double-digit growth in each of the past four years.

Degrees of impact

Three categories of locations can be distinguished by the degrees of impact in accordance with either being affected directly or indirectly by SARS, or by the general economic and political insecurity and continuously weak economy. Countries significantly impacted on by SARS are China, Hong Kong (China), Singapore, Taiwan and Vietnam. The second category includes the rest of South East Asia and the Pacific while the rest of the world with a few exceptions makes up the third (see table on page 7).

Rough estimates indicate that since March 2003 the travel and tourism business lost at least one third of its activities in the locations directly affected by SARS. These are Hong Kong (China), the Guangdong province of China, Taiwan, Singapore and Vietnam. In other South East Asian countries, the immediate loss is about one third, but may be about 15 per cent in the long run. In most of the rest of the world the industry is estimated to lose about 5 per cent this year instead of growing at the rate of one or two per cent expected earlier.

South East Asia and the Pacific

The Asian and Pacific region suffered less from the crisis in tourism of the years 2001 and 2002 than other parts of the world. Growth was largely due to fast growing intra-regional tourism from markets such as Indonesia, Malaysia, Singapore and the booming Chinese market, which also comprises Hong Kong (China). Even after the

security incident in Bali last October, the impact seemed to affect international travel to Bali only, especially from Australia. Bali partly managed to fill the gap by attracting local budget travelers from Indonesia and neighboring countries.

Amongst Indonesia's annual 5 million foreign visitors, 4 million are from the ASEAN countries, Japan, the Republic of Korea and China, leaving only 20 per cent of international arrivals to Australia, New Zealand and long haul tourism. Domestic tourism is increasing in Indonesia, but international visitors spend on average 12 times more money during a trip.

Intra-regional tourism benefited the industry with two-digit annual growth rates in January and February regardless of the delicate geopolitical situation. Prospects were good for the year, as the impact of Middle East violence on Asian and Pacific tourism was not expected to affect the region in its peak season June-September. However since March 2003, the situation has dramatically changed due to SARS.

Long haul travel activities are being particularly affected. Some U.S. carriers have reported that overseas bookings have plummeted 30% to 40% in April from year-ago levels. Traffic to Asia in particular dropped by 25 per cent since December which was mainly due to SARS as it was only off about 5 percent in early March. BA carried 27 per cent fewer people on its scheduled services to the Asia-Pacific region in April than the same month last year. Some hotels and airlines serving the directly affected locations are down to no more than 30 per cent of their usual business. A bus company in Singapore reported that business is down to ten per cent of their usual and an outbound travel agency in Taiwan reported 80 per cent cancellations. Some shopkeepers in Hong Kong (China) reported not seeing a single customer for several days.

In countries directly affected, not including China, the travel and tourism industry provides about one million jobs, representing between 2.0 and 3.5 per cent of the total number of jobs. Considering all employment dependent on travel and tourism, the total is about three million jobs or between 5.4 and 9.9 per cent according to the country. China is a special case due to its size. Whilst only one province is affected directly, the travel and tourism industry of the whole country may be affected soon. Over 15 million jobs or 2.1 per cent of all jobs are provided by China's travel and tourism industry directly, and as many as 52 million or 7.2 per cent of total employment including indirect jobs.

The core countries affected by SARS have been suffering from high ratios of cancellations in leisure travel as well as in business travel and congresses. Tourist arrivals to Hong Kong (China) slumped by some 30 per cent in the last week of March alone, and likewise, 30 per cent of flights from there were cancelled in March and early April. The occupancy rate at some of the most fashionable hotels in Hong Kong (China) was down to just 14 per cent reportedly due to the fact people could not go home. In general, the hotel occupancy in Hong Kong (China) dropped to single-digit rates. It is estimated that Hong Kong (China) will continue to lose 6 per cent of GDP as long as the outbreak lasts.

According to IATA, airlines have reduced a large percentage of flights to the region as tourist bookings have fallen by about 80 per cent impacting overall air travel to areas such as Hong Kong (China) by 30 to 40 percent. Regional airlines still in the process of recovering from the 2001 slump, have been among the first to send out an SOS, reporting that up to 50 per cent of their flights have been suspended.

Cathay Pacific (Hong Kong, China) warned that it may have to ground its entire fleet with passenger numbers predicted to fall to 20 percent of normal levels by May 2003.

In general, the hotel occupancy rates in the affected locations are estimated to be down by over 30 per cent and are estimated to be below the break-even point which obliges the management to cut costs drastically. In Vietnam, hotel occupation dropped from as high as 98 per cent to a level of only 40 per cent. In the longer term, hotel occupation rates in the affected locations may stabilize with a loss of 15 per cent.

Hong Kong (China) and Singapore were amongst the poorest hotel performers in March as compared to the same period the year before, with revenue per available room falling 16.8 percent and 15.4 percent respectively (measured in US dollars). Hotels across Asia experienced a 4.6 percent decline.

The Singapore Tourism Board's (STB) latest weekly report showed that visitor arrivals to Singapore plunged by 61 per cent in the first thirteen days of April, as compared to the same period a year ago. Hotel occupancy rates fell to 20-30 per cent from normal levels of at least 70 per cent.

The Singapore Retailers Association reported that sales could fall by as much as 75 per cent for some firms. Declines for general stores perhaps range between 20 and 40 per cent. Singapore, which like Hong Kong (China) relies heavily on tourism and its role as a regional transport hub, has cut its economic growth target to 0.5-2.5 per cent this year from 2.0-5.0 per cent due to the impact of SARS.

The late disclosure by the Chinese authorities of the SARS outbreak has created additional concern amongst travelers. The Grand Hyatt in Shanghai reports an occupancy rate of about 30 percent compared to last year in mid-April when the hotel was nearly full. Four major hotels in China's biggest city were closing for up to three months due to a lack of guests. Prospects are that the tourism business in all of China may be affected soon. For example, Beijing and the Shanxi province came to the limelight when the World Health Organization recommended the postponement of unnecessary travel there, as the organization had done earlier for Guangdong province and Hong Kong (China) and later also for the provinces of Tianjin and Inner Mongolia (as well as Taipei). China's inbound tourism industry brought in 20.4 billion dollars in foreign currency last year. Chinese tourism industry analysts estimate that tourist income may fall at least 40 percent this year.

In other Southern and South Eastern countries the travel and tourism industry is affected by SARS because of direct flight connections to indexed locations. These countries are also affected by the notoriously weak geographical knowledge on the world's tourism markets which has resulted in a large de-facto "quarantine area" in South East Asia and Oceania comprising important tourism countries such as Thailand, Indonesia, and the Philippines as well as neighboring Australia and New Zealand.

The travel and tourism industry in Indonesia, Philippines, and Thailand alone means over 5 million direct jobs and a total of over 12 million jobs including those in other industries depending on travel and tourism. Their share in total employment is as high as 11 and 12 percent in Thailand and the Philippines respectively, i.e. one in nine jobs is in danger when travel and tourism slumps, and 6 per cent in Indonesia.

Direct employment in the industry represents as much as 2.4 percent of total employment in Indonesia, 4.1 and 5.7 per cent in the Philippines and Thailand respectively.

In Indonesia, foreign arrivals are down about 15 percent for Jakarta and 20 percent for Bali airport. Flights arriving from Singapore fell by about 30 per cent due to the outbreak of SARS in that country. Indonesian hoteliers have seen occupancy rates quickly tumble by about 10 per cent. Marriott reported from Jakarta that its luxury hotel there now posts a mere 40-50 per cent occupancy rate, one of the city's best. Normal hotel occupancy rates are between 60 and 70 per cent. The decline therefore represents at least 15 per cent.

Thailand, one of Asia's most tourist-dependent economies, earned over USD 8 billion from tourism last year. Thai Hotels are currently experiencing cancellation rates of 5 to 10 per cent. According to the Tourism Authority of Thailand, which predicted a 40 per cent drop in foreign visitors coming to Thailand between April and June, About 50,000 visits were cancelled for the period between April and June 2003. Five-star hotels in Bangkok are expecting an occupation rate of no more than 30 per cent for April 2003. April falls in the lean season, but in April 2002, the occupancy rate was still 50 per cent.

Arrivals to Cambodia fell by 22 per cent in March and are frustrating expectations to reach the one-million line this year, which would have brought a 25 per cent increase over last year's 800,000 visitors. Cambodia had reported a 17% one-year increase in arrivals in January and 33% in February.

The Philippines remained moderately affected so far, with a drop of foreign arrivals by 4 percent in the first quarter as compared to the first quarter 2002, in spite of a 13 per cent growth in January over last December. Similar to other visitors, South East Asian finance ministers postponed their trip to Manila where their annual summit was to be held, although the ASEAN labour ministers' meeting took place in West Nusa Tenggara (Indonesia).

Malaysia, on the other hand, is heavily affected, with airline bookings down by 40 per cent and hotel occupancy rates by as much as 30 per cent. Industry officials say some hotels are seeing occupancy rates dip as low as 30 per cent after cancellations not only from tourists but also due to postponements of corporate events and shows.

In Korea, arrivals of foreign air travelers dropped by almost 50 per cent last month compared to April 2002.

Australia and New Zealand are affected by SARS, as far as the markets on the northern hemisphere are concerned, due to their geographical closeness to the core countries hit by SARS. As both countries are considering closing their borders for travelers from those locations, arrivals through places like Singapore or Hong Kong (China) would also be excluded. Already at present, the Australian Hotels Association has confirmed bookings are on the decline with occupancy falling by between 20 and 30 per cent and tour operators informed bookings of foreign visitors for May are down 30 per cent and for June 20 per cent as compared to the same period last year. In February, cancellations were highest from the United States, the United Kingdom, Italy, France, Germany and the Netherlands, but since news of the SARS virus hit the headlines, Asian tourists have also started canceling. SARS is expected to cost New Zealand about 20,000 visits by East Asian tourists and around \$60

million a month at its present level. The Tourism Board predicts a 15 per cent decline in the number of Asian visitors in 2003 because of the SARS infection scare.

Other parts of the world

In other parts of the world, the 2001-02 crisis of the travel and tourism industry continues due to SARS, but hostilities in the Middle East and the state of the overall economy play the predominant role.

Instead of growing by between 1 and 2 percent or more as forecasted by several sources, the worldwide travel and tourism industry is facing cancellations and a low level of reservations for the northern summer, as well as a continuous decline of business travel. The loss of income is estimated to amount in average to 5 per cent for the world without South East Asia, China and Oceania. The average current loss of income for the whole world is estimated to amount to 7 per cent.

In the United States, hotel occupancy rates have dropped to an average of 60 per cent in the first quarter 2003 from 63 per cent over the last year according to the Travel Industry Association. They are forecast to run at about 59 per cent occupancy rate this year, whilst 65 per cent is usual in good years. As the break-even point is as low as about 55 per cent, the hotel sector in general in the United States continues being profitable due to rigorous cost cuts in the recent past and a rational financial structure. However, PricewaterhouseCoopers projects a 7 per cent drop in the sector's earnings this year to \$15 billion from \$16.1 billion in 2002. Hotel loan delinquencies are at their highest level since the early 1990's. The negative outlooks for 2003 follow the release of 2002 data by the United States Department of Commerce indicating that the number of international visitors declined 7 percent compared to 2001.

The demand for hotel rooms in the United States has never been weaker than at present; since before the war in Iraq and the development of SARS most companies were only traveling on business trips deemed essential. This is a significant blow to the industry since at least three-quarters of the hotel sector's profits come from business travelers. The number of business trips this spring is expected to fall 2.5 per cent from the spring of 2002 and 13 per cent from spring 2001, according to the Travel Industry Association. A quick recovery is not likely.

The Mexican tourist industry reported a 17.1 per cent slide in reservations since the beginning of the war in Iraq. More than 3.5 million travelers have called off their trips to the country, which calculates into losses of up to USD 700 million in revenues or 9 per cent of the tourism sector's annual hard currency income.

International travel to France had rebounded in the past year but is currently levelling down. In Germany, the hotel federation announced that the industry might have to cut as many as 10,000 jobs. Hotel bookings in Rome, Florence and Venice, Italy, ordinarily throbbing in springtime with art lovers and business travellers, were reported to be down by half compared with last year.

In Paris, occupancy rates at four-star hotels dropped 25 percent by March 25. The drop was mainly attributed to the absence of Americans, who accounted last year for 19 per cent of all foreign visitors to Paris. Second to the Japanese at USD 652,

Americans usually spend more in Paris, an average of USD 328 a day, compared to USD 133 by British tourists, and USD 78 for Germans.

In Turkey, foreign tour operators cancelled between 15 and 40 per cent of reservations. Despite being 1,000 kilometers from Iraq, congresses in Istanbul are being postponed. This affects Turkey's goal to attract 15 million tourists and earn USD 11 billion from tourism this year. There is still hope for tourism to recover as Europeans typically visit Turkey in summer.

Job losses

The following table indicates that up to April 2003, over 5 million jobs would be made redundant under the simplifying assumption that lost income results in the same volume of employment losses.

Jobs being lost in travel and tourism due to events early 2003

	Employment in the Travel and Tourism Industry (direct jobs) (‘000)	Employment in the Travel and Tourism Economy (all jobs including direct and indirect jobs) (‘000)	Loss of employment ¹		
			Per cent	Direct jobs (‘000)	All jobs including direct and indirect jobs (‘000)
Directly affected countries: Hong Kong (China), Singapore, Taiwan, Vietnam, without rest of China	1019	3023	30	324	907
China's Guangdong province (2.1 pct and 7.2 pct of 45.3 million) ²	951	3262	30	285	997
Affected indirectly: Oceania ³	701	1510	15	105	227
Affected indirectly: South East Asia ⁴ without Singapore and Vietnam	6750	16467	15	1013	2470
Rest of the world	68762	182800	5	3438	9051
Totals	78183	207062	(7)⁵	5165	13652

Source: ILO estimates and calculations based on estimates by the World Travel and Tourism Council, *Tourism Satellite Accounting Research: Estimates and Forecasts for government and Industry, Year 2001 (CD ROM)*

¹ Estimated by ILO

² Percentages by WTTC for the whole of China applied to the economic active population of Guangdong

³ Australia, Fiji, Kiribati, New Zealand, Solomon Islands, Tonga, Vanuatu, and other Oceania

⁴ Brunei Darussalam, Burma, Cambodia, Indonesia, Laos, Malaysia, Papua New Guinea, Philippines, and Thailand,

⁵ Rounded result of calculations from the other data in this line.

The estimates are rather conservative since they are based on a linear relationship between the loss of economic activities and the loss of jobs in the industry. As a rule of thumb, employment in the travel and tourism sector is constant only under the condition of at least a 2 per cent growth of the industry to keep the demand for labour up against increases in productivity. The absence of normal growth is a factor leading to the reduction of employment, which is not reflected in estimates above.

The present job losses come after the industry already lost an estimated six and a half million jobs before the recent events such as SARS and the hostilities in the Middle East (see *The impact of the 2001-2002 crisis on the hotel and tourism industry*, January 2003). The compounded loss of eleven and a half million jobs over the 2001-2003 crisis relates to an estimated total of about 80 million jobs in the industry, and represents a loss of one in every 7 jobs. The capacity of the travel and tourism industry to create employment seems to be severely damaged by the recent events.

Additional factors may need to be considered if the slump continues. The longer the loss of travel and tourism activities lasts, the possibility exists that more jobs will be eliminated entirely. The reductions in working hours and manpower tend to become permanent, as the missing labour force is made up for by new working methods such as increased versatility. Remaining core staff is induced to acquire additional skills and also accept more flexible working hours. A hotel and resort company in the United States and Canada reported having eliminated 15 percent of 38,500 jobs and having trained many of the remaining employees to handle multiple tasks. For example, a front-desk person may also take phone reservations and an administrative person in the back office will help check people in during busy times.

Modernization of working methods, working relationships and indeed enterprise structures may thus take a sudden leap forward and leave behind a number of employees with reduced or no income. The loss of employment affects the socially weaker and lesser skilled staff members, as well as part time workers including high proportions of women, migrant workers and young workers. They risk permanently losing income and jobs as long as the industry does not return to substantial growth rates. The social effect is worse as it severely impacts on those workers who have difficulty finding alternative jobs due to lower skills levels.

If indirect effects of the crisis are counted in, that is, jobs which are lost in industries that provide inputs to the travel and tourism industry, the estimated loss amounts to over 13 million jobs worldwide. This is to be added to at least the same impact of indirect effects that was already produced by the crisis since 2001. As a rule of thumb, one direct job in the travel and tourism industry generates as an indirect effect, two additional jobs in related industries. It should be considered, however, that industries providing inputs to the travel and tourism industry will suffer from downturns in this sector with some time lag only, and employment may not be reduced as quickly as in the sector concerned directly.

Measures taken

Companies of the travel and tourism sector report on measures aiming at rapid cost cutting and in some cases downsizing to reduce over-capacities acquired in the 1990's. In Germany, the world leader in tour operating, TUI, recently announced a

USD280 million cost-cutting programme for 2004, and the possible loss of 2,000 jobs.

In the course of the crisis in the travel and tourism industry, representative bodies of the industry and government authorities have been trying in many countries to develop measures to mitigate the effects, at least in the short run. Tourism crisis plans are being developed and government relief measures such as tax breaks are being asked for, although with limited success due to high deficits in government accounts from the economic downturn since 2001. Positive examples of private-public partnerships have been developed to promote the tourism destination. In some cases such as Canada, Indonesia, Australia, and others, particular efforts are being made to target closer markets in view of slumping long haul international arrivals.

Tripartite approaches are chosen by government agencies, employers' organizations and trade unions in some countries in line with the recommendations made at the *Informal Meeting on the Hotel and Tourism Sector: Social Impact of Events Subsequent to 11 September 2001*. The recommendations are available on the internet at the following address:

<http://www.ilo.org/public/english/dialogue/sector/techmeet/imhct01/index.htm>

Tripartite social dialogue is essential to support affected companies in their efforts to implement temporary cost-cutting measures that will help them stay viable and preserve as many jobs as possible. The measures can include taking leave, working fewer hours, reducing lay-offs to a temporary measure and arranging for workers to improve their skills through government sponsored courses. A number of companies in the countries affected in South-East Asia and Oceania are asking their workers to take their annual leave or unpaid leave, in lieu of layoffs.

In Singapore, the Ministry of Manpower, the National Trades Union Congress and the Singapore National Employers Federation said in a joint statement 15 April that whatever steps necessary should be taken to save jobs in tourism-related industries hit by the SARS scare. The government announced relief measures worth 230 million Singapore dollars (130 million US) on 17 April 2003. The package includes rebates for airport landing fees, a reduction of the levy paid by employers for their foreign workers and property tax relief for shops, hotels and restaurants. It will take effect in May and last until the end of the year.

The other most significantly affected economy in the region, Hong Kong (China), is expected to follow suit soon. Taiwan has stepped in to offer support to their local airlines and tourism firms.