**The Global Crisis and Philippine Tourism:**

**Impact and Policy Responses**

**Executive Summary**

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Given the natural, cultural and human resource endowments of the country, tourism has been identified as a sunrise and globally competitive industry by the national government. An agglomeration of service-oriented industries, tourism is a major contributor to economic growth and development. The Philippine tourism industry ranked second to electronics and semiconductors in export revenue generation. According to the World Travel and Tourism Council, Philippine tourism contributed 9.1 percent to the gross domestic product and generated 3 million jobs directly and indirectly (10.6% of national employment) in 2008.

Worldwide, tourism’s power to reduce poverty is threatened by the current crisis. In 2008, global tourism’s growth slowed down to 1.5%. For 2009, the World Tourism Organization (WTO) projected that growth will range from -2% to 0%. How has the crisis affected Philippine tourism? Is the industry vulnerable to the crisis due to the contraction in demand? Or is it in a better state to absorb the impact of the global economic crunch?

I. **Impact of the Global Crisis on Philippine Tourism**

**Negative Impacts**

* The volume of international arrivals (3.145 million) grew by only 1.5 percent in 2008 after posting relatively high growth from 2005 to 2007. Receipts dipped to US$4.4 billion (bn) in 2008, 11.1% lower than the earnings in 2007.

The slower growth in 2008 was due to the significant decline in arrivals from Korea, Japan and the US during the 4th quarter of the year. The traditional tourism generating powerhouses of Japan and South Korea are facing painful economic problems.[[1]](#footnote-2) Data for the first quarter of 2009 are not yet available at the time the report (and this summary) was prepared. Assuming all else constant, the contraction in outbound travel of our main volume-generating markets will reduce our income potentials from international tourism. The Department of Tourism projected that growth in arrivals will only range between 0% to 0.5% in 2009.[[2]](#footnote-3)

**Top 12 Tourism Markets of the Philippines and their Economic Performance**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Country** | **Arrivals** | | | **GDP Growth** | | | |
|  | **2008** | **% Share to Total** | **Growth (%)** | **2008** | **2009f** | **2010f** | **2011f** |
| Korea | 611,629 | 19.48 | -6.38 | 4.3 | -2.8 | 0.1 | 4.4 |
| USA | 578,246 | 18.42 | -0.13 | 1.4 | -2.0 | 0.6 | 1.5 |
| Japan | 359,306 | 11.44 | -9.04 | 0.7 | -3.8 | -0.1 | 1.0 |
| China | 163,689 | 5.21 | 3.86 | 9.8 | 6.0 | 7.2 | 8.2 |
| Australia | 121,514 | 3.87 | 8.05 | 2.1 | -1.2 | 0.5 | 1.2 |
| Taiwan | 118,782 | 3.78 | 5.86 | 1.7 | -3.5 | 1.1 | 4.3 |
| Hong Kong | 116,653 | 3.72 | 4.20 | 2.8 | -4.7 | 0.2 | 3.1 |
| Canada | 102,381 | 3.26 | 12.13 | 0.5 | -2.2 | 0.7 | 1.9 |
| Singapore | 100,177 | 3.19 | 6.56 | 3.0 | -7.2 | 1.8 | 2.9 |
| United Kingdom | 87,422 | 2.78 | 9.73 | 0.7 | -3.8 | -1.1 | 0.7 |
| Malaysia | 69,676 | 2.22 | 6.06 | 5.5 | -0.3 | 2.8 | 5.1 |
| Germany | 55,303 | 1.76 | -1.06 | 1.3 | -5.3 | -0.8 | 1.3 |

Sources: Philippine’s Department of Tourism; Euromonitor International; Economist Intelligence Unit

* Among the providers, the most vulnerable to the global tourism slowdown is the international airline sector which carries 98% of international arrivals to the Philippines. About half of international inbound passengers are tourists and the rest are returning Philippine residents (e.g. tourists and Overseas Filipino Workers). In March 2009, the International Air Transport Association (IATA) revised (downward) its forecasts for passenger and cargo services and airline revenues for the global airline industry. Cargo traffic is expected to fall 13%, passenger traffic by 5.7% and airline revenues to decline by 12% or $63 billion.

In the Philippines, these vulnerabilities have been evident in the reduction of flights (with the exemption of Middle East carriers), decline in passenger volumes and most importantly in falling yields. For the period January to March 2009, international flights in the NAIA increased by 8.4% but passenger volumes declined by 4.0%. Terminal 1 alone, where foreign airline operations are concentrated, suffered from a reduction of 20.9% in flights and 17.4% in passenger volume. The Mactan-Cebu International Airport, the main port of entry for tourists to the Central Philippines Super Region, also registered a decline of 5% in flights and 9% in passenger volume. But the impact is heavily evident in the falling yields (35 to 50 percent) for the international carriers. The operations of the low cost carriers in the Diosdado Macapagal International Airport in Clark were not as severely affected. The international flights and passenger volumes increased by 35.5% and 16.2%, respectively, during the first quarter.

The situation is also a bit different from the operations of domestic carriers. The growth in flights and passenger volume in 2008 was sustained in the first quarter of 2009. Flights increased by 17.3% while passenger volume jumped by 15.4% (compared to its year-ago level) in NAIA.

Overall, the gross value-added of the sector slowed down in 2008, a result of the heavy profit-squeezing in the industry, as evidenced by the significant drops in yields.

* The occupancy rates of hotels in Metro Manila already declined by 3.3% during the period of January to November 2008. For January 2009, the occupancy rate reached only 64.2%. Hardest hit were the bay area, Makati/Mandaluyong/Pasig and Alabang hotels. Category-wise, the de luxe and first class hotels registered the most significant drop in occupancy. The share of foreign guests varies – 30% to 50% - among hotels. The gross value-added of the hotel and restaurant sector also slowed down in 2008. Minimal displacement of tourism workers has been noted. Based on the data from DOLE, only 147 workers (at least 60% from the lodging and restaurant sector) have been displaced from October 2008 to April 2009.
* Those handling inbound tourists, especially from Korea, Japan, and China have experienced sharp reductions, as high as 35 to 50%, in their bookings. Airlines have reduced their commission rates for these agencies, particularly in the business and first class seats. The industry is very competitive and switching costs are lower, forcing agencies to reduce their mark ups on economy class seats.
* The convention industry is one of the less vulnerable among all the tourism providers. MICE foreign arrivals constitute only 1.16% of total foreign visitor arrivals (3,139,422 in 2008) to the country. Any decrease will have minimal impact on overall visitor traffic. To date, the domestic market, especially association events continue to provide good source of business for this industry. Contraction in corporate events and product launches has been noted as local and foreign companies implement cost-cutting measures. Some association conferences and trade exhibitions are being postponed.

**Some positive notes**

* The current crisis has further highlighted that:
  + The Philippines is still a very small player in the global market and relative to the potentials for revenue and job generation and in pursuing sustainability.
  + The Philippines will continue to be the same small player even after the crisis in the absence of timely and relevant response actions to mitigate the negative impact and strategic responses to address the areas that have persistently contributed to the low competitiveness in tourism.
* The crisis has opened up more opportunities to strengthen clustering of tourism products and destinations, to improve the supply and market chains, to move towards greater convergence of public and private sectors, and to mobilize communities of tourism providers. There are new, emerging and niche markets (i.e. Middle East, China, India, Russia, Europe) generating opportunities for destinations to survive the crisis.

The Philippines experienced a series of crises in the past that slowed down the international arrivals, largely due to our own domestic problems. The household-based survey by the NSO and the DOT revealed that during the first six months of 2005, a total of 24 million Filipinos traveled and about 50 percent spent at least one night in the destination. If we were to use the regional travellers data reported by the Regional Tourism and/or local government unit offices (based on accommodation survey), the *relative* share of domestic tourists in the various destinations can be as high as 95%.[[3]](#footnote-4)

* The crisis has highlighted the vital role that domestic tourism plays amidst the vulnerability of international tourism to external shocks. The Philippines has greater potentials of surviving the crisis because of the dependency of most providers on the local market. The local tour operators have produced more competitive packages to a number of destinations in the country, contributing to the stimulation of domestic travel, development of more destinations and generation of income sources to local communities, especially those from impoverished areas.
* The crisis highlighted the growing investor confidence level in tourism and the enabling efforts of the government to address the lack of competitiveness due to poor room infrastructure. From 2005 to 2008, the DOT endorsed PhP 146 billion (bn) worth of cumulative private investments. Total investments per year reached PhP 36 bn or 1,616 times larger than those generated during the period 2001 to 2004. These investments were placed largely in tourism economic zones and the hotel industry. There are programs to expand the capacity for conventions by the industry. The SM group is pursuing to build mini SMX Convention Centers. At the local destinations, local investments by SMEs continue to thrive amidst the crisis.

**II. Policy Responses: Immediate and Actionable Measures**

The most immediate policy response relates to enabling the survival of the industry in the next two years. The proposed immediate and actionable measures include:

**1. Stimulate international demand for Philippine tourism**

At the start of the year, the DOT already announced a “stimulus package” aimed at stimulating travel from the US, Japan, Korea and China. This stimulus package is more of a re-allocation of marketing funds rather than infusion of new funds in order to support the industry. There is already an ongoing promotional program of US$999 to bring in more residents from the US, particularly the Balikbayans.[[4]](#footnote-5) The promo includes roundtrip international airfare via PAL, two (2) night hotel accommodation in any of the selected deluxe hotels, daily American breakfast and one-way transfer from the airport to hotel or vice versa and extension adventure tours to Palawan, Cebu, Bohol, Boracay and Cagayan de Oro are also offered at affordable costs. Similar stimulus promotional programs need to be launched soon in time for the summer vacation of the foreign markets. Timing is very crucial given that our neighbors have already come up with detailed stimulus programs, ranging from promotions to discounts and rebates specifically for tourism operators.

There is scope for stronger partnership with the private sector and the local government units. They can support the central DOT’s initiatives by offering competitive or cheaper rates for their products and services (in the case of the private sector). In the case of the local government units, they can help mobilize their local communities to make the tourism experience truly worthwhile (in the case of the local government units) through more efficient transport management systems, clean and safe (and secure) tourist environment – ports, airports, bus terminals, tourist sites as examples. Private stakeholders in some destinations have started to tap new markets (e.g. India and Middle East) as part of their diversification program (as in the case of Cebu). The local government units can help expand this program by supporting the initiatives of the private sector through the measures mentioned earlier. For these new markets, their good experience in the Philippines will have a positive effect on the destination through word of mouth advertising.

Such promotional activities are needed given that the country is competing with its neighbors that have poured in new resources to address the impact of the crisis.

* Vietnam launched its “Impressive Vietnam”campaign by offering 30-50 percent discounts on tours (by Vietnam Airlines) particularly to central and northern Vietnam. Under the programme, there will be a 30-50 percent discount for hotel rooms as well as airfares for both international and domestic flights. Target markets by hotels specializing in conventions include Australia, Korea, America, and Europe.
* Cambodia has removed the US$20 visa fee for tourists and is working on improving connectivity from Thailand.
* Taiwan unveiled a plan to spend almost 900 million US dollars on a bid to attract more tourists to the island over the next four years; The draft plan allows for the government to pour 30 billion Taiwan dollars (887.5 million US) into various projects including updating popular sightseeing spots, promotion at home and abroad, renovating hotels and training tourism personnel.
* The Malaysian Tourism Ministry alocated RM 200 million to be spent on infrastructural upgrade in tourist areas, diversifying tourism products, organising more international conferences and exhibitions in Malaysia and improving the homestay programme. It has also partnered with its counterpart in Indonesia to jointly promote Malaysia and the Indonesia as twin destinations.
* In Thailand, the government has granted visa exemptions for a period of three months to tourists and waived visa fees for all tourists.

According to the PCVC, tour operators and hotel/resort establishments would want to see more buyers brought into the country in the form of familiarization trips to be able to introduce new packages and conduct business appointments. Both DOT and PCVC has plans to increase these multinationals this year by expanding the Travel Mart Exchange (TRAMEX) in Cebu this July and the Philippine Travel Exchange (PHITEX) in Manila this September. Likewise, a MICE Buyers Forum during the latter part of the year is being planned.

The tourism industry is vulnerable to the crisis in so far as the contraction in the volume of arrivals from traditional and mass-based markets, particularly from Northeast Asia, will continue throughout the year without significant increases in new and emerging markets. Thus, diversification is a key element of survival and eventually sustainability. The volume to be generated from these other markets may not be sufficient to compensate for the expected declines in the traditional markets. Nevertheless, the additional arrivals will still provide income opportunities to the industry and enable the providers to survive the crisis period. Based on the 2008 arrivals data from the DOT, the fastest growing markets include: Russian Federation, United Arab Emirates, Vietnam, France, Norway, India, Canada, Spain and United Kingdom to name a few.

**2. Stimulate and support domestic travel programs**

The private tour operators have already launched programs such as the Island Get Away packages in order to encourage domestic travel particularly during the summer months. There have been proposals for the Philippine Tourism Authority to subsidize domestic travel by offering cheaper rates for its managed properties. The hotel and resorts can offer more competitive rates for local events in order to encourage spending by the corporate market and associations particularly during the lean months of June to September for domestic travel. In encouraging local conferences, meetings and fairs, the PCVC has teamed up with the Philippine Association of Professional Congress & Exhibit Organizers (PACEOS) to run training programs and Events Management and Marketing in selected secondary destinations initially Bacolod, Subic/Clark. Domestic events continue to be the backbone of the local MICE industry and are an excellent vehicle to disperse revenues to provincial areas.

**3. Reduce costs of doing business**

The Board of Airline Representatives and the IATA have already requested for some stimulus package from the government, thru the aviation authorities – Manila International Airport Authority, Mactan Cebu International Airport Authority and Civil Aviation Authority of the Philippines. They have also solicited the support of the DOT and the Department of Transportation and Communications. In their latest letter to the MIAA dated April 1, 2009, the BAR specifically asked for 50 percent reduction in airport-related charges effective for one year with a review at the end of the one-year period as an incentive for continuous operations. As part of its global campaign for support to the airline industry, the IATA recommended the following actions to all airport authorities (including the Philippines): waiving of certain fees and charges, a cut in present fees and charges or temporary discounts for a given period, postponement of all non-essential costs and investments flowing through to a mid-year adjustment in 2009 rates, and acceleration of initiatives/projects that will bring cost efficiency benefits.

To date, the proposal by the BAR is still being evaluated by the MIAA. Our Asian neighbors have already announced and implemented their stimulus program to support the survival and continuous operations of airlines, to support the promotional campaigns and more importantly to sustain or improve competitiveness through excellent international connectivity.

* Malaysia has granted 50 per cent rebate on landing charges for two years, starting April 1, 2009.
* A 25 percent reduction in landing charges is now implemented in Singapore’s Changi airport.
* 10 percent reduction in landing and parking charges (Korea Airports Corporation)
* 25 percent reduction in cargo landing fees (Toronto Airport)
* In Thailand, the Department of Civil Aviation was told to cut the landing and parking fees for all airports under its supervision by 50 percent for chartered flights and by 20 percent for scheduled flights.

Local government units in major tourist destinations are also requested to consider suspending rate increases and/or waiving or reducing fees for business permits for one yearr.

To support associations and companies in trying to bring down costs for the conduct of MICE events, PCVC shall promote “GREEN EVENTS” by advocating less use of paper, reducing waste, introducing energy efficient facilities and designing compact meeting schedules. This should result in lower administrative costs.

**III. Competitiveness Issues**

The industry has stronger potentials to survive the crisis. But will it emerge to become more globally competitive to enlarge the base of domestic travelers and to capture a bigger share of the global market?

The Philippines’ strengths lies in its resources – natural, cultural and most especially human resources. Based on global competitiveness reports (by the World Economic Forum), the areas which contribute to the lack of competitiveness include: transport and tourism infrastructure, foreign investment rules, regulatory environment and health and hygiene. The issue of safety and security that is also cited in these reports is more of a perception problem. Public promotions programs play an important role in addressing this issue for the benefit of local tourism destinations.

As regards infrastructure, the spending record has been quite low in previous years. There is very limited connectivity in terms of number of international flights operating in the country, relative to the regional hubs. Some airlines have shifted to off-line operations which have reduced employment opportunities at the airport. Some reasons to explain this situation include: the restrictions imposed by the bilateral air services agreements of the Philippines, the relatively high costs of doing business (e.g. related to airport customs, immigration and quarantine procedures above the regular airport charges)[[5]](#footnote-6) for international carriers (including the Philippines’ carriers), and the limited capacity of the Philippine carriers to expand overseas operations. There has been underinvestment in room infrastructure for more than a decade. Hence, the industry has been primarily supplier-driven, contributing to relatively high room rates. This in turn limited the ability of the tourism industry to tap the high-yielding international MICE market. The capacity will significantly expand in the next two years with the completion of a number of endorsed projects. There won’t be excess capacity as long as we continue to enlarge our share in the global tourism market.

As regards the regulatory environment and costs of doing business, there is a significant scope for the industry to streamline regulations and procedures (e.g. travel tax, licensing, transport flows), to review and amend laws (e.g. taxation) that impede investment mobilization.

**IV. Strategic Policy Responses to Address Competitiveness Issues**

1. **Implement product development and service improvement programs**

When demand is down, it is the best time to implement maintenance work in the facilities, train people, develop service manuals, upgrade standards of facilities and services, implement GREEN TOURISM programs or projects, develop new products and improve the existing products (in terms of packaging, labeling, etc.), enhance data collection systems especially at the destination levels. Training human resources is a strategy pursued by global tourism brands during crisis, thus making them more competitive after the crisis. The government can consider giving incentives for those that will conduct training programs in the country (e.g. double tax deductions for the expenses incurred). Products such as cruise tourism

**2. Intensify investment mobilization**

The Philippines has already gained the attention of the international investment community with the entry of global tourism brands in the past four years. Now is the time to intensify the interest of both foreign and local investors in the potentials of tourism. Promotions should continue to generate interest in the Philippines not only as a tourism site but also as an investment location. The promotional programs should also cater to local investors that have either the land or the network to put together projects.

This program should be accompanied by the improvement of LGU capabilities, particularly in ensuring high quality of standards of facilities and services. If the President signs the Tourism Act of 2009 jointly passed by the two legislative bodies, this will provide opportunities for greater investment mobilization and further integration of the LGus and the national government in tourism development through the leadership of the DOT. It is important that issues related to the move to rationalize incentives be settled as soon as possible.

Investment mobilization can also be supported by the national government stimulus program. In the case of tourism, the DOT, through its Grassroots for Entrepreneurship and Employment in Tourism (GREET) has stepped up the granting of financial subsidies to tourism establishments located in provincial areas to upgrade both facilities and services to local and foreign travelers. Now on its second year of implementation, the GREET has expanded from eco-tourism programs to tourism livelihood projects in general. The private sector, LGUs and international agencies are welcome to provide counterpart funding or support.

**3. Enhance international and local connectivity and reduce travel costs**

This crisis period is the right time to mobilize investments to generate jobs and income and prepare infrastructure and human resources in time for the economic recovery. Even the WTO recognized that tourism can in fact be the stimulus for economic recovery. In general, infrastructure to improve farm to market access in the countryside and in the metropolis will benefit tourism as evidenced in the case of Thailand. The DPWH, DOT, DOTC already have a list of these projects. The airports and ports should be a priority in relation to improving processes and ensuring safety of travelers. There has been underinvestment in airport facilities and process improvements in the past decades. Local connectivity can also be improved with the completion of mass transport projects (e.g. rail system) within the metropolis and between the metropolis and its environs. Monitoring will be another critical component in overall competitiveness.

International connectivity is another crucial element for tourism competitiveness. From May 2007 to March 2009, the DOTC pursued and concluded bilateral air talks with a number of countries, thus leading to significant increases in air seat capacity. This has been a marked improvement from the relatively low record of one air talk per year during the period 1997 to 2007. The government should continue enabling secondary gateways to develop outside of the restrictions of the bilateral framework. Liberalizing the entry into secondary international gateways can enable the faster development of tourism destinations through faster and cheaper access. The recent agreement with Australia provides unrestricted point to point capacity to and from some secondary points of Australia to Cebu, Davao and other gateways outside of Manila and Clark. This should serve as opportunity to expand the arrivals from Australia and to compete with favorites such as Bali and Phuket. Connectivity can also be improved with the development of port facilities to support domestic travel via the RORO.

**4. Improve the investment and business climate to support investment mobilization and job generation**

Tourism has been identified as a globally competitive and sunrise industry by the government. Hence, the government should enable the reduction of transaction costs. It is imperative that the costs of doing business across the tourism-related activities be examined. The goal is to remove unnecessary costs that tend to reduce the competitiveness of the service providers and raise the overall costs of travel to and from the Philippines. In the case of the airline industry, the issues on CIQ charges (e.g. overtime, meals and allowances etc) paid directly to the personnel has yet to be resolved despite the fact that this has been cited as an impediment to competitiveness, expansion and connectivity in a number of consultations for almost a decade already. The taxation regime should also be benchmarked with other competitive destinations. Other costs associated with the implementation of policies (e.g. travel tax) and regulations in all tourism-related services should also be included in the agenda. Another strategic response is to streamline procedures and processes (e.g. registration, access to information, licensing, etc) at the LGUs through one-stop shop tourism investment centers (including website).

**5. Develop globally competitive tourism workforce**

Long term tourism growth and competitiveness cannot be achieved without the support of a globally competitive workforce and human resources plan. This plan should cover human resource development even at the grassroots level. As regards higher education, the number of graduates in tourism has declined and there are opportunities to develop globally competitive curricula and offer higher learning programs to service the domestic and foreign markets. Other programs should include continuing education and stronger academe-private sector-government partnerships. The industry will not start from zero because there are existing initiatives under TESDA and CHED.

1. ITB World Travel Trends Report by IPK International as published in Asia Travel Trade (April 7, 2009). [↑](#footnote-ref-2)
2. Medium-Scenario [↑](#footnote-ref-3)
3. We cannot use a single source of data to confirm the shares of local versus foreign travellers given that domestic tourism volume (especially the Visiting Friends and Relatives segment) is not completely captured by the current statistical system in the same way that foreign tourism is monitored. But we can refer to surveys by the DOT to get an idea of the relative size of the domestic tourism market. [↑](#footnote-ref-4)
4. The tour operator consortium is composed of Air Travel Center , GTT International, LBC Travel, Pacific Air Leisure, and Travelfast/Mango Tours. The official ground-handler for this extraordinary tour package is San Francisco-based Rajah Tours International; while the participating hotels are Sofitel Philippine Plaza, Crowne Plaza Galleria, Diamond Hotel, Holiday Inn Galleria and Dusit Thani Hotel.  This package is available only up to May 23, 2009.

   [↑](#footnote-ref-5)
5. The key question to be addressed in light of this issue: Who really require customs services - the airlines or the State? [↑](#footnote-ref-6)