

## A Battered Industry Fights Back

NINE AIRLINES and 14 national tourism organisations responded to a survey conducted by PATA's Strategic Information Centre in November 2001 to "feel the pulse" of the Pacific Asia travel industry in the aftermath of the events of September 11. The following is a synopsis of the responses and an analysis of some emerging issues and trends.

### THE IMPACT

The September 11 crisis struck at a bad time, the start of the high season for many PATA countries, especially in South and Southeast Asia. The extent of the negative impact depended on the degree of exposure to markets such as the United States, South Asia and the Middle East. The greater the exposure, the greater the impact felt by both destinations and airlines. Here is a sampling of how badly some destinations were hit during September and October 2001.

**Bangladesh:** Arrivals in September 2001 fell by -34.20% over September 2000. Arrivals from India were down -32.49%, Japan -43.40%, Pakistan -35.05%, the U.S. -61.14% and the United Kingdom -40.89%. Occupancy of international hotels plunged to as low as 20%. (Current Y-T-D January-September 2001 is +12.2%.)

**Chinese Taipei:** Arrivals in September 2001 declined 12.75% (Asia -10.84%, the Americas -24.53%, Europe -14.11%, and Australia -7.19%). The annual arrivals growth target was cut from the original 10% to 0.15%. Occupancy rates for tourist hotels dropped an average of 10.96% for the month. (Current Y-T-D January-October 2001 is +2.5%.)

**Japan:** International visitor arrivals in September 2001 fell 8.9% over September 2000. A provisional estimate of the number of Japanese going abroad for September 2001 showed a -21.5% decline over September 2000. (Current Y-T-D January-September 2001 is +2.0%.)

**Macao, China:** There was no effect on visitor arrivals from major source markets such as mainland China, Hong Kong

SAR and Chinese Taipei, in September. In fact, arrivals in September 2001 from mainland China and Hong Kong SAR to Macao, China were up by +31.16% and +48.54%, respectively, over September 2000. Arrivals from Southeast Asia were not affected much. However, arrivals from the U.S., U.K. and France fell by 6.9%, 9.8% and 14.4% respectively. (Current Y-T-D January-October 2001 is +11.8%.)

**The Maldives:** Arrivals dropped -3% in September and -13% in October. (Current Y-T-D January-October 2001 is +2.4%.)

**Mexico:** Arrivals fell -23.9% in September 2001, and weekly hotel occupancy rates -8.9% on average. Most affected were beach destinations and large cities. (Current Y-T-D 2001 is not yet available.)

**Myanmar:** Not much affected as most visitors are from Japan, Chinese Taipei and France. (Current Y-T-D, air-only, January-September 2001 is +3.7%.)

**Nepal:** Arrivals in September fell by -28.90% with a -44.14% decline in Indian tourists and a -23.86% decline in non-Indian tourists. Only Belgian arrivals rose by +8.3% and Swiss by +4.9%. British, American, Japanese, German, Australian, French and other major markets all declined. (Current Y-T-D, air-only, January-December is -20.7%.)

**Philippines:** Arrivals in September fell -7.2% to 119,117 from 128,312 in September 2000. U.S. arrivals fell -31.5% from 24,073 to 16,502. The number of Philippine nationals permanently residing abroad who returned to the Philippines in September also dropped -70.6% from 7,203 to 2,118. (Current Y-T-D January-November 2001 is -10.4%.)

**Singapore:** Visitor arrivals fell by -3.1% to 593,571. Japan fell by -21.9%, the U.S. -21.8%, Chinese Taipei -23.2%. However, the impact was offset by growth in arrivals from Australia, Malaysia, China (PRC), Thailand and Korea (ROK). Hotel occupancy rates fell -9.6% to 74.5% but the average room rate held relatively steady, dropping only -1.6% to S\$132. (Current Y-T-D January-September 2001 is +0.2%.)



**Tahiti:** Visitors from the U.S. fell about -50% but this decline was offset somewhat by diversionary business from Australia and New Zealand. (Current Y-T-D January-September 2001 is -5.8%.)

**South Pacific:** Because the islands already face a long-standing problem of air accessibility, including high air fares and limited air service, they were more affected by the closure of Ansett and ownership changes in Air New Zealand.

However, as 2002 opens the global situation appears to be easing somewhat. There are certainly signs of some recovery in the U.S. economy and the stock market prices of the major air carriers are improving. But a note of caution. The global economy is still fragile. As one pundit put it, it will be a recovery with a small "r" So too for the rest of the Pacific Asia – incremental recovery at a slow pace. But recovery none-the-less.

## THE RESPONSE

Not surprisingly, there was a massive focus on safety and security, both as an action as well as a marketing tool. A significant rush ensued to reposition the image of various destinations. Those not directly involved in the conflict (for example, New Zealand, Myanmar and Vietnam) are now using words like "safe", "peaceful" and "stable" in their promotional and marketing literature. Japanese visitors were being specially targeted for this message. Some Japanese airlines are predicting lower traffic even to places like Guam and Okinawa which are popular holiday destinations but where there are U.S. military bases.

NTOs and airlines joined hands with local military and police authorities to strengthen security at airports, hotels and tourist sites. Airlines boosted passenger baggage checks and cabin security, including reinforcement of cockpit doors.

## National Tourism Offices

The industry responded in several ways:

- Some NTOs pared back their global advertising, others chose to maintain it, but retargeted it to specific short- and medium-haul countries from where people were still travelling. There was a clear shift of promotions away from North American countries to Asian markets. More resources were invested in market research and short-term tactical advertising.
- Local tourism companies were given help to shift their focus to domestic travel to make up for the slump in international arrivals.
- Monitoring units and crisis management committees were set up both within and amongst organisations to analyse the situation and reformulate strategies.
- Some NTOs awoke to the usage of the Internet, especially e-mail broadcasts, and used it to dispatch information about the situation in their domestic markets.
- One NTO made "significant change in activities in Japan, US and Australia." At the same time, it also stepped up working with U.S. wholesalers to re-ignite demand.
- There was some downgrading and cancellation of trade show participation, but not much. Several states, provinces and countries came together to start joint promotions and promote intra-regional travel to compensate for lost long-haul business.

## Airlines

Among airlines, the reaction was more extreme due to the bottom-line-driven nature of the business. Here are some actions that followed:

- Elimination of unprofitable and badly affected routes, with trans-Pacific flights being among those worst hit by cutbacks by both U.S. and non-U.S. airlines.
- Severe cost cutting, with one airline citing cuts of up to 10% in advertising, 20% in company facilities and 50% in general expenses.
- Returned wet-lease aircraft, earlier return of leased fleets and deferred deliveries of new aircraft.
- Shifting of markets from international to domestic, trans-Pacific to Europe, U.K. to Italy/Switzerland, Europe to Asia, Indonesia/Malaysia/Philippines to China (PRC)/ Chinese Taipei, Guam/Saipan to Palau.
- One airline began levying a charge of US\$2.50 per passenger on each international segment as a result of the increase on the "hull and liability" war risks insurance costs.
- A stop to all expenditures with no immediate revenue-earning capability, a freezing of new hirings and projects, including IT programmes.
- Outsourcing of administration; more voluntary retirements; unpaid leave options offered; flexible cabin crew dispatch system installed.
- One airline initiated a restructuring of every area within the company to reduce employee costs and all other areas where expenses could be cut and cash preserved. Staff reductions were planned, up to 13,000 system-wide.



These cutbacks were accompanied by sales efforts to get passengers back on the flights as soon as possible. In most cases, these involved extensive price reductions which improved load factors at the cost of yield.

## **MARKET TRENDS AND RECOVERY PROSPECTS**

How does the industry forecast the future?

### **National Tourism Offices**

**Bangladesh:** A gradual increase in both intra- and inter-regional travel in the next five years. Intra-regional travel (within the South Asian region) is expected to grow at a higher rate.

**Chinese Taipei:** With policy support from the government for development of the tourism industry and with a large increase in the promotional budget, visitor arrivals are expected to grow substantially over the next five years. Once tourists from China (PRC) are given permission to visit, they will become another huge source of visitors. Chinese Taipei has already gained membership to the World Trade Organization.

**Japan:** Much will depend on how U.S.-led anti-terrorist operations and their repercussions will unfold and how well the world economy will cope with new challenges. Japan offers a few positive factors that should make us optimistic about the future of Japan's inbound travel and tourism:

- Completion of the second runway at Narita Airport in April 2002. This will drastically increase the number of slots for domestic and intra-Asian flights
- Co-hosting of the FIFA World Cup in 2002. This will give Japan and its ten host cities extensive worldwide media exposure.

Japan's outbound tour operators stopped all overseas travel adverts immediately after September 11 and mostly started them again around October 20.

**Macao, China:** In the next five years it is highly probable that it will mainly focus on intra-regional travel – especially since 95% of current visitors are from East Asia and the Pacific region anyway. Arrivals from China (PRC) and Southeast Asia will continue to grow.

**Mexico:** Expect to see growth resuming from summer 2002 onwards and business back to 2001 levels. Mexico expects growth to be slightly above world rates for the 2003 to 2006 period. This is assuming no extraordinary incidents occur.

**New Zealand:** Assuming no further disruptions, New Zealand expects the U.S. and Japanese outbound markets to recover and continue on a solid growth path for the

next two years. Other significant source markets are expected to show reasonable growth soon after the conflict in Afghanistan has settled.

**Philippines:** In the next five years, due to economic woes in countries such as Japan, Chinese Taipei, Hong Kong SAR, Korea (ROK), ASEAN countries and even Australia, the Philippines believes intra-regional travel (short-haul travel brought about by reduced travel rates) will strengthen. It believes the "war against terrorism" and security concerns will also discourage long-haul travel to the U.S. and Europe.

**Singapore:** Singapore is witnessing a shift of focus to intra-regional travel. It expects the ASEAN markets, China (PRC) and the Pacific to post increases in visitor arrivals. The Singapore Tourism Board will concentrate on tapping identified segments in key markets. Owing to the high repeat business from ASEAN countries, the STB, in partnership with local industry, will introduce new lifestyle experiences and special promotions to entice ASEAN visitors.

### **Airlines**

**All Nippon Airways:** Travel trends have shifted to the domestic market from the international market. Expectations are for it to take some time to return to pre-September 11 levels.

**Asiana Airlines:** Business may divert to China (PRC), Australia or Southeast Asia.

**China Airlines:** Group passenger traffic may drop while FIT will be less affected. There is little sign of first- and business-class traffic recovering.

**Delta Airlines:** Does not see a return to normal travel patterns until 2003.

**Eva Airways:** The only routes which have not been severely affected are the flights to Macao, China and Hong Kong SAR. Eva Airways intends to reinforce operations in these markets and enhance cooperation with carriers in mainland China.

**Philippine Airlines:** The airline expects changes in travel patterns, not so much dictated by September 11, but more due to economic factors such as the imminent economic downturns in most G20 countries. Again, this is expected to be temporary.

**Vietnam Airlines:** Arrivals to Vietnam should recover from July 2002. Potential markets: Japan and China (PRC).

### **Issues to Consider**

**Safety and security:** Visa policies are being revised by many countries. This will be a regressive step that will hurt tourism, especially the potential of tapping new markets and the opening of new routes by airlines.



### SINGAPORE TOURISM BOARD'S RECOVERY PROGRAMME

- A crisis management committee set up to assess the impact of September 11 and develop an assistance package for the industry.
- Increased financial support to the local tourism industry under the Tourism Development Assistance Scheme.
- A Celebration Singapore Value Pack (with attractive deals) for distribution to foreign visitors from selected regional markets via inbound travel agents.
- All industry members offered rebates of 75% on participation fees to all STB-led foreign missions, travel marts and trade shows.
- Additional sponsorship and marketing funds to assist organisers of meetings, incentives, conventions, exhibitions and events.
- Discount vouchers made available to Singapore residents to encourage them to experience local tourism products.
- More focus on intra-regional travel especially Southeast Asian markets like Malaysia and Indonesia through roadshows, consumer promotions, and discount vouchers to promote FIT.

**Focus on domestic markets:** Many PATA countries are strongly promoting domestic tourism. This strategy needs to be managed and positioned carefully. If the "nationalism" card is played too strongly, it can backfire badly. Moreover, discouraging outbound tourism will only mean lower levels of two-way traffic, fewer passengers for airlines, less financial motivation for airlines to start new routes or maintain existing ones, and hence lower levels of inbound traffic.

**Focus on inter-regional and intra-regional markets:** Countries plan to use existing forums like the Association of Southeast Asian Nations (ASEAN) and the South Asian Association for Regional Cooperation (SAARC) and others to encourage people to travel within and between the regions, building on existing free trade and other commercial, political and cultural agreements. This is a good sign for the long-term because it will enhance the strength of regional trade blocs. Domestic and regional traffic is bound to grow in future as new airlines emerge and regional aviation traffic rights agreements are further liberalised. Southeast Asia appears to be a prime beneficiary because: 1) it is geographically situated in the centre of travel between Northeast Asia, South Asia and Australia/New Zealand 2) it is relatively free of conflict 3) it still has many untapped tourism destinations.

**Long-haul traffic:** Expect this to drop in market share for PATA countries. However, there still may be a window of opportunity if Europeans choose to steer clear of the North African and Middle Eastern countries and shift their focus to South and Southeast Asia.

**China (PRC)'s entry into WTO:** This will open up new business opportunities as China (PRC)'s economy expands. Countries already on China (PRC)'s approved destination list are stepping up their marketing campaigns, while those that are not, are trying to get on it. Countries with strong ethnic Chinese connections will benefit because of historical and cultural considerations.

**Impact of travel advisories:** Many PATA governments are voicing frustration with the negative travel advisories issued by some source countries. One advisory issued during October, for example, led tour operators and agents to stop selling that destination. This led to losses estimated at US\$4 million a day for the destination and the travel trade in the source markets. Efforts of the NTO and the private sector subsequently led to a downgrading of the advisory's severity, but normalisation of travel is not expected for several months.

*Correction: In the December 2001 edition of Issues & Trends entitled The Future of Pacific Asia Cities, the author mistakenly referred to Lahore as being in India. Lahore is in Pakistan. PATA apologises for the error.*

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**Issues & Trends, Pacific Asia Travel is a monthly publication published for the members of the Pacific Asia Travel Association.**

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