

GATS: Foot Soldier of Globalisation

THE ROLE of travel and tourism in the global economic system will take a small but potentially significant step forward this month.

At its Fourth Ministerial Conference in Doha, Qatar November 9-14, 2001, the World Trade Organization (WTO) cleared the way for the services sector, which covers travel and tourism, to be included in future World Trade Organization negotiations for market access and liberalisation. This is referred to as the General Agreement on Trade in Services (GATS).

This means that countries will start negotiating access to each other's markets for tourism investment, labour flows and other forms of people movements. Such negotiations have already been held to open markets for the global import and export of products and manufactured goods. The main method of negotiation remains the "request and offer" approach, under which countries offer specific commitments to open up their markets and reduce tariffs and then request corresponding commitments from other countries with which they wish to boost trade contacts. All this takes place within certain time-frames and under conditions and safeguards that are mutually negotiated.

In the services sector, it was agreed at the Doha Conference that countries have a deadline to submit initial requests for specific commitments by June 30, 2002 and initial offers by March 31, 2003. Unlike the issues related to trade in products, the Ministerial Declaration of the Doha Conference said trade in services was a relatively "uncontroversial" issue, meaning that it did not arouse the same kind of emotions that flared when countries discussed tit-for-tat tariff reductions, subsidies and policies designed to protect domestic industries. In addition to travel and tourism, other service sectors like insurance, banking and finance are to be covered in upcoming negotiations.

Over time, the aim is for World Trade Organization members to achieve extensive liberalisation commitments by removing barriers to trade and services and expanding the scope of the commitments. Philosophically, this is expected to create a rising trade tide which lifts all boats.

Many Pacific Asia countries are not members of the World Trade Organization but that is likely to change now that China (PRC) has joined. Of those Pacific Asia countries that are members, most have been too preoccupied with other priorities over the last few years and have paid little attention to the GATS issue.

Some preparatory work has been done but, by and large, it is seen as being of negligible importance thus far. Foreign investment is already at high levels in the travel and tourism industries of most Pacific Asia countries. The growing privatisation of airlines and airports will mean more investment inflow. As it is still early in the game, most of the commitments that have been made are within the context of the local laws of PATA countries. Aviation access is a critical area of concern, but is specifically excluded from GATS negotiations.

The other WTO, the World Tourism Organization, has also done quite a deal of work to help developing countries prepare for the upcoming round of negotiations in services.

One of the areas which could be of considerable value to developing countries under the World Trade Organization rules is to remove constraints on cross-border flows of labour. These constraints, according to the UN Conference on Trade and Development, are one of the biggest asymmetries in the international economic system, and a source of continuing frustration for many developing countries.

A report issued by the UN Conference on Trade and Development (UNCTAD) stated: "Although developed countries remain opposed to allowing the free movement of all forms of

labour under World Trade Organization rules, developing countries might push for the further liberalisation of movement of persons on a sectoral or sub-sectoral basis: they might address specific issues that are impeding market access including issuance of visas, administrative procedures and lack of transparency, and economic needs tests.”

GATS is an area that Pacific Asia countries will soon have to start paying more attention to. Tourism industries need to be certain about what is being negotiated, by whom and with whom. Inexperienced negotiators with poor knowledge of the inner workings of the tourism industry may end up signing off on things that the industry may later regret, and not extract enough concessions in return from the opposite parties.

The time to start coming up to speed with these issues is clearly here.

Concerns Over Globalisation

One of the main objectives of market liberalisation is to promote globalisation. However, even as the next round of market-liberalisation talks proceed following the Doha Conference, an analysis of comments being made by national policy-makers at the big-picture, macro-economic level indicates that a number of major concerns are rife about how globalisation is being managed:

- Some nations feel that they were given inappropriate advice by global international organisations such as the IMF and World Bank. For example, they were told at the outset that in order to become part of the global economy, they had to open and liberalise their own economies, especially the financial sector. Many did, and got hit by the international financial crisis. Now they are being told that they have to strengthen their internal financial management systems first, and the complaint is why weren't they told this before?
- Some also feel that too many decisions are being made by groups like the G8 caucus of industrialised countries, along with the IMF and World Bank, without any significant input from, or concern for, the needs or priorities of developing countries. In line with this, they feel that not enough is being done to restructure the international financial system to curb speculative activity and attacks on currencies, which is also a serious problem for the travel and tourism industry.
- Other nations believe they are being forced to open their economies far too quickly without being provided with the

underlying support systems to become part of a well-managed financial system, and before they have the manpower requirements and legal safeguards in place.

- And some feel the industrialised countries are not doing enough to open their own markets to products and services from developing countries. This means that developing countries cannot generate exports fast enough to create jobs or boost economic growth. This affects their ability to eradicate poverty.

Effectively, this means that developing countries are often at the mercy of powers and forces outside their control, and which they have no influence in shaping. It also means they are often having to provide higher and higher quality of products and services at lower and lower prices.

Take for example, agriculture, a bedrock industry in most developing countries. One great parallel between agriculture and tourism is precisely this issue of low prices and low yields. Just as the agricultural sector has been affected over the last few years by low commodity prices, so too, has travel and tourism been hit by low rates and fares. Paradoxically, many countries that began promoting tourism as an alternative to agriculture now find both industries mired in low commodity pricing.

Because both tourism and agriculture are hugely important for jobs and income, policy-makers need to find ways to help both get out of the low-yield rut. Devalued currencies may help raise exports and tourism but everyone recognises this as a temporary fix and not a long-term solution. Developing countries are becoming especially wary of these currency contagions. The more they are vulnerable to these so-called external shocks, the worse their ability to protect the economy from a downturn.

In the words of UNCTAD Secretary General Mr. Rubens Ricupero: “...it is important to focus on coherence and on finding better ways to deal with the increasing frequency, intensity and destructive power of financial and monetary crises. At the same time, we must also master the complexities of integrating the world's poorest countries into the global trading and financial system. It is clear that the policy changes required for alignment with the processes of globalisation have unleashed forces that generate uncertainty, intensify the incidence of poverty in many countries and are difficult to control through unilateral action.”

Alleviating Currency Crises: Points to Ponder

Because currency crises can be precipitated by many factors such as the size of the national debt, budgetary deficits and deficits in balance of trade and payments, the tourism industries of developing Pacific Asia countries have to ensure that they are not inadvertently exacerbating these problems. Rather, they need to work to alleviate them. Here are some points to ponder:

1. *Calculate leakage, and plug it.* Increasing globalisation will mean huge amounts of money leaving countries for loan repayments, importation of capital equipment, luxury food and beverage products, fees and charges for franchise, management, marketing, reservation, intellectual property and credit-card payments. Central banks should have records of these payments. If satellite accounting studies can help countries calculate what gains they make from travel and tourism, the same methodology should be used to calculate leakage, too.
2. *Encourage SMEs.* It is not in the interests of any country to have its entire travel and tourism industry fall under the sway of global multinational groups. Small- and medium-sized enterprises must survive and thrive on their own feet and not just as sub-contracted suppliers of goods and services to the majors. Regional governments need to give much more infrastructure help in terms of marketing and

training to help them cut costs and compete effectively. Very few Pacific Asia national tourism organisations have specific programmes to help SMEs. This is clearly an area that needs scrutiny.

3. *Study the implications of conglomerate collapses.* A number of major companies previously thought to be invincible simply because they were big have now collapsed. Within the travel industry, there have been airline collapses as well as various e-travel companies, to name just two sectors. There is no guarantee that major tour operators in Europe are immune. What happens then? The amount of unpaid bills could lead to a large number of supplier collapses around the region. What early warning systems can be set up to safeguard against the effects of such a collapse?
4. *Beware 'The Fallacy of Composition.'* This is UN terminology to describe the problem that many countries encountered in their pursuit of industrialisation – they all started producing the same products at the same time. The “me-too” syndrome has created major problems in travel and tourism. If one city has a convention centre, another one wants it, too. If one prominent business family builds a hotel, another family wants to follow. The end result is a cut-throat race that lowers yields and profitability. Tourism growth needs to be much better planned in future to prevent over-capacity and huge fluctuations in seasonality.

Trends in Tourist Arrivals and Income per Tourist in Least Developed Countries 1992-1999

Country	Tourist Arrivals (000)		Tourist Income (US\$m)		Income per Tourist (US\$)		Growth in	Growth in
	1992	1999	1992	1999	1992	1999	Tourist Arrivals	Income Per Tourist
	1992/1999	1992/1999						
Cambodia	88	368	50	160	568	435	318%	-23%
Maldives	236	430	138	281	585	654	82%	12%
Myanmar	27	198	16	29	593	149	633%	-75%
Nepal	334	492	61	141	183	288	47%	57%
Niger	13	43	17	20	1308	470	231%	-64%
Tanzania	202	450	120	480	594	1067	123%	80%
Uganda	92	205	38	99	413	481	123%	16%
Zambia	159	456	51	72	321	157	187%	-51%

Source: UN Conference on Trade & Development, UNCTAD

5. *Redesign buildings, transport systems and others to cut costs, especially imports.* People lived reasonably comfortably before cars, air-conditioning and other trappings of progress came along. The tendency to copy the industrial and building designs of the more economically developed countries has often been counter-productive and expensive. If going back to the basics is becoming an increasingly popular mantra, taking a fresh look at the way dwellings, modes of transport and energy consumption were designed in the 'old days' is well worth a second look.

6. *Be very careful of foreign borrowing.* It is commonly known that the huge borrowings for hotel construction were major contributors to the debt burdens that led to the 1997 financial collapse in many Pacific Asia countries. Many of these are still outstanding in the form of non-performing loans that are bogging down the banking systems in some Pacific Asia countries. Have investors learned from the crisis?

7. *Encourage the use of local currencies.* While there is a clear linkage between the strength of economies and their currencies, becoming more dependent on a handful of currencies will only exacerbate the dependence upon them, and make economic sovereignty even more difficult. Clearly, the travel and tourism industry, being a cash-rich sector of the economy and a major generator of foreign exchange, needs to explore this in greater detail.

More Numbers, Less Yield

For the first time, representatives of UNCTAD were present at the ITB Berlin 2002 to discuss issues related to globalisation with tourism ministers of Least Developed Countries (LDCs). Research presented by the Chief of UNCTAD's Trade in Services section Mr. David Diaz (see table a previous page) showed evidence that simply increasing numbers of visitor arrivals does not necessarily mean growth in income per tourist. While some countries such as Nepal have succeeded in growing both their visitor arrivals as well as income per tourist, others such as Cambodia and Myanmar have not.

In his presentation, Mr. Diaz raised a very valid question: Is the socio-economic sustainability of LDCs heavily dependent upon travel and tourism assured under hyper-competitive and globalised markets? The answer was yes, but only if tourism revenues:

- Are allocated evenly and equitably
- Contribute gradually to poverty alleviation
- Increase over time
- Allow the sustainable use of all destination resources required for tourism.

Mr. Diaz also identified the following main factors affecting the socio-economic sustainability of tourism in LDCs:

- Growing leakages
- Missing or inadequate linkages with other economic sectors
- Increasing transaction costs
- Anti-competitive behaviour of international operators
- Air access
- Vulnerability, structural handicaps and weaknesses
- Policy environment and institutional framework
- Decreasing trends in the allocation of financial resources by the international community of donors.

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