Flights of FANCY

Tourism has been touted as the service-sector saviour of our balance of payments mess. And investment is pouring in. But is it really worth it? Jennifer Craik argues we've been taken for a ride on the tourist trip.

"Is one American or Japanese tourist spending $A2,000 worth as much as 40 tonnes of export coal?" asked a recent correspondent to the *Australian Financial Review*. The question is not new, but the scepticism reflects a growing sense of unease that Australia's tourist bonanza is over. Like a hangover, Australian tourism has been suffering since the bicentennial party in 1988.

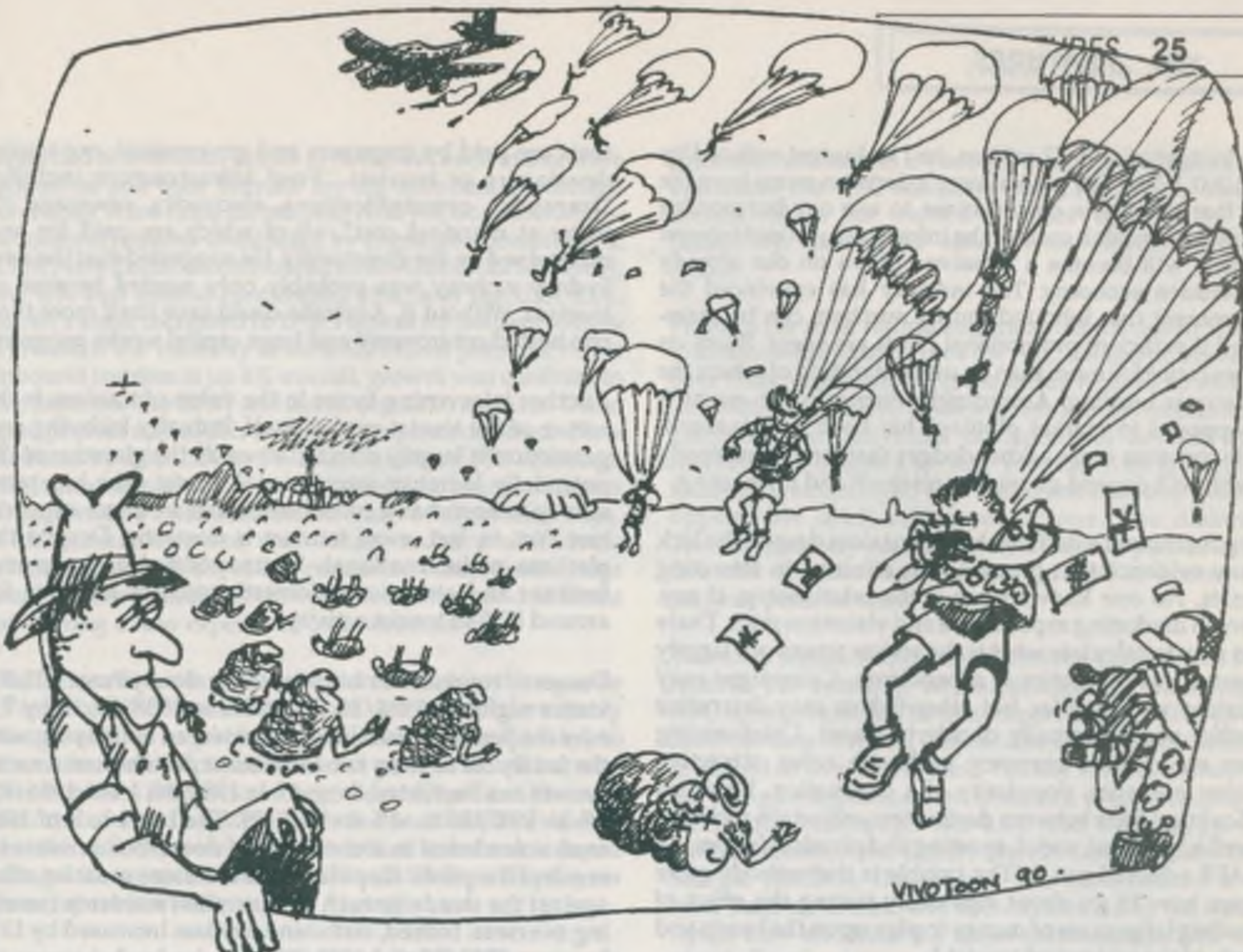
To some extent, this could have been expected. After all, the annual growth rate of international visitors exceeded 25% between 1986 and 1988. This kind of growth simply could not be sustained. In just four years (1984-88), the number of international visitors doubled from one to two million. Although much of the extravagant enthusiasm was made on the basis of this extraordinary growth, some industry observers were more sanguine.

Declining growth rates appeared even by early 1989. The March quarter showed the number of international visitors increased by only 2%. The following quarter the number of inbound tourists actually fell by 5%. By the end of 1989, annual international tourist numbers had declined by 8% from 2.25 million to 2.1 million. Significantly, this trend was already under way before the pilots' dispute. An examination of international tourist figures illustrates that, although inbound tourism had been growing slowly then steadily, the growth in the mid-1980s was exceptional and could not be maintained. The federal Bureau of Tourism Research expects inbound growth eventually to level out at about 7% to the year 2000. On these figures, we can expect about five million international tourists by the end of the century.

Given this pattern of growth, tourism has become an increasingly important industry to Australia. DASETT publishes a regular Tourism Facts Sheet which summarises gross figures about the contribution tourism makes to Australia's economy. In 1988/90, for instance, tourism contributed 5.4% to GDP, higher than mining and about the same as farming. Tourism generated foreign exchange earnings of $6.1 billion. Over $22.5 billion was derived from direct expenditure of tourists with the largest proportion (72%) coming from domestic tourism. The industry provided 448,000 jobs, or 5.9% of the workforce, and committed $21.2 billion in new infrastructural investment. Governments also raised around $2.7 billion in indirect taxes from tourist spending (see figure overleaf).

Despite the recent upheavals, investment in tourism infrastructure is continuing to grow. In the March quarter 1990, major tourist projects worth $8.8 million were under construction with another $12 million firmly committed. On completion, a further 60,000 rooms will have been added to the stock of commercial accommodation. New investments include another 14 international standard hotels and resorts, a National Aquarium Centre for Canberra, a mini cruise liner known as Reef Endeavour, a further 14 marinas, about 20 leisure and theme parks, and eight convention centres. Most of this investment is concentrated in New South Wales and Queensland which together account for 86% of new commitments.

The question is do we really need all this? Before we get taken with the cargo cult mentality of tourism we should ask three questions:



Graphic: Viv Martin

Drought relief, perhaps - but where's the balance of payments relief?

Short-term International visitors to Australia 1950-1989

*	Date	Visitors	Annual Change
*	1950	44,000	
*	1955	54,000	
*	1960	85,000	
*	1965	173,000	
*	1970	416,000	
*	1975	516,000	
*	1980	905,000	+14%
*	1981	937,000	+4%
*	1982	955,000	+2%
*	1983	944,000	-1%
*	1984	1,015,000	+8%
*	1985	1,143,000	+13%
*	1986	1,429,000	+25%
*	1987	1,785,000	+25%
*	1988	2,249,000	+26%
*	1989	2,100,000	-8%

- What is the value-added benefit to Australian industry from tourist earnings?
- Is investment in tourist infrastructure worth it?
- How do we measure the effectivity of promotion?

The significance of tourism to the Australian economy has been the subject of an ongoing debate in the *Australian Financial Review.* Commentators have argued about whether tourism is the great earner of the future, the industry which will save Australia's bacon. John 'Koala' Brown has argued strenuously the industry's case in his capacity as a member of a non-government, industry lobby group the Tourism Task Force. This self-appointed group was active in wooing Treasury in the lead-up to the federal Budget. Their objective was to secure increased subsidies to the industry.

At a time when most government agencies have experienced cuts, the national tourism promotional body, the Australian Tourism Commission, asked for $100 million. In fact, it received $40 million in gross funding for 1990/91, an increase of $4.9 million on the previous year (although that figure was topped up by a one-off grant following the pilots' dispute, taking its funding to $38 million.The increase reflects the government's policy of supporting direct promotion at the expense of research activities. In contrast to the ATC, the Bureau of Tourism Research, which conducts and funds the main International Visitor Survey (IVS) and Domestic Tourism Monitor (DTM) and survives on a budget of only $2 million, had its budget reduced by $300,000. Why? The government's decision stems from the fear that if tourists do not come to use our burgeoning facilities, then sunk costs of the infrastructure (and interest charges) will become a massive burden on our already debt-ridden economy. The industry has convinced the government that inbound tourist numbers can be maintained if sufficient promotional funds are spent. Bums on planes count for more than an understanding of where the industry is heading. Accordingly, dispassionate research (as opposed to market plotting) has been marginalised, while common sense acknowledges that long-term steady growth will depend on quality research and forecasting.

The government's decision has been taken despite the lack of any evidence that promotion is effective in attracting tourists. No one knows what is the relationship, if any, between marketing expenditure and visitation rates. There is no way to calculate what is the visitor return on (largely government) promotional expenditure. Campaigns may be catchy and popular, but other factors may determine whether people actually decide to travel. Chief among these are relative currency exchange rates, attractive holiday packages, popularity of a destination, historical and cultural links between destination and origin societies, as well as political, social, sporting and physical factors. As an *AFR* editorial put it:"The trouble is that nobody quite knows how to go about rigorously testing the effect of spending large sums of money to play upon the hearts and minds of the whimsical tourist."

But the tourist industry is not averse to bluffing. Hence, in an oranges and apples comparison, the Australian Tourist Commission has claimed that gross tourist expenditure figures attest to its promotional effectiveness. The ATC has argued that, for a mere outlay of $38 million from the public purse, the nation "garnered $6.5 billion in foreign earnings - a return to the nation of $1,710.53 for every $1 spent". As Senator Peter Walsh observed, this claim implies that "promotional expenditure alone is responsible for inbound tourism - without it, there would be none"! However, what the ATC is reluctant to state is that there is still a net deficit on the balance of payments on tourism. Australians themselves spend more on outbound travel than foreigners bring in.

The calculation of the real benefit of tourist dollars is also an area of contention. Industry advocates cite tourist expenditure without deducting cost factors. Senator Walsh has listed several items which should be deducted from gross tourist earnings: fuel, aircraft depreciation, imported goods and services, and capital-servicing costs. Opportunity costs (investment lost elsewhere) should also be taken into account. The Bureau of Tourism Research has argued that the most appropriate way to measure the impact of tourism is to compare export earnings of tourism with current account credits. Under this formula, in 1988, tourism contributed 10% of export earnings of goods and services, with tourist debits accounting for 8% of total imports of goods and services.

One of the expensive cost factors is the cost of tourist infrastructure. The *AFR* correspondent observed that these costs are paid by taxpayers and government, not tourist developers or tourists. 'Free' infrastructure includes "transport, communications, electricity, sewerage (!), water at marginal cost", all of which are paid for and maintained by the community. He suggested that the new Sydney runway was probably only needed because of tourism. Without it, Australia could save itself more than one heated controversy and huge capital works program.

Another intervening factor in the value of tourism is the nature of the tourist market itself. Industry lobbying and promotion is largely directed towards the glamour of the potentially lucrative international tourist who has more money to spend and contributes more in direct expenditure. Yet, in fact, most tourism is domestic. Despite the plethora of international, 'cosmopolitan' and top end facilities and attractions, domestic tourism accounts for around 80% of tourist activity.

Domestic tourism has been growing slowly from 201,000 visitor nights in 1984/85 to 214,000 in 1988/89, or by 7% over the period. Australians rediscovered holidaying with the family car at some not-too-distant destination! Annual growth has fluctuated, from 4% in 1985/86, 1% in 1986/87, 3% in 1987/88 to -1% in 1988/89. The latter half of 1989 even saw a boost in some forms of domestic tourism as a result of the pilots' dispute. These increases must be offset against the steady growth of Australian residents travelling overseas. Indeed, outbound tourism increased by 11% between 1987/88 and 1988/89.

Domestic visitors are not big spenders. Almost two-thirds travel by private car and over half stay with friends and relatives along the way. Even so, domestic visitors account for the majority use of commercial accommodation. For example, in Queensland in 1988/89, interstate markets accounted for 49% of visitor nights, intrastate for 30%, and international visitors for 21%. Although international usage is increasing, largely due to the expansion of top end accommodation at the expense of more affordable accommodation, the breakdown has significant implications for tourism policy and planning. There has been a gradual recognition that tourism policies must accord appropriate recognition of such modest yet significant tourist activity. There are now calls to establish more 3-star accommodation and to shift the emphasis away from the artificial tourist attractions shunned by Australian tourists.

Even the backpacker market has been touted as a potential goldmine. A recent study by the industry-funded National Centre for Tourism and Travel at James Cook University has advocated organising budget travellers who want to go bushwalking, camping, and so on, into package tours in the same way that scuba diving has been packaged. As well as ignoring the fact that the reason for most budget travel is to avoid the industry and get away from other tourists, this report disingenuously sees dollars in such activities!

Overall, most policy debates have concentrated on the potential to increase our miniscule 0.5% of world tourism with policies which will attract more overseas visitors. Markets such as Japan and South Korea have been regarded as bountiful ponds to be fished. Such markets are populous and their tourists are big spenders. (Although even they want value for money.) And yet, our international tourism remains dominated by cognate nationalities: in 1989, New Zealand contributed most visitors (22% in 1989); the UK and Ireland contributed 15%, and the USA 13%. Japan's share increased to 17%. Figures for January to May 1990 show the volatility of national tourist patterns. While inbound tourism is up 6% overall, growth was confined to the Japanese (up 28%) and Asian (up 22%) markets. Other groups were static (UK/Ireland, Europe) or declined - New Zealand by 5%, USA by 7% and Canada by 9%. Although the Japanese market looks very promising, tourist numbers should not be calculated on the basis of short-term blips. This market is more than likely to be a short-term phenomenon which will shrink once other destinations become more attractive (in value for money and in terms of offering a new experience or environment).

Policies are favouring fickle fashion markets at the expense of traditional and reliable markets. For example, we rarely hear about our largest long-term market, New Zealand, in discussions about potential tourist growth. The other concern has been the vertical integration of Japanese business into the tourist industry. There is considerable evidence that the bulk of Japanese tourist dollars leaks back to Japan along with an estimated one billion dollars profit per year from Japanese investments in Australia.

A recent federal government report, Tourism Shopping in the Nineties, confirms the suggestion that "exclusive arrangements" give Japanese-owned or favoured businesses a substantial "headstart" in monopolising the Japanese tourist dollar.We should not expect altruism from trading partners, yet policies towards such investment have been soft and short-sighted. In this regard, the ineffective Foreign Investment Review Board surely has a case to answer.

Given the nature of Australia's tourist patterns and its economic situation, what kinds of tourism policies should we be developing for Australia? Industry lobbyists have been arguing persuasively that tourism should be considered as a major industry and be eligible for the same kinds of industry assistance as the resource industries of which Australia has been so fond. Accordingly, the Industries Assistance Commission (now Industry Commission) investigated the travel and tourism industries during the boom and bust period of 1988/89. Its final report, published late last year, has lain in dusty corners while the embarrassing downturn in the new wonder industry is explained away.

The IAC draft report did create a debate. Few observers were satisfied by its attempt to be all things to all people. Already, the report was giving a major emphasis on aviation issues at the expense of other issues. Environmental experts were especially disappointed at its failure to take a strong stand. Although 70% of initial submissions had concerned environmental questions, the IAC merely recommended the strengthening of EIA legislation and processes. More disturbing was the IAC's preoccupation with the measurement of environmental value through the price mechanisms. In a 'having your cake and eating it too' approach, the IAC simultaneously recognised environmental values but wanted to offset 'opportunity costs' caused by 'locking up' land for non-development purposes.

Perhaps the most radical suggestion of the report was that Commonwealth funding of the ATC should be phased out over three years, allowing the industry itself to take over its functions. The IAC made a distinction between industry assistance for individual companies to develop export markets and ongoing generic promotion of tourism. The industry was outraged and mobilised its lobby groups to oppose the draft recommendations. The Australian Tourism Industry Association (ATIA) was particularly active and effective in converting the IAC to a more sympathetic point of view.

There are significant changes between the draft and final reports. For example, recommendations concerning the ATC were reversed. The final report decided that government funding of the ATC should be maintained and its role reviewed in five years' time! Penalty rates switched from not being an impediment to efficiency, to constraining staff flexibility. Although the IAC did not support the reintroduction of the Export Market Development Grants Scheme (EMDG), the scheme was reintroduced in July 1990. Such outcomes have been welcomed by the industry which now endorses the major recommendations of the report. To other commentators, the course of the inquiry has been a classic case of clientelism. The commission has satisfied industry advocates at the expense of other interests and issues.

Above all, the IAC has revealed a naive belief in democratic processes which conflict with its hard-nosed belief in economic efficiency and the levelling role of the market place. In relation to social impacts, the IAC concluded that these were not a problem since "choices lie open to the communities through reviews of project proposals and political processes at all levels of government. No government, however, can just bring the benefits of development and remove all of the costs". In the end, there was little distinction between the ultimate position of the IAC and that of the industry lobbyists. The credo of the latter group was summed up in Wolfe's dictum that "profits are the business man's standard of measuring 'public welfare'". With policy advisers like the Industry Commission, the government scarcely needs its rogues' gallery of business mates.

So, does one tourist equal 40 tonnes of coal? The evidence suggests not. But Australia is still wallowing in a beneficent attitude to tourism despite the obvious problems. Policies continue to be geared towards maximising tourist numbers and encouraging still more investment. The public purse is contributing handsomely to these initiatives. Ultimately, you can bet that the beneficiaries of such policies will not be ordinary taxpaying Australians. We'll all have been taken for a ride on the tourist trip.

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