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Expert Meeting on Strengthening the Capacity for Expanding
the Tourism Sector in Developing Countries, with Particular Focus
on Tour Operators, Travel Agencies and Other Suppliers
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INTERNATIONAL TRADE IN TOURISM-RELATED SERVICES: ISSUES AND OPTIONS FOR DEVELOPING COUNTRIES

<u>Background note by the UNCTAD secretariat</u>

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EXECUTIVE SUMMARY

1. The Commission on Trade in Goods and Services, and Commodities, at its second session (17-21 November 1997), decided to convene an expert meeting on “Strengthening the capacity for expanding the tourism sector in developing countries, with particular focus on tour operators, travel agencies and other suppliers”. This background note provides some elements for discussion.

2. The world tourism industry has grown at double the pace of gross domestic product (GDP) over the last 30 years. International trade in tourism services creates additional employment, generates added-value and tax revenue, and attracts investment and foreign currency, since the sector boasts strong multiplier and spillover effects. The dynamism of tourism is expected to continue outpacing economic growth in the future, driven by globalization, economic expansion in developing countries and in countries in transition, structural and demographic change in developed countries, and so on. Traditionally, trade in tourism services has been concentrated in the developed countries, but the share of developing countries in total world tourism has risen slowly to almost one-third of the total. For many of them it is a fundamental source of income and foreign exchange and one of the few development opportunities available, particularly for least developed and island countries. Several developing countries have succeeded in expanding their tourism services exports by adopting clear tourism development policies, investing heavily in the sector and cooperating at the regional and subregional levels.

3. For some countries, particularly the least developed and island countries, there is considerable scope to develop their tourism sector. Developing countries could be helped if developed countries adopted active policies to direct tourists to them, especially to the least developed countries (LDCs). However, in order to be successful in expanding exports of tourism services and to maximize their contribution to development, developing countries have to deal with the critical issues mentioned in the following four paragraphs. These issues are crucial ingredients in future strategic planning to strengthen their capacity in tourism.

4. Tourism services are supplied by hotels, tour operators, travel agents and transport companies. In their business relations with tour operators, many suppliers of tourism services in developing countries (hotels, tourist guides, land-transport providers) are hampered by their weak bargaining position and their lack of negotiating skills, which often result in unfavourable contractual conditions. Moreover, when these supplier firms are small and medium-size enterprises (SMEs), they face fierce competition from larger companies, including those with foreign capital participation. A series of measures and policies can be adopted by the Governments of developing countries and private-sector agents acting in collaboration, with the aim of diversifying the supply of tourism services, encouraging alliances among private agents to reduce costs and increase efficiency and bargaining power, improving their quality/cost ratio by investing in human resource development, and upgrading suppliers’ negotiating skills. Again, the pursuit of initiatives at the regional and subregional levels can be effective in improving the bargaining power of service suppliers from developing countries. Investment in hotel infrastructure can take several institutional and contractual forms, involving both domestic and foreign capital. On the domestic front, financing may be sought from sources who are increasingly active in the tourism sector, such as institutional investors. As regards foreign direct investment (FDI), developing countries can encourage investment in the sector by undertaking commitments under the General Agreement on Trade in Services (GATS).

5. The long distances separating many developing countries from the main tourist-generating centres and the high air-fares caused by low air traffic density hamper exports of tourism services of developing countries. They can adopt a combination of policies to increase the efficiency of airlines and lower the prices of domestic and international flights, and ensure that their national air transport policy is consistent with their tourism objectives. The liberalization of air transport, traditionally pursued at the bilateral level, is now being achieved in the context of regional trade agreements. The trend towards the liberalization of air transport regulation, notably through the proliferation of open skies agreements, raises the question of the liberalization of air transport within a multilateral framework. The World Trade Organization (WTO) will shortly be reviewing the GATS Air Transport Annex and the possibility of incorporating air transport rights into GATS disciplines.

6. Global distribution systems (GDSs) have become the main distribution and marketing tool in the international tourism trade. The costs associated with their operation, problems of access for small service suppliers and the fact that they are owned by large air carriers mean that suppliers from developing countries may not enjoy the full benefits of GDSs. An effort could be made to regulate their operation worldwide, so as to avoid their anti-competitive use and ensure access for smaller service suppliers. Another powerful marketing tool for tourism services available to suppliers is electronic media, particularly the Internet, through which they can reach consumers directly and avoid the costs associated with intermediaries.

7. Developing countries can use the multilateral trade framework and free trade agreements to dismantle barriers and support the implementation of a new generation of trade policy devices and mechanisms, to help them face up to a more competitive trade environment and globalized markets. They may take advantage of coming GATS negotiations to ensure market access for their suppliers to the most important generating markets, and can make use of certain mechanisms provided for in GATS which might enhance the contribution of trade in services to development. They can also seek commitments with respect to the training of personnel and access to the distribution channels which are essential to tourism exports, as provided for in articles IV and XIX of the Agreement.

I. INTERNATIONAL TOURISM: ECONOMIC IMPACT AND MAIN PLAYERS

A. Economic impact and contribution to developing countries

8. “International tourism”, according to the joint World Tourism Organization/ United Nations definition, describes the activities of “any person on a trip between two or more countries while he/she is *en route* away from his/her usual place of residence for more than 24 hours but not more than one consecutive year for leisure, business and other purposes”. Typically tourism flows are measured by arrivals (the number of international tourists who spend at least one night in the country) and by international tourism receipts or expenditures, which consist of the purchases made by tourists while in the country (excluding international transport receipts and expenditures).

9. *Worldwide impact of the tourism industry.* Over the last three decades, world tourism has grown at an average rate of 7 per cent per annum in arrivals and 12 per cent per annum in receipts.[1] Few, if any, other economic activities have achieved such a consistently high growth rate over such a long period of time. In 1997 international tourism generated 613 million arrivals and receipts of US$ 448 billion. If transport and domestic travel are included (domestic travel constitutes the largest portion of the tourism market) these figures increase tenfold. The tourism industry worldwide (including transport) generated an estimated output of US$ 3.8 trillion in 1997 (corresponding to 10.7 per cent of world GDP) and 262 million jobs (or 10.5 per cent of total world employment).[2] Forecasts point to the continued dynamic growth of tourism until the year 2020 at a rate at least twice as fast as that of GDP. The international tourism industry has higher multiplier and positive spillover effects than most other economic sectors. According to estimates by the World Tourism Organization and by the World Travel and Tourism Council, for each job created in the tourism industry, some five to nine jobs are generated in other areas.

10. *The contribution of tourism to development.* The expansion of international tourism has made an important contribution to the development of several developing countries which have selected the sector as a priority. Tourism services can stimulate development in terms of income, employment, foreign exchange earnings, taxation and multiplier and spillover effects. Several developing countries have chosen the sector as a major driving force for development because: (i) the multiplier and spillover effects on the rest of the economy are felt sooner than those of other sectors; (ii) the sector is a large (or even the largest) generator of jobs (including for an unskilled or semi-skilled workforce); (iii) in some countries, tourism is the only development alternative available in the short to medium term. The development impact of tourism has been largest in smaller economies, particularly small islands. In other cases, tourism has grown together with other sectors. Finally, in many other cases, particularly in larger and more diversified developing economies, tourism has not been regarded as a priority, with the result that relatively fewer public and private resources have been invested in it and, consequently, the sector has made a smaller

contribution to development.

11. Tourism is the only major sector in international trade in services in which developing countries have consistently had surpluses. Their positive balance in the travel account improved steadily from US$ 6 billion in 1980 to US$ 62.2 billion in 1996. It more than doubled during the second half of the 1980s, driven by the growth of inbound tourism to countries in Asia and the Pacific and in Africa. Such progress is due to many factors, including massive targeted investment, promotion policies and marketing efforts. Over the last 10 years, the Americas and East Asia and the Pacific were the fastest growing regions. The distribution of tourism flows shows a high degree of concentration of arrivals and receipts among and within developing regions. For instance, in the Asia and Pacific region, the sum of tourist arrivals and receipts in Singapore and Hong Kong, China, was higher in 1996 than the sum of those of Thailand, Indonesia and South Asia. During the same year, receipts in Africa, with almost triple the number of arrivals of Singapore, were 20 per cent lower than those of Singapore. In contrast, the overall travel account balance of developed countries as a whole has been in decline since 1980, falling to US$ 19.2 billion in 1996. However, despite the impressive overall expansion of their exports, developing countries account for less than 30 per cent of world tourism receipts.

12. International tourism receipts not only provide foreign exchange earnings additional to those generated by merchandise exports, but also, by contributing to the diversification of total exports of goods and services, tend to stabilize countries' total foreign currency receipts and provide a cushion against the instability of merchandise exports. However, the benefits accrued from tourism may be partly negated by "leakage", that is, the low retention within the country of the revenue generated by total sales to foreign tourists. This is due to the following factors: the import of materials and equipment for construction and consumable goods such as food and drink; the repatriation of income and profits earned by foreigners; the interest payable on foreign loans; overseas promotional expenditure; and the limited capacity of tourism service suppliers from developing countries to negotiate profitable prices for their services. Revenue leakage is a particularly acute problem for developing countries, especially small islands, which are strongly dependent on imported inputs to cater for the needs of tourists.[3] Nevertheless, the impact of currency leakage tends to decrease as the country's economy develops and essential goods and services become more readily available from local sources.

13. Few LDCs have developed their tourism industry to any significant extent. The United Republic of Tanzania, Maldives, Cambodia, Nepal and Uganda are the LDCs which have achieved the highest international tourism receipts, accounting for over half of the total for LDCs. The combined share of the 48 LDCs in total world tourist arrivals was just 0.7 per cent in 1996, when they accounted for 0.4 per cent of world international tourism receipts.

B. Suppliers of tourism services

1. Countries

14. International trade in tourism services largely takes place among developed countries. Moreover, international tourism is mainly intra-regional, as travel outside the region of originating countries of tourists represented only 18% of the total in 1995. The main destinations of international tourists (i.e. the largest exporters of tourism services) are shown in table 1. Geographical proximity to the most important originating markets is clearly a major factor in successful exports, mainly due to the smaller share of the cost of air transport in overall tourism-related expenditure. Nevertheless, the decreasing cost of air travel on both regular and charter flights, especially to and from long-haul markets, has facilitated the development of tourist packages to some new destinations in developing countries. Some of the new destinations, in particular in Asia and the Pacific and in Africa, are attracting higher-income tourists and selling higher value-added services and products. The dynamic and highly differentiated expansion of tourism in developing countries over the last 10 years is reflected in changes in the ranking of developing countries in terms of tourism receipts and arrivals (table 2).

Table 1

Largest exporters of tourism services, 1997

(tourism receipts in US$ millions)

World's 10 major exporting countries/territories					
United States	75 056	United Kingdom	19 875	Australia	9 324
Italy	30 000	Germany	18 989	Hong Kong, China	9 242
France	27 947	Austria	12 393		
Spain	26 720	China	12 074		
Other developing countries/territories among the world's 40 largest exporters[a]					
Africa		**Asia**			
Egypt	3 847	Thailand	8 700	Malaysia	3 850
America		Singapore	7 993	Taiwan Province of China	3 705
Mexico	7 530	Turkey	7 000	Macau	3 317
Argentina	4 718	Indonesia	6 625	India	3 155
Brazil	2 602	Korea, Republic of	5 200	Philippines	2 750

Source: World Tourism Organization.

a - Apart from China and Hong Kong, China, which are among the world's 10 major exporters.

Table 2

Ranking of selected tourism exporting developing countries and its changes, 1985-96

Country	Arrivals ranking		Receipts ranking	
	1996	Change since 1985	1996	Change since 1985
China	6	+ 7	9	+ 12
Turkey	19	+ 8	19	- 1
Thailand	20	+ 5	13	+ 10
Malaysia	21	0	27	+ 11
Indonesia	26	+ 28	18	+ 25
Argentina	29	+ 10	23	+ 6
Korea, Republic of	32	+ 9	22	+ 13
Egypt	33	+ 9	33	- 1
Morocco	39	+ 11	not among top 50	
Dominican Republic	50	+ 7	45	+ 6

Source: based on World Tourism Organization data.

2. Enterprises

15. Certain segments of the industry supplying tourism services are dominated by a few large international firms offering integrated services, particularly tour operators and hotel chains. However, other segments, such as restaurants, travel agents and independent hotels, are highly fragmented and characterized by a large number of SMEs.

16. *Tour operators and travel agents.* Tourism service suppliers (e.g. hotels, inbound operators, land-transport companies) in developing countries participate in the international tourism market mainly through the transactions of tour operators and travel agents from developed countries. Tour operators are the “wholesalers” of a tourism product: they manufacture package tours by bundling different tourism sub-products (e.g. transport, accommodation, organized excursions) under a fixed and all-inclusive price.[4] The tour operator industry of each major market is dominated by a small number of large national firms which compete fiercely with each other. The participation rate in package tours remains high for long-distance travel because (i) a package tour to a distant destination often costs less than a scheduled flight, and (ii) a large number of consumers prefer to go on a group tour organized by a credible tour operator, to be assured of the quality of service when travelling to a new destination in a developing country. Tourism suppliers in developing countries view package tours as an attractive option because (i) package tours assure a certain flow of tourists, (ii) international marketing, a costly element in the tourism business, is managed by tour operators, and (iii) a volume flow of package travellers is likely to raise investment by foreign construction companies, major tour operators and airline companies who wish to make the tourism product more attractive for consumers. Travel

agents, on the other hand, are the “retailers” of tourism products or sub-products, such as package tours.[5] The travel agent industry is fragmented, as the majority of firms are SMEs (except in Japan). The main revenue of an average travel agent comes from commissions on ticket sales; travel agents are the largest distributors of airline tickets. Travel agents have a significant impact, through over-the-counter consultations and advice, on the customer’s choice of destination, type of accommodation and so on.

17. *Hotels.* The global hotel market encompasses a wide range of accommodation, including full-service hotels, bed-and-breakfast inns, suites, self-catering short-term apartments and time-sharing properties. The number of small independent and family-run hotels is falling, while the accommodation offered by hotel chains is growing rapidly. The latter can be either hotel consortia (grouping independent hotels) or integrated chains (made up of homogeneous units).[6] Between 1980 and 1995, the world capacity for accommodation rose from 16 million to 24 million hotel beds. The fastest increase in accommodation capacity took place in East Asia and the Pacific, particularly in Thailand, Malaysia, Singapore and Hong Kong, China. Of the world's total hotel capacity in 1995, 45.1 per cent was located in Europe (mainly in southern and western Europe). The second-largest concentration of hotel accommodation is in the Americas and in the Caribbean, which accounted for 34.7 per cent of world supply, concentrated mainly in North America. Hotel supply in Africa is concentrated in north Africa. The hotel supply in South Asia is expanding only half as fast as that in rest of the world, and represents less than 1 per cent of total world capacity.

18. *Air transport services.* Air access in international tourism depends on the availability and conditions of air transport connecting tourist-generating countries and destination countries (i.e. prices, frequencies, travel time, etc.). Air transport is a major factor underpinning international tourism in the vast majority of developing countries, but its importance for tourism varies considerably from one region to another. It is the means of transport used by the majority of tourists arriving in developing countries. Air transport developed as a result of the increase in demand for tourism-related travel, becoming, in turn, the driving force behind the development of the tourism industry. In 1994, passengers were responsible for 71 per cent of air traffic volume, and for 75 per cent of the total operating revenues of airlines. It is estimated that up to 40 per cent of air passenger travel is for business purposes (as opposed to leisure or personal travel) and that business travellers account for up to one-half of airlines’ income. The air transport industry accounted for US$ 1.14 trillion in gross output worldwide in 1994 and generated 24 million jobs.[7] Like tourism, the world air transport industry has expanded at double the pace of world output growth, and is expected to continue to do so in the coming 20 years.

19. The main recent developments affecting air transport and the industry structure are the increased international ownership of airlines and their growing concentration, worldwide moves to liberalize and deregulate the sector, the privatization of airlines and the formation of strategic alliances among firms. The main benefits of the latter are the cost reductions and efficiency gains that can be achieved by rationalizing the joint use of resources (such as check-in facilities and ground personnel), creating synergies and providing “network value” (i.e. the wider coverage of points serviced by the carrier and its partners) without the need to physically expand operations.[8] The large global alliances aim at world coverage by pooling the networks of their members.[9] The main drawback of doing this is that the alliances can restrict competition and thus negate some of these benefits, particularly if they collectively achieve a dominant position on given routes.

20. *Computer reservation systems (CRSs) and global distribution systems.* Computer reservation systems (CRSs) have been developed by large air carriers since the 1970s to process flight reservations. They later evolved and expanded to offer further services related to air transport, such as the storage of information on a worldwide basis, the issuance of tickets, marketing (by displaying information on fares, discounts and conditions attached to them) or the sale of products and services. Moreover, they cover not only services provided by airlines, but also land services supplied to tourists, such as package tours, hotels and vehicle rentals. With this enlarged range of services, they became known as global distribution systems (GDSs).[10] Through strategic alliances and other forms of cooperation or mergers in the most important markets, these systems minimize their costs and reduce the need for a direct

commercial presence. GDSs have significantly improved the efficiency of travel agents' business operations and their use is growing rapidly.[11] They have become the main marketing and trading tool of international tourism, as well as a major source of income for the carriers which own them.

C. Consumers of tourism services

21. Traditionally, the largest tourist-generating regions have been Europe and North America (see table 3). However, new consumers have recently been emerging in the international market, as a result of the transition process in former centrally planned economies and the acceleration of economic growth in some developing countries. The Russian Federation has become one of the 10 largest tourism services importers, while 14 developing countries were among the world's top-40 tourism spenders in 1996 (see table 3). The strong dynamism of some countries as emerging importers is evidenced by the change in their positioning in the ranking of the world top-40 spenders on tourism services (see table 4). Another factor influencing outbound tourism is the programmes adopted by some Governments to provide an incentive to outward tourist travel, such as Japan's "10-million programme".[12]

Table 3

Largest importers of tourism services, 1996
(tourism expenses in US$ millions)

World's 10 major importing countries					
Germany	50 815	France	17 746	Canada	11 090
United States	48 739	Italy	15 516	Russian Federation	10 723
Japan	37 040	Austria	11 811		
United Kingdom	25 445	Netherlands	11 370		
Developing countries/territories among the world's 40 largest importers					
Africa		**Asia**			
Egypt	1 317	Korea, Republic of	6 963	Indonesia	2 300
America		Taiwan Province of China	6 493	Malaysia	1 815
Brazil	5 825	Singapore	6 139	Turkey	1 265
Mexico	3 387	China	4 474		
Argentina	2 340	Thailand	4 171		
Venezuela	2 251	Kuwait	2 492		

Source: World Tourism Organization.

Table 4

Ranking of selected tourism importing
countries and its changes, 1985-96

Country	**Ranking**	
	1996	**Change since 1985**
Italy	6	+ 4
Korea, Republic of	13	+ 12
Taiwan Province of China	14	+ 3
Poland	16	+ 34
Singapore	17	+ 7
China	22	+ 18
Thailand	23	+ 19
Israel	26	+ 3
Czech Republic	27	+ 14
Portugal	29	+ 15
Egypt	38	+ 22

Source: based on World Tourism Organization data.

D. Major factors influencing the future development

of tourism

22. *Globalization.* The increase in flows of trade and investment between countries and progressive liberalization and integration have been fundamental factors in the growth of tourism. These processes lead to the growth of business travel, which, in turn, entails the expansion of leisure and personal tourism. Another important feature of global economic trends is the growth of trade in services in general, for which the movement of persons is an inherent mode of supply.

23. *Exchange rate fluctuations.* These have traditionally had a very strong impact on the volume and direction of inbound and outbound tourist flows, particularly in Latin America. A recent example of sharp short-term exchange rate fluctuations with consequences on tourism flows is given by the Asian currency crisis of 1997-98, which led to a decline in interregional and intra-regional tourist traffic. The World Tourism Organization has forecast the stagnation of arrivals in the Asia and Pacific region in 1998, in sharp contrast with the 9.9 per cent growth experienced in 1996, given that most of the region’s tourism flow is intra-regional.

24. *Changes in visa regulations.* Such alterations significantly affect both outbound and inbound tourism flows, as evidenced by the sharp rise in tourist flows from and to Central and Eastern Europe during the 1990s.

25. *Man-made and natural disasters.* Factors such as civil wars and unrest, security problems, hurricanes, volcano eruptions, droughts and floods cause sharp reductions in tourist flows or prevent tourism development in the countries where they occur. Such disasters tend to be a particularly acute problem for developing countries.[13]

II. MAIN ISSUES FOR DEVELOPING COUNTRIES

A. Business operations of tourism service suppliers in developing countries

1. Main issues

26. *Contract terms and bargaining conditions.* The benefits and costs of package tours to service suppliers in developing countries depend to a large extent on the nature of the contracts between them and the tour operators. The contracts involve a block reservation for a future period at a negotiated price and specify the terms governing risk-sharing in the event that not all the packages are sold. The tour operator normally has the greater bargaining power during the contract negotiations; if it considers that the negotiating partner’s offer is not attractive enough, it can choose another hotel in the same area, or even another region of the same country. Tour operators thus often exercise a monopsonistic power over the local tourism suppliers, such as local hotels, since, for the latter, serving package tours is a vital means of securing their occupancy rate. The asymmetry of bargaining power is clearly revealed in the contents of the contract. Often contracts last for one year or more and the risk inherent in a long-term contract to a tour operator (e.g. uncertainty of future demand for the package tour) is reduced by negotiating various conditions favourable to the tour operator. As a result, contracts frequently contain the following provisions: a substantial discount on the room price is provided; no deposit is required for the booking; payment may be made long after the departure of the clients; and the tour operator retains the right to return unfilled rooms (“release back”) shortly before the arrival date, without any need to pay compensation.

27. *International competition among hotels.* Hotels in developing countries which have not associated themselves with foreign firms face competition from transnational hotel chains integrated through GDSs and using marketing techniques such as promotional offers during the low season, corporate rates and discounts for international customers, service quality concepts, loyalty programmes, alliances with airlines and car rentals. In some countries, particularly islands, they are also competing with the cruise business, which have very little valued-added impact in the receiving countries. At the same time, a large number of small and medium-size hotels in developing countries face difficulties in improving quality standards and introducing the technological innovations required by international and domestic demand, mainly due to the lack of capital.

28. *Investment in infrastructure.* Successful experiences in expanding tourism in developing countries have highlighted the fundamental importance of heavy investment in the tourism infrastructure. This comprises not only transport infrastructure,[14] but also hotel infrastructure. The large capital requirements for major projects to develop tourism raise the issue of the availability of public and private funds for investment and the availability of financing in developing countries. In private investment projects, there is a trend towards less total ownership by foreign capital in developing countries, because of the costs and associated high risk (due, *inter alia*, to the long time before there is a return on the investment). The alternatives for foreign investors have been the establishment of joint ventures with local partners and franchises of hotel chains. As far as local investors are concerned, institutional investors such as pension funds have become increasingly involved in financing hotel projects.

29. *Human resources.* The human-resource skills of tourism service suppliers play a key role in determining the quality of the services offered. Quality in tourism services is increasingly being demanded by consumers and therefore it is gradually becoming a fundamental competitive tool for firms. However, in most developing countries the facilities to train the workforce for the tourism sector are inadequate, seriously restricting the labour pool from which supplying firms can draw, a situation which is aggravated by the fact that in most cases it is unusual for those firms to offer on-the-job training (particularly in the case of SMEs). This hampers their efforts to upgrade their services and attain international quality standards.

2. Lessons to be drawn and policy options

30. *Joint activities of suppliers.* Small and medium-size suppliers of tourism services (particularly hotels) can cut costs and improve their negotiating position by forming consortia to centralize activities such as: (i) market research; (ii) analysis of how to adapt to the specific needs and preferences of traditional and new tourists; (iii) marketing, including the production of guides and catalogues and the use of electronic media; (iv) dealing with tour operators or travel agents; (v) negotiating to be included in GDSs; (vi) purchasing; (vii) technical assistance and management consultancy. Such initiatives can be coordinated by national tourism authorities or by the private sector itself, for example through trade associations or by creating a new brand (with centralized marketing, quality control activities, etc.) within a franchising system.

31. *Investment in hotels.* With respect to future strategies for the hotel industry in developing countries, several options are open to them, including: full ownership by foreign investors; joint ventures; franchising; management contracts, hotel consortia; and full national ownership. Each option entails different costs and benefits for developing countries (see table 5).

Table 5

Options for investment in hotels

Types of investment	Benefits	Costs
Total ownership 100% ownership of equity by a foreign subsidiary for an unlimited time	• No financial risk to the host country	• Large outflow of income from tourism ("leakage") • Difficult to reflect government policy on tourism development
Joint venture Partial ownership of equity by foreign capital for an unlimited time	• Access to extra capital • Access to international marketing networks • Lower social/political cost of FDI • Reduced income leakage	• Requirement for a certain base capital • Risk-sharing • Possibly unfavourable contracts due to limited bargaining power
Franchising The right to do business in a prescribed manner under an existing brand name is sold to a local firm	• Transfer of managerial and marketing skills • Assured standard of quality • Brand image	• Management risk is with the host country's firms
Management contracts The business is controlled and managed by a foreign firm, without the ownership	• Possible transfer of knowledge, skills and technology (e.g. GDS) through a cooperation agreement	• No control over the finance, management and planning
Hotel consortia Independent hotels pool resources together in order to compete with integrated and franchised chains	• Joint national and international publicity campaign	• Small-size hotels may not be considered attractive to a consortium • Initial lack of brand reputation
Full national ownership Domestic investment without foreign links	• Reduced international leakage • Independence in adoption of corporate strategies	• Lack of international reputation • Higher marketing costs

32. *Human resource development.* Skills upgrading is probably the most effective way to increase the quality/cost ratio of services; it thus improves the bargaining power of service suppliers. Most suppliers in developing countries can benefit from upgrading their skills, including those of operational, clerical, managerial and professional personnel. This can be done through training programmes provided by the firm itself (on-the-job training), national institutes of tourism management and marketing, local technical schools (e.g. hotel schools) and universities. The establishment of tourism quality and skill standards and a certification system would clarify exactly what skills are needed in each business segment, and what type of training, qualification and knowledge would develop such skills in employees. The costs and resources required to establish quality standards can be reduced by collaborating under regional trade agreements.[15] Another way to improve the skills of local service suppliers is to provide incentives to foreign investors for training their local personnel.

33. *Diversification.* Diversification of the supply of tourism services is a key element in tourism development strategies. It refers to the variety of services supplied both in different areas of the same country (seaside, mountains, rivers, lakes, deserts, cities) and within one given place (historical heritage, cultural activities and sites, sports, ecotourism, medical facilities, shopping centres, theme parks, restaurants, night-life). Diversification tends to reduce dependency on a single factor (such as the weather) and the risks associated with a single factor (such as constantly changing fashion trends, or weakness in negotiations with tour operators), increase the attractiveness of a single country, lengthen the stay of tourists and increase their average spending.

B. Air access

1. Main issues

34. *Geographical location and air traffic density.* Air access to most developing countries is strongly hindered by two factors: (i) the long distances separating them from the main tourist-generating countries, which entail a long travel time; and (ii) low international air traffic density, which means higher air fares than those for competing destinations, as well as a longer travel time, given the scarcity of direct flights from and to the main economic centres. These routes do not generally benefit from the multiplicity of differentiated tariffs within the same class offered on routes with a higher density and which are subject to greater competitive pressure. These

factors have led to the exclusion of most developing countries from the main international routes.[16]

35. *Domestic issues.* Internally, developing countries face mainly the following problems with their air industries:

(i) *Infrastructure:* many developing countries, particularly the lower-income ones and the LDCs, have serious deficiencies in the quantity and quality of supply of air transport infrastructure (airports, air traffic control systems); the main reason for this is the very high capital, technological and skills requirements of such infrastructure.

(ii) *Financial constraints:* the generalized and stringent limitations on public expenditure hamper the necessary investments not only in infrastructure, but also in the national carrier (where it is state-owned), which needs to be continuously modernized and upgraded to face up to the changing international environment.

(iii) *Consistency of air transport and tourism policies:* on the regulatory front, Governments frequently face a conflict between alternative air policy priorities, such as: protecting and fostering national carriers (frequently a state-owned monopoly); using air traffic rights as a bargaining tool in international negotiations; easing domestic traffic regulations, to increase competition and efficiency and to reduce prices. Even if the latter course is decided upon, most developing countries lack the necessary financial and human resources to assess the impacts of several policy options and to supervise subsequent developments.

2. Lessons to be drawn and policy options

36. In order to deal with these issues, Governments, carriers or a combination of actors from the air transport industry in developing countries have the choice between several strategic options, including tackling of some of the problems at the multilateral level.[17] The best selection of policies and instruments depends to a large extent on the prevailing situation of the air transport market and industry in each country.

(a) Airlines

37. *Cooperation/association with foreign companies.* There are several forms of association with foreign companies which can be pursued by carriers from developing countries, especially:

(i) *Regional alliances:* they are achieved by pooling the resources of companies from neighbouring countries, thus increasing the volume of air traffic. Regional alliances can pursue joint development plans, increase the supply of regional and possibly longer distance international air traffic, and enhance their negotiating power. Moreover, they can become interesting partners for larger carriers or alliances. Regional trading agreements can provide a framework for regional cooperation. The option of establishing regional alliances or joint ventures seems to be particularly suited to countries with a low air traffic density.

(ii) *Entry into global alliances:* though until present most members of the major international alliances have been carriers from developed countries, some larger airlines from developing countries have also joined them, such as Thai, Singapore and Varig (Brazil), which have become members of the Star Alliance. Such an option is more feasible to carriers with large domestic markets or which have already established a significant regional or long-haul international network, since this makes them more attractive to the other members of the alliance and gives them more bargaining power when negotiating with their larger partners.

(iii) *Association with large international airlines:* smaller airlines are interesting to larger trunk-line operators because they feed their hubs, but may be too small to become full members of the larger alliances.

38. *The hub strategy.* The establishment of a regional hub in a country entails the expansion of the network connected by the hub, and, consequently, an increase in the

volume of air traffic to and from the country. An alternative, when one or more regional hubs are already well established, is to ensure good connections between the country and the regional hubs. Economically, this option is easier to achieve than the previous one, as the distances to be covered are shorter and thus the capital, fleet and personnel requirements are lower. This sort of strategy can be followed by countries or carriers with small domestic markets which are located close to international hubs.

(b) Domestic policies

39. *Changes in domestic market regulation.* The main policy shifts available to governments are:

(i) *Easing domestic regulation:* typically, this is done by enlarging market access, derestricting routes and allowing competition in some or all of them, and abolishing or easing price controls. The aim is to introduce competition (or increase it) and enhance efficiency, so as to obtain lower fares. The liberalization of domestic air transport regulations affects not only domestic tourism, but also international tourism, since foreign tourists often take domestic flights as part of their itinerary, particularly in larger countries. The liberalization of domestic air traffic can be undertaken by countries autonomously or as an element of international negotiations.

(ii) *Enhancing national carriers:* liberalizing domestic air transport regulations usually requires action to increase the competitiveness of national carriers. An alternative is to invest heavily in fleet and human resource development, which usually implies large transfers of public funds to the flag carrier. Another option is privatization. Typically, privatization contracts involve clauses mandating substantial investment to upgrade equipment and expand operations.

40. *Investment in air transport infrastructure.* The high costs of establishing new air transport infrastructure and of expanding existing capacity must be met from one or more of the following sources: government outlays (financed directly from the State budget or from air transport taxes or airport user fees); international and multilateral financing (including official development assistance); public/private joint ventures (e.g. with the major national carriers); FDI; or privatization. Investment in physical infrastructure must be accompanied by policies to foster the development of adequate human resources to operate and manage it.

(c) International policies

41. *Changes in international air transport regulation.* A number of initiatives can be taken by Governments in their regulations regarding international flights, including through bilateral and regional negotiations, particularly:

(i) *Promoting international charter flights:* by offering services at lower prices and exerting competitive pressure on regular flights, the operation of international charter flights can bring about lower prices and increased international tourist traffic. Charters are especially important for countries marginalized from international routes. The development of charters can be fostered by liberalizing international and national market access to charters. Since bilateral authorizations for charters are given on a case-by-case basis for a limited period of time, and are left outside bilateral agreements, they can be handled with more flexibility than regular flights.

(ii) *International agreements to upgrade national carriers:* countries whose national companies do not have adequate human resources or an adequate fleet can make an agreement with another country under which they receive help in upgrading their national carrier. The other country operates the beneficiary country’s routes under the latter’s flag, but uses its own crew and aircraft. Ideally, this should be a temporary measure, to allow the national airline to upgrade its fleet and take responsibility for its own human resource development.

(iii) *Regionalization of air policy:* some initiatives have been taken at the regional level to discuss the regulatory framework governing air traffic among the countries of a given grouping. Their objective is to establish a combined regional liberalization of bilateral agreements or even to adopt a common air policy. Such initiatives are being pursued in regional forums such as the Common Market of the South (Mercosur) and the Association of South East Asian Nations (ASEAN). The regional liberalization of air transport is a factor in fostering the development of regional air traffic and regional tourism and in strengthening the carriers in a region, including through the establishment of regionwide companies.

(iv) *Open skies policy:* this policy was announced by the United States in 1992 and since then the United States has reached several bilateral open skies agreements with European countries, as well as with Canada and Mexico.[18] Such a policy can be adopted by developing countries (particularly small economies which are unlikely to benefit from regional cooperation initiatives), vis-à-vis neighbouring countries or distant developed countries. Negotiations on an open skies agreement between the United States and the European Union are proceeding. If they succeed, 70 per cent of world international traffic will be covered by the agreement, creating pressure for the agreement to be adopted as a model for international air services agreements.

(d) The multilateral dimension

42. Given the proliferation of open skies agreements and the general momentum towards the liberalization of air transport, the question arises as to whether the traditional bilateral approach remains viable and equitable, or whether multilateral solutions should be pursued. There are several forms in which multilateralization of air transport can be undertaken, including through an independent multilateral agreement establishing the disciplines for the sector (under the auspices of the International Civil Aviation Organization (ICAO), for example) or through the effective incorporation of air transport services into GATS. The following air transport services (so-called “soft” rights) are already covered by GATS (in the Annex on Air Transport Services): (i) aircraft repair and maintenance services; (ii) selling and marketing of air transport services; and (iii) CRS services. The extent to which commitments have been made on these services is summarized in the annex to this document. Rights and obligations under GATS provisions do not affect the obligations of WTO members under bilateral or multilateral agreements that were in effect on the date of entry into force of the WTO Agreement. Moreover, the dispute settlement procedures of the Agreement may be invoked only when dispute settlement procedures in bilateral and other multilateral agreements have been exhausted. However, most air traffic services do not actually come under the Agreement’s disciplines, since it does not apply to the so-called “hard” rights, that is, measures affecting air traffic rights, however granted,[19] or services directly related to the exercise of traffic rights. These services are the only ones excluded from the coverage of GATS. In 1999-2000 the Council for Trade in Services is due to review developments in the air transport sector and the operation of the Annex with a view to considering the possible further application of the Agreement to this sector.

43. It would require an imaginative approach to adapt the GATS structure to the special characteristics of air transport in a special protocol. Inclusion of air transport in GATS would imply the application of the dispute settlement mechanism. It would also be possible for countries to seek reciprocal concessions in other service or goods sectors in return for air transport liberalization. According to GATS article XIX:2, developing countries could attach additional conditions to such access aimed at achieving the development objectives of article IV, namely, the strengthening of their domestic services capacity and improvement of their access to distribution channels and information networks. Inclusion of air traffic rights in GATS would have the following implications:

(i) *Most-favoured-nation (MFN) status:* all liberalization measures would have to be extended on an unconditional MFN basis, whether or not the subject of a specific commitment. Thus, bilateral open skies agreements would have to be extended to all WTO members, unless they were concluded in the framework of a regional trade agreement (article V of GATS) or were subject to an MFN exemption under article II:2. The unconditional MFN clause has the advantage of protecting the interests of smaller countries which have less bargaining power.

(ii) *Market access:* commitments with respect to market access in the sense of article XVI of GATS could be applicable to traffic rights, notably those relating to the limitations on the number of service suppliers or service operations. Commitments on the limitation of the participation of foreign capital and joint venture requirements would also be particularly appropriate in this sector.

(iii) *National treatment:* these commitments would imply fifth freedom and cabotage rights; some countries might be willing to make such commitments, subject to qualifications.

44. Nevertheless, the strongest obstacle to the expansion of GATS treatment of aviation services and to other forms of multilateralization of air transport policy seems to be the reluctance of most States to relinquish the bargaining power they enjoy under the existing bilateral system and the opportunity it gives weaker countries to conclude bilateral agreements which compensate to some extent for the imbalance between countries whose national air transport industries are at different levels of development.

C. GDS and electronic commerce

1. Main issues

45. *Access problems.* Despite their major contribution to the development of tourism, GDSs are frequently considered a barrier to market entry, mainly because they are controlled by the major carriers and because of the unfavourable access conditions for competitors. While some East Asian developing countries have participated in the establishment of a major GDS (Abacus, complemented by the strategic alliance with Worldspan), other developing countries have not been able to do likewise, leaving their carriers and other service suppliers without privileged access to any GDS. Additionally, countries not yet seen as attractive tourist destinations, or whose hospitality sector is underdeveloped (particularly in Africa and South Asia), tend to be poorly represented, if at all, on GDSs. Therefore, access to information on their tourism products is limited, making it difficult for them to sell their tourism services. These difficulties have meant that many smaller carriers, especially some from developing countries, have been obliged to continue using the traditional SITA CRS, leaving them at a competitive disadvantage compared with those who are represented in the major GDSs. On the other hand, in many developing countries, particularly in Africa, GDSs are present as a result of joint ventures with local partners (e.g. the national carrier) but operate within a de facto monopoly. This leads to excessive user fees and hinders their potential for developing tourism.

46. *Display.* The GDS allows a travel agent to view a wide range of information, which sometimes requires several pages on a terminal screen. In most cases, however, travel agencies only consult the information on the first page (screen); the order in which screens are displayed is thus a crucial determinant in the user’s selection of products. The display may discriminate against smaller carriers which do not own a major CRS, since controllers’ own flights may be better displayed on the screens than those of their competitors (this is known as “display bias”). There may also be discrimination in favour of their suppliers of land services.

47. *Cost.* The cost of having services exposed on GDSs may be prohibitively high for SMEs, leaving them with no access to this marketing tool. Even though all service providers have to pay a fee for having their services displayed on the systems, the costs of participation for the owners of GDSs are fully of partly covered by the profits generated by the systems. The cost of hardware and user fees may prevent small users from using GDSs; this puts some service suppliers (particularly SMEs) from developing countries at a disadvantage compared with their larger national or international competitors.

48. *Neutrality and regulation.* In order to prevent CRSs from being used as an anti-competitive tool (e.g. by charging excessive fees for reservations made for non-owner companies) and to assure their neutrality (e.g. by prohibiting display bias), the United States, Canada and the European Union have issued regulations in recent years on GDS operations related to air services, while the ICAO adopted a code of conduct for CRSs in 1991. However, the regulations and code have not been sufficient to resolve completely the anti-competitive bias of the systems and, particularly, to address the

specific problems of carriers from developing countries. The ICAO code (the only multilateral one) is non-binding and therefore there are no mechanisms to ensure its enforceability. The relevant domestic regulations are binding, but only within the territories of the countries concerned. The European Union regulations apply to CRSs from countries which have similar legislation to ensure neutrality. On the other hand, although CRSs have been included among the “soft” air services rights included in GATS, the commitments do not deal with their anti-competitive potential.

49. *Technological gap.* Installing and maintaining a system poses a greater problem to travel agents in developing countries, owing to deficiencies in the infrastructure necessary for such an information network, and the shortage of professionals to manage, operate and maintain the system. This not only represents a technical hindrance to the use of modern technology, but also increases the associated costs, thereby putting travel agents in developing countries at a disadvantage compared with their counterparts in developed countries.

2. Lessons to be drawn and policy options

50. *Regulation.* Existing national codes of conduct for CRSs are probably the first attempt to discipline international electronic trade to ensure fair competition. However, their geographical scope is limited. In order to discipline this fundamental tool, which affects both the tourism and the air transport industries, the international community could establish an internationally agreed regulation on GDSs covering both air and land services, possibly on the basis of the ICAO code of conduct, with an effective dispute settlement mechanism. The regulation should also reflect the special needs of SMEs and suppliers and users in developing countries, by granting them, say, some form of differential treatment in terms of access and user fees. It might also include a clause on anti-competitive behaviour (by analogy to what has been provided for in the Agreement on Basic Telecommunications).

51. *Electronic commerce.* The expansion of the use of the Internet and other forms of electronic communication opens up significant opportunities for developing countries to develop their tourism and air transport sectors. Their service suppliers can reach consumers around the world directly, offering both package tours and individual air and land services. They thereby cut out the costs of intermediaries (e.g. agency fees) and transaction costs and avoid the need for a direct commercial presence and its associated costs. Nevertheless, electronic marketing and trading have their own costs in terms of human and physical capital requirements. In countries where these requirements are in relatively short supply, the cost of electronic marketing and trading can be reduced if individual suppliers pool their resources. This could be coordinated, for instance, by national tourist authorities.[20] Moreover, modern technologies are likely to be increasingly used as institutional promotion tools. If there is a minimal critical mass of information infrastructure in a given country, the new technologies can offer substantial cost savings.

ANNEX
Tourism and air transport services in GATS

According to the classification adopted in negotiations on GATS, the tourism sector covers hotels and restaurants, travel agencies and tour operators, tour guides and other services. The commitments made by countries regarding their trade regimes or aspects of their tourism services within the WTO framework of negotiations on services are summarized in the tables below.[21]

Hotels and restaurant services: 108 commitments		
Barriers to trade	**Fully open market access**	**No restrictions to national treatment**
Cross-border trade		
Lack of technical feasibility	42 (39%)	50 (46%)

Consumption abroad		
Hard currency regulations	98 (90%)	95 (88%)
Commercial presence		
Licensing, non-automatic approval, registration, permit. Economic needs test - 9 countries. On the type of entry: joint ventures, incorporation, branches. Requirement for foreign capital equity ranging from 30% to 51%. Differential taxes, the requirement to employ a certain number of nationals or provide training for them, availability of work permit or prior residency.	75 (69%)	89 (82%)
Movement of natural persons		
Nationality, citizenship or residency. More favourable treatment is accorded to top management or specialists, if their entry is related to the commercial presence.	9 (8%)	29 (27%)

Among the issues which could be raised by developing countries in talks on the future liberalization of the negotiated commitments under this subsector is the removal of the economic needs test provision and other discretionary measures, including the use of licensing or authorization for regulating market access. Moreover, by improving their commitments to market access in this mode of supply through limitations to the scope for discretion, they would contribute to creating a favourable climate for investment.

Travel agencies and tour operators services: 80 commitments		
Barriers to trade	**Fully open market access**	**No restrictions to national treatment**
Cross-border trade		
Commercial presence necessary	44 (55%)	50 (63%)
Consumption abroad		
	66 (82%)	66 (82%)
Commercial presence		
Economic needs test. Number of foreign travel agencies allowed fixed as a share of domestic agencies or below certain number. Operations allowed in the market of inbound passengers. Establishment in a form of joint venture, incorporation, private limited company; branches or subsidiaries not allowed. Limits on foreign equity. Mandated employment of local staff, including on the board of directors. Residency requirement.	44 (55%)	66 (82%)
Movement of natural persons		
Nationality, citizenship or residency, including for supervisory staff. More favorable treatment is accorded to top management or specialists.	7 (9%)	16 (20%)

Subject to horizontal limitations, commitments made by developed countries have provided, basically, full market access and national treatment for the establishment of a commercial presence in the sector. An aspect that could be addressed in future multilateral negotiations is the access to and provision of tourism-related information with the emphasis on GDSs.

Tourist guides services: 45 commitments **Other services:** 13 commitments				
Barriers to trade	**Fully open market access**		**No restrictions to national treatment**	
	Tourist guides	Other	Tourist guides	Other
Cross-border trade				
Lack of technical feasibility	24 (55%)	6 (46%)	25 (56%)	7 (53%)
Consumption abroad				
None	41 (91%)	12 (92%)	41 (91%)	13(100%)
Commercial presence				
Non-automatic approval, licence, permit. Establishment as a private limited company. Nationality, residency. Exams, entree fees. Supply of service only through travel agencies.	32 (71%)	7 (54%)	36 (80%)	7 (54%)
Movement of natural persons				
Nationality. Preference to top management or specialists.	1 (2%)	2 (15%)	8 (18%)	6 (46%)

Liberalization of commitments in this subsector would not go far if no significant commitments were achieved regarding the movement of service providers. This could be linked to training and capacity building.

Air transport services: 40 commitments **(i) Maintenance and repair**: 33 commitments **(ii) Supporting, including sales and marketing**: 26 commitments **(iii) Computer Reservation Systems**: 23 commitments						
Barriers to trade	**Fully open market access**			**No restrictions to national treatment**		
	(I)	(ii)	(iii)	(I)	(ii)	(iii)
Cross-border trade						
Lack of technical feasibility. Access through publicly switched/controlled networks. Reservations with respect to CRS controlled by an air carrier of one or more third countries or by CRS parent carrier.	16 (49%)	16 (62%)	22 (96%)	14 (42%)	11 (42%)	16 (70%)
Consumption abroad						
None	31 (94 %)	20 (77%)	22 (96%)	29 (88%)	21 (81%)	23 (100%)
Commercial presence						
Establishment of the corporate seat locally. Local domicile. Licence, authorization requirement. Limited number of licences issued. Foreign investment limited to 30% (also 49%). Reservations with respect to CRS controlled by an air carrier of one or more third countries or by CRS parent carrier. Distribution through public telecommunication networks. Distribution through CRS allowed for airline offices and one general sales office. Reciprocity in tax collection.	26 (79%)	17 (65%)	21 (91%)	28 (85%)	11 (42%)	14 (61%)
Movement of natural persons						
No sector-specific limitations	2 (6%)	1 (4%)	1 (4%)	7 (21%)	3 (12%)	3 (13%)

Sixteen countries have taken MFN exemptions, affecting one or more of the three types of service covered by the Annex on Air Transport Services. The main reasons invoked to justify the exemptions include lack of reciprocity in CRS legislation (e.g., that which ensures neutrality) and insufficient development of multilaterally agreed rules for the operation of CRSs.

Endnotes

1. Unless otherwise indicated, tourism figures quoted are based on statistics and projections taken from the following publications of the World Tourism Organization: *Tourism Market Trends - The World - 1997 edition*, *Tourism Market Trends - East Asia and the Pacific - 1998 edition*, *The Tourism Barometer* (January 1998), *Panorama 2020* (December 1997). The World Tourism Organization's regional classification of countries does not always coincide with that adopted by the United Nations.

2. World Travel and Tourism Council, *Travel and Tourism Creating Jobs,* London, 1997.

3. It has been estimated that the foreign currency leakage from 17 countries studied ranged from 40 to 50 per cent (R. Colegate, *Aviation and Tourism Policies - Balancing the Benefits*. Paper presented at the Asian Tourism Conference organized by the World Tourism Organization in Islamabad, Pakistan, 10-15 January 1997).

4. The share of package tours in outward leisure travel is estimated to be 63.5 per cent in Japan, 56 per cent in the United Kingdom, 36 per cent in Germany, and 25 per cent in the United States (Japan Travel Bureau, *JTB Report '96: All about Japanese Overseas Travellers*, 1996; International Tourism Development Institute of Japan, *Report on the US Tourism Industry*, 1994, and *European Tour Operators Research*, 1993).

5. In February 1998, the total number of travel agents accredited by the International Air Transport Association (IATA) in the world, i.e. those who can reserve and issue airline tickets, was 165,453, of whom 50 per cent were located in Asia and the Pacific, 30 per cent in the United States, 20 per cent in Europe, the Middle East and Africa, and 10 per cent in Latin America and Canada.

6. The largest hotel groups worldwide (in terms of rooms) are Hospitality Franchise System, Holiday Inn, Best Western, Accor, Choice Hotels, Marriott, ITT Sheraton, Hilton, Forte and Hyatt.

7. Air Transport Action Group, *The Economic Benefits of Air Transport (1994 Data)*, Geneva, 1997.

8. One of the main forms airline alliances can take is code-haring, a marketing arrangement between airlines allowing them to sell seats on each other's flights under their own designator code. In the case of connecting flights of two or more code-sharing carriers, the whole flight is displayed as a single carrier service on a CRS.

9. The largest alliances existing in early 1998 (in terms of passenger-km) were those headed by: (1) American, British Airways, JAL, Qantas, Canadian; (2) United, Lufthansa, Singapore, Air Canada, Thai, Varig, SAS, SAA (Star Alliance); (3) Northwest, Continental, KLM, Alitalia; (4) Delta, Swissair, Sabena, Austrian, TAP (Quality Excellence) (*The Economist*, 10 and 31 January 1998).

10. The largest GDSs (and their main original developers) are: Galileo (United, British Airways, Alitalia, Swissair, KLM), Sabre (American), Worldspan (Delta, TWA, Northwest), Amadeus (Air France, Lufthansa, Iberia) and Abacus (ANA and Asian developing country carriers).

11. In 1995, 91 per cent of total ticket sales in the United States were made using GDS.

12. With this programme, the Japanese government aimed to double the number of Japanese outbound travellers from 5 million between 1987 and 1991, by means of a tax incentive to the private sector to increase the number of paid holidays, the elimination of foreign exchange constraints for overseas travel, and supporting tourism promotion activities of foreign countries in Japan. The objective of the programme was achieved one year before the targeted date.

13. UNCTAD is undertaking a study in 1998 on the effects of natural and man-made disasters on tourism flows and on the measures that countries can take to expedite recovery after their occurrence. This was mandated by the Commission on Trade in Goods and Services, and Commodities during its second session (17-21 November 1997).

14. Deficiencies in ground-transport infrastructure (roads, ports, railways) are a major factor hampering the development of tourism in several developing countries; they affect the transport of tourists during their stay in the destination countries and, to a lesser extent, international access to these countries. Since the problem of an inadequate ground-transport infrastructure faces most developing countries and is not specific to the tourism sector but affects virtually all industries, it is usually tackled in the context of countries' overall transport policies and therefore depends on the latter's priorities. That is why it is not dealt with in this document. However, the more crucial issue of air transport is treated in section 2.

15. In the early 1990s, for instance, ASEAN established the ASEAN Tourism Occupation Standards, to be referred to when selecting the strategies, contents and techniques to be used in training programmes.

16. Geographically, air traffic is highly concentrated in North America and Europe, whose carriers account for 40 per cent and 25 per cent, respectively, of the world total (in terms of passenger-kilometres performed). While air transport in the Asia and Pacific region has been growing at a quicker pace than elsewhere, and its world share has risen gradually to 25 per cent, Latin America and the Caribbean, the Middle East and Africa taken together account for only 10 per cent of world air traffic.

17. A clear distinction between strategies adopted by carriers and policies decided by Governments is not always easy, given the close link between regulation and industry in the case of civil aviation, particularly where flag-carriers are state-owned

18. The open skies policy comprises basically the following elements: free access to all routes, no restriction on capacity and frequency on any route; no restriction on operations in any international markets; flexibility of tariffs; elimination of restrictions on charters; liberalization of air cargo rules; absence of restrictions on the conversion of revenues to hard currency and their repatriation; agreement on code-sharing; carriers to be able to ensure their own ground service abroad; no regulations on carrier alliances; non-discriminatory access to CRSs.

19. Traffic rights mean the right for scheduled and non-scheduled services to operate or to carry passengers, cargo and mail for remuneration or hire from, to, within or over the territory of a country, including points to be served, routes to be operated, types of traffic to be carried, capacity to be provided, tariffs to be charged and their conditions, and criteria for designation of airlines, including such criteria as number, ownership and control.

20. Naturally, the increased use of electronic means to develop tourism involves solving pending issues that are implied by all forms of electronic trade, such as access to infrastructure, confidentiality, safety of data transmission, consumer protection and taxation.

21. GATS "horizontal commitments" are not considered here but are of extreme importance since, among other issues, they describe the cross-industry investment climate as well as the overall trade-related visa regime.