




WORLD
TRAVEL &
TOURISM
COUNCIL

DOMESTIC TOURISM IMPORTANCE AND ECONOMIC IMPACT



IMPORTANCE & ECONOMIC IMPACT DOMESTIC TOURISM

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HIGHLIGHTS

- Domestic tourism is the key driver of the tourism sector globally, accounting for 73% of total Travel & Tourism spending in 2017.
- Governments use domestic tourism as a tool to eliminate local poverty, generate employment and economic growth, upgrade infrastructure and alleviate pressure from overcrowding through, for instance, discretionary pricing policies and the provision of non-wage tourism benefits.
- Domestic travel helps address seasonality within regions, while also dispersing tourists to less visited rural areas, which tend to be overlooked by foreign visitors.
- China has been extremely successful in fostering domestic tourism, outperforming all other countries in domestic spending growth thanks to its growing middle-class and government's support. China is now the leading domestic tourism market, up from 4th position in 2008, having accounted for 62% of absolute growth in this period.
- While China leads in absolute domestic spending growth, many developing countries have shown significant growth in Travel & Tourism domestic spending, as residents with rising disposable income begin to explore their countries.

1 INTRODUCTION

While countries often tend to focus on international tourism due to the revenue earned through exports, domestic tourism remains the leading form of tourism, representing an important tool for regional economic growth and development.

With over 50% of the global population now categorised as “middle class” or “rich”, more and more people can afford to travel. Research suggests that domestic tourism demand picks up at an income level of about US\$35,000, while international travel takes off at around US\$50,000¹. An increasing number of households in emerging economies, which are approaching or have already reached these thresholds, including in China and India, are likely to contribute to sustained growth in domestic travel spending. In effect, in the next ten years an additional 65 million Chinese and 9 million Indians will enter the middle class.

Using the World Travel & Tourism Council’s (WTTC) annual economic impact data, this position paper assesses the importance of domestic travel to 185 countries, considers the trends driving this phenomenon and provides policy recommendations for the continued growth of domestic travel in the global economy.

2 THE IMPORTANCE OF DOMESTIC SPENDING

2.1 Absolute size of Travel & Tourism’s domestic spending

In 2017, domestic tourism represented 73% of the total global tourism spend (US\$3,971 billion). While there are significant variations between countries, domestic contributions to Travel & Tourism reached 94% in Brazil and 87% in India, Germany, China and Argentina; with China accounting for 62% of global absolute growth in domestic spending over the past ten years.

This growth has enabled China to climb from fourth position in 2008 to the top spot in 2017, overtaking the USA to become the largest domestic travel market in the world. China’s domestic spending reached US\$841 billion in 2017, followed by the USA with US\$803 billion. Jointly, these two countries account for over 40% of world’s total domestic Travel & Tourism spending.

Over the last decade, the Chinese government has been a staunch supporter of domestic tourism, investing in the development of a rail network and air infrastructure to accommodate the expansion of low-

¹ See Goldman Sachs ladder of spending. <https://www.businessinsider.com/goldman-sachs-on-what-the-world-wants-2013-10?IR=T>

DOMESTIC TRAVEL REPRESENTS **73%** OF THE TOTAL TOURISM SPEND GLOBALLY

CHINA AND THE USA JOINTLY ACCOUNT FOR **OVER 40%** OF THE WORLD’S TOTAL DOMESTIC SPENDING

cost carriers in second- and third-tier cities. This has improved transportation connectivity and reinforced tourism development in less visited areas. China is expected to remain the leader in domestic tourism, continuing to widen its lead with the USA by 2028.

Germany ranked third in domestic spending in 2017 with US\$340 billion, nearly double the amount of India and Japan, which came fourth and fifth with US\$186 and US\$183 billion respectively. It is worth noting the rapid development of the domestic Travel & Tourism market in India, which grew by US\$83 billion and rose from the eighth to the fourth largest domestic market between 2008 and 2017. Unsurprisingly, the largest developed countries dominate the top spots in terms of absolute size of domestic spending.

Chart 1: Countries’ positions in domestic visitor spending (2008 and 2017) (Travel & Tourism Domestic Spending, in 2017 US\$bn real prices)



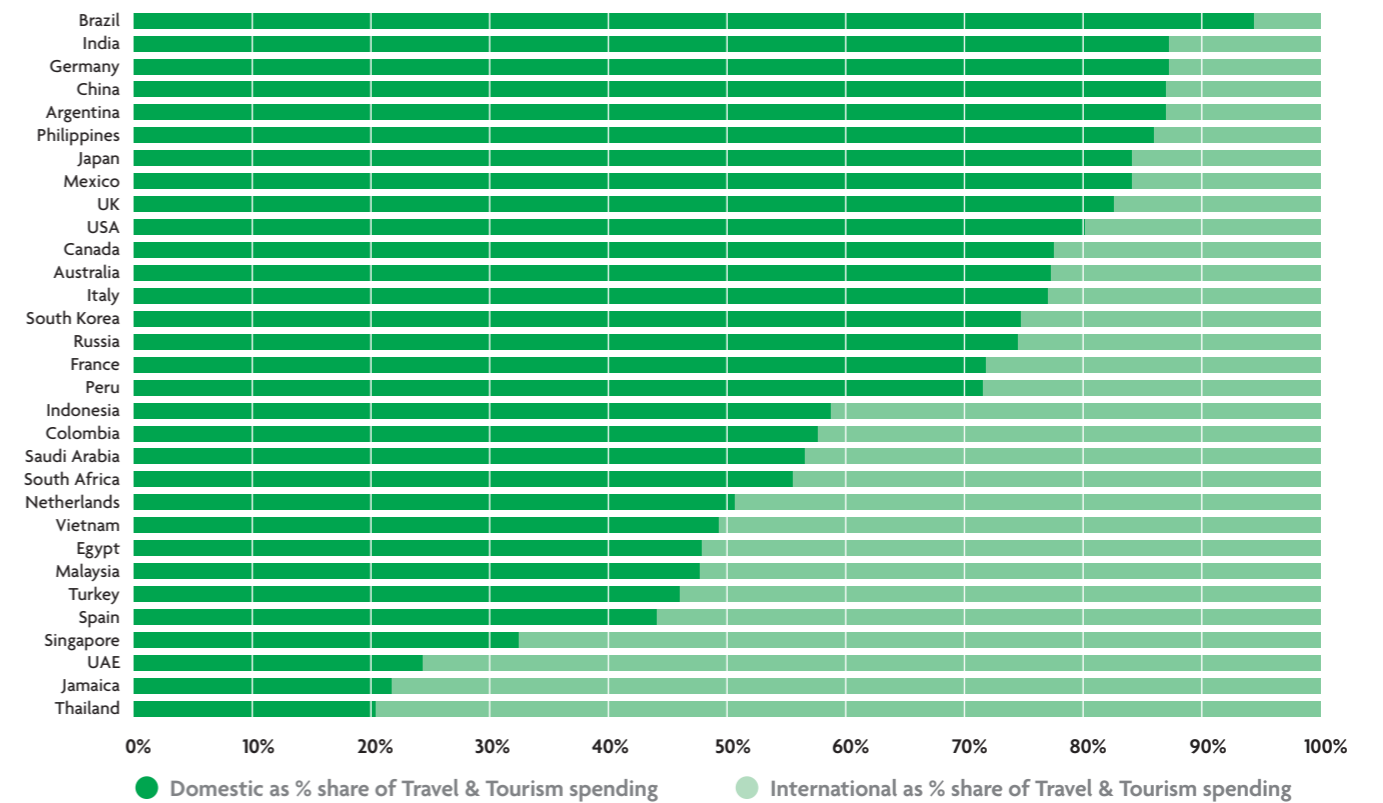
BRAZIL LEADS THE PACK AMONGST THE MAJOR ECONOMIES WITH 94% OF ITS T&T SPENDING COMING FROM DOMESTIC TOURISTS

2.2 Reliance on domestic tourism

Domestic travel is the main driving force of the Travel & Tourism in major economies (See chart 2). In fact, in 22 countries of the 31 countries analysed², domestic tourism accounted for at least 50% of the total Travel & Tourism spending, with Brazil ranking first with 94% of spending coming from domestic tourists. Brazil is followed by India, Germany, China and Argentina each with 87%. Japan, Mexico, the UK and the US also enjoyed significant levels of domestic spending – all at 80% or more of Travel & Tourism’s internal spending.

Strong domestic tourism in most of these countries is driven by a growing or sizeable middle-class population, an increase in spending power among domestic consumers, the sheer size of the countries, governments’ initiatives in promoting new locations, and strong or improving transportation infrastructure and economic links between different internal regions. For instance, China has built an average of eight new airports every year since 2013³, and rapidly developed its high-speed rail network over the last 15 years which has opened-up previously remote places to domestic tourists. In India, the government plans to build 100 new airports with a budget of US\$60bn over the next ten to 15 years to accommodate and stimulate the demand for domestic travel⁴.

Chart 2: Reliance on Domestic Tourism Across the Major Countries, 2017



Migration levels and tourism demand are inextricably connected. Countries with high levels of first and second-generation foreign immigrants tend to have a larger share of domestic travel spending⁵. This may be the result of immigrants seeking to discover their new country and explore new cities and regions with friends and relatives when they come from abroad. Similarly, high levels of domestic migration (migration from one region in the country to another) also contributes to higher levels of domestic tourism as relatives regularly visit each other⁶.

Low levels of passport ownership among the population, partly due to discretionary income, further fuels the growth of domestic tourism. In effect, only 6% of the population in India and 9% in China have been issued with a passport to date. In the USA only 42% of the population has a passport. While this represents a significant increase from a 27% share in 2007, it still lags far behind other developed countries, particularly in Europe.

The ten countries with the highest reliance on domestic tourism to drive the performance of their Travel & Tourism sector are emerging economies. These nations often struggle to attract international tourists due to visa restrictions, geopolitical or security risks, lack of quality infrastructure and poor air connectivity. This is the case for Papua New Guinea, Guinea, Libya, Bangladesh and Algeria, for whom domestic spending accounted for over 97% of internal Travel & Tourism’s consumption in 2017.

Table 1: Top 10 countries with the strongest reliance on domestic tourism

	Rank	Domestic as % share of internal spending
Papua New Guinea	1	99.8
Democratic Republic of Congo	2	99.2
Guinea	3	98.3
Burundi	4	98.2
Libya	5	97.6
Bangladesh	6	97.4
Swaziland	7	97.2
Algeria	8	96.9
Gabon	9	95.4
Brazil	10	94.3

² Our analysis includes G20 countries and WTTC’s selection of additional major economies
³ World Economic Forum, the Civil Aviation Administration of China
⁴ <https://www.routesonline.com/>
⁵ <https://data.oecd.org/migration/permanent-immigrant-inflows.htm>
⁶ C. Massidda and R. Piras: Does Internal Migration Affect Italian Domestic Tourism? A Panel Data Analysis; Tourism Economics, June 2015

THAILAND IS ONE OF THE COUNTRIES WITH THE LOWEST DEPENDENCE ON DOMESTIC TOURISM

The reliance on domestic tourism also varies significantly across continents, particularly in Asia. While India, China and the Philippines strongly rely on domestic tourism, Vietnam, Malaysia, and Thailand sit at the other end of the spectrum. Only 21% of Travel & Tourism spending in Thailand is attributed to domestic visitors with the remaining 79% coming from international tourists. Still, most of these countries attract a significant number of international visitors, not only because of their well-developed air infrastructure and availability of low-cost airlines but also due to good rail, land or sea connectivity with other countries. Yet in certain cases, accommodation has been developed to satisfy international travellers' preferences and budgets, in turn limiting lower cost options and serving as a brake in the expansion of domestic travel.

3 GROWTH TRENDS IN DOMESTIC TOURISM SPENDING

The rapid growth in middle class income households in emerging markets has been an important driver of domestic Travel & Tourism, notably in the Asia-Pacific region. While there is a positive correlation between the growth of GDP per capita and domestic spending; the wide range in performance from country to country reflects the varying stages of maturity of the tourism sector, differing income levels, infrastructure development and the geopolitical and economic landscape in each of the countries.

The fastest-growing countries in terms of GDP per capita and domestic spending are in Asia-Pacific. Unsurprisingly, China took first position, with a 9.2% average annual growth in GDP per capita and a remarkable 16.8% growth in domestic spending over the past decade. The Philippines and Malaysia also witnessed strong annual growth in both GDP per capita and domestic spending.

Several African countries have also experienced a strong increase in both GDP per capita and domestic spending during 2008-17, notably Rwanda, Mozambique, Tanzania and the Ivory Coast. Rwanda's average 14% annual growth in domestic spending over each of the last ten years has been enabled by the prioritisation of sustainable tourism, with real and tangible impacts both in terms of community development and conservation. While in many developing countries domestic tourism tends to be small in absolute terms, the rate of growth of Travel & Tourism domestic spending is high.

To support and sustain the strong growth in the sector's demand, capital investment in Travel & Tourism infrastructure is essential. Examining the relationship between capital investment growth and domestic spending growth, a few African countries appear as the standout performers. For instance, Mozambique's 15.8% average annual growth in capital investment

between 2008-17 is associated with 11.6% annual growth in domestic travel spending, while Mali's 9.1% annual growth in capital investment is linked to 11.5% growth in domestic travel.

Several ASEAN nations, including Laos, Myanmar and Indonesia, saw a significant growth in Travel & Tourism capital investment; however, growth in domestic travel was not as robust. Weaker growth in domestic spending may be associated with lower discretionary income levels - which limit residents' ability to travel - as well as a lack of supportive government policies in some of these countries, and a need for more affordable tourism products to serve this market.

4 POLICIES TO RAISE THE CONTRIBUTION OF DOMESTIC TOURISM

Domestic travel supports and develops local and national pride, provides a rationale for an upgrading of infrastructure, disperses visitors geographically across regions, smooths seasonality and creates employment opportunities. It can play an important role in improving the attractiveness of destinations, which in turn promotes well-being for locals and helps to attract the educated young professionals upon which high value-added sectors increasingly depend⁷. A strong domestic Travel & Tourism sector can also help a country withstand shocks and demand fluctuations that may arise when crises affect external source markets.

To incentivise domestic travel, certain governments and local authorities have intervened in the provision of local tourism services. This includes policies around pricing, marketing and promotional campaigns, inter-linkages between transport and tourism, and direct incentives to support the sector in a country.

Pricing

Dual pricing (different pricing for international and local/domestic tourists, and/or lower prices in off-season months) for tourist sites such as Taj Mahal in India, Acropolis in Greece, Sigiriya in Sri Lanka, and national parks such as Kilimanjaro in Tanzania. By imposing a lower fee for domestic tourists and/or charging less in off-season months, authorities make tourism services more widely accessible to different social classes across the countries, create all-year-round tourism and can help to alleviate pressure from over-crowding.

Direct incentives

Resource to support domestic tourism can be given to organisations that will develop products and services that will suit the local tourist market, or in some cases, directly to the residents themselves.

- In Hungary, the government introduced a benefit programme to direct spending towards tourism services and incentivise domestic travel. It encourages employers to provide various non-wage benefits to employees which includes a programme for holiday and recreation activities (i.e. Szechenyi Recreation Card).
- A national or regional park system is a key tourism asset and they exist in most countries of the world, often financially supported by both national governments and user-fees. In the United States, analysis from the Department of Interior has found that the National Park System plays a major role in attracting and supporting businesses in gateway regions (communities within 95 km of a park), with these communities outpacing the growth rates in the states more widely.

Marketing, development and promotional campaigns

Income earned from the development of domestic Travel & Tourism can be used to incentivise the heritage and culture preservation and conservation of the destination.

⁷ Haxton, P. (2015), "A Review of Effective Policies for Tourism Growth", OECD Tourism Papers, 2015/01, OECD Publishing. <http://dx.doi.org/10.1787/5js4vmp5n5r8-en>

STRONG ANNUAL GROWTH IN TRAVEL & TOURISM INVESTMENT IN SELECT AFRICAN COUNTRIES HAS BEEN ASSOCIATED WITH HIGH GROWTH IN DOMESTIC TRAVEL SPENDING

- In Japan, the government has pledged to create tourist areas that will contribute to regional revitalisation and promote domestic tourism through the formation of sightseeing routes, attractions with a story/theme and the establishment of Destination Marketing Organisations (DMOs)⁸.
- In the 1980's, Japan created the One Village One Product (OVOP) movement to encourage communities to specialise in producing one high-value traditional product. This concept has since been copied in other parts of the world, notably Thailand which now has its own One Tambon, One Product programme. From a tourism perspective, the programme has had success in supporting domestic travel as people travel to the towns and villages to taste or see the product for themselves.
- The Magical Towns Programme (Programa Pueblos Mágicos) led by Mexico's Secretariat of Tourism promotes towns around the country that offer visitors a magical experience due to a number of distinct features including natural beauty, cultural traditions, history, cuisine and art & crafts. A town awarded with the status is given funding to further improve its infrastructure, product offering and experience.

Transport and tourism inter-linkages

Quality transport infrastructure enhances the experience of a destination and quality of life within it for both visitors and residents.

- Transport systems, particularly tramways and funiculars, have been catalysts for regeneration in cities as far apart as Manchester, Medellin, Portland and Porto.
- As well as being the gateway and central hub for international visitors, London is the most visited destination for domestic travellers. To help ease congestion on the transport networks, encourage energy efficient transport and improve the visitor experience, a system of wayfinding was developed for pedestrians across the city. Legible London has more than 1,300 signs designed to encourage visitors to navigate the city by foot⁹.

⁸ OECD Tourism Trends and Policies 2016
⁹ <https://tfl.gov.uk/info-for/boroughs/legible-london>

5 APPENDIX

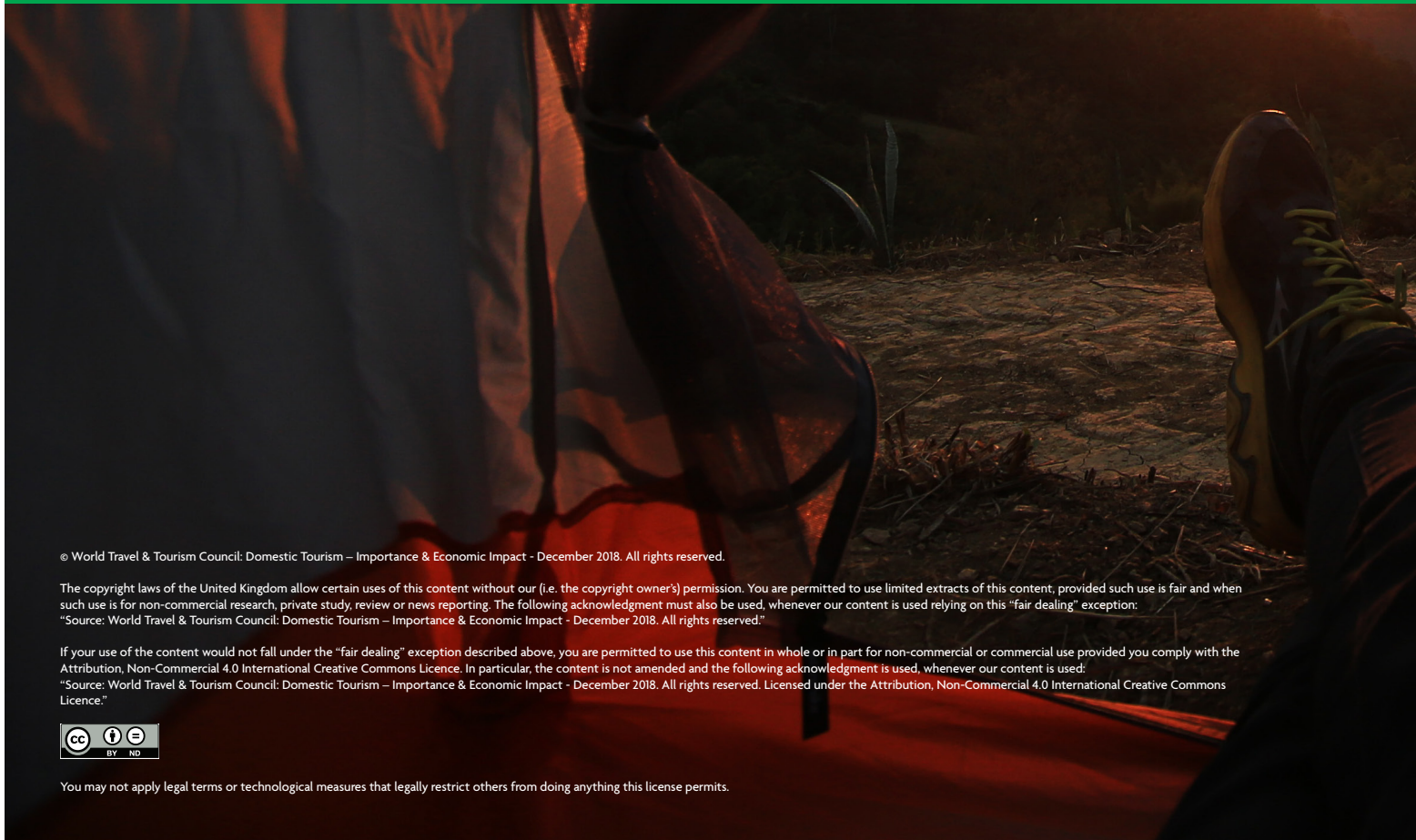
Table 2: Top 30 countries in terms of Travel & Tourism's total size of domestic spending

	Rank	T&T Domestic Spending 2017 (US\$bn real prices)	% Share of Internal T&T Spending 2017
China	1	840.9	87
United States	2	802.8	80
Germany	3	339.7	87
India	4	186.0	87
Japan	5	182.8	84
United Kingdom	6	169.6	83
Italy	7	149.0	77
France	8	127.5	72
Mexico	9	115.9	84
Brazil	10	99.9	94
Australia	11	79.5	77
Canada	12	59.4	78
Spain	13	59.4	44
South Korea	14	49.6	75
Philippines	15	45.7	86
Russian Federation	16	41.8	74
Argentina	17	36.2	87
Switzerland	18	27.2	58
Turkey	19	26.7	46
Austria	20	24.7	53
Sweden	21	22.7	58
Indonesia	22	20.5	59
Netherlands	23	18.9	51
Saudi Arabia	24	17.2	57
Malaysia	25	16.8	48
Iran	26	16.4	78
Taiwan	27	16.1	53
Thailand	28	15.5	21
Chile	29	15.2	76
New Zealand	30	15.1	60



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