

## *Determinants of competitiveness in the tourism industry*

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Promotion of tourism as a national foundation has drawn a national attention a few times and it is now back again. While many emphasize the gigantic size and enormous economic impact which they claim the tourism industry has, the reality is far from clear. Statistical data on tourism in Japan, for example, are critically flawed and insufficient on a global standard in many points. First, guest counts by type of accommodations including traditional Japanese ryokan, hotels and others are not available, nor are the numbers of overnight visitors to different tourist destinations. Second, theme parks and other amusement facilities individually compile visitor data of their own, giving low credibility to the figures. Third, the Ministry of Justice only releases a part of emigration and immigration statistics with a two-month delay and, with the abolishment of E/D cards for Japanese citizens, it is impossible to track their destinations and visiting purposes. Fourth, data on tourism compiled by municipalities and other local governments are based on proprietary surveys. They are meant to be used for promotion of tourism in respective localities and do not have a common standard or comparability. Fifth, there is no central body for planning policies for tourism development with various authorities including the Ministries of Land, Infrastructure and Transport, Health, Labour and Welfare, Agriculture, Forestry and Fisheries, and the Ministry of Justice involved with different responsibilities, respectively. The list of inadequacies of data in Japan goes on and on.

It is true that these statistical shortcomings hinder the effective increase in the competitiveness of tourism as an industry, but, more fundamentally, the issue appears to be that many have emphasized need for tourism promotion in order simply to join the bandwagon, without a clear understanding of what tourism is.

### *Competition in tourism is international competition in human resources*

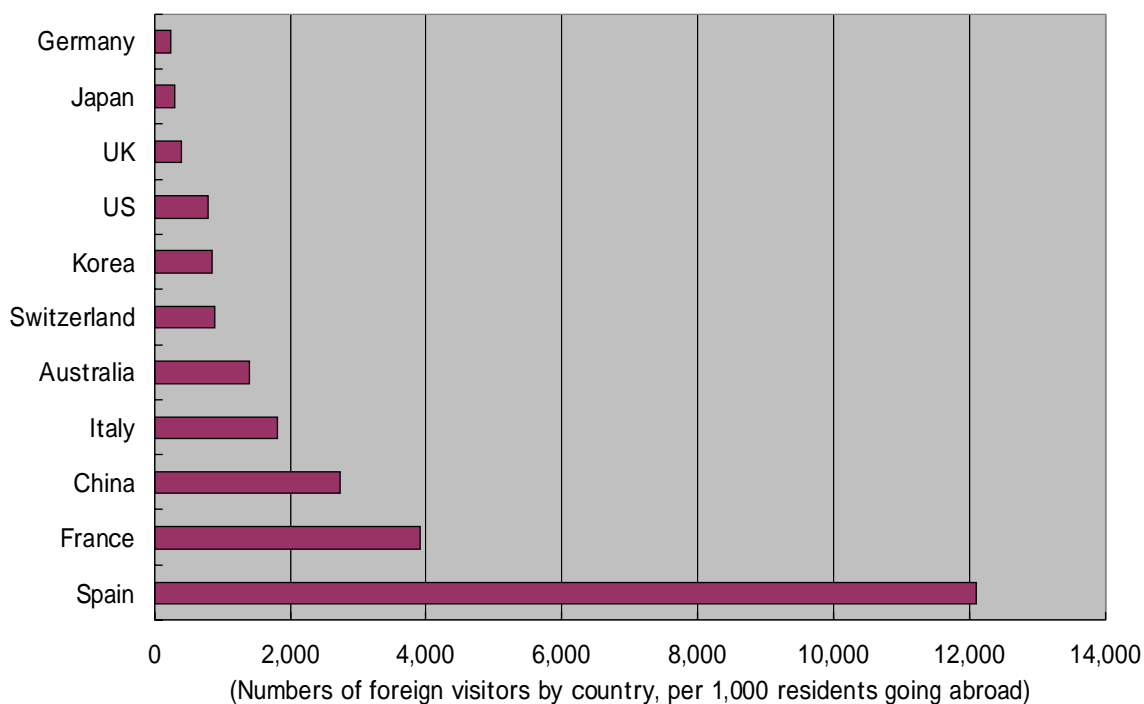
There is a good reason for Japan to think that it is timely to reassess the potential of tourism as a leading segment of the service industry. Among industrialized nations, the country has the fastest aging population accelerated by a falling birthrate, and now faces depopulation. Aside from mid- to long-term policy measures including systemic reforms, it is of immediate importance to consider how to make up for decrease in residential population by increase in visitor flows. Having started from agriculture and then shifted to manufacturing, where Japan has been the most successful in the world (in producing goods domestically and exporting them overseas), the country has always structured its

economy around the residential population and may find it difficult to change its focus to an industry based on flows of visitors. But growing service orientation of the global economy requires us to return to the very principle of the service industry that people offer convenience to people.

In that quality of service has become a focus of international competition, people themselves, let alone their products, are now brought into global competition. The key to increasing visitor flows lies in whether each industry can offer higher convenience to its customers in and out of the country. Increase in visitor flows will drive the growth of the tourist service industry, which will, in turn, measure to what degree the Japanese economy has shifted its focus to the service sector. (Exhibit 1 shows the flows of travelers in and out of select countries.) For Japan, the imbalance of traveler traffic coming into and going out of the country may not need to be worried about as the resulting one-sided travel balance deficit could help reduce the huge trade surplus to some extent. More importantly, however, the fact that relatively fewer foreigners visit Japan means that it has only limited appeal and, in the longer run, this may possibly lead to decrease in the publicity of the country to the rest of the world, which has far more profound implications than the imbalance in the flows of people and goods.

A large gap between foreign direct investment into and out of Japan was often cited as a notable example of Japan's external imbalance but the gap has been showing signs of rapid narrowing since the late 1990s. This is probably because barriers to entry of foreign capital including high cost of business, Japanese employment practice, which often block free market entry of foreign businesses, and government regulations, mostly in non-manufacturing areas, have been reduced.

**Exhibit 1 Flows of travelers in and out of select countries (2001 data)**



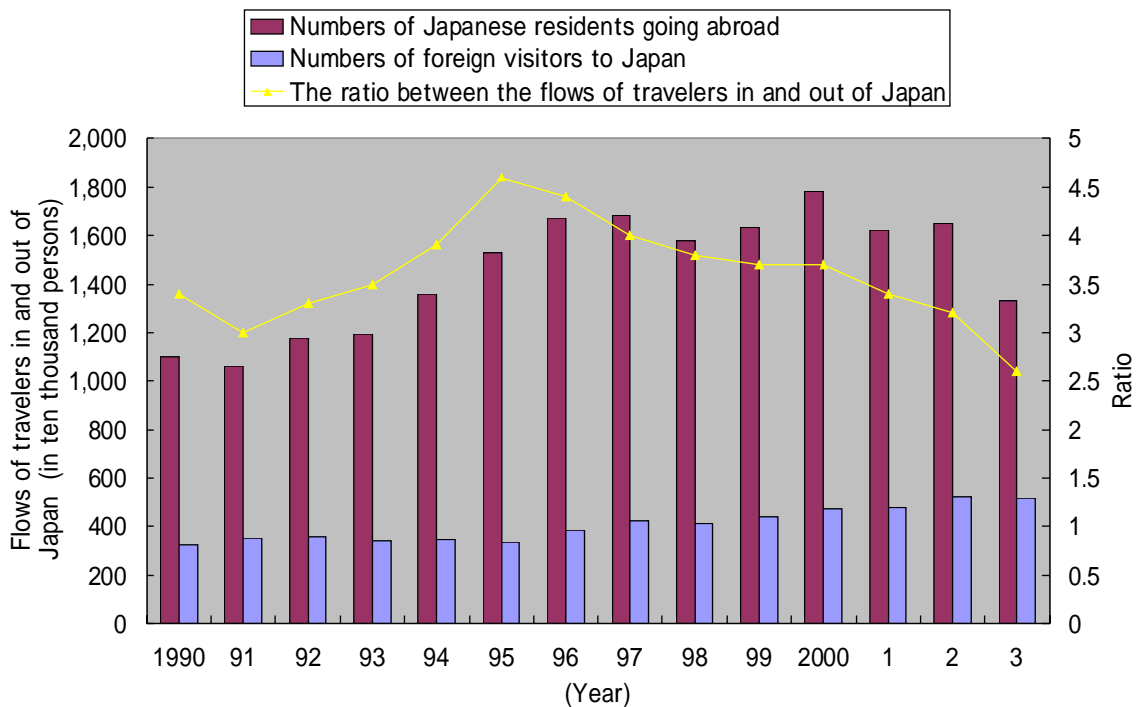
Source: Compiled from data published by the World Tourism Organization(WTO)

*What are the main factors inhibiting international tourism to Japan?*

Turning to the number of foreign travelers visiting Japan, as is clearly seen in Exhibit 2, we find that there have been no fundamental changes. Precisely speaking, the ratio of visitor flows has been improving since 2001 but the improvement in 2003 was principally due to a dramatic decrease in Japanese travelers visiting other Asian countries affected by the epidemic of SARS. Why? Language issues and travel cost are often cited as the causes but, as far as the results of various surveys go, cost is not the primary reason for not visiting Japan (even though the impression of Japan as an expensive destination does harm the promotion of tourism).

Importantly, there have been no clear differentiation between budget tours for group travelers and offerings to individual travelers who wish to stay longer and more closely experience the charm of Japan at extra cost. Also of issue is the disappearance from Japan of extended-stay resorts, which are common in Western countries, in the aftermath of the burst of the bubble economy. There are cases where people first visit a country on business and decide to extend their stay utilizing those long-term accommodations. (The Tourism Authority of Thailand advocates to “unify the promotion of both business and personal tourism” as a main pillar for increasing foreign tourists.)

**Exhibit 2 Changes in flows of travelers in and out of Japan**



Source: Compiled from "Tourism by Numbers in 2004", Japan Tourism Association.

In order to increase the variety and selection of travel offerings, it is indispensable to remove language barriers. Individual travelers, in particular, often face difficulty in reaching tourist facilities on their own as there are only Japanese signs and the issue needs

to be urgently addressed. The fact that pricing, facilities and various offerings, especially those in hot spring areas, are still generally geared towards group travelers is a great detriment to foreign tourism.

The issues mentioned above can all be resolved through the independent efforts of the tourism industry. They have actually been pointed out in the past booms, only to see little improvement. (The cost of travel and bias in travel offerings towards group tours are among the main reasons that the Japanese people shy away from traveling domestically in recent years.) An additional point of great importance is a possibility that various rules and regulations can be acting as hurdles against the promotion of foreign tourism. Some examples are as follows.

1. Tourists from China, who are expected to significantly increase in number in the coming years, are only admitted in groups of five or more and their group activities are under various restrictions. (This, in part, is a preventive measure against increasing crimes by illegal aliens.) A majority of Chinese visitors to Japan are limited to high-income earners who make 20 million yen or more per year. (In contrast, rules in European nations are generally permissive regarding individual activities of Chinese visitors, which have been cited as a cause for Chinese tourists to prefer Europe to Japan as their travel destination.) Travel arrangements both in China and Japan can only be made through designated agents (presumably to ensure accountability). Agents are given one negative mark every time a tour participant goes missing and once five marks are accumulated, the agent is banned from handling tours from China to Japan.
2. Visas to Japan can now be issued in Guangzhou and Shanghai, as well as in Beijing, which has helped alleviate the difficulty in obtaining visas, but the examination is strict and time-consuming. (One needs to apply some six months ahead and still does not know if a visa can be issued in time.) Chinese citizens need a personal reference by a Japanese resident in applying for a business visa, while citizens of Korea, the US and European countries do not.
3. Bilateral visa exemption arrangement with Hong Kong has been in effect since April 2004 but such arrangement with Korea or Taiwan is not in place, yet. Thanks to unilateral exemption, Japanese citizens can travel to those two countries without a visa but not vice versa.
4. The tour guide license in Japan requires extremely high levels of competency and candidates need to pass a very competitive examination. The guides, however, find it difficult to earn income that matches those efforts. Requirements should possibly be reduced for guide licenses limited to certain localities but there is only a national license. Against this backdrop, licensed guides are rarely used and tour attendants accompanying visitors often double as a guide.

### *Turning regional resources into collective competitiveness in tourism*

Sources of competitiveness in manufacturing industries include research and development capabilities, marketing expertise and financial strength. What then defines the competitive strength of the tourism industry? Service industries typically are founded upon agglomeration of people, offices, businesses and factories, be they providers of service to individual or business customers. The tourism industry, as one of the service

industries, has its basis in aggregation of a number of constituent factors in a certain geographical area. Those factors, according to the industry publication, include “nature and parks”, “cultural heritage and landscape”, “hot spring areas”, and “conventions, festivals and events” as tourism resources, “hotels and ryokan” and “tourist recreational facilities and theme parks” as tourism facilities, and “travel agencies” and “passenger transport services” as tourism support.

Direct tourism spending in the region spills over to procurement and purchase of raw materials (primary effect) and further to increased income of workers employed in relevant jobs (secondary effect). Through these channels, tourism not only directly contributes to businesses in tourism-related fields including ryokan and hotels, restaurants, entertainment services and transport services but also helps boost output and employment in a wide array of industries in the region from agriculture and fisheries to manufacturing. Inter-industry effects within the region can thus be expected from tourism.

These effects are only possible when the region puts various regional resources together into a collective strength. Regional resources here include such non-economic factors as long-preserved intangible heritage in history, culture and traditions of the region, which can be used as tourist attractions. Whether tangible or intangible, tourism resources can hardly appeal to visitors unless local people take time and effort to appreciate, maintain and develop them.

From the viewpoint of maximizing regional inter-industry effects, the Town of Yufuin in Oita Prefecture, a target of widespread acclaim as an example of successful regional renaissance, should probably have sought co-existence and co-prosperity with the large hot-spring city of Beppu on the other side of a hill. Yufuin, nonetheless, succeeded in differentiating itself from Beppu by augmenting the tangible tourism resource of hot springs with many intangible assets, including its unique vision that put a bold antithesis to regional renaissance that had traditionally been dependent upon government policies and subsidies.

The town made clear that it would not seek resort development under the provisions of Resort Law, which was booming throughout the country at the time. Alternatively, the town, owners/operators of hot-spring ryokan and local volunteers joined together to review the town planning from scratch, enact a unique landscape protection act to stop the wave of the construction of resort condominiums and create a menu of offerings such as a music festival that appeal to potential visitors. Instead of starting from the effort to attract tourists, they focused on making the town an attractive place which they can take pride in living in and, in doing so, successfully combined regional resources into a collective strength. Thanks to this unified combination of many resources, people from in and out the country keep visiting the town to enjoy hot springs of “Yufuin” and performances by world renowned musicians, and Yufuin has set a new model for tourist destinations in Japan.

### *Tourism promotion starts from reviewing what you have*

In early 2003, the Japanese government declared promotion of tourism as a national foundation and announced action plans for doubling the number of foreign visitors by 2010. The subtitle of the declaration was “Building a nice country to live in and a fun place to visit”. In other words, in promoting tourism, it stresses the importance not only to

provide facilities and services that are attractive to visitors (from in and out of the country) but also to develop facilities and services that local residents can be proud of in everyday life. In order to develop those “tourism resources at our feet”, awareness and educational programs on cultural and natural attributes of the region should be offered to all local residents.

Historians say that, over the years, Japan overcame several crises, during which its socio-economic systems malfunctioned, by reviewing whatever resources were available, finding valuable assets left unutilized and tapping into them. Hundreds of years ago, the Edo Shogunate ordered all the clans to list local products and specialties and compiled “Zenkoku Sanbutsucho (a nationwide survey of local products)”, while “Retto Kaizoron (a plan to remodel the Japanese Archipelago)” could be another example in more recent memory (quite apart from the pros and cons of its results). Regional awareness and educational programs should help local residents reidentify tangible and intangible resources around them, reevaluate them and promote their attractions to the world outside.

A little less than two years have passed since the declaration was made to promote tourism as a national foundation. Some people involved in its implementation, however, have started to take a pessimistic view that, after a boom similar to those in the past, tourism development will end up as a fruitless endeavor to decentralize power, where tourism, which in nature is regionally oriented, is deemed as the key to regional renaissance and promoted. Still, it seems that the only way for the tourism industry to improve competitiveness is to start from grass root awareness campaigns to spread basic knowledge about localities, which, in turn, will help make them an attractive place for visitors.

Reference in Japanese

Nukaga, M. (2004), “The Tourism Revolution”, the Nikkan Kogyo Simbun