

## The Importance of Being a Must-See Destination

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# The Importance of Being a Must-See Destination

Excellent travel and tourism policies, infrastructure, and services can translate into a roaring economy.

by Jürgen Ringbeck and Stephan Gross

**W**hat does it take for a country's economic growth to outpace that of its peers? A strong manufacturing sector? A productive labor force? Plenty of disposable income? All of the above, probably. But here's a somewhat unexpected additional answer: a strong travel and tourism (T&T) industry. That is the primary conclusion of the *Travel and Tourism Competitiveness Report 2007*, which Booz Allen Hamilton developed jointly with the World Economic Forum and leading travel organizations and operators.

The study measured the factors that identify a strong T&T industry in 124 countries, and then ranked the countries to reveal which do the best job of using the industry as an incubator for economic growth and social welfare. From top-rated Switzerland all the way down to Chad, we found a high correlation — about 80 percent — between the index of variables of T&T development and GDP growth. As globalization shrinks the world, T&T has become an important means of stimulating development, accelerating local investment, and boosting employment and public education.

This is no longer a game confined to only the top-ranked players. The top 15 destinations today account for only 58 percent of international arrivals, compared with 97 percent in the 1950s, and, over the past decade, tourism in the world's 49 poorest countries grew six

times faster than tourism in Europe and the U.S. As travelers get more adventurous, developing countries have the chance to attract more of their tourism dollars, euros, or yen.

By further analyzing the best performers in the T&T index, we identified the requirements of a thriving travel and tourism industry. The first is a stable and relatively risk-free political and regulatory environment. This includes a high degree of safety and security, as well as good health, hygiene, and environmental standards. Because the global business community is averse to risky business conditions, political and economic stability is an absolute prerequisite for attracting private capital, foreign investors, and international business travelers and tourists. Since private investments increase competition and efficiency, countries that embrace foreign and private ownership, direct investments, secure property rights, and technological innovation are often rewarded with a fast-growing travel sector. Indeed, a regulatory framework that encourages all of these activities is so crucial to a country's success that it had the highest correlation — 97 percent — with a competitive T&T sector.

Almost as important, with a 96 percent correlation, is business infrastructure. Has the country succeeded in putting together the type of air, ground, and tourism networks — either through direct government invest-

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ment, state subsidies or by entering into public–private partnerships — that will attract both visitors and private investors? Are there enough quality hotels and banks to meet travelers' needs? Is the country's information and communications technology, such as broadband access, cell phone coverage, e-booking, and electronic-payment services, adequate to meet the needs of the 21st-century business traveler and tourist?

A desirable social and cultural milieu and physical environment also contribute to a competitive T&T industry, but many countries do not yet fully leverage their assets. Thanks in part to its great cities, wonderful food and wine, beautiful scenery, and rich history and culture, more tourists visit France than any other country in the world. Nonetheless, France failed to crack the top 10 in the T&T index. Similarly, Egypt's spectacular heritage succeeds in attracting plenty of tourists, yet the country's overall travel industry still has a long way to go before it can help Egypt's economy become truly competitive.

**Coming from the East: Europe's Surprising Contenders**

One of the more interesting, if nascent, T&T success stories we found is Bulgaria, which ranked 54th in the index. Bulgaria's Black Sea beaches attract tourists, whose increasing numbers have lowered the country's sky-high trade deficit. Pleased with these results, the government has drafted an ambitious €3.3 billion (US\$4.5 billion) plan to improve roads, railways, ports, and waste treatment facilities in the country by 2015. The project is funded in part by the European Investment Bank and also through a variety of public–private partnerships. What's more, Bulgaria plans to

develop additional high-end travel offerings to lure the wealthier tourists and business travelers who have yet to come to the country in large numbers. Although Bulgaria's travel and tourism infrastructure is still evolving, its achievements have helped the country to enter the European Union this year.

Somewhat higher up the competitive ladder lies Estonia, 28th in the T&T index. After the deregulation of Europe's airline sector, a number of discount carriers expanded their networks to Tallinn, Estonia's capital and main seaport. Tourists seeking low-cost vacations have poured into Estonia in growing numbers. To build on this trend, Estonia's tourism board has launched a campaign targeting low-budget tourists with advertising that promotes the nation as an inexpensive place to enjoy rich cultural history and traditional countryside getaways.

Following its admittance into the EU in 2004, Estonia privatized much of its formerly state-owned travel sector. For example, in order to increase travel efficiency and tourist services, in late 2004 Estonia consolidated a number of transportation and hospitality companies into the privately held Go Group. The organization is made up of four businesses — international rail links, bus travel, tourism support, and a hotel — operating under one integrated brand. Thanks in part to its active T&T sector, Estonia has enjoyed one of the highest GDP growth rates among all emerging countries, close to 10 percent in 2005.

**Asia's Tourist Magnets**

China and India are hardly backwaters in terms of tourism, but they are also worth a mention, as we anticipate that their T&T industries can look forward to an accelerating boom.

For example, in addition to China's well-known attractions, the 2008 Summer Olympics in Beijing will certainly boost domestic and international tourism. However, China has work to do if it wants to parlay its status as a popular destination into a means of economic development. With an index ranking of 71, China does not stand out as a high performer among emerging countries; by comparison, Tunisia ranks 34th and Thailand 43rd. Although China has established itself as the world's manufacturing plant, the T&T industry has clearly been a lesser priority: The sector remains one of the least progressive in terms of property-rights reform and financial performance, and most of the tourism infrastructure is still publicly owned, including 63 percent of the country's hotels. Yet China has been improving its ground and air infrastructure assets (through the consolidation of its national airline industry, for instance) to keep up the pace of growth in the T&T industry. In order to fortify business travel and tourism, the government plans to construct up to 50 new airports by 2010. Still, despite these efforts, China's policy environment is not conducive to T&T development (ranked a low 97th in the T&T report), with strong foreign ownership restrictions and stringent visa requirements. Environmental regulation also earns low marks.

India was the top-ranked developing country, (with "developing" countries defined as those with a GNP per capita of US\$876–\$3,465, compared with "emerging" countries with GNP per capita of \$3,466–\$10,725) at number 65 in the T&T index, based in part on its high ratings for transportation infrastructure, international links to the air transport network, and safety. With tourist arrivals expected to increase 10 percent per year for the foreseeable future, however, India cannot afford to be complacent. The government is considering modernizing its air navigation system, as well as privatizing and expanding its largest international airports to accommodate future growth. In order to untangle the country's legendarily crowded roads and railways, India plans to invest about \$116 billion in infrastructure upgrades. The country is also addressing a chronic hotel room shortage: Tourists can look out for 100 new budget hotels near railway stations in the next several years, courtesy of the Indian Railway Catering and Tourism Corporation (IRCTC), while foreign investment from Accor, Marriott, Ritz-Carlton, and Four Seasons will expand the number of rooms at the other end of the spectrum. Finally, India will also need to resolve a number of other problems, including regulatory barriers to

foreign direct investments, high visa costs compared with neighboring regions, and significant delays for inbound travelers from South Asia.

International travel and tourism is the backbone of globalization, promoting economic growth, increasing trade, and advancing development. It also strengthens communities and, by bringing together people from diverse regions and backgrounds, advances the goals of peace and global understanding. Countries that make T&T a priority and define an agenda around high-quality, innovative, and sustainable solutions will find that they have succeeded in much more than just pleasing their visitors. +

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## Resources

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International Monetary Fund, *World Economic Outlook: Financial Systems and Economic Cycles*, September 2006: This annual report from the International Monetary Fund provides both a big-picture and country-by-country view of global economic development. [www.imf.org/external/pubs/ft/weo/2006/02/index.htm](http://www.imf.org/external/pubs/ft/weo/2006/02/index.htm)

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World Economic Forum, *Global Competitiveness Report 2006–2007*, September 2006: The World Economic Forum's analysis of the global competitive environment provides a useful perspective in conjunction with the Travel and Tourism report. [www.weforum.org/en/initiatives/gcp/Global%20Competitiveness%20Report/index.htm](http://www.weforum.org/en/initiatives/gcp/Global%20Competitiveness%20Report/index.htm)

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World Economic Forum, *Travel and Tourism Competitiveness Report, 2007*: The report on which this article is based goes into more detail for industry leaders, including a closer look at the variables that went into the travel and tourism index. [www.weforum.org/en/initiatives/gcp/TravelandTourismReport/index.htm](http://www.weforum.org/en/initiatives/gcp/TravelandTourismReport/index.htm)

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World Travel & Tourism Council Web site: The somewhat commercial, but useful, Web site of the major trade organization for the world travel industry includes its own competitiveness index, as well as articles and country reports. [www.wttc.org/](http://www.wttc.org/)

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