

OXFORD ECONOMICS

Shaping the Future of Travel

Macro trends driving industry
growth over the next decade

Commissioned by

amadeus



OXFORD
ECONOMICS

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Foreword



At Amadeus we are fortunate to sit at the heart of the global travel industry. Our people, our technology and our innovation are dedicated to helping our customers and partners to shape the future of travel. It is this genuine desire to understand the future of our industry which leads us to commission leading experts such as Oxford Economics to help us examine what the coming years will hold.

Since the beginning of the global financial crisis the travel industry has faced significant challenges, many of which are only now beginning to abate. As the global economy emerges from the grip of recession the time is right to reflect on what the next 10 years are likely to bring and importantly, where pockets of opportunity and growth exist for our industry.

The travel industry, more than many others, is intrinsically linked to global GDP. Travel companies tend to prosper as the economy grows and suffers during times of economic difficulty. However we hope this report makes for positive reading as forecasts suggest that the key metric of global overnight visitor flows is likely to grow at a healthy rate of 5.4% per annum during the next decade, outstripping GDP growth of 3.4%. But of course not all will benefit equally.

The challenge for our industry now is to decide which markets to pursue, where to channel investment and how to ensure that travel companies are positioned to benefit from the expected upturn in demand for global travel.

It is evident that despite the healthy projections for travel, not all sectors, not all geographic markets and not all companies will thrive. Growth will in large part be driven by a number of rapidly developing economies, those companies that are pioneers of successful new business models and those segments that embrace innovation.

In *Shaping the Future of Travel: Macro trends driving industry growth over the next decade*, we explore macro-economic forecasts; the impact of emerging and frontier markets; the dichotomy of fortunes in business travel and whether the vision of a more connected travel industry is within reach.

This report is in no way designed to be definitive. Rather, the objective is to encourage thinking about the future, to stimulate and facilitate debate, discourse and discussion, so that we are all better placed to shape our industry in the years that lie ahead.

Holger Taubmann, Senior Vice President Distribution, Amadeus

Executive Summary

Amadeus has commissioned Oxford Economics to undertake a study exploring the trends shaping the future of travel, and examining a range of factors including global trends in travel growth, travel in emerging and frontier markets, business travel and seamless travel. This report follows on from, and updates, Oxford Economics' previous work on global travel trends for Amadeus, *The Travel Gold Rush 2020*, released in 2010.

Global travel rebounded rapidly from the 2009 financial crisis and is forecast to grow robustly over the next decade. We expect global overnight visitor flows to grow at 5.4% per annum over the next decade, significantly faster than GDP growth of 3.4% and more in line with the expected expansion in global trade flows of 5.8%.

In terms of regional overnight visitor flows, we predict that Asia Pacific, the Middle East and Africa will be the fastest growing regions over the next 10 years, with Asia growing at nearly double the rate of the 2002-2012 period. Despite this, Europe's share of visitor flows will remain dominant out to 2023. For outbound travel spend, however, the Asia Pacific region will be the growth leader over the next ten years, overtaking Europe to dominate global outbound travel spend by 2023. According to our model, North East Asia alone will account for 42% of the growth in global outbound business travel expenditure over the next decade, with South East Asia accounting for a further 13%.

Non-OECD countries accounted for 44% of global air traffic in 2013 and we forecast this to rise to 51% in the next ten years, driven primarily by the expansion of large emerging markets, especially China. Non-OECD air traffic is increasingly independent of mature Western markets, with "South-South" journeys accounting for 40% of global air traffic in the past five years. Our model suggests that China may overtake the US as the largest source of outbound travel spend in the world in 2014, with China's share of global outbound travel expenditure set to rise from 1% in 2005 to 20% in 2023. China may also surpass the US as the world's largest domestic travel market by 2017. In fact, our modelling suggests the potential market for outbound Chinese tourism could more than double to 220 million households in the next decade.

A key input to this report is the contribution of expert interviewees. These included participants from major airlines, airport operators, rail operators, travel industry experts, hotel operators, online travel agents, information developers and participants drawn from Amadeus itself. These interviews, combined with macroeconomic forecasts and research from Oxford Economics, provided insights into how industry participants themselves see the industry developing in future years.

Emerging market travel sectors are not only growing, but also innovating to meet the demands of rapidly expanding and maturing domestic markets, with lessons for Western providers. Technologically, emerging markets are often more open to change and local agents are more experimental than their advanced market counterparts.

Western business travellers have been slow to recover old spending habits. North American and European short-haul markets are still yet to recover 2008 levels. Premium air traffic data from IATA shows that whilst long-haul (intercontinental) premium traffic recovered quickly and robustly from the financial crisis - particularly that connecting advanced to emerging markets - short-haul travel demand has been much more sluggish.

The business models of Low Cost Carriers and traditional carriers have converged in recent years, but remain distinctive. Structural factors will continue to set the LCCs and traditional carriers apart and they will continue to compete along the familiar lines of their comparative advantages – price versus service.

The more important trend in the next decade is the further expansion of LCC market share. LCCs are outgrowing general traffic in every continent of the world. Europe remains the most active market for LCC business, with 250 million passenger trips per year. North America is next largest with 173m, but Asia is fast catching up, recording over 117m passenger trips on average in the past five years and growing more than 150% in that period. The introduction to the market of large numbers of new middle class travellers from emerging economies in the next 10 years will pose great opportunities for LCCs. LCCs, however, are yet to demonstrate a viable model for capturing longer-haul market share to date. The more successful LCCs become the more likely they are to outgrow their original business model and be forced to adapt.

Seamless travel has two main aspects: technology and infrastructure. Infrastructure provides the different modalities of transportation, and technologies connect the different modes of transportation. Seamless travel exists in many forms but an “ideal” case would be booking a single “door to door” service which took a traveller from their home to and through an airport, onto and off a plane and to their destination hotel. In practice, much seamless travel currently exists in selective “bubbles” because the businesses required to provide the infrastructure and the technology are very different. In addition, there is a “market failure” at work that makes the provision of truly global seamless travel solutions very difficult.

The development of internet based and mobile technologies would appear to provide more opportunity than ever before for a potential facilitator, given that they might help overcome many of the past issues that helped forestall seamless travel. At present, however, because many providers appear to be focused on improving their own offerings, seamless travel is effectively left for “someone else” to worry about.

As the world’s mobile users and mobile broadband users have increased, so have the applications and uses of mobiles for travel. The number of mobile device users in developing countries has been rapidly increasing since 2005, with an average annual growth rate of 36.8% over the 2005-2013 period, meaning they now by far outnumber users in developed countries. Mobile broadband user numbers in developing countries have also been growing at a rapid rate and are expected to have eclipsed user numbers in developed countries in 2013 for the first time, with 1.2 billion users.

As a result of this growing trend of using mobile devices for travel, travel providers are developing applications to further facilitate information provision, reservations, and payments. If economic history is any guide it is likely that the spread of mobile technologies will produce major changes in the travel industry – as well as major financial opportunities – however these may take many years to fully develop and their shape is only dimly grasped at present.

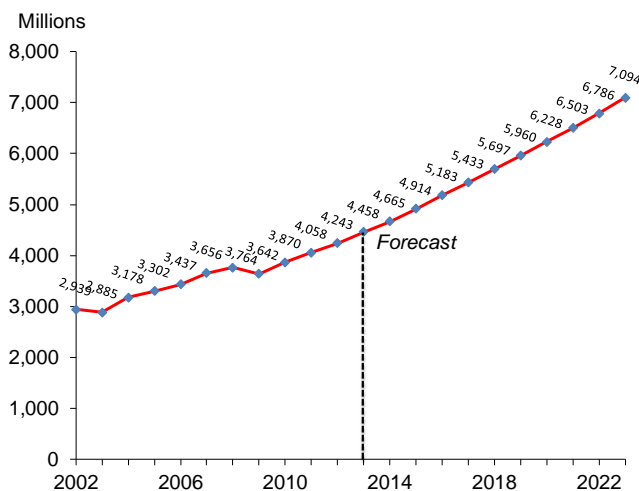
1 Global Travel Trends

1.1 Worldwide Trends

Global travel rebounded rapidly from the 2009 financial crisis and is forecast to grow robustly over the next decade. Global overnight visitor flows are comparable with global trade flows. We expect global overnight visitor flows to grow at 5.4% per annum over the next decade, significantly faster than GDP growth of 3.4% and more in line with the expected expansion in global trade flows of 5.8%.

Although global overnight tourist flows dipped briefly at the peak of the financial crisis in 2009, they have since rebounded and continued to increase at a healthy rate of 16.5% from 2009 through 2012. This is slightly higher than the 15% growth rate experienced before the financial crisis from 2004 to 2007.

Chart 1.1: Global overnight visitor flows, 2002-2023



Source: Oxford Economics

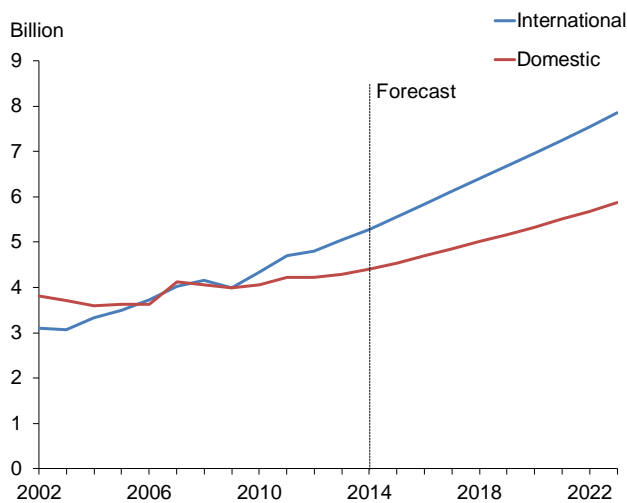
The Oxford Economics Tourism Decision Metrics (TDM) model forecasts visitor flows as a derivative of outbound visitor spending. As the global economy continues to recover, and given our forecasts for personal income and business spend growth, we forecast an average annual growth rate for visitor flows of 5.4% over the next decade. This is an acceleration of the 4.1% growth rate experienced over the 2009-2012 period. Outbound global travel spending¹ follows a broadly similar trend to that of overnight tourism flows, with predicted average annual growth of 5.4% from 2013 through 2023.

¹ Defined as spending by residents on travel in foreign countries (exports).

International accommodation nights are outpacing domestic accommodation nights since the financial crisis, potentially showing a drop off in demand for accommodation on domestic trips.

The financial crisis resulted in a temporary flattening of nights spent in accommodation by all travellers, both domestic and international. Chart 1.2 shows global accommodation nights, broken down by international travellers and domestic travellers.

Chart 1.2: Global accommodation nights, international and domestic, 2002-2023



Source: Oxford Economics

This chart shows the flip between international and domestic accommodation nights. Before 2006, the volume of accommodation nights by domestic travellers was higher than for international travellers. Around the financial crisis, the two were at roughly the same level, but from 2009, the two began to diverge.

From 2009 to 2012, international accommodation nights grew by 20% but domestic accommodation nights only grew by 5.8%. The reason for this divergence is unclear. The differing growth rates may reflect both the generally slow pace of domestic demand in Western economies (restraining domestic tourism) as well as the growth of emerging markets, with new tourists increasingly interested in exploring the outside world (if only, at first, within their local region).

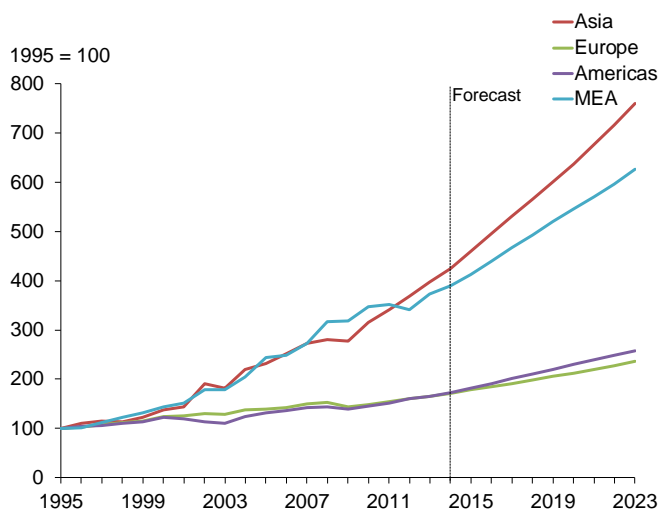
Based on current trends, domestic and international accommodation nights are forecast to continue to diverge from 2013 to 2023, with international accommodation nights growing at an annual average rate of 5.1% compared to 3.4% in domestic accommodation nights.

1.2 Regional Trends

In terms of overnight visitor flows, we predict that the Asia Pacific and the Middle East and Africa regions will be the fastest growing regions over the next 10 years, with Asia growing at nearly double the rate of the 2002-2012 period. Despite this, Europe's share of visitor flows will remain dominant out to 2023.

Chart 1.3 below shows how the growth in overnight visitor flows for those regions compares to the growth for Europe and the Americas since 1995². The divergence in growth rates between the high growth regions (Asia, MEA) and the lower-growth regions is clear (Europe, Americas).

Chart 1.3 Indexed overnight visitor flows by region, 1995-2023



Source: Oxford Economics

Over the 2013 to 2023 period, visitor flows for Asia are forecast to grow at an annual average rate of 15.1%, nearly double the prior ten-year period. Over this same period, visitor flows from the Middle East and Africa will grow at an annual rate of 11.9%, a few percentage points above the 8.4% growth registered over the prior ten-year period. In comparison, arrivals from Europe and the Americas will have growth rates that are approximately half or less than Asia and the Middle East and Africa over the forecast period (but still higher than the prior ten-year performance). Table 1.1 below summarises the growth rates Oxford Economics' TDM model forecasts for the next decade as well as providing results for the last decade.

² This chart shows the indexed growth trend, therefore setting 1995 as the common base year for all tourism flows and calculating the growth per region from that base year. ³ Connecting passengers are assigned to the points of their origin and destination, not to the point(s) of transfer.

Table 1.1: Growth in overnight visitor flows by region

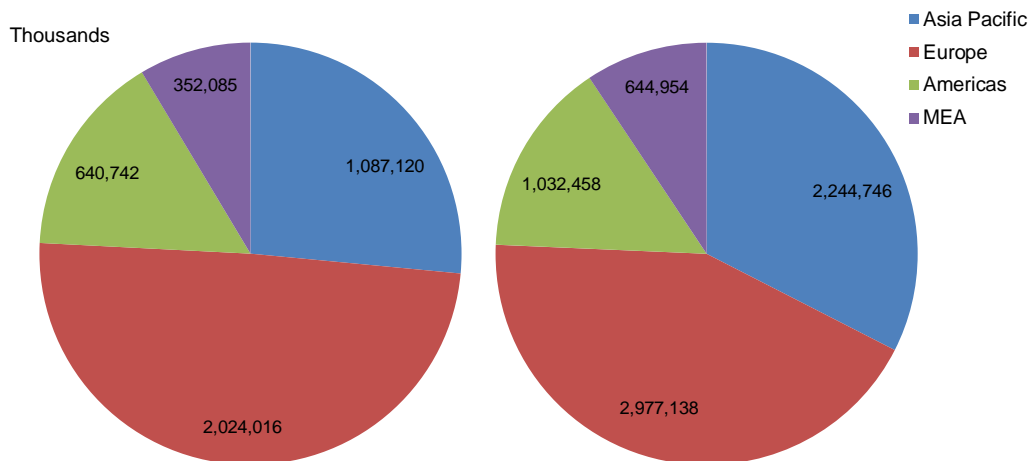
Region	Average Annual Growth (%)	
	2002-2012	2013-2023
Asia	8.5%	15.1%
MEA	8.4%	11.9%
Europe	2.1%	3.9%
Americas	3.7%	6.4%

Source: Oxford Economics

By way of comparison, Chart 1.4 displays the volume of overnight visitor flows for 2012 per region. In volume terms, Europe has the lion's share of tourism flows, with the Asia Pacific region in second place, the Americas third, and the Middle East and Africa in fourth.

Chart 1.4: Overnight tourism flows by region, 2012 (Left-Hand Side)

Chart 1.5: Overnight tourism flows by region, 2023 (Right-Hand Side)



Source: Oxford Economics

Chart 1.5 shows the same overnight visitor flows, but for the 2023 forecast year. The Asia Pacific and the Middle East and Africa region, despite high growth, will still retain the same regional rankings in 2023.

Examining airline travel between regions gives further insights into passenger flows. Table 1.2 below shows the growth in origin and destination passenger traffic between world regions³ for the past few years, sorted by the highest annual percent change for the year 2013.

³ Connecting passengers are assigned to the points of their origin and destination, not to the point(s) of transfer.

Table 1.2: Growth in airline passenger traffic between regions, 2009-2013

Region Pair	Change in Passengers				
	2010	2011	2012	2013	2009-2013
Middle East Africa-Asia Pacific	11.53%	6.40%	1.70%	10.27%	33.09%
Asia Pacific-Asia Pacific	11.09%	5.38%	8.58%	9.00%	38.54%
Middle East Africa-Europe	7.76%	1.00%	3.85%	7.63%	21.66%
Asia Pacific-Americas	6.85%	9.03%	4.87%	6.24%	29.79%
Asia Pacific-Europe	9.50%	8.97%	7.12%	5.38%	34.69%
Middle East Africa-Middle East Africa	9.10%	6.39%	1.82%	3.12%	21.86%
Europe-Europe	4.70%	5.25%	3.68%	3.06%	17.75%
Americas-Americas	4.11%	1.38%	3.01%	2.39%	11.33%
Middle East Africa-Americas	7.77%	4.70%	2.87%	1.62%	17.96%
Europe-Americas	1.87%	4.17%	-1.04%	0.86%	5.91%

Source: Oxford Economics, Amadeus

Notes: Data captures origin and destination only.

Calculations for a single year reflect the change from prior year.

The table clearly shows that travel by air between the Middle East/Africa and the Asia Pacific region, as well as within the Asia Pacific region has grown the fastest over the last few years. This is closely followed by travel between the Middle East Africa region and Europe, the Asia Pacific region and the Americas, and the Asia Pacific region and Europe. These dominant bilateral travel flows are driven by high growth in both the Asia Pacific and the Middle East Africa markets.

In the competition for long-haul transfer passenger traffic, hub airports in the Middle East are thus far winning the race.

Point to point traffic may be growing, but at the same time, airports are competing to be regional hubs. While the number of international transfer long-haul O&D passengers across major European and North American hubs have been growing relatively modestly over the past 5 years (8% in North America and 10% in Europe), the number of such transfer passengers flying through the Middle East hubs has been increasing at the rapid rate of 79% over the same period. Hub airports in the Middle East have profited from their strategic location between Asia, Africa, and Europe in attracting long-haul transfer passengers, with Dubai airport leading the pack. In addition, such traffic at the six key Central and South American hubs is also increasing at a fast pace of 57%. Table 3.3 below shows the major hub airports per region with international transfer long-haul origin and destination (O&D) passengers in 2013 and the growth of such passengers from 2009 to 2013.

Table 1.3: Leading regions for transfer long-haul O&D passengers, 2013

Region	Hubs	2013 O&D Pax	% Change 2009-2013
Asia	SIN, HKG, BKK, NRT, PEK, ICN	24,797,116	20.1%
Europe	FRA, CDG, LHR, AMS, MAD, IST	39,915,881	10.0%
South and Central America	GRU, PTY, SCL, BOG, LIM, GIG	6,570,340	57.0%
Middle East	DXB, AUH, DOH	19,228,052	78.6%
North America	ATL, JFK, ORD, EWR, LAX, MIA	17,209,541	7.7%

Source: Amadeus

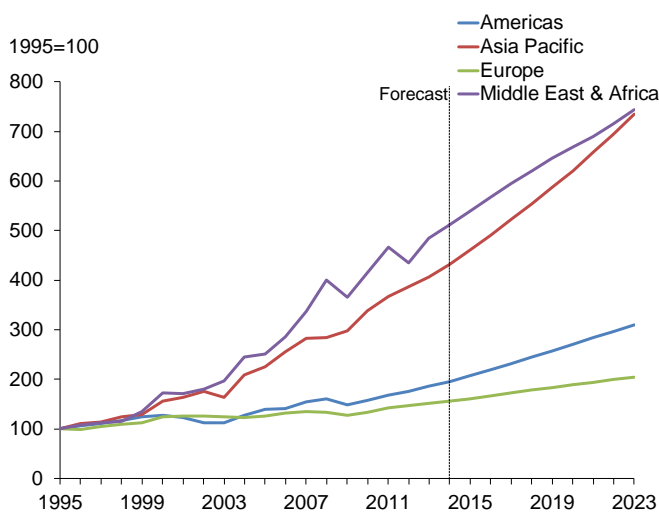
Note:

O&D Pax given is estimated number of O&D passengers travelling on international long-haul O&Ds (>5000 km) connecting at the given hub. Pax connecting at multiple hubs are distributed proportionally to the distance travelled.

In line with our international travel forecasts, we anticipate rapid growth in demand for accommodation in the Asia Pacific and MEA regions. Despite this, Europe will still lead the market in 2023.

Chart 1.6 below displays the growth in international accommodation nights from 1995 by region, a similar pattern to the international visitor flows.

Chart 1.6: Growth in international accommodation nights by regions, 1995-2023



Source: Oxford Economics

Asia-Pacific and the Middle East/Africa regions have had the highest growth rates over the last ten years, at 10.9% for the Asia Pacific region and 12.9% for the Middle East and Africa region. For the next ten-year period, Oxford Economics forecasts the Asia Pacific region to lead with a 7.3% growth rate and the Americas rising to second place with a 6.1% growth rate. See Table 1.4 for a summary of the annual growth rates by region.

Table 1.4: Growth in international accommodation nights by region

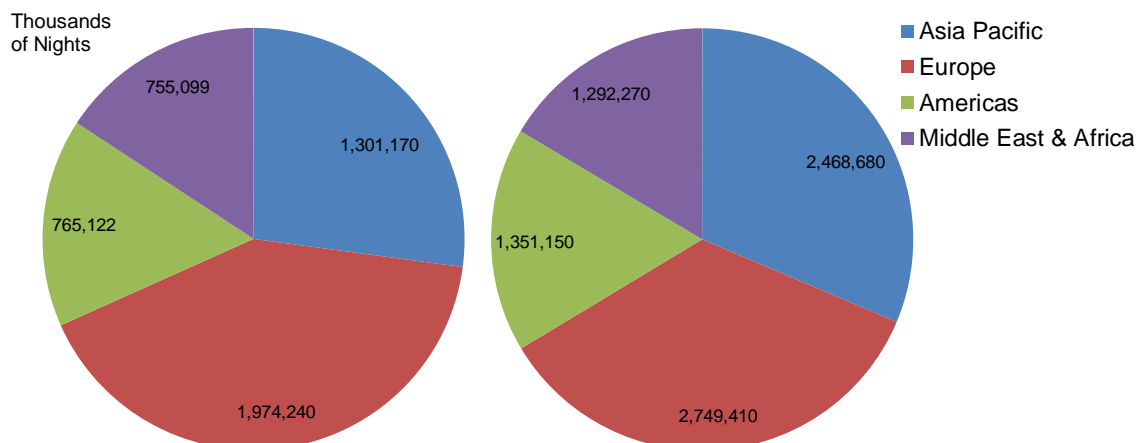
Region	Average Annual Growth (%)	
	2002-2012	2013-2023
Asia	10.9%	7.3%
MEA	12.9%	4.8%
Europe	1.5%	3.2%
Americas	5.1%	6.1%

Source: Oxford Economics

In terms of the levels of international accommodation nights, Chart 1.7 and Chart 1.8 show the levels of international accommodation nights in 2012 and also the forecast level in 2023 by region.

Chart 1.7: International accommodation nights by region, 2012 (Left-Hand Side)

Chart 1.8: International accommodation nights by region, 2023 (Right-Hand Side)

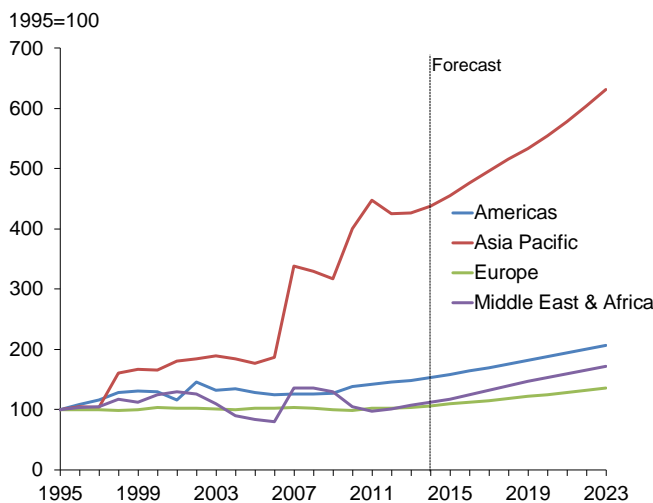


Source: Oxford Economics

In domestic accommodation nights, the Asia Pacific region is the leader of the pack, as with international accommodation nights and overnight visitors, displaying far higher growth rates than the other regions. Unlike the other indicators, however, the Middle East and Africa region does not display particularly high growth here, indicating its weakness in domestic tourism as compared to international tourism. Europe will retain the majority of the global domestic accommodation market share out to 2023.

Chart 1.9 below shows the predicted growth in domestic accommodation from 1995-2023 by region.

Chart 1.9: Growth in domestic accommodation nights by region, 1995-2023



Source: Oxford Economics

The outstanding performer for domestic accommodation growth is the Asia Pacific region, with annual growth of 11.9% over the past ten years, a slightly higher growth rate than for international accommodation nights. Growth over the next ten year-period is forecast to taper to a more moderate 4.4%, a few percentage points lower than forecast growth for international accommodation nights. This provides evidence of strong growth in the domestic tourism segment for the Asia Pacific region for the past decade (especially as compared to other regions), with slower growth in the next decade. In contrast, the other regions have shown little or negative growth over the past ten years, but the Middle East and Africa region is set to lead growth in this segment of the market over the next ten years, with a growth rate of 5.5%. Table 1.5 below summarises these growth rates.

Table 1.5: Growth in domestic accommodation nights by region

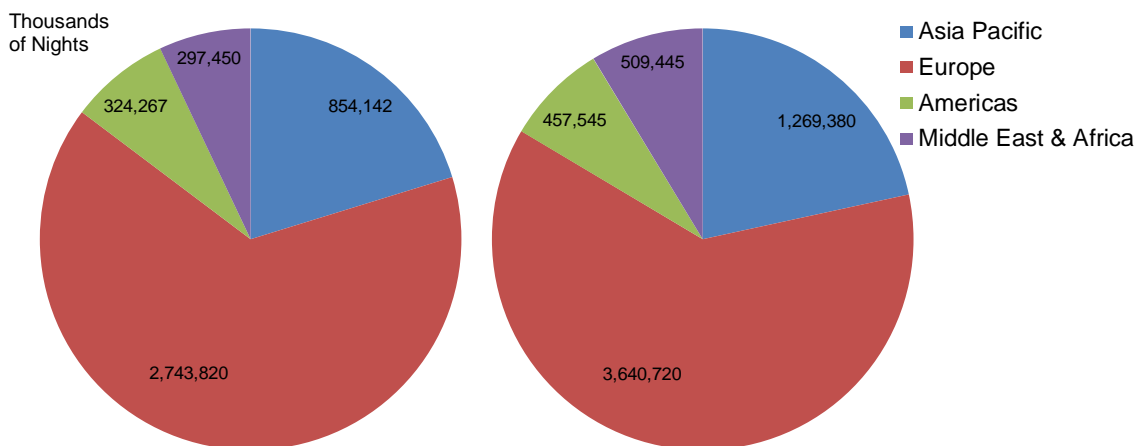
Region	Average Annual Growth (%)	
	2002-2012	2013-2023
Asia	11.9%	4.4%
MEA	-1.9%	5.5%
Europe	0.0%	2.8%
Americas	0.1%	3.5%

Source: Oxford Economics

In terms of the levels of domestic accommodation nights, Chart 1.10 and Chart 1.11 show the levels in 2012 and also the forecast number of domestic accommodation nights in 2023.

Chart 1.10: Domestic accommodation nights by region, 2012 (Left-Hand Side)

Chart 1.11: Domestic accommodation nights by region, 2023 (Right-Hand Side)

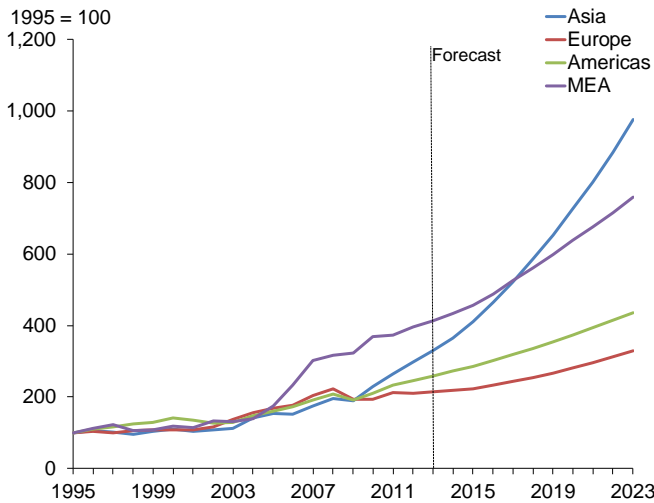


Source: Oxford Economics

In both 2012 and the forecast for 2023, despite high growth in the Asia Pacific region, Europe still retains the majority of domestic accommodation nights in terms of sheer volume, with a 62% predicted market share in 2023 as compared to Asia Pacific's 22% predicted market share in 2023.

For outbound travel spend, the Asia Pacific region will be the growth leader over the next ten years, overtaking Europe to have a dominant share of the outbound travel spend market by 2023.

Chart 1.12: Outbound travel spend by region, 1993-2023



Source: Oxford Economics

At the apex of the financial crisis, growth in outbound travel spend had a large upswing for the Asia Pacific region. Over the 2013 to 2023 forecast period, the Asia Pacific region will be the growth leader, with travel spend in the region forecast to increase at an annual rate of 18%, slightly higher than growth over the past ten years. The Middle East and Africa region is predicted to be another strong performer over the 2013-2023 period, with an annual growth rate of 7.6%, albeit much lower than its annual growth of 18.1% over the past ten years. Oxford Economics' forecast annual growth rates for this and other regions are summarised in Table 1.6.

Table 1.6: Growth in annual outbound travel spend by region, 2012-2023

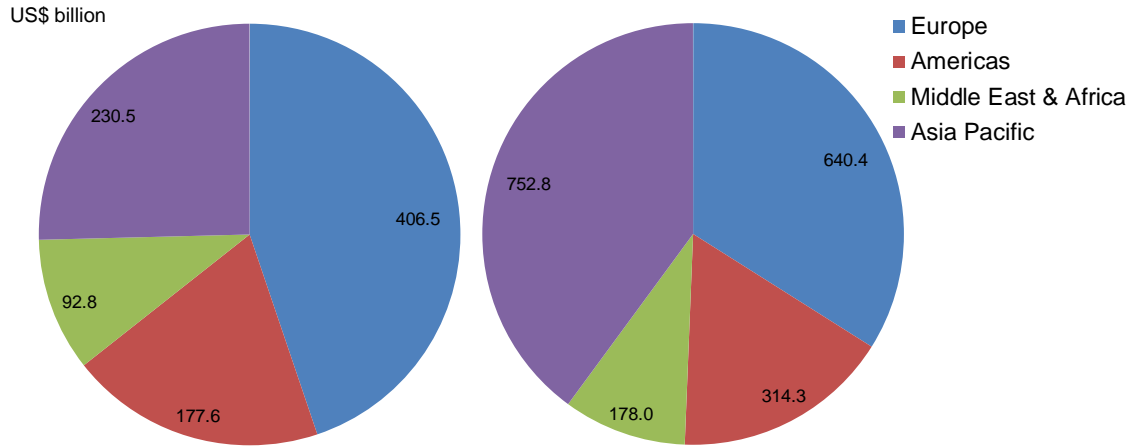
Region	Average Annual Growth (%)	
	2002-2012	2013-2023
Asia	16.1%	17.9%
MEA	18.1%	7.6%
Europe	7.4%	4.9%
Americas	8.5%	6.2%

Source: Oxford Economics

Chart 1.12 is built as an index, thereby equating all regions for 1995 and looking at the comparative growth for each region from 1995 to 2023. Chart 1.13 and Chart 1.14 show the levels of outbound travel spend per region for 2012 and 2023.

Chart 1.13: Outbound travel spend by region, 2012 (Left-Hand Side)

Chart 1.14: Outbound travel spend by region, 2023 (Right-Hand Side)



Source: Oxford Economics

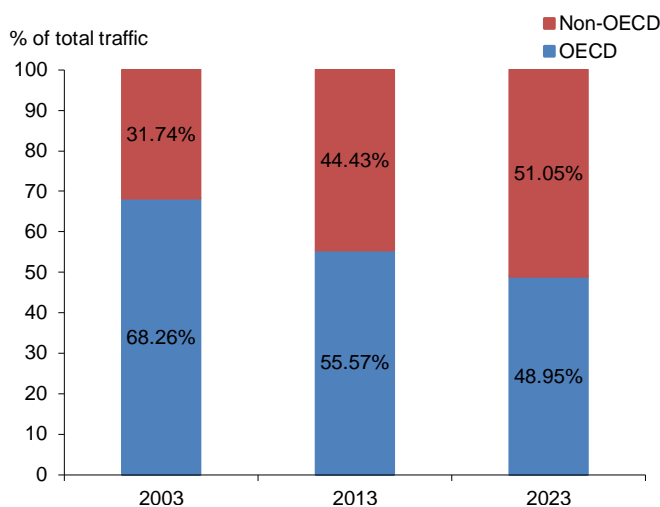
The 25% share of Asia Pacific outbound travel spend in 2012 is forecast to increase significantly to 40% by 2023, overtaking all other regions. In contrast, Europe's large share of global travel spend will decrease from 45% in 2012 to 34% by 2023.

2 Emerging and Frontier Markets

2.1 Emerging markets have already emerged in air travel

Non-OECD countries accounted for 44% of global air traffic in 2013 and we forecast this to rise to 51% in the next ten years, driven primarily by the expansion of large emerging markets, especially China. Non-OECD air traffic is increasingly independent of mature Western markets, with “South-South” journeys accounting for 40% of global air traffic in the past five years.

Chart 2.1: OECD declining share of global air traffic



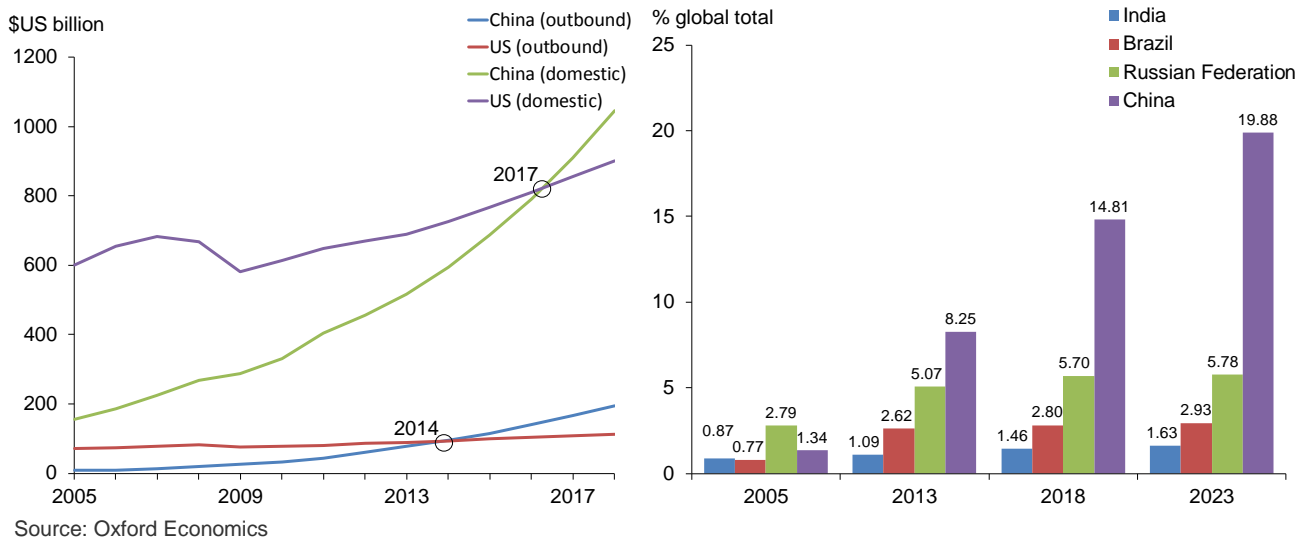
Source: Oxford Economics

2.2 At the heart of this trend is a rapid expansion in Chinese travel

Our model suggests that China may overtake the US as the largest source of outbound travel spend in the world in 2014, with China's share of global outbound travel expenditure set to rise from 1% in 2005 to 20% in 2023. This is shown in Chart 2.3, as China leaves other emerging markets in its wake in terms of global market share. China may also surpass the US as the world's largest domestic travel market by 2017 (Chart 2.12).

Chart 2.2: China overtakes US in travel spend (Left-Hand Side)

Chart 2.3: Growing BRIC share of global outbound business travel spend (Right-Hand Side)

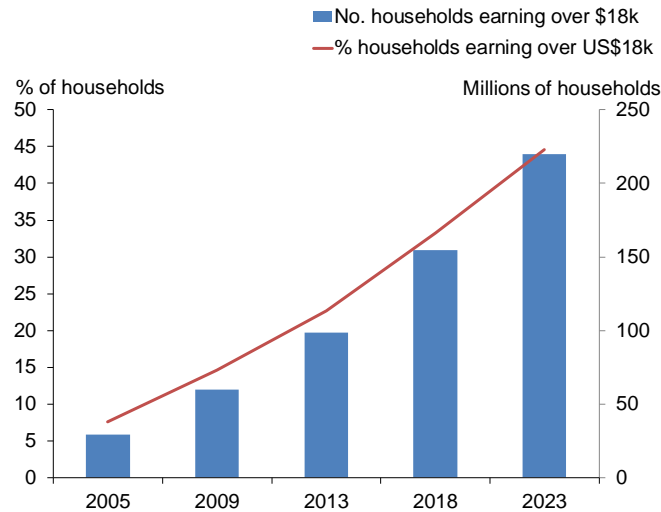


Our forecasts of future travel expenditure in emerging markets are driven by expectations of consumer spending, employment and overall GDP growth. China's boom is also underpinned by a unique cultural and behavioural shift, whereby a new and very large generation of Chinese individuals is expanding its overseas business interests and engaging in cross-border tourism in a manner unprecedented in previous generations.

The potential market for outbound Chinese tourism could more than double to 220 million households in the next decade.

According to a survey of 3000 Chinese travellers by Hotels.com Chinese International Travel Monitor, the average outbound Chinese tourist in 2013 earned a salary equivalent to US\$18,000. We estimate that around 100 million Chinese households currently earn that level of income, which gives a sense of scale to the potential market place. According to our Global Cities 2030 forecast, and adjusting for inflation, our analysis suggests that number could rise to 220 million by 2023.

Chart 2.4: Potential growth in Chinese tourism market



Source: Oxford Economics

There is an emerging generation of Chinese that is increasingly aware of the outside world and has it within its means to go visit.

Chinese government initiatives are making it easier to travel overseas, reducing red-tape around passport applications and proactively promoting outbound tourism⁴. For the first time, the twelfth five year plan published in 2012 explicitly aimed to “actively encourage the development of outbound tourism.”

China’s travel sector is a large, diverse and evolving marketplace.

The clichéd Chinese tourist on a whistle-stop package-tour and eating in Chinese restaurants is rapidly evolving. Chinese travellers are increasingly opting for non-Chinese hotels and restaurants⁵ (although interviewees noted that more could still be done to cater to Chinese and other emerging market travellers through better provision of TV, newspaper and other services in their native language). Younger, more educated and sophisticated travellers are demanding richer experiences from overseas travel, researching and organising trips themselves over the internet and social media networks.

According to a hotel survey in 2013, almost two thirds of Chinese travellers said they preferred to travel on their own rather than as part of a group; almost half bypassed travel agents and booked their accommodation directly with the hotel. Shopping still accounts for one third of the traveller’s budget, according to a recent report by the China Tourism Academy, but the share is slipping.

Chinese outbound business travel will also expand rapidly in the next decade as more and more Chinese businesses expand overseas, procuring

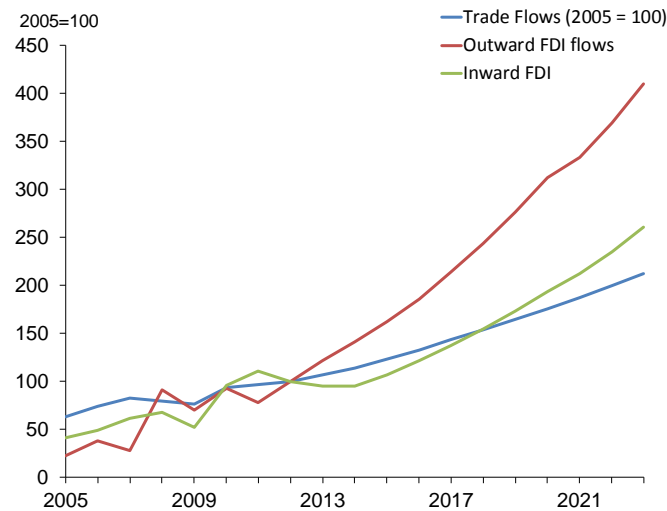
⁴ The Outline for National Tourism and Leisure, Feb 2013, The State Council of China.

⁵ Hotels.com Chinese International Travel Monitor survey 2013.

international goods and services and engaging in the global production chain.

We forecast Chinese trade flows to double in the next decade and outward foreign direct investment flows from Chinese firms to more than treble, to over \$250bn (current prices) (Chart 2.5). There is a strong linear correlation between these factors and outward business expenditure.

Chart 2.5: China's external trade and investment flows



Source: Oxford Economics

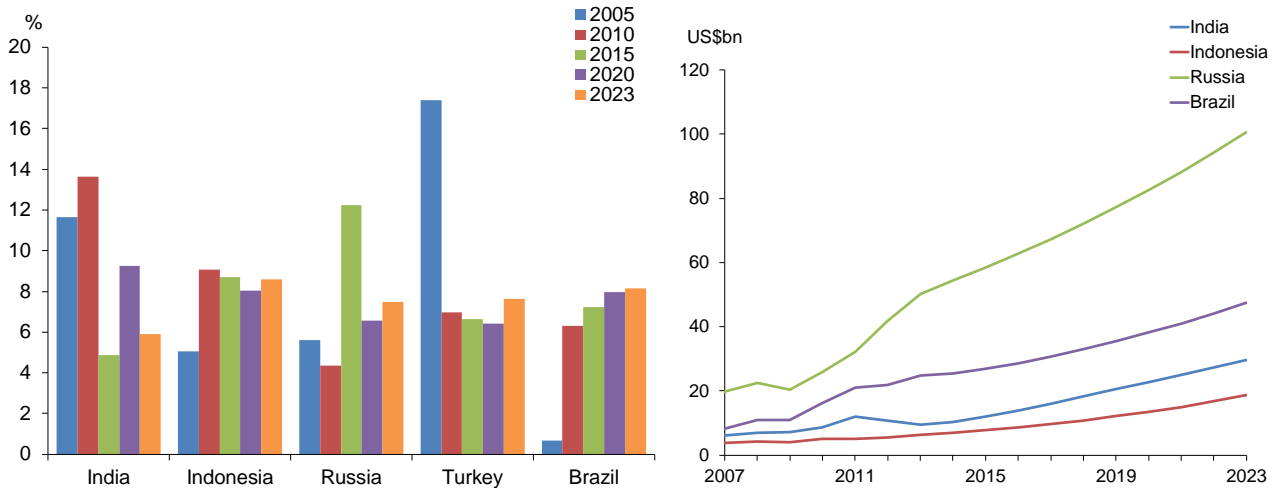
2.3 Other emerging economies will also play an important role

The growth story is not exclusive to China. Our forecasts show a number of large emerging markets, driven by rising wealth and changing consumer habits, expanding their international air traffic flows and outbound travel expenditure over the next decade. The standout performers are Russia, Brazil, India, Indonesia and Turkey. Chart 2.6 shows average annual growth rates in air traffic in these countries (on a 5 year rolling basis). Following rapid growth over the past decade, we expect each of them to average more than 5% annual growth over the next 10 years.

In line with that expansion, outbound travel spend is forecast to multiply over the next decade. We forecast Russian outward travel spend to rise from around US\$50bn in 2013 to over \$100bn in 2023. Similarly, we expect Brazil's outward travel spend to double, and India and Indonesia's to roughly treble in that time period (see Chart 2.7).

Chart 2.6 Average annual growth in international air traffic (5-year average annual growth rates) %

Chart 2.7 Outward travel expenditure (US\$, bn)



Source: Oxford Economics

Emerging market travel sectors are innovating to meet the demands of rapidly expanding and maturing domestic markets, with lessons for Western providers.

Local travel providers in emerging markets are successfully tailoring multi-modal content to travellers' requirements and making innovative use of mobile technology for bookings, payment and connectivity etc. Local providers are utilising local market expertise, incorporating local bus and ferry content to air travel and accommodation booking. These local champions will continue to secure market share in isolated markets that fall outside the scope of established global travel providers.

Technologically, emerging markets are often more open to change and local agents are more experimental than their advanced market counterparts.

Due to the lack of credit cards, many agents have leapfrogged to accepting payment by mobile. Payment via mobile becomes increasingly compelling in light of the very rapid expansion of mobiles in emerging markets (in contrast to the historical problems with fixed line networks and other infrastructure).

Interviewees report that travellers *within* emerging markets tend to follow a two-tier pattern – with newly emerged middle class travellers having lower expectations than equivalent Western consumers while wealthy travellers tend to have very high expectations. Accordingly, the domestic hotel market has had a tendency to bifurcate into serving these polarised ends of the market with branding playing an important role (particularly at the upper end of the market).