

2009 Cambodia Outlook Conference

***“Cambodia and the Global Crisis: Impact,
Policy Responses and Action”***

Tourism

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Key issues: Taking the long View

*Artificial, poorly regulated, the boom led to the bust
If the boom was not sustainable, why could it be sustainable in the
future?*

Anticipating better = looking back without restrictions

2 key concepts :

- ▶ **Intrinsic Value of assets has to be carefully considered and mastered**
- ▶ **Values move in response to changes, cycles and mode of management**

- 1 - **Where Cambodia TI stands in terms of market cycle?**
- 2 - **What are operators and tourist psychology, needs and expectations?**
- 3 - **What is going on in terms of value and attractiveness?**
- 4 - **Who are (will be) the potential tourists to Cambodia?**
- 5 - **Which ones have to be prioritised according to Cambodia's tourist model and the maximizing of revenues across population and country?**

Tourist Industry & Tourist Economy crucial for Cambodia's growth & poverty reduction

2.1 millions visitors who spend 700 US\$ on average

	Today		2016	
	T. Industry	T. Economy	T. Industry	T. Economy
GDP	8.50%	19.50%	11%	25%
Jobs	450000	750000	1 050 000	1 650 000
% Total jobs	6.5%	11%	15.5%	19%

A much bigger chunk of the national economy than what can be observed in neighbouring countries and most tourist-oriented economies

A strong source of qualified *and* unqualified jobs

A solid, strong and “built-in” competitive advantage: Angkor!

Angkor uniqueness is a powerful strength and is also Cambodia's tourist weakness.

A unique asset which is the only one to be effectively operated on a sufficient scale.

Sectors	Jobs creation	Value added *	Capital intensity	Skilled	Total
				Human resources	
Tourism	4	3	-2	-2	3
Textile	3	1	-1	(1~2)	1~2
Construction	3	2	-3	(1~2)	0~1
Agriculture	1~4	4	-1	(1~2)	3~6

- Scale 1 to 4.
- Weighted average of actual gross value added and possible domestic appropriation of value added.
- Capital intensity and availability of skilled workers are considered as obstacles to development.
- Jobs creation & Human resources brackets take into account that (a) agriculture do not create jobs but is a strong factor of job preservation (b) more skilled people are needed in order to increase domestic appropriation of value added.

Along with agriculture TI is by far the main source of growth, jobs and local value added,

Others sectors depend too much on:

- Foreign inputs (design and orders, raw material and accessories; investment, technology, machines, building materials)
- Fragile competitive edge or volatile capital flows.

This conclusion leads us to a set of current challenge

Current challenges

TI sector downturn is obvious. We may forecast at least a 15% decrease of activity for the 2008-2009 high season

But focusing only on responses to the immediate aspect of the crisis would be dramatically wrong:

- **Crisis might last 2 to 3 years; but won't disappear without trace!**
- **A certain paradigm of the global economy – expansionism – is dead: counting on its renewal might generate bitter surprises.**
- **Trying to cope with its impact at secondary levels (subsidizing here, marginally reducing costs there) will be of no effect.**

The previous policy based upon Mass Tourism instead of Value added Tourism would have led anyway to saturation and disappointment over a few years.

Commonsense & Experience confirm 2 points

Too many tourists kill tourism or, at least, lead to stagnation and decline in places which:

- **are not designed to accommodate big crowds**
- **have to offer a sense of quality and exclusiveness instead of standardized and mass leisure activities.**

International uniqueness is fragile, as well as international brands. They both:

- **Need great care, no complacency and sound management**
- **Have to be kept above competitors through a strong policy of quality and differentiation**
- **Have to adapt to new cycles, fashion trends and tourists expectations without giving up their spirit and tradition**

Policy recommendations: 1/1 Angkor

Yes, focusing on Siem Reap is a good idea! But unique assets are fragile

Please, shake with moderation

Main goal is to facilitate stays & enhance tourists' satisfaction by:

Diversifying activities: most initiatives are self supporting private projects; but a few SME&ME project with lack of affordable financing might be encouraged through fiscal incentives and/or a special development fund.

Optimizing visits, better services in the park and in town:

- Reducing entrance fees (which are not high) would have no impact whatsoever on arrivals.
- Enlarging the options in order to fit tourists' needs & expectations is for all stake holders (private and public) a more dynamic formula than any

Giving more attention to urban planning, cleanliness, water resources. New Hotel Zone; Administrative City; Heritage and People, etc. : Private initiative needs guidance and control

Policy recommendations: 1/2 Angkor

Yes, focusing on Siem Reap is a good idea! But unique assets are fragile
Please, shake with moderation

That means a full array of different and customized entrance pass and fees providing increased revenues for maintenance and investment:

Late & night openings;

Alternate circuits to alleviate pressure on main temples;

Half day passes;

7~14 days passes at highly discounted prices that would allow tourists to use SR as a base for the discovery of Angkorian sites over a large radius, other places in Cambodia...and stay longer in SR

That means also addressing the issue of modernisation with new user-friendly and labour intensive systems & equipments (transportation, lighting, on site food & beverage, auto-guides; etc.) in order to enlarge options, revive tradition, fit better tourists expectations, stimulate micro-entrepreneurship, improve the attractiveness and uniqueness of the site, create domestic value - instead of looking forward for “one size fits all” systems which often correspond to outdated or inadequate models of value creation.

Policy recommendations : 2 Costs & Prices

Let's not waste too much time and needed expertise on menial problems!

Coping only with immediate difficulties is tempting. But It makes us forget the long term challenges. It distracts analysts, decision makers and funds from long term remedies. It leads, most of the time, to a set of patched up, false or even tricky, irrelevant and dangerous solutions.

- ▶ **Tourists don't come or not to Cambodia for +/-10 to 20\$. Fees, taxes and prices are not high compared to international standards.** Much needed Asians and Caucasians tourists, in the middle-high end of the market, ask for quality. *No tourist will ever see those petty economies consolidated into a significant rebate.*
- ▶ **Safe, clean and well run *air terminals*, speedy and no red tape *visas* with multi entry possibilities at a few but well supervised air, boat and road *check points* are much more important for Cambodia's image, repetitive trips and further propensity for spending.**
- ▶ **Those who ask for petty price reductions will be asked in return by the RGC or their partners to lower their prices and profits.** It creates a pernicious cycle: downgrading collective and individual services; lowering the investment and innovation capacity; diminishing the country image whose recent recovery is still fragile.

Policy recommendations : **3 Productivity**

The productivity and competitiveness speech is a cliché and often an alibi.

TI development depends mostly on Image, Attractiveness, Exclusiveness Uniqueness and...Access.

Don't let us mix up competitiveness (another word for productivity) and attractiveness. Countries which dominate the international TI market (France, the US, Spain, Italy, UK...) have extremely high costs, taxes and salaries. Their higher rate of productivity doesn't compensate.

To increase Attractiveness & Exclusiveness focus should be put on :

- ▶ Urban planning and construction standards enforcement
- ▶ Master plans and zoning + provisions for the protection of sites & landmarks in PP, most provincial towns and last but not least Coastal areas.
- ▶ More flexibility on foreign ownership of real estate
- ▶ A fund (and specific tax?) devoted to: Roads and Trails construction and maintenance to and from remote areas with tourist short tours and trekking potential; small eco- resorts in the same areas, responding to RGC criteria.

Policy recommendations : 5.1 Overland traffic & Ecotourism

Yes, developing more overland traffic is a good idea! Launch of this new product can be done quickly. But let's be careful. The roads network is limited and cannot be used in all seasons, without causing problems (to you, others or the environment)

- ▶ Target is made up of individuals and very small groups. They range from rather sophisticated, affluent Caucasian & Japanese to grown up back packers and boomers, with a taste for soft adventure. Targeting other segments of the tourist market will make a mess of this good idea.
- ▶ First, 7 to 8 well supervised check points would suffice with:
 - Speedy delivery of multi entry visas & strict enforcement of listed fees for visas, car clearance, insurance and so on.
 - Flexibility on the number of authorized days (15 is too few for visitors want to visit neighbouring countries from Cambodia)
- ▶ Second, basic information is needed. It means:
 - updated road maps (with the mention of existing ferries capacities)
 - internet access to a good site focusing on key areas and points of interest with links to selected providers of accommodation

Policy recommendations : 5.2 Overland traffic & Ecotourism

- ▶ Don't expect tons of **cash** from this new flow of tourist.
- ▶ However, you don't have to wait for a **full-fledged ecotourism policy**.
- ▶ A sound framework for real ecotourism activities makes some sense! But a framework, regulations, standards don't create jobs – unless you have plenty of funding and financial incentive to offer.
- ▶ Let's **look around**, compare, benchmark. **Ecotourism that makes true money is very sophisticated**. It needs plenty of capital and human training. But most of all, it needs scenery, flora and fauna that are not or no more (because of wars and logging) available in Cambodia.
- ▶ **Cambodia ecotourism** can be a good **niche** market, but it is and will stay a **small one**. What you can find in Lao, in the Champassak and Boloven areas or between LP and the Chinese border is a good example of what can be done here. It's interesting; it's limited.
- ▶ So let's **keep our main focus on the real thing**.... Especially if financial means are scarce or at least limited!
- ▶ Let's focus on the **places where the tourist goes** – because he has the benefit of a **good and multi access** by air, car or boats.

Policy recommendations : **6.1 Sihanoukville & Coastline**

- ▶ *The SR-PP- SHV triangle is the **magic wand** that will provide TI:*
 - A more balanced platform to allow longer stays
 - More daily spending per pax
 - Diversification of arrivals by air & reduced stress in SR
 - Creation of value over a broader part of Cambodia territory.
 - A platform for developing ecotourism in the Cardamoms-Koh Kong area and quality resorts in the nearby islands.

- ▶ Offering stays in SHV region will lengthen stays from ~2 to ~4 nights according to conservative estimates. **With no increase in the total number of arrivals, you have 15 to 25% more TI activity and value over ~5years.**

- ▶ **Unachievable? Absolutely not!**
Distracting 5% to 15% of middle to high end tourists flows represents only 35 000 pax to 100 000 pax. Most of them are already based or spend much of their time at beach resorts in neighbouring countries. With a 60% occupancy rate, on a 10 months period, you just need 500 to 1800 additional luxury rooms in SHV.

Policy recommendations : 6.2 Sihanoukville & Coastline

Let's take again one oversimplified example

Arrivals	Origin	Weighted	Targets		Total target
		%			
Air:	25% Asean	2.50%			
	38% Asians	7.50%			
1300 kpx	11% Japan.	11%	650 000		
	30% Caucasians	30%			
Boat: 40	Asean & GIT	10%	4000		707 000***
Road 530	Asean & FIT	10%	53 000		
Segments	Average stay	No of nights	Add.	Ave.	Total stay additional
			Stay	stay	
90% SR	2~3	1550 000	10%	3~4	155 000
50% PP	1~2	530 000	10%	2~3	53 000
10% others*	~2	70 000	5%**	~4	140 000
			15%		420 000
Total	-	2150 000	-		350~625 kpx

* including SHV

** 5% of the total target (700 000) at short term and 15 % after 5-7 years

*** We consider only foreign tourists. Most of them visit Siem Reap. Almost half of them overnight in PP at arrival or before departure. Less than a handful of them go to SHV.

Policy recommendations : **6.3 Sihanoukville & Coastline**

Yes, making of SHV the natural complement of SR and PP, is crucial.

But it constitutes a typical chicken and egg problem.

Airport is ready. Flying between SR, PP and SHV is easy and would meet immediately a significant demand. But quality accommodation is not yet sufficient. Airlines postpone connection. Additional capacity is created at too slow a pace & new projects are more difficult to achieve

G-PS Tourism TWG courageously drew RGC's attention on 3 strategic, delicate but crucial issues:

- ▶ **Increasing air access to SR.** That means the ending of *de facto* monopoly on BKK route (which is the major feeder of TI in SR);
- ▶ **Increasing domestic connections through 2 dramatic moves.**
 - Full 5th freedom rights for airlines deserving already SR or/and PP;
 - Combining measures & pressures to have regular flights between SR and SHV.
 - Both steps would provide TI with *more direct access by air, much improved connections, much cheaper tariffs* and, last but not least, real access to largely *untapped new assets* whose sound but rapid development is the only route towards renewed growth and improved sustainability.