Policy Advisory

No. 2008-03

MAXIMIZING THE POTENTIAL OF PHILIPPINE TOURISM

Congressional Planning and Budget Department
House of Representatives

Executive Summary

Although receiving minimal financial support from the government, the Philippine tourism industry is able to grow impressively for the period 2004 to 2007, registering annual average growth rates of 10.5% and 34.9% in terms of tourist arrivals and receipts, respectively. This could be attributed to the private- public sector partnership that has become stronger in recent years in marketing and promoting destinations, developing infrastructure, increasing community participation and in developing more sustainable tourism activities particularly at the local levels. For its part, the Department of Tourism could still help improve the industry's performance by focusing its marketing and promotions efforts on products and activities that will add to the attraction of the Philippines as a quality destination.

However, this momentum in tourism growth could easily be derailed by inconsistencies in declared policies and actions and the lack of coordination among stakeholders. The overall vision of tourism should be supported by the policy goals in tourism-allied sectors such as environment, infrastructure and transportation (especially aviation policy).

Moves to pass tourism related legislations to fast-track the development of the industry have gained impetus. These measures include the enactment of a national tourism policy to ensure a holistic approach to tourism development; the adoption of a pocket "open-skies" policy that will allow foreign carriers to have access to selected airports with tourist attractions; and oversight of the civil aviation sector by Congress with accompanying allocations to fund safety, maintenance and improvement programs.

Given the fact that the Philippines prides itself of destinations which are at the early stages of the product life cycle, the role of government should be to correct market failures, minimize the negative externalities created by tourism and assist in the distribution of benefits to communities.

Maximizing the Potential of PH+ilippine Tourism

By Elsie C. Gutierrez

Tourism as Stimulus

Tourism has been a favoured economic development strategy for developing nations because of its ability to quickly stimulate income and employment growth, foreign exchange earnings, and government revenues through fees and taxes (*UNCTAD 1998*). During the Asian financial crisis of 1997, Thailand (faced with currency devaluation and recession) used tourism as a tool for economic recovery as the share of tourism value-added rose by 2% (*Rodolfo 2003*).

Tourism not only generates jobs at a higher rate than most other sectors, it is an important source of jobs for new workers and those with minimal skills. The multiplier effect (indirect and induced economic effects) tends to be greater than that of many other sectors (*Pantig and Smith 2005*). Tourism has also been recognized as an important sector for creating jobs and livelihood opportunities for local communities in tourist areas. It facilitates infrastructure development, especially in far-flung areas, and contributes to cultural preservation and environmental protection through education and actual visits to places.

Tourism – Global Impact and Prospects

Tourism is reputed to be the world's largest and one of the fastest growing industries today. The World Tourism Organization estimates that in 2006, tourism represents around 35% of the world's exports of services and over 70% in Least Developed Countries (LDCs). In the Asia-Pacific region alone, it generated US$2.5 trillion of the total APEC demand (10.5% of total APEC region's GDP) and its direct and indirect impacts support 8.1% of the total jobs in the region (*Rodolfo 2003*). Based on the study of the World Travel and Tourism Council (WITC), tourism is expected to generate US$ 10.0 trillion of economic activity and 328 million jobs (direct and indirect) worldwide by 2010.

A number of factors are responsible for the rapid growth and development of the tourism industry in the Asia Pacific region. These include the strong economic growth, increase in disposable incomes and leisure time, breakdown of political barriers, easing of travel restrictions, liberalization of air transport, and focused marketing campaigns.

PHILIPPINE TOURISM – AN ASSESSMENT IN COMPETITIVENESS

Tourism as a service industry is lumped in the government's economic accounts under services. However, tourism has indirect linkages with other industries, including those in the agriculture and industry sectors. These linkages include food and beverage, transportation, utilities, telecommunications, to name a few (*Pantig and Smith 2005*).

The Department of Tourism estimated that travel and tourism contributed 3.49 million jobs across the economy in 2006, strengthening its position as among the major employment generators of the country (*DOT 2008 Budget Materials*). In spite of its promise, economist Dr. Bernardo Villegas estimated that tourism contributes less than one percent to the country's GDP (*Businessworld Online 2003*), which is a far cry from the contribution of tourism to domestic economies of Singapore (10%), Hong Kong (10%), China (5%) and Thailand (5%).

Table 1
Rank in Terms of Measures of Tourism Competitiveness* for Selected ASEAN Countries (2007)

Indices	Philippines	Singapore	Malaysia	Thailand	Indonesia	Vietnam
Policy rules & regulation	61	1	26	55	43	104
Environmental regulation	83	6	20	39	81	84
Air transportation infrastructure	72	10	31	25	64	90
Ground transport infrastructure	91	3	15	28	89	85
Tourism infrastructure	93	44	60	53	87	121
ICT infrastructure	83	18	37	58	80	88
Price competitiveness	7	26	2	4	1	10
Human resources	93	2	34	75	62	81
National Tourism perception	83	47	26	35	57	51
National & cultural resources	95	79	101	77	58	84
Overall Index	86	8	31	43	60	87
Ranking (Most Competitive is Number 1; Least Competitive is Number 124)						

Source: Travel and Tourism Competitiveness Report 2007, World Economic Forum
**See Annex 1 for the explanation of the measures of tourism competitiveness.*

Stakeholders in the industry attribute the low contribution of tourism to the economy on the lack of competitiveness of Philippine tourism. According to the Travel and Tourism Competitiveness Report 2007 of the World Economic Forum, the Philippines ranked poorly at 86th among 124 countries. More disappointingly, the Philippines is the least competitive compared to other ASEAN countries such as Indonesia, Malaysia, Singapore, Thailand and Vietnam in most of the indicators *(see Table 1)*. The Philippines ranked very low in the areas of national and cultural resources, human resources, and tourism infrastructure. One bright spot for the Philippines is its price competitiveness. Nevertheless, these findings stress the need for government to do more to make the country attractive as a tourist destination.

A REVIEW OF TOURISM PERFORMANCE

Despite the negative events in 2007 (i.e. terrorism threats, coup attempts, and rising oil prices), visitor arrivals in the Philippines breached the 3 million mark at 3.09 million in 2007. It was higher by 8.7% from the 2.84 million visitors recorded in 2006.

Although visitor arrivals in 2007 may seem an almost remarkable 100% accomplishment for the Department of Tourism, the target was a mere 1% hike from 2006 level of 3.068 million, albeit a 9% target increase from 2006 actual visitors.

Table 2
Tourism Performance, 2006-2007

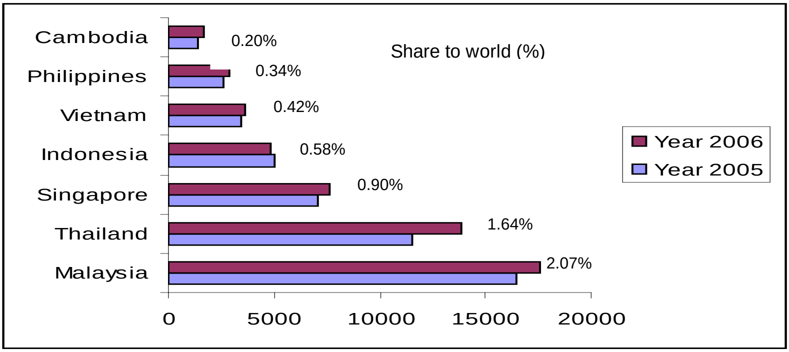
Indicator	2007			2006			Growth Rate
	Target	Actual	Accom-plishment	Target	Actual	Accom-plishment	
Visitor Arrivals (million)	3.1	3.092	100%	3.068	2.843	93%	8.7%
Visitor Receipts (US$ billion)	3.78	4.885	129%	2.98	2.543	85%	40.0%

Source: Department of Tourism for arrivals and BSP for receipts.

Visitor receipts also increased from US$2.54 billion in 2006 to US$4.89 billion in 2007. This is significantly higher by 144% than the 2007 target tourism receipts of US$3.78 billion. The DOT attributed the surge to its strategy of creating a product portfolio that promotes higher value tourism products and services (i.e., wellness, education, conventions and corporate events, diving, honeymoons and shopping) that drives up visitor spending per capita. The 2007 growth performance is also higher than the 8.7% growth rate recorded in 2006 as visitor arrivals from some priority markets (e.g. Korea, China and Hong Kong) registered two-digit growth rates. Increases were also experienced in new areas such as India and strategic European countries such as Russia registering a 148% growth.

However, using 2006 data, the Philippines accounted for only about 0.34% of world visitor arrivals, a slight improvement over 2005's share of 0.33%. Still, this is way below the shares of Vietnam, Singapore, Thailand and Malaysia, which range from about 0.42% to 2.07% of world tourist arrivals *(see Figure 1)*.

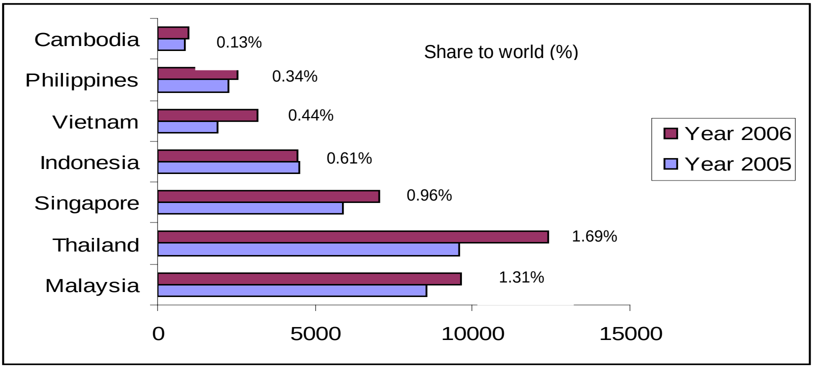
Figure 1
Tourist Arrivals in ASEAN Countries
(In thousands)



Source: ASEAN Secretariat and the World Tourism Organization
Note: Values in percentages represent the share of each country's tourist arrivals as a percentage of world total in 2006.

Further, the Philippines cornered only a meager 0.34% of world tourist receipts. Again, the Philippine lagged behind most of its ASEAN neighbors.

Figure 2
Tourist Receipts in ASEAN Countries
(In million US$)



Source: ASEAN Secretariat and the World Tourism Organization
Note: Values in percentages represent the share of each country's tourist receipts as a percentage of world total in 2006.

A PEEK INTO THE TOURISM EXPENDITURE PROGRAM

In nominal terms, the budget of the Department of Tourism in 2008 is at P1,567.6 million, slightly lower by 0.2% from the 2007 level. Allotment for maintenance and operating expenses increased by 3.7%. However, a notable decline in capital outlay was observed.

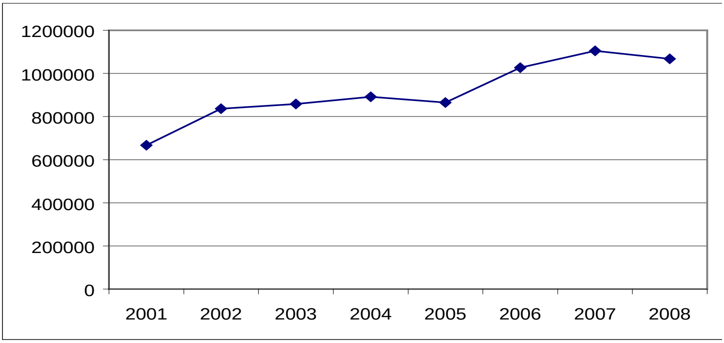
Table 3
DOT Expenditure Program by Category, 2007-2008.
(In Thousand Pesos)

Particulars	2007	2008	Growth Rate (%)
Personnel Services	371,182	371,727	0.15
Maintenance and Operating Expenses	1,131,369	1,173,364	3.71
Capital Outlay and Net Lending	65,004	22,169	(65.9)
Total Budget	1,567,555	1,567,257	

Source: BESF, 2008

Over the past eight years, the budget of DOT in real terms has been increasing gradually. The average budget for the period 2005-2008 of P1.02 billion is 26% greater than the average budget for the period 2001-2004 of P0.81 billion. Overall, however, this is a measly 0.20% of the total national government budget for the period 2001-2008. As a percentage of GDP, the budget of the DOT has been almost stable at 0.07% from 2001 to 2008.

Figure 3
DOT Expenditure Program, 2001-2008
(In Thousand Pesos)



Source: BESF, 2002-2008

Further, the budget of DOT has been mostly spent on maintenance and other operating expenses (MOOE) cornering an average of 65.2% of the total budget over the last eight years. Budget for personnel services accounted for an average of 32.9% of the budget. Spending on capital outlay, on the other hand, has been minimal. For the proposed 2008 budget, about 74.9% is allocated for MOOE, 23.7% to PS and 1.4% to capital outlay and net lending.

COUNTRY COMPARISON OF TOURISM EXPENDITURES

To assess how effective and efficient the Department of Tourism used its budget to promote tourism it would be useful to compare its performance to a country known for its tourism activities. Thailand has been chosen as a benchmark because the country has often been referred to as a success story in tourism development and marketing *(Opperman and Chon, 1997)*. Note that although Malaysia registered the highest tourist arrivals in 2005 and 2006, it is not used as a comparison. Lim (2007) argues that Malaysia's data on tourist arrivals may be misleading since it is just being used as a transit point by land of people from Thailand traveling to Singapore for business or people from Singapore going to Thailand for tourism purposes. To support this argument, note that Malaysia recorded a lower tourist receipts despite having a higher tourist arrival than Thailand *(see Figures 1 and 2)*.

However, it was also stressed that Thailand can be used as model on the kind of tourism the Philippines should avoid in order to achieve sustainability since Thailand's success in tourism has been achieved at the expense of environment and culture in popular destinations *(Pantig and Smith, 2005).*

Thus, some key indicators to assess the effectivity and efficiency of DOT's budget utilization are presented below. Basic data come from the National Expenditure Program and the Budget Expenditure and Sources of Financing (BESF) of the Department of Budget and Management and the data archives of the websites of the Ministry of Finance of Thailand and the Tourism Authority of Thailand. For comparison purposes, the official average annual exchange rates in 2006 were used for both countries with P51.31 to a US dollar for the Philippines and Baht 37.88 to a US dollar for Thailand *(Bank of Thailand, 2007)*.

Table 4
Indicators for Tourism Expenditures
Thailand and Philippines, 2006

Indicators	Thailand	Philippines
Total tourism budget (in million US$)	90.10	27.61
Marketing and promotional budget (in million US$)	57.66	20.77
Tourism budget as percentage of total government budget (in %)	0.20	0.22
Total tourism budget as a percentage of tourism receipts (in %)	0.72	0.80
Government marketing expenditure per visitor (in US$)	6.49	7.31
Revenues per government expenditure in tourism (in US$)	203.68	122.42

- Tourism Budget as a Percentage of Total NG Budget and Tourism Budget vs. Tourism Revenues/Receipts

Promotional activities in the Philippines have been undertaken mostly by the private sector due to budget constraints of the DOT. Congress allotted only US$27.61 million or around 0.20% of the total National Government budget to the DOT in 2006. The same represented only 0.80% of the revenues generated by tourism during that year.

In absolute terms, the budget for tourism in the Philippines is way below that of Thailand. While the private sector operators in Thailand aggressively conduct promotions, they are supported by a relatively high budget for promotions by the TAT or the Tourism Authority of Thailand *(Rodolfo, 2003)*. The Thai government allotted around US$90.10 million for promotional activities. However, like the Philippines, this is only around 0.22% of the total government budget in 2006 *(Thailand Ministry of Finance, 2007)*. As a percentage of revenues generated from tourism, only around 0.72% of total receipts has been reverted back to the industry –again almost the same as the Philippines.

- Total Budget for Marketing and Promotions

The Philippines' marketing budget is indeed very small when compared to the budget of Thailand. For the year 2006, marketing and promotions budget of the TAT is around 64% of its total budget or about $57.66 million *(Tourism Authority of Thailand, 2003)*. The Philippines, on the other hand, had US$ 20.77 million or around 75.2% of the total budget of the DOT *(National Expenditure Program 2006)*.

- Returns from Marketing Expenditures

c.1. Government expenditure per visitor

Although having a smaller budget, the Philippines spent about US$ 7.31 per visitor. Thailand, on the other hand, spent only about US$ 6.49 per visitor.

It merits therefore for DOT to learn from the experience of Thailand in setting strategies for various activities in promotions, marketing, product development, infrastructure development and information technology to lower per unit cost in marketing.

Romualdez *(2008)* attributed Thailand's success in attracting tourist on their creativity in packaging their festivals and cultural events as a tourist draw, plus the fact that they capitalized on medical tourism which is in keeping with their strategy of targeting quality tourists with more spending power. Moreover, Romualdez *(2008)* noted that Thai tourism officials have also been actively going around on international conventions and seminars to build partnerships and alliances.

c.2. Revenues per unit cost of government expenditures

In terms of returns (as represented by receipts from tourists) from marketing expenditure, the budget of the DOT in 2006 generated around US$20.77 million of revenues or US$122.42 per dollar of marketing expense. The figure is US$203.68 for Thailand. This indicated that Thailand has been more efficient in attracting tourist given its current budget.

Rodolfo *(2003)* stressed the need for an effective marketing campaign as evidenced in the low exposure of the Philippines relative to other Asian destinations in the brochures of Japanese tour operators.

ISSUES AFFECTING PHILIPPINE TOURISM

As the government and the private sector strive to situate the Philippines in the international map and integrate sustainability in their agenda, recent developments in the policy front as well as stagnation in infrastructure investments threatens the growth prospects of the tourism industry.

- Reversal in Aviation Policy

Various studies point to the critical role of aviation liberalization policy in spurring economic and tourism growth in the country. In fact, Lim *(2007)* stressed that it is very important for the Philippines to have an open skies policy since access to the Philippines by most tourists especially short-haul, is through air unlike other ASEAN countries. Around 98% of arrivals enter the Philippines by air because of its archipelagic make-up. She explained that tourism growth in the countries such as Malaysia, Thailand, Singapore, Vietnam, and Cambodia can be largely attributed to intra-regional tourism. These countries are land-locked and contiguous, tourism spill-over is inevitable. Thailand, for instance has only 84% of arrivals enter through air due to land travel by Malaysians to the southern portion of Thailand *(Rodolfo, 2003).*

Realizing the dependency of tourism growth to air transport in the case of the Philippines, steps to liberalize the domestic and international civil aviation policy in the country started during the Ramos administration. In 1995, EO 253 was issued which granted unilateral air rights to foreign carriers to operate, although to a limited extent, in the Diosdado Macapagal International Airport (DMIA) in Pampanga and the Subic Bay International Airport (SBIA) in Zambales. However, it was only in January 27, 2006, that the country formalized its air service liberalization for DMIA through EO 500. The executive order allowed foreign carriers to fly to DMIA without restrictions on capacity, frequency, and air freedom rights, except cabotage.

LCCs' regular airfare is relatively lower compared to the dominant local players operating internationally. The entry of low cost carriers (LCCs) in Clark, namely Tiger Airways, Asiana, Air Asia and Hong Kong Airlines, and the growing demand for LCCs due to their low fare, contributed largely to improving passenger traffic *(Mira, 2007).*

Table 5
Comparative Regular Airfare Rate of LCCS VS. Local Airlines

Destination	Foreign Airlines	Local Airlines	
	Air Asia[1]	Cebu Pacific[4]	Philippine Airlines
Kota Kinabalu	P4,299		P9,848 + P976 *(taxes)*
Kuala Lumpur	P3,699	P2,699 + P1,301 *(Fuel & Insurance Surcharge Tax)*	P13,537 + P974 *(taxes)*
Singapore	Tiger Airways[2]		
	P3,547	P5,999 + P1,301 *(Fuel & Insurance Surcharge Tax)*	P20,441 + P1,113 *(taxes)*
Macau	P6,372		P12,978 +260 *(taxes)*
	Hong Kong Airlines		
Hong Kong	P3,689.40	P4,999 + P929 *(Fuel & Insurance Surcharge Tax)*	P16,455 + P696 *(taxes)*

[1] Air Asia airfare rate to Kota Kinabalu and Kuala Lumpur as of May 31, 2007;
[2] Tiger airfare rate to Singapore and Macau as of May 31, 2007;
[3] Hong Kong Airlines airfare rate to Hong Kong as of June 8, 2007;
[4] Cebu Pacific airfare rate to KL (as of May 31), to Singapore (as of June 1), and HK (as of May 31)
[5] PAL airfare is on a round trip basis. PAL rate to Kota Kinabalu (as of June 2), to KL (as of June 9, to Singapore and Hong Kong (as of June 8)
Source: Mira, Ricardo P., 2007.

In 2004, there were only 4 incoming international flights per week to DMIA. In 2007, a total of 50 flights serve tourists, Filipinos and Overseas Workers. Passenger traffic rose by 860% from 47,000 in 2004 to 471,000 in 2006. Tourism arrivals grew by more than 70% from 55,000 in 2005 to 93,000 in 2006. At least US$ 200 million earnings were generated from tourism in 2006. Moreover, it has been attributed to the reduction in the social costs for OFWs and their families through more frequent reunions *(Lim, 2007).*

However, barely six months from the issuance of EO 500, the government backtracked on its open skies policy in DMIA by issuing EO 500A on August 22, 2006. This directive imposed restrictions on foreign airlines flying to and from Clark including designated requirements and withdrawal of the 5th freedom right.

This means that foreign carriers are required to be designated as official carrier by their respective governments in order to avail of the unlimited 3rd and 4th freedom traffic rights to DMIA and SBIA. This effectively impacts the operations of low cost carriers since most of them are non-designated carriers *(Mira, 2007).*

Moreover, the 5th freedom right of foreign carriers (or the right to ferry passengers from their respective countries to a second country, and from that country to a third country) which they enjoyed under EO 500, is currently threatened under the strict evaluation process of the Civil Aeronautics Board (CAB). Foreign carriers' application beyond the 4th freedom rights is based on the context of national interest, and its repercussions to the domestic aviation industry *(Mira, 2007).*

Serious consideration of re-liberalizing air policies is necessary to circumvent the possible negative impact of the re-imposition of such restrictions.

- Lack of Tourism Infrastructure

  Outdated airports. Based on the surveys conducted by the DOT, most foreign travelers choose the Philippines based on recommendations from friends and relatives *(Businessworld Online, 2003).* It argues that if local tourists are proud of their local destinations, then they can prove to be the best marketing and sales force.

  However, there are peak periods when the three operating terminals at Ninoy Aquino International Airport (NAIA) are extremely crowded, creating negative impressions for travelers who are used to the modern, efficient facilities built in most Asian cities over the last decade *(Foreign Chambers of the Philippines, 2007).* Examples include Bangkok, Beijing, Guangzhou, Hanoi, Hong Kong, Incheon, Jakarta, Kuala Lumpur, Nagoya, Narita, Osaka, Shanghai, Singapore and Xiamen.

  According to the Foreign Chambers' study, NAIA suffers from two very serious constraints: (a) runway safety and capacity and (b) antiquated terminal facilities. The current runways' design such as centerline of runways and taxi ways, is now well below standard for new generation aircraft set by the International Civil Aviation Organization. The International Runway (called 06-24) was built in the 1940s when the biggest aircraft carried no more than 50 tons. Today an average B747 weighs 350 to 400 tons. With a single runway carrying this entire burden of all international flights, the runway requires heavy maintenance, which delays airline schedule and reduces airport revenue.

Moreover, at the best managed airport such as Hong Kong, Heathrow and JFK, planes can land at a rate of every 3 minutes or 20 an hour during any weather or light condition. NAIA's International runway, on the other hand, can accommodate only 15 flights per hour during bad weather or at night.

Lack of an integrated road, land and air transportation network. There is a need to accelerate the development of an efficient transportation network that will allow tourists to move with reasonable costs from one destination to another at the shortest time possible. The lack of infrastructure jacks up the cost of tour packages especially during the peak season. For instance, in the Mountain Province in northern Luzon, a favorite destination of mountaineers, jeepney rides to destinations can range from PhP2,000-PhP8,000. The road network has not yet been fully developed so land travel is difficult *(Businessworld Online Exclusives, 2003).*

Also, for the Japanese market, access is a very important decision factor for choosing a destination *(Rodolfo, 2003).* If more gateways like Palawan can be developed, then tourists will no longer be obliged to fly back to Manila for an international or even domestic flight.

The slow paced implementation of tourism related air and ground transportation infrastructure projects have been blamed on technical and legal problems *(Lim, 2007).* The National Competitiveness Council Infrastructure Team identified the following projects as critical to tourism development: NAIA 3, Subic-Clark-Tarlac Expressway Project, Clark Airport, Puerto Princessa Airport, Kalibo Airport, and RORO Ports in Central Nautical Highway (see Annex 2).

Aside from basic infrastructure, other tourism related infrastructure are lacking. Most roads still lack signs and information on tourist attractions that can be found in the local communities. Also, the buses or public vehicles transportation network is not very tourist friendly since it is hardly incorporated in maps.

Inadequate shipping and ports facilities*.* Progress has occurred in inter-island shipping in recent years with the institutionalization of the Strong Republic Nautical Highway (SRNH) which is an integrated set of highway segments and vehicular ferry routes which considered in combination with other road and ferry routes not formally part of the SRNH, forms the backbone of a nationwide vehicle-accessible transport system.

The 919 kilometer SRNH was opened to the public on April 12, 2003. Its route covers the provinces and cities of Oriental Mindoro, Tagaytay City (Cavite), Marinduque, Romblon, and Batangas City in Luzon; Aklan, Antique, Iloilo, Capiz, Negros Oriental, Bohol, Cebu, Guimaras, and Siquijor, in the Visayas; and Misamis Occidental, Misamis Oriental, Lanao del Norte, and Dapitan City in Mindanao.

With the Strong Republic Nautical Highway, it is now easy for tourists to hop from destination to another throughout the archipelago using an alternative Roll-On/Roll-Off (Ro-Ro) transport mode.

Despite these developments, Rodolfo *(2003)* observed that ports or harbors lack the facilities and standards to assure safety and security of tourists. Furthermore, the personnel are not adequately trained to attend to the needs of tourists.

Currently, the Philippines has no international cruise industry to speak of. However, the DOT is currently coordinating with its partners in the private sector to groom the country as a major Asian destination for cruise ships and increase visitor arrivals from this market. Moreover, ASEAN member countries committed to collaborate more closely to further develop the tourism industry in the region. An initiative is the cruise portal www.cruiseasean.com launched by the ASEAN Cruise Working Group. This aims to introduce Asia as a cruise destination to the global cruise industry as well as passengers new to the region. It will also provide access to detailed port information online which is useful for planning and developing new cruise products for Asia.

Deficient accommodation capacity and standards. Industry players often cite the lack of capacity and quality accommodation establishments especially in provincial destinations. According to the DOT, the Philippines has only around 338 hotel and resort establishments with 27,466 rooms available for tourists nationwide. Around 37% is concentrated in Metro Manila. Moreover, of the better quality hotels and resorts accredited by the DOT, only 20% are internationally managed. In terms of the total number of hotels and resorts recognized by the DOT, this percentage is only 5% *(Pantig, 2005).*

The DOT still accredits establishments (using de luxe, first class, standard and economy ratings) on a voluntary basis in order to assure quality services. The monitoring system of DOT's accreditation need to be enforced as tourists complain about the inability of establishments to meet its accreditation level. With the devolution of tourism functions to the local government units, not all establishments are required to seek DOT accreditation. As such, in the Senate Bill entitled Tourism Act of 2007, policy makers are mandating all tourism establishments and services to undergo a mandatory system of accreditation with their LGUs.

Lim (2007) contends that there is a shortage of at least 2,000 rooms to serve foreign and local tourists as of end 2006. And compared to Thailand and Indonesia, the Philippines is poorly equipped in catering to tourist needs *(see Table 6)*.

Table 6
Number of 5-Star Rooms Available
In Selected ASEAN Tourist Destinations (2006)

CITY	No. of 5-Star Rooms Available
Bangkok	59,857
Phuket	19,574
Bali	17,996
Manila*	9,349
Cebu*	1,747

** de luxe and first class*
Source: Department of Tourism as cited by Lim (2007)

Pantig *(2005)* explains the lack of first class hotels on the policy of international chains engaged in the Philippines to not involve themselves in capital formation except the Shangri-La Group. This is in spite of the fact that Congress enacted the Foreign Investment Act that encourages 100% foreign equity in hotel development and entitles foreign-owned hotels to fiscal and non-fiscal incentives anchored on certain limitations, i.e. up to 40% foreign ownership as a standard requirement could be increased to 100% with certain minimum levels of foreign equity imposed. A provision in the Philippine Constitution which mandates land be Filipino-owned to a minimum limit of 60% may have, however, influenced such investment decisions.

- Inadequate Manpower Development

  In 2006, there were over 3.4 million people directly and indirectly employed in the tourism industry *(DOT 2008 Budget Materials)*. In 2007, travel and tourism contributed an estimated 3.8 million jobs across the economy (or around 8.8% of total economy employment).

  The DOT conducts training programs that include continuing education, hotel and resort services skills development, train the trainer, labor management, special language courses and frontline service skills for taxi drivers, and homestay participants *(Rodolfo, 2003).* The private sector conducts training on its own or through association-sponsored programs.

  However, Rodolfo *(2003)* noted that there is scarcity of tourism graduates who are capable of assuming management positions and with strong orientation to research for product development and improvement. It was argued that the absence of a school offering postgraduate course in tourism (unlike in Thailand where there are approximately 120 tourism colleges, universities and institutes) is a sign of the lack of priority for tourism manpower development in the Philippines. It was, therefore, recommended that the following be instituted: a) general guidelines on career opportunities and working conditions in tourism services; b) a national network of tourism education and training institutes to strengthen cooperation and build up research capability of students and industry practitioners; and c) a strong partnership between the private sector and academic institutions.

- **Sustainability Issues**

Although tourism can be a tool for economic development, there is also a greater awareness on the negative effects of tourism development particularly in the local communities. This is reflected in the low ranking of the Philippines (83rd among 124 countries) in terms of national tourism perception in the 2007 World Travel and Tourism Competitiveness Report.

Locals complain of the spread of AIDS, the loss of access to beaches and dislocation from areas of economic activity. For example, the once pristine beach of Boracay now suffers from congestion, pollution and beach erosion *(Cruz, 2003).*

Moreover, the growing trend to develop isolated and exclusive resorts particularly for target markets like retirees in areas like Zambales and Batangas may also lead to tourism aversion because these enclave destinations still need to integrate the local community residents in their activities to distribute gains and increase the residents' stake in protecting their tourism resources *(Rodolfo, 2003).*

In this case when equity issues crop up, Bersales (2003) noted the active struggle of locals for the institutionalization of local decision-making and participation in tourism development. He indicated that the role of local government units should be to address the following: a) accessibility problems in the form of fencing and access roads and concrete jetties; and b) "double-selling" problem resulting in multiple claimants to real property from barangay level up to nationally mandated line agencies dealing with land surveys and titling.

Further, to avoid further erosion of tourism perception, Bersales suggested that LGUs consider the small-scale, craft type resort development in lieu of the organized mass tourism-type for small islands on the argument that although the latter type of development has been proven to infuse much-needed foreign exchange revenues to the economy, it has its drawback in terms of its tendency to create exclusion zones or tourist enclaves, which physically condone off local communities.

On environmental issues, efforts of the government in general to address sustainability issues have taken root. A National Ecotourism Strategy has been formulated in April 2002 with the aim of promoting an integrated approach for the protection of natural resources while at the same time generating economic opportunities for local communities. Cruz *(2003)* cited the following success stories in sustainable tourism development *(see Annex 3 for details)*: a) Mt. Pinatubo Guided Tours

Livelihood; b) Butanding Interaction Tours; and c) Agritourism in Nueva Ecija, Oro Verde Farm in the Visayas, and Del Monte Plantation in Bukidnon.

Moreover, the Department of Environment and Natural Resources, in cooperation with the Development Academy of the Philippines, has created eco-tourism training modules for LGUs, designed to ensure proper management and protection of valuable sites. The DOT also recently launched a Grassroots Entrepreneurs for Eco Tourism initiative to help individuals and concerned groups in their actions to protect the environment.

LEGISLATIVE IMPLICATIONS

As tourism emerges as an important tool in eradicating poverty as well as maintaining environmental and cultural sustainability, moves to enact tourism related legislations to fast-track the development of the industry have gained momentum.

Stakeholders call for policy makers to include a national tourism policy in the legislative agenda of the 14th Congress. Specifically, legislation towards this end should include provision of incentives to local and foreign investors through the creation of Tourism Enterprise Zones, developing medical tourism zones, increasing the allocation for tourism funds, and strengthening the Department of Tourism. It was argued that the adoption of a national tourism policy would help ensure a holistic approach to tourism development. It also pushes for the reallocation of a portion of the travel tax to the Department of Tourism and its attached agencies that will allow them to more effectively carry out tourism development and promotions programs.

Moreover, consultation with industry stakeholders resulted in efforts to push for the adoption of a pocket “open-skies” policy that will allow foreign carriers to have access to selected airports with tourist attractions to help increase tourist arrivals since many tourists (especially short-haul Asian tourists) prefer to go directly to their preferred destination. They referred to Vietnam where the influx of low cost-carriers to its major cities from neighboring countries has significantly increased tourist arrivals.

The recent downgrading of Philippine aviation safety ranking by the US Federal Aviation Administration from Category 1 to Category 2 – meaning as a port of air-travel origin, the Philippines failed to comply with aviation standards set by the International Civil Aviation Organization –shows the lack of importance given to this allied sector of tourism. Considering the critical role of civil aviation policy and performance not only on tourism but the business environment in general, oversight of the sector by Congress is necessary. This also warrants the enactment of a bill creating a Civil Aviation Authority with enough financial resources to fund safety, maintenance and improvement programs.

CONCLUSION

The Philippines has a lot of catching up to do in terms of tourism development. Notwithstanding the meager budget the Department of Tourism has been receiving compared to other countries in Asia specifically Thailand, the industry is able to grow impressively since 2004 at the average rate of 10.5% and 34.9% in terms of tourist arrivals and receipts, respectively. This could be attributed to the private-public sector partnership that has become stronger in recent years in marketing and promoting destinations, developing infrastructure, increasing community participation and in developing more sustainable tourism activities particularly at the local levels.

The Department, however, could improve efficiency (cost per tourist) by changing the present tourism direction and focus more on products and activities that will add to the attractiveness of the Philippines as a quality destination. Learning from the experience of Thailand, the Philippines could do well in the area of marketing and product development by: a) studying and understanding the needs of the core markets (which have become a basis for the various training programs of schools, universities and the Tourism Authority of Thailand); b) building a strategic information system that captures the relevant data on domestic and foreign tourism (on flows and behavior), potential investment areas (classified as high, medium, or low) and the urgent investment needs as well as regulatory framework; and c) strengthening domestic tourism promotions by the DOT and the private sector in cooperation with LGUs in order to balance foreign demand in tourist destination.

This momentum in tourism growth, however, can easily be derailed by inconsistencies in declared policies and actions and the lack of coordination among stakeholders. The overall vision of tourism should be supported by the policy goals in tourism-allied sectors such as transportation, i.e. aviation policy.

And given the fact that the Philippine prides itself of destinations which are at the early stages of the product life cycle, government should manage development in such a way that local communities are protected from negative externalities such as environmental degradation, prostitution and cultural exploitation. Thus, the role of government should be to correct market failures, minimize negative externalities created by tourism and assist in the distribution of benefits to communities. Through all these the country could be able to maximize the potential gains from tourism and ensure that benefits accrue not only to the stakeholders but also to the economy as a whole through positive externalities.

ANNEXES

Annex 1.
Selected "Pillars" of the Travel and Tourism" Competitiveness Report 2007

"Pillar"	Explanation of Measure
Policy rules & regulation	measures the extent to which foreign ownership and foreign direct investment are welcomed and facilitated by the country. It also measures how well property rights are protected and the extent to which visa requirements are made complicated for visitors. It also includes openness of the bilateral air service agreements.
Environmental regulation	measures how the country will continue to be an attractive destination going into the future
Ground transport infrastructure	measures the quality of roads, railroads and ports as well as the extent to which national transport network offers efficient, accessible transportation to key business centers and tourist attractions within the country.
Tourism infrastructure	It is a measure of accommodation infrastructure (the number of hotel rooms) and the presence of major car rental companies, as well as a measure of the financial infrastructure (i.e. ATMs) for tourist in the country.
Price competitiveness	It includes factors such as airfare ticket taxes and airport charges, fuel price levels, taxation in the country and the extent to which goods and services in the country are more or less expensive than elsewhere (purchasing power parity).
Human resources	Takes into account the health and education and training levels in each economy. On education, measures include educational attainment rates;

“Pillar”	Explanation of Measure
	overall quality of educational system as assessed by the business community; private sector involvement in upgrading human resource. On the availability of qualified labor, the measure considers to what extent hiring and firing is impeded by regulations and whether labor regulations make it easy or difficult to hire foreign labor. Finally, the workforce wellness measures the health of the workforce.
National Tourism perception	measures the extent to which the country and society are open to tourism and foreign visitors
National & cultural resources	includes measures of cultural heritage (UNESCO sites), environmental attractiveness measures including environmental damage and the percentage of nationally protected areas. It also includes a measure of health risks, in particular the risk of tropical

Annex 2
Key Priority Infrastructure Projects of the Arroyo Administration

Project	Status / Issues	
NAIA 3 *Duration:* *1997 – 2007*	Legal	Just Compensation issue. The government has won the case against PIATCO before the World Bank's International Center for Settlement of Investment and Disputes. However, this does not mean that the PIATCO no longer has any claim for compensation to the terminal
	Technical	The government has announced that the main contractor Takenaka has agreed to finish the repair of the airport. However, remedial works could take up to six months, way beyond the year-end deadline imposed by the President.
Subic-Clark-Tarlac Expressway Project *Duration:* *2005 – Nov 2007*	Technical	Subic-Clark Section – ongoing civil works with 82% physical accomplishment; slippage of -15% slippage due to ROWA and contractor-related issues; Contractor given until March 2008 to complete the section Clark-Tarlac Section is already 96.6% complete and is expected to be completed by November 2007
Clark Airport *PTB:* *July 2006 – Dec 2007* *Masterplan:* *Oct 2006 – Dec 2011*	Technical	*Passenger terminal expansion* → Civil works started on July 2007 (and to be completed within 7 months). *Terminal Radar* → already completed with the radar equipment officially activated on 4 April 2007 by PGMA *Masterplan Phase 1* → KOICA has ongoing talks with CIAC re technical grant for the FS of Masterplan. Chinese Consortium is currently conducting the FS, expected to be completed on October 2007.

Project	Status / Issues	
Puerto Princesa Airport *Phase 1:* *Sept 2006 – Dec 2007* *Phase 2:* *Dec 2006 – Dec 2009*	Technical	*Phase 1 - Rehabilitation and Expansion of Passenger Terminal Building (PTB)* → Notice to Proceed was issued to the civil works contractor on July 24, 2007. Groundbreaking was conducted on August 9, 2007. *Phase 2 - Intermodal Development Program (includes development of new airport facilities)* → The NEDA-ICC Technical Board endorsed the new FS and masterplan for approval by the Cabinet. DOTC to finalized the TOR (note: after Phase 2 has been completed, the old PTB will be handed over to the RP military, and the new PTB will be used for commercial operations.)
Kalibo Airport *Duration:* *Oct 2006 – Apr2008*	Technical	Installation of Landing System completed; Site development/acquisition is on-going (delayed). In-house DE for PTB ongoing; Work program still being finalized by DOTC. PGMA already instructed DBM to release P80 million for the construction of new PTB
RORO Ports in Central Nautical Highway	Technical	16 ports comprise the Central Nautical Highway • 7 ports – expansion/improvement and PTB • 9 ports – RORO ramp construction 11 projects are experiencing delays; PPA still promised to complete 11 of these RORO ports within 2007.

Source: National Competitiveness Council Infrastructure Team, August 20, 2007 as cited by Lim (2007)

Annex 3
Case Studies in Sustainable Tourism Development

Project	Description
1. Mt. Pinatubo Livelihood from Tourism Project	The DOT Regional Office initiated this project by assisting a community in Tarlac province establish a cooperative that will sell guided tours to Mt. Pinatubo's crater lake. The DOT helped the local community enhance its local capability by conducting training programs on tour guiding and hosting for the homestay program. Other aspects of sustainability include the creation of livelihood for the cultural community of the Aetas, who serve as guides and porters. Tourists pay user fees, which are used for conservation of the trekking route and maintenance of public toilets. The project has generated enough money to fund the construction of a multi-purpose hall for the local residents.
2. Butanding Interaction Tours	The Donsol River is a rich source of micronutrients for the whale shark (butanding in local dialect), causing them to congregate around Donsol's waters for a few months during the year. Previously caught for their flesh, the butanding were saved from certain extinction through the intervention of the local government units, the World Wildlife Fund (WWF), and the DOT. The municipality of Donsol and the provincial government of Sorsogon, passed ordinances that banned the hunting of the giant fish. The WWF provided training for the BIO (Butanding Interaction Officers) and encourage research-based interactions with the whalesharks. (The BIO is a guide, whale-shark spooter and first-aider in one.) The DOT helped by providing training in the homestay program.
3. Philippine AgriTourism Program	The DOT, Dept. of Agriculture and the UP Asian Instituttte of Tourism published the Philippine Agritourism Program Manual which identifies pilot projects and prvides a list of accredited tour operators. The pilot sites are Central Luzon State University in Munoz, Nueva Ecija, Oro Verde Farm in the Visayas, and Del Monte Plantation in Bukidnon. It also prescribes sustainable practices, such as social acceptability of the project, adherence to sustainable techniques, and monitoring.

Source: Towards Sustainable Tourism Development in the Philippines and Other ASEAN Countries by R. Cruz, 2003

REFERENCES

Asia Pacific Outlook. Asia Pacific Tourism Industry: Current Trends and Future Outlook. See www.hotelonline.com/Trends/AsiaPacificJournal/AsiaPacificTourismOutlook_1997.html-47k

Bank of Thailand. See www.bot.or.th/bothomepage/databank/EconData/EconFinance/Download/Tab89.xls

Bersales, Jose Eleazar. "Contested Space: Tourism Power and Social Relations in Mactan and Panglao Islands". PASCN Discussion Paper No. 2003-07. October 2003.

Budget of Expenditure and Sources of Financing, 1998-2008.

BusinessWorld Online Exclusives: Holiday Economics. April 7, 2003. See www.bworldonline.com/OnlineExclusives/holiday/inside.php?id=001-18k

Congressional Planning and Budget Department and the Committee Affairs Department of the Philippine House of Representatives. "Gearing Up the Nation for Growth and Competitiveness: Perspectives from the Secretariat In Support of Legislative Agenda Setting for the 14^{th} Congress". July 2007.

Cruz, Reil. Towards Sustainable Tourism Development in the Philippines and Other ASEAN Countries: An Examination of Programs and Practices of National Tourism Organizations. Philippine APEC Study Center Network Discussion Paper No. 2003-06. (see also in www.pascn.pids.gov.ph/DiscList/d03/S03-06.PDF)

Department of Tourism CY 2008 Budget Presentation. Presented by Secretary Joseph H. Durano during the House of Representatives Committee on Appropriations hearing of the 2008 Budget, October 2007.

Foreign Chambers of the Philippines. Philippine Tourism and Major Airports in Central Luzon. Paper presented during the workshop sponsored by the Economic Policy Reform and Advocacy entitled "Building Up the Philippine Tourism and Infrastructure". September 3, 2007. Ateneo Business Center Rockwell Campus, Makati City.

Lim, Narzelita Z. Infrastructure and Philippine Tourism. Paper presented during the workshop sponsored by the Economic Policy Reform and Advocacy entitled "Building Up the Philippine Tourism and Infrastructure". September 3, 2007. Ateneo Business Center Rockwell Campus, Makati City.

Lim, Samie. WTO Trade Negotiation Brief. Presented during the Round Table Discussion for the WTO Trade Negotiation. June 13, 2006.

Mira, Ricardo P. Promoting a Pocket Open-Skies for RP: Expanding Economic Opportunities for Filipinos. Policy Advisory No. 2007-02. Congressional Planning and Budget Department House of Representatives. July 2007.

Pantig, Evelyn B and Stephen L. J. Smith. Tourism Statistics and International Trade Statistics: Challenges and Research Needs. Paper presented during the WTO Conference entitled "The Tourism Satellite Accounts (TSA): Understanding Tourism and Designing Strategies" at Iguazu Falls Argentina/Brazil/Paraguay, October 3-6, 2005.

Philippine National Expenditure Program 2006. Department of Budget and Management.

Rodolfo, Ma. Cherry Lyn S. Rodolfo. A Comparison of Tourism Policy Frameworks: Philippines and Thailand. PASCN Discussion Paper No. 2003-08. December 2003.

Romualdez, Babe. "Tourism boom expected in spite of airport mess", Taken Care of Business, p. B3. The Philippine Star. January 18, 2008.

SocioEconomic Report 2006. National Economic Development Authority. June 2007.

Thailand Ministry of Finance. See www.2.mof.go.th

Tourism Authority of Thailand 2003 Annual Report. See www.2.tat.or.th/tat/annual/2003/pdf

Travel and Tourism Competitiveness Report 2007. Eds. Jennifer Blanke and Thea Chiesa. World Economic Forum: "Furthering the Process of Economic Development" (see also in www.weforum.org/en/initiatives/gcp/TravelandTourismReport/index.htm)

Notes