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# Leisure Industries

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# Travel, tourism and the emergent developing world middle class

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Over the next two decades, the world will see a new generation of middle-class consumers in the developing economies of the world.<sup>1</sup> Given the World Tourism Organisation's conclusion that prosperity and affordability are among the most important drivers for the growth of tourism,<sup>2</sup> these hundreds of millions of newly affluent can be expected to become avid travellers. Nowhere in the world is this likely to be more evident than in China and India.

First, both countries will have populations of well over a billion people. Second, both will experience dramatic GDP growth – in China's case, to about 1.5 trillion yuan (US\$220 billion at current exchange rates); in India's, to about 3 trillion rupees (US\$65 billion at current exchange rates).<sup>3</sup> In China alone, it is estimated, there will be 700 million people in the middle class by 2020.<sup>4</sup> Third, the Asia-Pacific region will experience exponential growth in international arrivals, actually taking market share from Europe. In 2030, 28.8 per cent of all international arrivals will be in the Asia-Pacific region, and it will account for 28.2 per cent of all international travel receipts, compared to 19.3 per cent and 19.9 per cent, respectively, in 2005.<sup>5</sup> According to projections, China alone will be the world's most popular international travel destination, with 8.8 per cent of the global market.<sup>6</sup> And these figures take no account of domestic travel within these two vast nations. Business travel in China

– mostly domestic – is projected to grow fivefold from 2007 to 2020. Indian domestic tourism grew 13.9 per cent from 2006 to 2007, to a total of over half a billion tourists.<sup>7</sup> Both countries have significant potential for 'niche' tourism/travel markets, such as medical tourism in India,<sup>8</sup> gambling in Macau<sup>9</sup> and religious/cultural locations in both.<sup>10</sup>

This vast expansion will pose both challenges and opportunities for the hospitality industry. Huge expansion of capacity for travel will be needed, not only for transportation<sup>11</sup> and for accommodation<sup>12</sup> but also in human resources.<sup>13</sup> There are likely to be significant opportunities for public-private partnerships to develop infrastructure as well as opportunities for foreign hospitality brands to work with local hoteliers, restaurateurs, service providers and others to tap this enormous potential.

In China, growth is taking place at both the luxury and budget ends of the spectrum. At the top, room rates compare to those in Moscow, London and New York; at the more economical end, brands such as Holiday Inn Express and Travelodge have benefited.<sup>14</sup> Many major American brands already have developed their presence in India through franchising arrangements in areas such as hotels and food.<sup>15</sup> Familiar franchising arrangements may need revision, however, in light of local restrictions – for example, concerning payments for use of intellectual property or enforcement of

restrictive covenants after termination of a relationship.<sup>16</sup>

Getting a foot in the door fast may be critical; a recent study by the McKinsey consultancy reminded readers that in 17 US product categories, the market leader in 1925 remained the number one or number two company in the field for the rest of the 20th century.<sup>17</sup>

## Notes

- 1 Yeoman, 'Tomorrow's Tourist: Scenarios and Trends' (2008) ('Yeoman') at p. 22.
- 2 *Id.*, at p. 33.
- 3 *Id.*, Fig. 3.2 at p. 25 (estimates from 2006).
- 4 'The Power of Potential: China Lures US Stores As Middle Class Grows,' *Women's Wear Daily*, 24 June 2010 at p. 1 (citing Euromonitor study).
- 5 Yeoman, Tables 5.1, 5.2 at p. 42
- 6 *Id.*, 42, 47.
- 7 Government of India, Ministry of Tourism, Annual Report 2008-09 at p. 59.
- 8 See, e.g. Yeoman at pp. 63-91.
- 9 *Id.*, at pp. 243-252.
- 10 By way of example, India has designated the development of various heritage and culture circuits as 'mega projects', eligible for up to Rs. 50 crore (500 million rupees, or about US\$10.7 million at current exchange rates) in financial assistance. Government of India, Ministry of Tourism, Annual Report 2008-09 at pp. 20-21.
- 11 The International Air Travel Association warned India it will need to increase air traffic capacity quickly to meet demand. Yeoman at 49, citing Mintel, *International Tourism Forecasts* (2006). India's Ministry of Tourism has stated, 'Augmentation of quality tourism infrastructure is the key development of tourism sector.' Annual Report 2008-09 at p. 20.
- 12 There are fewer four- and five-star hotels in all of India than in New York City. *Id.*, citing Morgan, 'Prospects for 2007' (presentation at Travel and Tourism Research Association Conference). Among other efforts, India has taken steps to promote 'land banks' for hotel construction, provided financial support for construction of budget accommodation, provided tax incentives, eased external commercial borrowing for hotel projects and set standards for inbound tourist charter flights. Government of India, Ministry of Tourism, Annual Report 2008-09 at pp. 36-38.
- 13 Court and Narasimhan, 'Capturing the world's emerging middle class', *McKinsey Quarterly* (July, 2010).
- 14 Yeoman at p. 47.
- 15 Wulff and Lingam, 'Franchising in India: A Brave New Frontier', *ABA Franchise Law Journal* (Spring, 2010) 248, 249.
- 16 *Id.*, at pp. 249, 251.
- 17 Court and Narasimhan, 'Capturing the world's emerging middle class', (July 2010).