DUTY FREE WORLD COUNCIL
Serving duty free and travel retail worldwide

ASIA PACIFIC TRAVEL RETAIL ASSOCIATION

FINAL REPORT

Economic Impact of Duty Free and Travel Retail in Asia Pacific

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Executive Summary

The duty free and travel retail industry is a fast-growing sector of the Asia Pacific economy that comprises the sale of goods to international travellers.[1] Duty free and travel retail is available for purchase at airports and on airlines, on cruises and ferries, and at downtown duty free shops and land border crossings. In addition to duty free, full-retail shops *(referred to as travel retail)* are also available to travellers. These non-duty free offerings can include convenience stores, book stores and specialty stores selling fully taxable goods or services located post-security in airports or on cruise and ferry ships.

The Duty Free World Council (DFWC) and the Asia Pacific Travel Retail Association (APTRA) commissioned this study to estimate the economic contribution made by duty free and travel retail industry in the Asia Pacific region.[2] The duty free and travel retail sector contributes significantly to economic development of countries in the Asia Pacific region through the employment and activity it generates. Furthermore, it supports and facilitates wider economic activity in other industry sectors, such as aviation, maritime travel, and tourism, supporting the growth and development of economies in the region.

Key Findings

- In 2017, an estimated **US$36.2 billion** was spent on duty free and travel retail in the Asia Pacific region. The principal components included the following:
  - Airports and airlines accounted for nearly **US$21.2 billion** in duty free and travel retail sales, of which 75% occurred in the sub-region of East Asia.
    - Non-aeronautical revenues such as duty free and travel retail provide airports with the funds needed to continue to invest in airport infrastructure and service improvements.
  - Land and maritime duty free and travel retail sales amounted to approximately **US$15 billion**.
  - 79% of all duty free and travel retail sales in the region occurred in East Asia.
- Duty free and travel retail spending in the Asia Pacific region accounted for an estimated **140,900 direct jobs** and **US$7.6 billion in direct GDP**.
- Together with the businesses that supply the goods and services (*indirect impacts*) and spending of employees in the wider economy (*induced impacts*), duty free and travel retail in Asia Pacific is estimated to support a total of **320,200 jobs** and **US$14.7 billion in GDP**.

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[1] Duty Free World Council (http://dfworldcouncil.com/what-is-duty free-travel-retail/). The Duty Free World Council, the DFWC, is the industry association representing the interests of the global duty free and travel retail channel and has the overall objective of creating the optimal operating environment for the industry that will allow it to achieve its full potential. Asia Pacific Travel Retail Association (http://www.aptra.asia/), APTRA is the trade association for the duty free and travel retail industry in the Asia Pacific region, serving all members and the industry to help grow the business and protect it when challenges arise. The geographical area covered by APTRA includes countries in Eastern Asia, South Eastern Asia, South Central Asia and Oceania.

[2] The Asia Pacific region is comprised of the sub-regions - East Asia, Southeast Asia, Oceania, and South Asia.

Key Attributes of Asia Pacific's Duty Free and Travel Retail Industry

The Asia Pacific region accounts for roughly 60% of the world's population. According to Generation Research, the global duty free and travel retail industry had sales estimated to total US$69 billion in 2017. The Asia Pacific region is estimated to account for approximately 45% of global sales, or approximately US$32 billion.[3] Based on an analysis that re-estimates airport sales in the region using other industry sources, Inter*VISTAS* estimates that duty free and travel retail sales in Asia Pacific could be higher, at approximately US$36 billion in 2017.

The region is home to many different countries, cultures, political systems, and stages of economic development. Asia Pacific's duty free and travel retail sector has the following key attributes:

- ***Continuing Duty Free and Travel Retail Sector Growth.*** The region is the global leader in duty free and travel retail sales and its growth trajectory will continue to be positive. From 2000-2017, the region's sector grew at an average of 13% per annum. This compares to the global average of 8% per annum. Europe and the Americas had lower annual average growth rates over the same time frame at 4% and 5%, respectively. The Asia Pacific region has vast potential for continued future growth due to the region's large population base and growing economies which are resulting in rising incomes, increasing buying power and appetite for products, and an increasing desire and propensity to travel. These are all key ingredients for the continued growth and development of the duty free and travel retail sector in the region.

- ***Increasing Propensity to Travel by Mainland Chinese Travellers.*** Mainland China accounts for 36% of the Asia Pacific region's population and over 40% of its estimated GDP. The development of Mainland Chinese travel and tourism has been and will continue to be vital to the growth of the region's duty free and travel retail sector. With improving living standards, Mainland Chinese residents have shown a growing propensity to travel, and due to their numbers and purchasing power, they have a significant impact on the duty free and travel retail sector throughout the region and beyond. The sector has had to cater to Mainland Chinese shoppers' product demands (e.g., availability of luxury brands) and service requirements (e.g., availability of mobile payment technologies like WeChat Pay or AliPay). Korean duty free sales have been a major beneficiary of Mainland Chinese demand, which is largely supported by the *daigou* trade.[4]

- ***Potential for Increased Travel by Indian Travellers.*** The growth of the Indian economy and of its middle class has increased the desire to travel, with airports in the country building up their duty free and travel retail offerings as a result. Currently, locals are the main customers, with many ordering their duty free goods for delivery or pick-up after they have arrived home from their international travel.

- ***Increasing Presence of Downtown Shops.*** In Asia Pacific, and especially Korea, there has been a proliferation of downtown duty free shops. These shops provide travellers with opportunities to purchase goods at any time during their trip, rather than just before departure (e.g., at the airport). Many duty free and travel retail operators in the region have operations at both downtown and airport locations (e.g., DFS at Hong Kong International Airport and in Causeway Bay/Tsim Sha Tsui (*main shopping districts in Hong Kong/Kowloon*)). The presence of downtown shops can therefore be complementary to an operator's airport

[3] Generation Research figures listed in this report incorporate the Indian Subcontinent as part of the Asia Pacific region. This is in contrast to the conventional regional breakdowns used by Generation Research, which include the Indian Subcontinent as part of the Middle East region.
[4] "Daigou" or "surrogate shopping" involves buying products abroad (usually luxury goods) and selling to customers located in Mainland China. This is discussed in more detail in **Sections 3.3.1** and **3.3.2**.

operations, though in other circumstances there is likely to be competition between airport and downtown locations and between operators.

- ***More Asians are Cruising.*** Cruising is a relatively new travel experience for Asians but is growing in popularity. In comparison to more established cruise markets, Asians prefer cruises of shorter duration (e.g., 4 to 5 days) and to travel in larger party sizes that include extended family and multiple generations. This has implications for on-board duty free and travel retail sales; there is less time to shop and potentially fewer active shoppers in family groups. Nevertheless, Asian travellers' increased propensity to cruise is reflected in the expansion and tailoring of cruise ship duty free offerings to this growing market.

- ***Growing Importance of E-Commerce.*** The Asia Pacific region is the global leader in the development, diffusion, and use of e-commerce and related technologies. Duty free and travel retail operators have developed apps designed to attract and entice customers to buy products by offering discounts and other incentives (e.g., Red by Dufry). Airports in the Asia Pacific region also have well-developed internet and e-commerce platforms to service their customers, with several airports providing visitors with the ability to purchase goods online which are then available for pick-up at the airport.

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1 Introduction

The Duty Free World Council (DFWC) and the Asia Pacific Travel Retail Association (APTRA) commissioned Inter*VISTAS* Consulting Inc (Inter*VISTAS*) and Optimas Management Group (Optimas) to undertake a study of the economic impacts of the duty free and travel retail market in the Asia Pacific region. The purpose of the study is to examine and communicate the contribution that the duty free and travel retail industry contributes to economic prosperity in the Asia Pacific region. This is primarily through direct economic activity and employment generation, but the industry also facilitates the profitability of broader economic activities, particularly aviation (most notably, the financing of airport infrastructure) and tourism. The study follows two previous studies on the economic impacts of duty free and travel retail in Europe and the Americas.[5,6]

According to the DFWC, duty free and travel retail is defined as:

"[A] global industry that encompasses the sale of goods to international travellers. Duty free shops are exempt from the payment of certain local or national taxes and duties, normally with the requirement that the goods are only sold to travellers who will take them out of the country. Products that can be sold duty free vary by jurisdiction and different rules based on duty calculations, allowance restrictions and other factors."[7]

The duty free and travel retail industry, globally, is estimated to have generated $69 billion in sales in 2017.[8]

International travellers have access to a variety of products including fashion and accessories, alcohol, fragrances and cosmetics, food and confectionery, tobacco, and jewellery and watches. The continued growth and development of the duty free and travel retail sector supports transport modes through the financial contribution it makes, and global tourism by further incentivising international travel by air, land, and sea.

Economic impact is a measure of the spending and employment associated with a sector of the economy, a specific project, or a change in government policy or regulation. In this case, economic impact refers to the economic contribution associated with the duty free and travel retail sector through its various channels of distribution at airports, on airlines, at land border crossings and downtown duty free shops, and on cruises and ferries. The three major components of economic impact are classified as direct, indirect, and induced impacts. Together, they provide a snapshot of economic activity and employment generated by the duty free and travel retail sectors in the Asia Pacific region.

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