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policy brief employment scenarios

foreign tourism's contribution towards growth and job creation in South Africa



Why is tourism such an appealing sector?

The tourism sector has appeared as a priority sector in every government policy related to economic growth and sector strategies since 1994. Its consistent status as a sector worthy of attention and support arises from three sources.

First, tourism as an international economic activity has been one of the fastest growing sectors worldwide for the last decade. This US\$6,477-billion industry is expected to grow to US\$12,000-billion by 2016, creating opportunities for host countries to capture new market segments and market share.

The second source of interest regarding tourism growth for South African policy-makers derives from the sector's phenomenal performance between 1994 and 2000, and the continued strong and steady growth of the sector since 2000. Immediately after the 1994 election, the tourism democracy dividend allowed a sector growth rate of upwards of 4% per annum, levelling off to 2.6% per annum thereafter. Employment has been growing at roughly 20,000 direct jobs per annum.

The third reason why policy-makers are so interested in the tourism sector relates to the inherent nature of the sector itself. The key attractive characteristics of tourism to South African policy-makers are described in Box 1.

What influences tourists' decisions to visit SA?

SA receives foreign tourists from Africa as well as overseas markets such as the UK, Germany, France and America. African tourists tend to visit South Africa for different reasons than overseas tourists, and the majority of African visitors either come to visit friends and relatives working or residing in South Africa, or they come to shop for goods and services which are either not available in their own country or which are cheaper in South Africa than at home. While these visitors are large in volume, they tend to spend less while in SA than their overseas counterparts. These visitors do not appear to be strongly influenced by the exchange rate, the price of travel to South Africa, or the GDP or GDP per capita in their own countries. In other words, demand for South African tourism from Africa is largely driven by non-economic factors.

BOX 1: Inherent characteristics of tourism that makes it an attractive sector for South Africa

1. Tourism is an export that earns foreign exchange but is consumed domestically, allowing for all the positive knock-on effects of local production to be enjoyed.
2. Tourism employs a large proportion of unskilled and semi-skilled workers, and jobs in this sector tend to be created more rapidly than in the manufacturing sector.
3. Tourism activities have lower barriers to entry than the manufacturing sector, which makes it attractive for BBE and SMME operators.
4. Tourism tends to have a wide geographic spread and hence can provide job opportunities in areas where other types of economic activities are limited.

With respect to overseas foreign tourists, their demand for trips to South Africa does appear to be highly influenced by economic factors. In deciding whether to visit South Africa or an equivalent long-haul destination, the price of an airline ticket appears to be a very important consideration. Surveys undertaken by South African Tourism show that up to a quarter of all potential long-haul visitors dismiss coming to South Africa on the basis of the cost of an airline ticket alone.

It was thought that the exchange rate would also be an important influencing factor. However, research has shown that, in fact, the exchange rate has less influence on a tourist's decision to come to South Africa than it has on how much the tourist spends once he or she has arrived in the country.

Safety and security issues were found to be a factor mainly in the packaged holiday sector, but not a strongly influencing factor for visitors who travel independently. These independent travellers make up 75% of all overseas tourists.

How many jobs can tourism create?

A substantial amount of research has been done to calculate how many jobs the tourism sector can create in the next eight years. Employment growth occurs through two main channels.

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Direct employment is generated by enterprises that have face-to-face contact with tourists, such as hotels, restaurants, limousine services, tour guides, etc. Direct employment is therefore influenced by the number of tourists who arrive in South Africa, as well as the quality of services they buy while in the country. For example, a five-star game lodge will have a ratio of one staff per two guests, while a three-star hotel will only employ one staff per 30 guests.

BOX 2: Can half a million jobs be created?

Government believes that approximately 400,000 direct and indirect jobs can be created in tourism in the next eight years. This figure is arrived at as follows:—

- 2.5-million additional tourist arrivals divided by 12 (the ratio of new tourist arrivals necessary to create one new direct job) = 208,000 direct jobs
- 208,000 direct jobs x 2.4 (the ratio of indirect jobs created per direct job) = 500,000 total jobs

The HSRC's research shows that it is likely that it takes 15 new tourist arrivals and not 12 to create a new direct tourism job, and that the ratio of indirect to direct jobs is much lower than suggested – 0.5 to 0.7 instead of 2.4. Using these numbers, the job creation potential of the tourism sector in the next eight years is revised down to:

- 2.5-million additional tourists divided by 15 = 167,000 x 0.7 = 280,000 total jobs

The second channel through which employment is generated by the sector is through the purchase of goods and services by the tourism enterprises that have face-to-face contact with tourists. This is known as indirect employment creation. For example, a hotel may outsource its laundry operations, thereby increasing job opportunities in that industry. Similarly, the hotel and restaurant sectors buy food, beverages, foreign exchange services and telecoms services, all of which generate jobs in the supplier industries.

Can we do anything to improve these employment creation figures?

There appear to be three main avenues by which we could potentially improve these employment outcomes.

First, if the tourism industry decreased the value of goods it imported to service tourists and increased its domestic purchases, more indirect jobs would be created.

Second, it appears that tourists spend more and buy more labour-intensive services when the Rand is weak against their home currency. For example, if the Rand depreciates, a tourist will upgrade from a three-star hotel to a five-star hotel, which we know employs more staff per tourist than the three-star hotel, resulting in increased employment without increased volumes of tourists.

Finally, if South Africa could increase the volume of new arrivals this would immediately generate more direct jobs. In principle, this could be achieved by undertaking additional market research, increasing marketing and promotional activities, and improving information and other services offered by South African Tourism and other stakeholders.

At present, bar the motor vehicle industry, tourism receives greater financial support than any other industrial sector from the central government. Over R300-million was available to South African Tourism in 2005 to promote and support the local industry. International studies have shown a positive correlation between marketing expenditure and arrivals, hence increased government support of the sector could assist in increasing arrivals and therefore employment.

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