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The European House
Ambrosetti

Position Paper

Implications and opportunities for the Southern Africa tourism industry in the digital age

Executive Summary

Tourism is today a key industry, supporting economic growth and beneficiation of local economies and businesses. In Sub Saharan Africa it already activates 7.1% of regional GDP and supports 5.8% of local employment. Moreover, in the next few years the sector is expected to keep growing, especially in emerging economies and within Southern Africa region.

However, future tourism growth prospects will be unevenly distributed. Performance of different tourism systems will depend on the capability to understand and react to several trends that are today affecting tourism industry, revolutionizing its DNA at macroeconomic and microeconomic level. Competition will increase, with new regions emerging. New tourists' flows will arise, bringing different behaviors and expectations. Digitization will require completely new business models and investments. Experiences and knowledge of local cultures will drive demand.

Southern Africa region, together with its countries, is in a good position to benefit from most of these changes in supply and demand. However, to achieve positive outcomes, coordinated actions and investments at all levels are required, together with cooperation with European institutions and private players in tourism value chain. Promotion of local cultural capital, ecotourism and sustainability, development of integrated territorial branding strategies, and focused investments in physical and digital technologies are ambits where European and Southern Africa companies and public players can already cooperate together, obtaining mutual benefits as reward.

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The tourism industry is a catalyst for economic growth and local development

1. When addressing the performance of economic systems (regions, countries, etc.) several solutions are usually investigated by governments, policy makers and civil society representatives. Today, the focus is increasingly put on those options capable of ensuring sustainable growth, while also creating jobs for vast spheres of workers (from the highly-skilled to those looking for upskilling and training opportunities), sustaining small entrepreneurial activities and benefiting local and rural economies.

2. Surprisingly, the tourism industry is often disregarded by many. At the same time, the touristic performance of a country is usually taken for granted, immutably tied to its natural and cultural heritage and little-related to policy choices or investments.

3. Such an approach fails not only to recognize those paramount changes currently occurring within the sector, which are de facto reshaping tourism industry DNA and changing its competitive landscape. It also fails to understand the **crucial contribution that the sector can provide—given its own characteristics—to a sustainable and inclusive economic growth.**¹

4. Today, the tourism industry generates directly \$2,570 billion value added globally (3.2% of global GDP). This value is expected to reach \$3,890 billion by 2028. Employment will grow accordingly: from the current 118.5 million jobs (3.8% of total employment) to almost 150 million by 2028.²

5. Considering effects on local economies, the indirect and induced impacts of tourism are also vast.³ The full-scale economic contribution of the global tourism industry (direct, plus indirect and induced) accounts for 10.4% of world GDP and supports 9.9% of total employment. Narrowing the impact analysis to the European Union (EU) and Southern Africa, results are unchanged.

6. Considering Sub-Saharan Africa, the tourism industry directly accounts for 2.7% of total regional GDP (\$43.7 billion) and for 2.3% of total regional employment (6.8 million jobs). Analyzing total impact (direct plus indirect and induced), the industry activates 7.1% of regional GDP and supports 5.8% of total regional employment. Such relevance is more or less evenly distributed across all economies in the area.

7. In the EU, the tourism industry directly generates \$665 billion value added (3.9% of total GDP) and 12 million jobs (5.1% of total employment). The full-scale economic contribution (direct plus indirect and induced) totals 10.3% of EU GDP and 11.7% of total employment.

| | European Union (28) | Sub Saharan Africa |
|-----------------|---|--|
| Economic impact | DIRECT: \$665 bln. TOTAL: \$1,786 bln. | DIRECT: \$44 bln. TOTAL: \$117 bln. |
| Jobs | DIRECT: 11.9 mln. TOTAL: 27.3 mln. | DIRECT: 6.8 mln. TOTAL: 16.5 mln. |

Figure 1. Direct and total impact on GDP and employment of the travel and tourism industry in the EU and SSA (\$ bln. and mln. jobs), 2017. Source: The European House - Ambrosetti elaboration on WTTC data, 2018.

8. Given the direct economic relevance of tourism and the magnitude of the indirect contribution it provides to the economy overall, any comprehensive national or supranational strategy that aims to reinforce growth and competitiveness cannot forget its role,⁴ especially considering cross-sector interdependence and overall economic activation.

The tourism industry will continue to grow, especially in developing countries

9. **The global tourism sector is currently experiencing steady growth at global level.** The growth of the middle class globally, together with the decreasing cost of air transport, have resulted in the growth of tourism receipts, from \$1 trillion in 2009 to \$1.4 trillion in 2017. International arrivals of tourists have also grown: from 897 million in 2009 to 1.3 billion in 2017.⁵

10. **The future trend is also expected to be positive** In 2017, the sector attracted \$882 billion in capital investment. This amount is expected to increase by 4.8% in 2018 and by 4.3%/year over the next ten years, reaching \$1,408.3 billion in 2028. International tourist arrivals are also expected to

¹ Among others, World Bank (1979), "Tourism: passport to development?" World Bank/UNESCO Conference, and OECD, "OECD Tourism Trends and Policies 2018", 2018.

² Source: The European House – Ambrosetti on WTTC, 2018.

³ Such impacts are evaluated using input output tables based on the Leontief Input-Output Model.

⁴ Source: OECD, "OECD Tourism Trends and Policies 2018", 2018.

⁵ Source: World Bank, 2018.

grow, reaching 1.8 billion units by 2030 (+38% vs. 2017).⁶

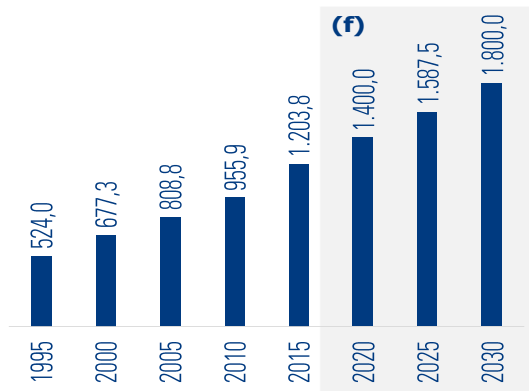


Figure 2. International tourist arrivals, World (mln. units), 1995 – 2030 (forecasts in grey). Source: The European House – Ambrosetti elaboration on WTTC and World Bank data, 2018

11. This performance, however, will not be evenly distributed across all regions. In the past year⁷ developed economies experienced a growth in international tourist receipts of 4.2%, while emerging economies experienced, on average, a 6.2% growth. Looking at future trends, this growth gap will widen, with **emerging economies surpassing developed ones in terms of tourist arrivals by 2020**.

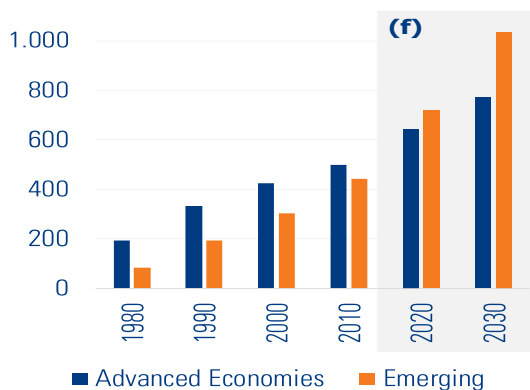


Figure 3. International tourist arrivals (mln. units) 1980 – 2030 (f). Source: The European House – Ambrosetti elaboration on UNWTO data, 2018.

12. Within this context, the EU and Southern Africa both stand out, with a growth of international tourist receipts between 2016 and 2017 of 7.3% and 7.2%, respectively.⁸

13. However, future international tourist arrival forecasts expect EU CAGR to slow by 2030. Southern Africa CAGR will be more than double that of the EU: 5.1% between 2010 and 2030. This performance will bring a forecasted drop in the EU share of global international tourist arrivals by 2030. On the other side, the Sub-Saharan Africa share will grow, but will remain small and well below continent potential.

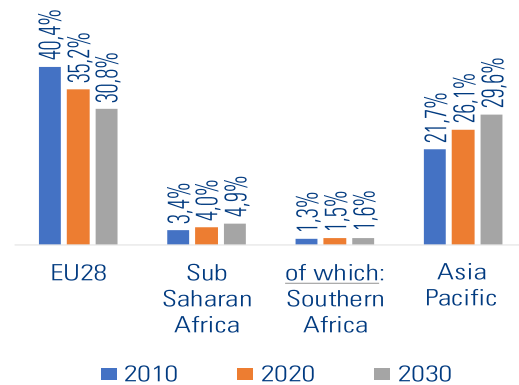


Figure 4. Share in international tourist arrivals (% of world total), 2010 – 2030 (f). Source: The European House – Ambrosetti elaboration on UNWTO and Eurostat data, 2018.

To continue benefiting from global tourism growth, countries and companies must recognize current challenges and trends affecting the sector and act accordingly

14. Future tourism growth prospects will be unevenly distributed. Performance of different tourism systems will depend on the capability to understand and react to several trends that are today affecting the tourism industry and are revolutionizing its DNA at macroeconomic and microeconomic level.

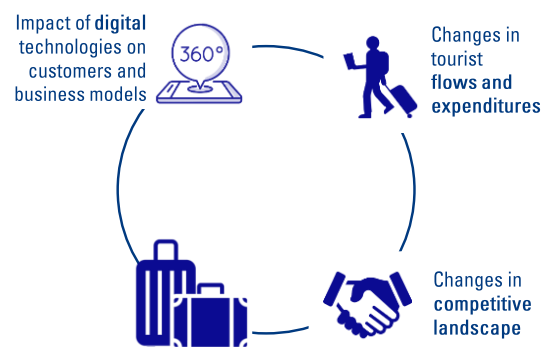


Figure 5. Summary of major trends affecting the tourism industry. Source: The European House – Ambrosetti’s own elaboration, 2018.

15. First of all, **tourist destination preferences are changing**. This reflects new consumer tastes and behaviors, but also signals the emergence of stronger tourism industries in new geographical areas, thus triggering a virtuous circle that brings new investment to these areas and further reinforces the appeal of these newcomers and increases the level of competition for international tourist flows.

16. This is the case of Asia, where a combination of rapid economic growth, vast population (half the world’s total), rising air connectivity, market

⁶ Source: WTTC, 2018.

⁷ 2017 vs. 2016 i9

⁸ Between 2016 – 2017.

openness and facilitated travel and territorial promotion policies have boosted international travel (both intraregional and interregional).

17. **Asia is today the second most-visited region in the world** (after the EU) and has been the fastest growing in recent years, reaching almost 310 million international tourists in 2017 (23% of the world total, vs. 14.7% in 2000). It is expected to attract 30% of international tourist arrivals by 2030. The region also accounts today for nearly 30% of the world's international tourism receipts, a share that has almost doubled since 2000.⁹

18. Within the region, **Southeast Asia** is performing extremely well, reaching 120 million international tourist arrivals in 2017 (+71% between 2010 – 2017, +10% in the first quarter of 2018) and recording the highest growth of any other region in the world. At country level, top performers in terms of growth are **China** (59 million international tourist arrivals in 2017, ranking 4th in tourist destinations globally) and **Thailand** (33 million international tourist arrivals in 2017, the 9th destination globally and top tourism earner in the region).¹⁰

19. Such changes also reflect a second major trend: **a shift in tourist structure**. This depends upon several elements, among which are changes in the geographical composition of the global middle class, effects of ageing, cheaper long-range air travel, ease in obtaining information about remote places and planning itineraries accordingly, and changes in customer behavior.

20. This implies that all tourism players within a system (countries, regions, territorial promotion agencies, the largest companies, SMEs and individual businesses that constitute the backbone of a country's tourism sector, etc.) have to act accordingly, in synergy, to reshape the overall offer in order to win the largest possible share of international travelers.

21. In particular, both the **EU and Southern Africa have vast margins to win shares of new tourists, especially from Asia**. Currently the region provides 70 million extra-regional tourists.¹¹ Among them, Chinese are leading, with 156 million annual overseas visits expected in 2018 (vs. 10.5 million in 2000 and 57.4 million in 2010).¹²

22. This is just the tip of the iceberg. Currently, only 7% of Chinese (99 million people) possess a passport, compared to around 40% of Americans and 76% of UK citizens. In addition, the Chinese middle class is expected to expand from 430 million today to 780 million in the mid-2020s.¹³ According to UNWTO, almost half of tourist growth by 2030 will originate in China, making the country responsible for 25% of international tourism by 2030.

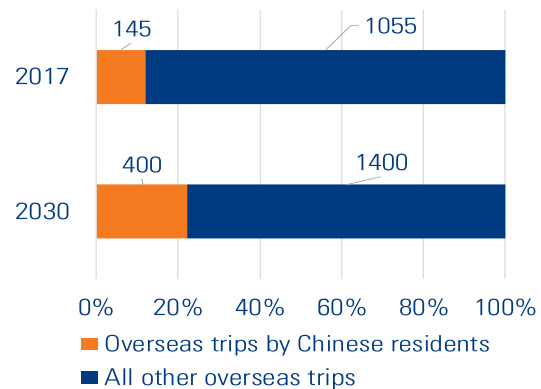


Figure 6. Future growth in international tourists by origin (% of world total and million tourists), 2017 and 2030 (f). Source: The European House – Ambrosetti elaboration on China Outbound Tourism Research Institute data, 2018.

23. In 2017, half of Asian tourists have visited the EU, which also remains the preferred destination for Chinese travelers. Over the last 10 years, the number of nights spent in the EU by tourists from China more than tripled, reaching nearly 25 million nights in 2016. This signals the strong interest for the region.¹⁴ On the other side, vast untapped potential still exists for Southern Africa, given the fact that less than 3% of Chinese tourists chose to visit the region.¹⁵

24. Another major trend revolutionizing both tourism demand and supply is related to the **pervasive application of digital technologies**.¹⁶ It has enabled the development of “Smart Tourism”, an enhanced tourism experience that leverages on big data and platforms.

25. From the customer perspective, digitization increases the amount of information available in the system and allows for better matching of one's own preferences with what is offered. As a consequence, digital channels are becoming increasingly popular. In 2017, global online travel sales totaled \$543

⁹ Provisional data from UNWTO Barometer, June 2018.

¹⁰ Source: UNWTO/GTERC Asia Tourism Trends 2017 Edition, 2018.

¹¹ Intraregional flows still account for 80% of total arrivals in Asia and the Pacific.

¹² Source: COTRI (China Outbound Tourism Research Institute), 2018.

¹³ According to the OECD, the global middle class will reach 4.9 billion people by 2030 (from 1.8 billion in 2009). 66% of them are expected to reside in Asia, (vs. 28% in 2009).

¹⁴ Source: Eurostat (tour_occ_ninraw), 2018.

¹⁵ Precise figures are not available, figures are based on The European House – Ambrosetti estimation on cross-country database analysis, 2018.

¹⁶ Source: OECD, “OECD Tourism Trends and Policies 2018”, 2018.

billion and by 2020 this figure is expected to reach \$707 billion.¹⁷

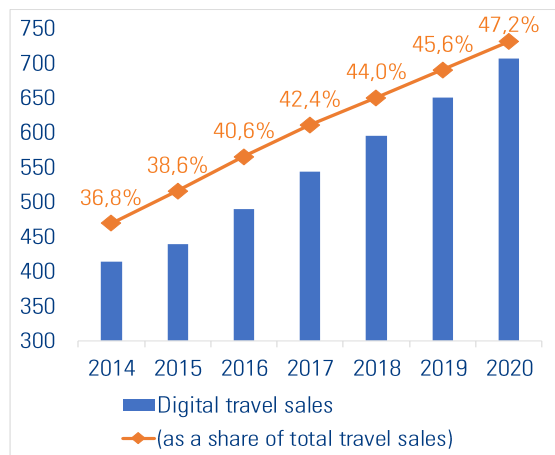


Figure 7. Revenues of digital travel sales and share of digital travel as a share of total travel sales (bln. \$ and % share), 2014 - 2020. Source: The European House – Ambrosetti elaboration on Statista, 2018.

26. Digitization also results in the emergence of new customer needs.¹⁸ Personalization of travel and the possibility to co-create it are now taken for granted. The result is the mixing of different travel items to leverage the speed, flexibility, simplicity, transparency and availability of multiple choices offered by new digital platforms.

27. As a consequence, the customer journey has been extended to encompass pre-travel (searching information, comparing solutions, co-creating, etc.), travel (making real time searches and evaluations, asking support and information from locals or other travelers, making purchasing decisions, booking in real time, buying experiences, interacting with local communities and selected networks of influencers, leaving P2P reviews, reading wiki-based guides or renting on sharing platforms, etc.) and post-travel (reviewing, sharing on social networks and other digital spaces, etc.). Throughout the customer journey, travelers ask for a seamless experience--from one activity to the other and from one channel to the other (digital, physical, etc.).

28. Finally, demand for travel, vacations and holidays are being **replaced by demand for experiences**. Today, three out of every four millennials already say they'd rather buy an experience than a physical good.¹⁹ This is partly related to the emergence of social networks, partly to the possibility to connect in real time with local communities and partly to the growing relevance of

storytelling. But it also reflects different values and priorities that see as extremely valuable the connection with locals, the possibility to access different cultures and have first-hand and unmediated involvement. More and more tourists make choices on locations and accommodations based on these elements.

29. On the business side, **digitization affects business models in the industry**. Digital transformation enables changes in organizational models requiring players to put in place a proper seamless digital strategy. It also requires investment in new technologies, competences and platforms as the industry increasingly becomes part of the so-called "data economy".²⁰ Sharing economy and peer-to-peer solutions also allow new digital entrants to win consistent shares of sector value.²¹

30. Partnerships and cooperation agreements will be increasingly important but heterogeneous²² as agreements between players in the industry will add to partnerships with new entrants or with actors from different sectors. Cooperation between countries will also coexist with partnerships between public and private players and between regional and local institutions.

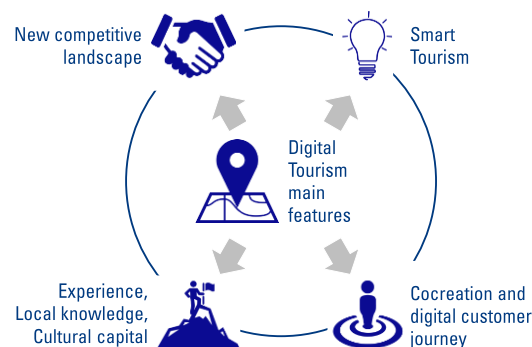


Figure 8. Digital Tourism main features. Source: The European House – Ambrosetti's own elaborations, 2018.

These trends can offer unprecedented and valuable opportunities to those Southern Africa companies and countries capable of recognizing and reaping them

31. The above-mentioned developments should not be perceived as menacing. They bring major disruption but also offer unprecedented opportunities to those companies and countries capable of adapting and exploiting them. This is especially true for the Southern Africa tourism industry. The region is currently being offered the

¹⁷ Source: Emarketer, "Worldwide Digital Travel Sales: The Complete eMarketer Forecast for 2016", 2018.

¹⁸ Source: Senay Boztas, "Automated holidays: how AI is affecting the travel industry", 2017.

¹⁹ Source: Eventbrite, "Millennials: Fueling the Experience Economy", 2017.

²⁰ Where real value comes from data collection (big data) and from the capability to analyze them (big data analytics), extracting valuable information.

²¹ An example: AirBNB already offers twice the number of rooms as Marriot Starwood, without any real estate asset on its balance sheet.

²² An example: <https://www.louvre.fr/en/louvre-abu-dhabi>

chance to increase its share in the global tourism industry (currently less than 2%) within a context of forecasted steady growth and fiercer competition.

32. Today, the Southern Africa tourism system is characterized by a mix of highly-appreciated locations, within the context of a generally fragmented offering and few international large players, side-by-side with a majority of small and micro local enterprises. As a consequence, despite current growth, the development of the tourism industry in the region remains well below potential.

33. However, targeted investment can effectively ignite a turnaround, supporting the region in successfully attracting increasing shares of international tourists. To do so, initiatives should be designed and prioritized that take into consideration both ongoing developments in the global tourism industry and the ways they can benefit Southern Africa's unique tourism environment.

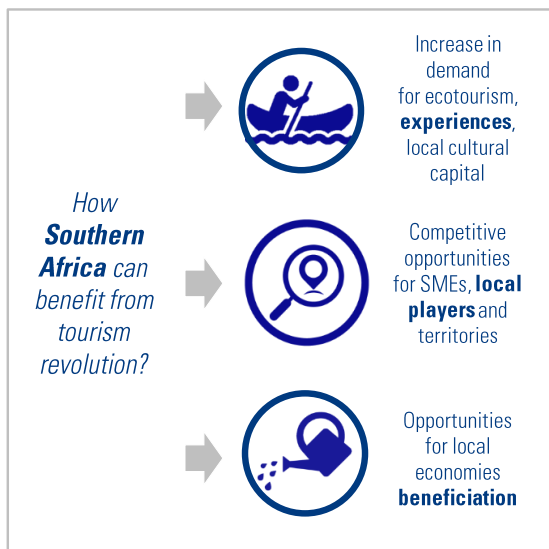


Figure 9. Southern Africa beneficiation from digital tourism. Source: The European House – Ambrosetti own elaborations, 2018.

34. First of all, **growing global demand for genuine experiences, adventures and first-hand, unmediated local knowledge offers the region a unique and unprecedented competitive advantage.**²³ In SADC, 40% of species are endemic, while South Africa contains nearly 10% of all known species of birds, fish and plants registered in the world and 6% of mammal and reptile species. The Cape region ranks second globally out of 90 regions for level of endemism and species richness. In Madagascar, 70% of its species are totally unique in the world.²⁴ Cultural richness is testified by the 95 UNESCO Heritage properties distributed in 32 states, 52 of which are cultural heritage sites. Finally, the very nature of Southern

Africa's tourist offering is characterized by a natural vocation for genuine experiences, favoring unmediated knowledge of unique cultures, adventures and experiences.

35. Growing demand for ecotourism and sustainability also offers new opportunities to those Southern Africa regions that can rely on unique and uncontaminated natural assets, sustainable and eco-friendly initiatives and genuine local experiences.

36. Secondly, **digitization acts as a competitive streamliner, providing an opening for those Southern African SMEs embracing ICT technologies and digital practices.** In the past, the international travel market was dominated by large international groups and by those players and regions capable of undertaking major investment in marketing, territorial branding and international promotion and communication. Today, digital platforms allow smaller players to get in touch with international travelers interested in what they have to offer. Consistent targeting and segmentation strategies, aligned with their own products and services, allow them to maximize client retention as a result of relatively limited investment.

37. Conversely, increased levels of information (virtual tours, P2P reviews, etc.) and transparency allow international tourists to choose destinations that a few years ago were unknown or erroneously regarded as unsafe or unappealing.

38. **Marginal gains from digitization will be greater for those local players and regions once off mainstream tourist routes.** They are now able to reach a targeted international audience by advertising in leading digital channels (including social networks, digital media, etc.). To do so, ICT skills, basic competences in data analysis and digital marketing, precise segmentation and definition of potential customer base, high quality and consistent offering, management of digital reputation, capability to engage clients and to transform experiences into valuable relations and networks are mandatory.

39. Local economies can also benefit from sharing economy models and peer-to-peer solutions. AirBNB provides an example as 74% of rooms or houses available on the platform are placed outside mainstream tourist areas and 42% of the expenditures of AirBNB tourists (2.1 times greater than regular tourists) are made in the neighborhood in which they stay.²⁵ Since Airbnb's founding in 2008, over 3.5 million guests have arrived at listings across

²³ Source: The Economist, "Sustainable Tourism Whitepaper", 2018.

²⁴ Sources: SADC and PNAS, 2018.

²⁵ Source: AirBNB, 2018.

Africa, and of these, 2 million guests have arrived at listings on Airbnb in South Africa only. African hosts have earned over \$400 million in income from hosting, of these \$260 million in South Africa.

To maximize positive outcomes for the Southern Africa tourism industry and to benefit local economies, a set of actions must be put in place to open targeted cooperation with the EU and its companies

40. Within this context, both companies and governments in the region must act promptly and synergistically in order to exploit the opportunities outlined above.

41. First of all, **integrated tourism strategies are required at national and supranational level**, encompassing medium- to long-term objectives. In order to achieve them, coordinated actions and policies are also crucial.

42. Such strategies should first of all recognize the real vocation of a territory, its strengths and assets, and define the best offering within the trends affecting regional and global demand. In this sense, Southern Africa can leverage on unparalleled natural and cultural assets, providing international tourists with both unique experiences and genuine local cultural capital.

43. Given this, **ecotourism and sustainable tourism** can be at the core of a Southern Africa tourism value proposition. This would allow the region to combine both economic and sustainability objectives, while also meeting the increasing global demand for this kind of offering. Ecotourism will also make it possible to maximize the economic and societal spillovers into rural areas and local businesses, including to benefit players in the agricultural and food sector.

44. However, to effectively maximize outcomes and results, ecotourism development in the region should be well-planned and carefully deployed. The risk of so called “overtourism” (crowded natural and cultural spaces, churning of resources, excess number of visitors that diminishes the quality of life for local residents and creates a negative experience for visitors) must be avoided. On the other side, responsible tourism must be encouraged and preservation of natural endowments pursued.

45. From this standpoint, natural heritage should not be taken for granted and must be preserved and promoted while safeguarding the fragile environment from degradation and avoiding jeopardizing local cultures.

46. In addition to ecotourism, other potential offerings have to be identified and developed in a consistent and integrated way to differentiate and complete the overall offering and allow enhanced integration of Southern Africa within global tourism networks.

47. In this sense, **cultural tourism** can be effectively and synergistically integrated with ecotourism development. These two vocations together can provide an overall consistent offering, benefitting local businesses and SMEs and matching global demand for first-hand experiences, local knowledge and cultural capital.²⁶

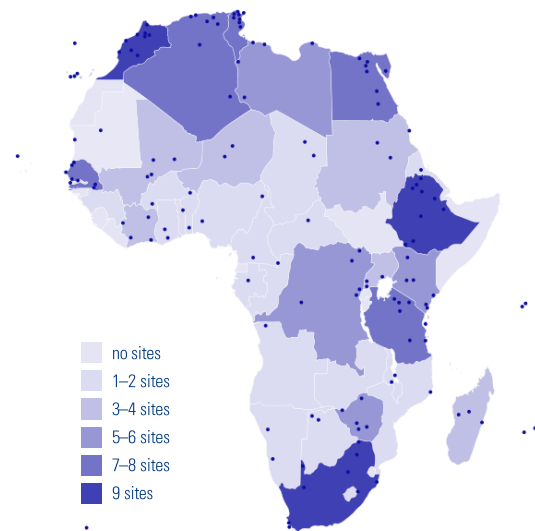


Figure 10. UNESCO natural and cultural heritage sites on the African continent, 2018. Source: The European House – Ambrosetti on UNESCO data, 2018.

48. Within this context, cooperation among institutions, countries and business players from Southern African and the EU can offer a valuable contribution. The two areas can cooperate in the **development of territorial branding strategies**, including **integrated and mutually-supportive international promotion activities**.

49. As an example, within a context of growing interest for local food and agricultural products, EU countries such as Italy and France can provide expertise in maximizing both tourist attraction and spillovers into local economies. Territorial branding can also benefit from competences sharing in development and management of local fairs and exhibitions or in the agritourism sector. Integrated promotion can also be developed involving players from South African and European wine routes leveraging, among other aspects, their complementary seasonality.

²⁶ Source: The European House – Ambrosetti, “Lo sviluppo dell’Africa: un’opportunità per l’Europa, per l’Italia e per la Sicilia”, 2018.

50. Europe can also support the African tourism industry through joint investment aimed at **boosting Southern Africa territorial competitiveness** through focusing on the region's strengths and needs. Co-investments have to support the deployment of **tourism-enabling physical infrastructure** such as rail, roads and hotels. Accessibility of a destination is a particularly important factor affecting the volume of arrivals to a region. In this sense, airline routes, among other transport infrastructures, are crucial to maximize international tourist attraction. Currently, approximately half of the tourists in 2017 traveled to their destinations by air.²⁷

51. In the age of tourism 4.0, the deployment of digital infrastructure is also crucial, both to satisfy tourist needs and to fuel competitiveness of local players. Putting these enabling infrastructures in place is a prerequisite to trigger private investment and attract foreign capital. This will ignite a virtuous circle capable of autonomously boosting the attractiveness and competitiveness of the Southern Africa tourism industry.

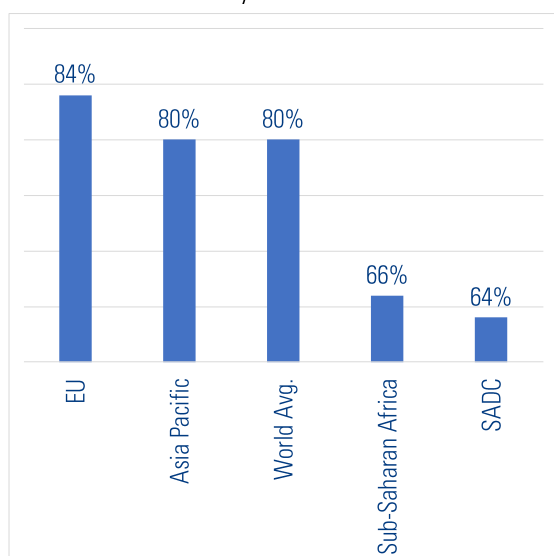


Figure 11. Share of intra-regional tourists to total tourist arrivals, by region (%), 2017 or latest available year. Source: The European house – Ambrosetti on SADC, EU, UNWTO and other sources, 2018.

52. Investment in connectivity is also crucial to stimulate the most important part of a regional tourism structure: intra-regional flows. To-date in Southern Africa, this pillar is still largely underdeveloped (63% in SADC), while abroad it provides the bulk of revenues and economic resources that can be invested to build up a competitive offering for extra-regional travelers.

53. **Investment should also focus on skill and competence development.** Digitization of services and offerings requires competences in digital branding, digital marketing, data analytics, use of smart technologies and digital reputation building. Specific professionals can be trained, but basic levels of the above-mentioned skills should be provided also to smaller players (including small managers, individuals and family businesses).

54. In this field, cooperation with governments (especially at local level), educational institutions and private players in the EU can be built. This cooperation should be intended not only to expose Southern Africa professionals to management and digital competences, but also to provide an in-depth view of Western tourist demand to aid in building a more complete and diversified offering at national level.

55. At company level, adoption of digital best practices will prove rewarding. Winners will be those players capable of engaging potential travelers on digital channels to offer a seamless customer journey, tailor-made experiences and quality and consistent offerings, thus transforming this interaction into a positive relationship capable of satisfying the need for culture capital, local knowledge and valuable experiences. Targeting has to be pursued (e.g., focusing on silver tourism, agritourism, leisure tourism, luxury tourism, safari), to be a core part of a proper digital business strategy.

56. Finally, Southern Africa countries must rid themselves of national segmentation **to pursue an integrated tourism offering** capable of providing incentive to cross-country “experiences”. This can help to reduce costs and increase overall competitiveness, while also boosting intra-regional flows. To do so, procedures, differences in policies and regulations and barriers should be avoided, and integrated local and regional offerings have to be conceived, and common territorial and location branding must be put in place.

57. Within this context, countries such as **South Africa** are crucial platforms to initiate such developments. In South Africa, tourism accounts for 3% of total GDP and 4.5% of total employment. The National Tourism Sector Strategy already stresses the importance of leveraging the country's competitive advantages in nature, culture and heritage, supported by innovative products and service excellence.

²⁷ On the role of air transport, please refer to the Position Paper “Development of intermodal transport in SADC”. With specific reference to tourism, air traffic provided a \$36 billion tourism catalytic contribution to African GDP. Source: IATA, Aviation benefits beyond borders, 2018.