CHAPTER III

THE ECONOMICS OF TOURISM

3.1 INTRODUCTION

The role of tourism services in South Africa has recently become a policy issue (Satour, 1994). Most countries have already liberalised service trade which has been omitted from GATT (or WTO) rules. The new interest in services in South Africa could be explained by the hope that mainly labour-intensive service activities could help to overcome the unemployment problem.

This chapter examines tourism in the light of the underlying economic theories and principles. Firstly, to be able to determine the contribution of the tourism sector to the economic growth and development of the region, a thorough analysis of the relevant economic theories and principles should be done. Thus, this chapter deals with the following concepts: tourism as a service industry in the economy; characteristics of services; the role and functions of a service industry in the economy; the externalities associated with tourism; and micro- and macro-economic considerations. This is important because the tourism industry in the economy can be generally explained following macroeconomic principles, as it has significant influence on development, growth, price levels, external balances and employment. On the other hand, tourists preferences for tourists products can be analysed through the use of microeconomic theory, for example, basic demand and supply analysis.

3.2 DEFINITIONS AND CHARACTERISTICS OF A SERVICE INDUSTRY

3.2.1 Definitions

Although there are many definitions of services, they all seem to point to one thing, that is, services are economic activities that provide time, place and form utility (meaning that the recipient derives satisfaction from utilising them) while bringing about a change
in or for the recipient of the service. (Chuo, 1992)

Ochel and Wegner (1987) defines a service industry as "all those firms and employers whose major final output is some intangible or non-stockable activity or alternatively, that residual set of production in the formal economy that is not a physical good."

Chuo (1992) defines a service as any activity or benefit that one party can offer to another that is essentially intangible and does not result in ownership of anything; its production may or may not be tied to a physical product.

A similar definition quoted by Chuo (1992) says: "services are those separately identifiable, essentially intangible activities which provide want satisfaction and that are not necessarily tied to the sale of a product or another service. However, when its use is required, there is no transfer of title."

These definitions make it clear that things like entertainment are included, but things like delivery which exist only when there is a sale of a product are excluded.

### 3.2.2 Characteristics of services

A number of features can be identified to distinguish between goods and services. Among those features are the following:

(a) **Intangibility**

Services are essentially intangible and it is often not possible to taste, feel, see, hear or smell services before they are purchased (Chuo, 1992). Purchasing a service for the second or third time usually rely upon previous experience. The customer or the client may be given something tangible to represent the service, but ultimately the purchase of a service is the purchase of something intangible.

(b) **Perishability**

Services are perishable and cannot be stored. Spare seats on a package tour, an unvisited tourist attraction or an empty hotel room represent capacity lost.
forever. On top of that, some services have a very fluctuating demand (for example, holiday). In such cases, important decisions have to be taken to cope with surges in demand before service levels suffer. Attention has also to be given in times of low level of usage on whether spare capacity will lie idle or whether short-term policies can be adopted to leverage fluctuations in demand.

(c) Heterogeneity

It is difficult to achieve standardisation of output in services. Service producers may attempt to ensure a standard of conformity, but ultimately it is difficult to ensure the same level of output in terms of quality. From the viewpoint of customers it is also difficult to judge quality in advance of purchase.

(d) Ownership

The basic difference between a service industry and a product industry is the lack of ownership, because a customer/client may only have access to or use of a facility (for example, visit a resort, occupy a hotel room). Payment is only for the use of, access to, or hire of items. Whilst with a tangible good, the buyer after paying for it, obtains ownership of the good.

3.3 TOURISM AS A SERVICE INDUSTRY IN THE ECONOMY

Tourism as a service industry is fast becoming one of the major industries in the world. South Africa is no exception with its natural beauty found in most of its regions, especially KwaZulu-Natal and Western Cape. Why is tourism regarded as a service industry? Tourism demonstrates all the qualities of a service industry. This is shown by the nature of its constituents service trades, which are separate industries in their own right.

To put the tourism industry’s development in perspective the traditional three-sector model of development present a theory of the development process in stages. In the early phase primary (agricultural and mining) activities dominate the economy in
terms of their share of output and employment, followed by a more and more important role for the secondary (industrial) sector at a later stage. Finally, tertiary (services) activities (including the tourism industry) should become the largest sector in the economy (Ochel and Wegner, 1987). Attempts have been made to explain the secular shift of employment towards the tertiary sector by combining two elements: the relative increase in demand for services with growing per capita income of private households (Engel's Law), and the trend of service productivity to rise more slowly than other parts of the economy (productivity gap).

A fourth (quaternary) stage was then added to the traditional three-stage model and linked to the growth of the information sector, comprising information producers, information processors, and distributors. The information economy theories emphasize the new computer and information technologies both as the dominant source for structural change and the driving force for the rapid creation of information jobs in all sectors. Ochel and Wegner (1987) also mentioned that information service activities and occupations have grown in all sectors, but they are situated mainly within the service sector. The new information technologies are more than a supplementary sector; they are transforming the quality and nature of services as well as the mode of production. In fact service industries complement other industries (manufacturing, agriculture) thereby making an impact on the economy.

Like any other industry in the economy, the tourism industry can be economically viewed from the outputs (services) it delivers and from the inputs it needs to perform the production of tourist products or services. Before any country or region within a country can attract tourists on a large scale, certain important inputs (facilities and services) must exist and/or provided for tourists to cater for their needs from their time of arrival to their departure (op. cit.). The organisations or businesses that provide these facilities make up a tourism industry. The most important services sectors or branches that directly relate to the tourism industry are the following:

(a) Travel and transport services

To get out of their countries and away from their homes, people need transport
to enable them to travel to their destination. Without travel and transport services, there could be no tourism. Also during visits tourists need the services of transport, taxis and buses, car rentals or travel agencies/operators, passport services, tour guides, et cetera.

(b) Catering and accommodation services
Tourists away from their homes need places to stay and they need to be fed. Shops, restaurants, hotels, resorts, caravan sites and camps, et cetera, provide tourists with catering and accommodation services.

(c) Leisure and Business facilities
Leisure (for example, trips to game parks) and business needs (attending conferences/seminars) are the two main reasons that lead to tourist activity. Businesses and organisations that provide leisure, recreation and business facilities (for example, postal services and financial services) make up the third branch of the tourism industry.

(d) Marketing and promotional services
The existence of any tourist attraction is of no value if it is not known to the potential users. Their existence need to be promoted through well planned marketing strategies and by professional agencies, for example, publicity associations (public and private institutions).

For these service sectors to exist or to be developed in an area or a region, basic infrastructure is required. These infrastructural facilities can be regarded as inputs necessary for the development of the output of the tourism industry. These inputs are inter alia the following:

- tourist attractions
- water, that is, the region must have access to sufficient amount of drinkable water.
- roads and travel facilities for tourists to travel, which means that all the attractions must be accessible. It is of no use to have a beautiful attraction which cannot be visited because it is inaccessible.

- electricity, without electricity there could be no or very little tourism activities taking place.

- labour, it has been said that the tourism industry is a labour-intensive industry, therefore it is the most important input.

- other services, for example, financial, accommodation and catering services.

Hence, Howell (1983) defines tourism as both an industry and a response to a social need because its product includes all the elements that combine to form the tourism consumer’s experiences and exist to service their needs and expectations. On the other hand, Rogers and Slinn (1993) defined tourism as denoting the temporary short term movement of people to destinations outside the places where they normally live and work and their activities during their stay at these destinations.

Because tourism industry is defined as a heterogeneous group of enterprises, Singh and Kaur (1982) grouped tourist related enterprises into different sectors (branches of economic activity). These sectors are:

- Energy
- Basic metals
- Manufacturing of electrical machines, apparatus, appliances, etc
- Manufacture of chemicals and chemical products
- Manufacture of wood
- Manufacture of textiles, leather and rubber products
- Food manufacturing industries and tobacco
- Agriculture
- Forestry
- Construction
- Transport and communication
- Trade and catering
- Miscellaneous manufacturing industries
- Services rendering arts and crafts
- Others

All these sectors are directly and indirectly linked to the tourism industry. This grouping of different enterprises and sectors confirms the fact that there are extensive linkages between tourism as an economic sector and other economic sectors. This also shows the linkages that exist between tourism industry as a tertiary industry and both the primary and secondary industries.

At the same time the multiplier effect of the tourism industry is also important, in the sense that the increase in tourism production, results in an increase in the activities of all these other sectors.

Tourism is also more than a service industry because the products of tourism consist of natural beauty, dramatic landscapes, cultural heritage, commercial hospitality, et cetera. According to Singh and Kaur (1982) tourism can be broken down into three elements:

(a) Human element (tourist needs and desires)
(b) Physical element (geographical aspects and accessibility)
(c) Time element (trip duration and stay)

They also classify tourism products (goods and services demanded and consumed by tourists while away from their homes) into two categories:-

(a). Tourism Oriented Products (TOPs)
This group encompasses all of the economic activities which are directly related to the tourism industry. Its those goods and services produced primarily for consumption by tourists, generally with a direct
economic return envisaged in their production. Those goods and services are grouped as follows:-

(i) Accommodation
(ii) Transportation
(iii) Travel agencies
(iv) Recreation and entertainment
(v) Food services
(vi) Other travel trade services.

(b) Resident Oriented Products (ROPs)

These products are produced primarily for use by the residents of a tourism destination. Yet, they are also consumed by tourists. These are all the economic activities and functions of government and non-governmental organisations, for example, police force, hospitals, bookshops, et cetera.

3.4 MICROECONOMIC PERSPECTIVE OF TOURISM

The operations of the tourist market is governed by the same principles (market forces) as any other market. Prices are determined by the interaction of the demand and supply forces. Any factor(s) that affects the demand and/or supply of tourist products leads to a disequilibrium position (where the demand is not equal to the supply). All these shifts and the extent of market outcomes are dependent on the elasticities of demand and supply of tourist products (Johnson and Thomas, 1993).

3.4.1 The nature of the market demand for tourism products

3.4.1.1 Definition of demand

The traditional definition of demand is that of the neoclassical economics: demand is the schedule of quantities of some goods or services that will be consumed at various specified prices (Smith, 1989). Higher consumption is usually associated with lower prices and lower consumption with higher prices. The demand is illustrated diagrammatically in Figure 3.1 (see also Table 3.1).
The downward sloping line, DD', reflects the inverse relationship between price and consumption. Consumption in the context of tourism, refers to the purchase and price of some good or service such as a hotel room, participation in some activity, such as a pleasure drive in a private automobile, or attendance of an attraction, such as visiting a historical site.

Another dimension of demand is that of unmet demand, usually referred to as latent demand. Latent demand is a measure of the difference between the potential level of consumption and the observed level (Smith, 1989). The difference may be due to shortage of supply, excessively high prices, or other barriers. Latent demand should be of special interest to tourism planners because it represents the potential for market expansion. Demand can also be used to refer directly to a forecast of future consumption. According to Nobbs (1981) demand in the sense of future participation is seen as a function of many variables, not just price, such as, what will be the level of income, the age of potential consumers of tourist products and environmental factors. It also refers to the anticipated mix and values of those variables that affect demand.

For the purpose of this study, it can be useful to use the definition of demand for tourism by Johnson and Thomas (1992). According to them, demand for tourism comprises of three basic elements:

(a) Effective demand which is the actual demand of participants in tourism,
that is, those who are actually travelling.

(b) Suppressed demand is made up of that section of the population who do not travel for some reason. There are two elements of suppressed demand: potential demand which refers to those who will travel at some future date if they experience a change in circumstances. For example, their purchasing power may increase and therefore have the potential to move into the effective demand category. Deferred demand is the demand postponed because of a problem in the supply environment, such as a lack of capacity in accommodation, adverse weather conditions or perhaps terrorism activity. Again this implies that at some future date when the supply conditions are more favourable those in the deferred demand category will convert to effective demand.

(c) Finally, there will always be those who simply do not wish to travel, constituting a category of no demand.

The relationship between the amount of tourism goods and services purchased and prices can be shown using the concept of the demand schedule. Table 3.1 shows a hypothetical demand schedule for travel to a destination area.

**TABLE 3.1: TOURISM DEMAND SCHEDULE**

<table>
<thead>
<tr>
<th>COST OF VACATION (RANDS)</th>
<th>QUANTITY DEMANDED (ARRIVALS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>R 800</td>
<td>160 000</td>
</tr>
<tr>
<td>R 1 000</td>
<td>140 000</td>
</tr>
<tr>
<td>R 1 200</td>
<td>120 000</td>
</tr>
<tr>
<td>R 1 400</td>
<td>100 000</td>
</tr>
<tr>
<td>R 1 600</td>
<td>80 000</td>
</tr>
</tbody>
</table>

Translated into a demand curve it can be presented diagrammatically as Figure 3.2.
3.4.1.2 Total revenue (gross)

Total revenue is the product of the price and the quantity sold at that price. For instance in the above table, when the demand is 1,200 visitors and the cost of vacation is R1,200, the total revenue will be R 1,44 million for the tourism industry.

3.4.1.3 Demand shifters

The variables shown implicit in the demand as determining future consumption are known as demand shifters (Smith, 1989). These include consumer characteristics such as age, previous experience with similar products and tastes as well as the effects of promotional efforts, product innovation and new technology. For example, in Figure 3.1 above, consider the demand for rooms at a given hotel. This demand would be represented by DD'. If the hotel adds a new recreational complex, shuttle services to a nearby airport, or expand its conference facilities, the demand is likely to grow. This would be represented by a rightward shift to D1D1. Consumers at this point are willing to pay more (P1), for the same level of consumption or they are willing to consume more (Q1), if the price remains at P1.

If the hotel begins to deteriorate through poorer maintenance, a lessened quality of service, or unfavourable publicity about hotel problems, the demand can be expected to drop. This would be represented by a shift from DD' to D2D2. Consumers will only purchase the original number of rooms if the price drops to P3. If the price does not change, total consumption will fall to Q3.
The main factors or variables that influence the demand for tourist services are exogenous, (that is, factors not directly related to tourism but which influence the extent and form of demand for tourist activity) and they include the following:

(a) **Real income growth, income distribution, family size and structure**

It is generally accepted that expenditures on services tend to rise as per capita income increases. This could also be taken from the fact that the income elasticity of demand is greater than one, which means that the demand for real services per capita grow more than a proportional growth in income. (Inman, 1985) One explanation is that private households tend to spend more on services when their incomes rise because of the idea that services, like tourism, satisfy luxury wants.

Income distribution may play a role in the allocation of income among services and goods. Consumption patterns for various income groups usually differ (op. cit.). Relatively more would be spent by higher income groups on services obtained from restaurants, excursions, trips and beauty. Private demand for services is higher in countries with relatively large income differentials and low taxation and lower in countries with small income differences and high taxation as mentioned above. The high income group has enough to spend on services, on the other hand, the low income group would like to prove that they are wealthy by spending more on services, like those in high income brackets. For example, in RSA with huge income differentials the demand for services takes a larger share of consumer's income (Ochel and Wegner, 1987). The decline in household size and the increase in one-person households could strengthen the demand for services outside the household.

(b) **Increase in leisure time**

Worldwide trends show an increase in leisure time, and thus, a decrease in labour market time, partly because holidays are being paid for by employers, and also because as people's income increases, they prefer leisure to work.
This, then, implies that people use some of the leisure time to become tourists to different tourists destinations of their choice.

(c) Changes in lifestyles, demographics, age, female participation, and urbanisation rates.

Changes in lifestyles and the environment, influence the demand and quality of services desired positively as well as negatively. Changes in the demographic structure and social pattern of the population mean that, regardless of other factors, more people will have the time, inclination and income to travel. The ageing of the population has a positive effect on tourism services demand, since most countries experience an increase in the life expectancy rate coupled with a large number of people of over 65 years who are willing and able to take holidays. This is amongst others, due to the fact that retirees are relatively and increasingly well off, reaping the benefits of inflation - protected state and corporate retirement schemes (WTO, 1994).

The growing female participation in the work force and the large increases in female part-time workers increase the demand for services. Personal identity needs, rising real incomes and more leisure time make it possible to spend relatively less on basic needs and more on services which develop human potential, personal skills and pleasure. The degree of urbanisation, also influences demand in that tourism is taken as something for only those in urban areas because they usually have access to tourist areas in terms of affordability, transport and time. Therefore as more people get urbanised, the demand for tourists products and services increases.

3.4.1.4 Indicators of demand

Johnson and Thomas (1992) ascertain that the most useful indicator of effective demand in any particular population is travel propensity. This measure considers the penetration rate of tourism trips in a population. There are two forms of travel propensity:
(a) Net travel propensity which refers to the percentage of the population who take at least one tourism trip in a given period of time. In other words, it is a measure of the penetration of travel among individuals in the population. The suppressed and the no demand components ensure that net travel propensity never approaches 100 per cent.

(b) Gross travel propensity rate measures the total number of tourism trips taken expressed as a percentage of the population. This is a measure of the penetration of trips, not individual travellers. Dividing gross travel propensity by net travel propensity, gives travel frequency, that is, the average number of trips taken by those participating in tourism during the period in question.

The following hypothetical example can be used: given a population of 20 million inhabitants, 10.1 million inhabitants take at least one trip, and the total number of trips equal to 14,000 million, the calculation of these measures will be:

Net travel propensity = \( \frac{10.1}{20} \times 100 = 50.5\% \)

Gross travel propensity = \( \frac{14,000}{20} \times 100 = 70\% \)

Travel frequency = \( \frac{70\%}{50.5\%} = 1.39 \)

3.4.1.5 Price elasticities of demand

Demand price elasticity indicates the degree to which consumption changes given a change in the price of the commodity (Smith, 1989). A steep demand line indicates that a large change in price has a relatively little effect on consumption, a flatter line reflects large changes in consumption associated with modest changes in price. A commodity with unitary elasticity is the one whose consumption changes at the same rate as the price. The price elasticity of demand \( (\varepsilon_p) \) is usually computed using the following method:

\[ \varepsilon_p = \frac{\text{percentage change in quantity demanded}}{\text{percentage change in price}} \]  

(\textit{Smith, 1989}). Referring to the demand schedule in Table 3.1, the price elasticity of
demand can be calculated at various price levels.

For instance, we can compute the point elasticity of demand as follows (if the changes are very small):

$$\varepsilon = \frac{(Q_1 - Q_0)}{Q_0} \cdot \frac{(P_1 - P_0)}{P_0}$$

where the subscripts 1 and 0 refer to new and initial prices and quantities respectively.

For example, applying the values of demand from Table 3.1, we can calculate the price elasticity of demand for a change in price from R1 000 to R 800 as follows:

$$\varepsilon = \frac{160 000 - 140 000}{140 000} \div \frac{R 800 - R 1 000}{R 1 000} = -0.715$$

This means that if the price were to increase by 10 percent, the quantity demanded would decrease by 7.15 percent (10% x -0.715). If the changes in prices are large, the following formula for the calculation of the elasticity of demand can be used:

$$\varepsilon = \frac{Q_1 - Q_0}{(Q_1 + Q_2) / 2} \cdot \frac{(P_1 - P_0)}{(P_1 + P_2) / 2}$$

Therefore, \( \varepsilon = -0.60 \)

Tourism demand is very elastic, partly, because it is determined by the availability of leisure time, income and also because it is to a larger extent seasonal.

3.4.2 The supply of tourism products.

3.4.2.1 The nature of market supply

3.4.2.1.1 Definition of supply

Supply refers to the amount of goods or services that producers plan to sell in a given period of time (Parkin, 1990).
3.4.2.1.2 Supply determinants

The amount of any product that firms plan to sell/supply depends on many factors, such as:

* price of the product
* price of other products
* prices of resources used to produce the product
* number of suppliers
* the level of technology.

The law of supply states that other things being equal, the higher the price of a good, the greater is the quantity supplied. If the prices of the resources used to produce a product are held constant, a higher price for the product means a higher profit for the producer. Higher profits encourage existing producers to increase the quantity they supply. Higher profits also attract additional producers (Parkin, 1990).

In order to understand the supply of tourism products, consideration has to be given to the differing environmental, social, and economic conditions around the world within which tourism destinations are located (Smith and Eadington, 1992). Tourism supply represents an amalgam of attractions and support facilities which demonstrate a number of common features (op. cit.). The tourism supply is usually thought of as a destination which is the focus of facilities and services designed to meet the needs of the tourists. Tourism supply is the result of all those productive activities that involve the provision of the goods and services required to meet tourism demand and which are expressed in tourism consumption (Shaw and Williams, 1991). In fact, this is the tourism production system. It includes tourism resources, infrastructure, receptive facilities, entertainment and sport facilities (op.cit.). Most destinations according to Smith and Eadington (1992) comprise a core of the following components:

- Attractions;
- Access;
- Amenities; and
- Ancillary services.
Tourism supply can also be explained using the concept of carrying capacity. The carrying capacity of a site, resort, or a region according to Ghali (1977), refers to its ability to accommodate tourism use without deterioration.

Nobbs (1981) distinguish between different types of carrying capacities that in total determine the extent of tourism that can be supplied, namely:

(a) **Physical capacity**

This refers to the amount of suitable land available for facilities and also includes the finite capacity (short-run) of the facilities (such as car-parking spaces and bed spaces in accommodation).

(b) **Psychological capacity**

The psychological (or perceptual) capacity of a site is exceeded when a visitor’s experience (or utility) is significantly impaired. Some people are "crowd tolerant" and enjoy busy places, while others shun them. Psychological capacity is therefore a very individual concept and difficult to influence by management and planning.

(c) **Biological capacity**

The biological capacity of a site is exceeded when environmental damage or disturbance is unacceptable. This can relate to both flora and fauna. For this type it is important to consider the total ecosystem - the effects on the ecology, hence, presently emphasis is being placed on ecotourism.

(d) **Social capacity**

The concept of social carrying capacity is derived from ideas of community-based tourism planning and sustainability. It attempts to define levels of development which are acceptable to the host community, residents, businesses and tourists.
3.4.2.1.3 The supply schedule

A supply schedule lists the quantities supplied at each different price when all other influences on the amount firms plan to sell are held constant. For instance, the increase in tourism demand during summer holidays, followed by increase in prices for accommodation, leads to the increase in hotel construction and upgrading.

TABLE 3.2: TOURISM SUPPLY SCHEDULE

<table>
<thead>
<tr>
<th>Price (per hotel room)</th>
<th>Quantity (hotel rooms)</th>
</tr>
</thead>
<tbody>
<tr>
<td>R 100</td>
<td>0</td>
</tr>
<tr>
<td>R 200</td>
<td>30</td>
</tr>
<tr>
<td>R 300</td>
<td>40</td>
</tr>
<tr>
<td>R 400</td>
<td>50</td>
</tr>
<tr>
<td>R 500</td>
<td>60</td>
</tr>
</tbody>
</table>

Translated into the supply curve it can be presented diagramatically as follows:

Figure 3.3: Tourism Market Supply

The supply curve shows the relationship between the quantity supplied and the price of product/service, ceteris paribus.
Factors that determine the supply are also regarded as the supply shifters:

(a) **Price of other products**

The supply of a good can be influenced by the prices of other goods (Parkin, 1990). For instance, an increase in the price of a substitute in production lowers the supply of the product. And also the increase in the price of complementary goods increase the supply of the product.

(b) **Price of resources**

The price of the resources used to produce a good exert an important influence on its supply. For example, an increase in the price of labour and capital equipment used to produce a product, decreases the supply of a product.

(c) **Technology**

Technology also influence supply. New technologies that enable producers to use fewer resources will lower the cost of production and increase the supply.

In Figure 3.3, if the supply curve is $S_0$ and there is a technological change that reduces the amount of resources needed to produce the product, the supply increases and the supply curve shifts to $S_2$. If the production costs rise, the supply decreases and the supply curve shifts to $S_1$.

### 3.4.2.1.5 Elasticity of supply

The elasticity of supply is the percentage change in the quantity supplied of a product divided by the percentage change in its price (Parkin, 1990). The supply curves have an upward slope, therefore have a positive elasticity, that is, when price increases, the quantity supplied also increase. However, there are two cases to note with regard to the elasticity of supply - if the quantity supplied is fixed regardless of the price, the
supply curve is vertically. In this case the elasticity of supply is zero. An increase in price leads to no change in quantity supplied. If there is a price below which nothing will be supplied and at which suppliers are willing to sell any quantity demanded, the supply curve is horizontal. In this case the elasticity of supply is infinite.

Momentary Supply

When the price of a good rises or falls in a sudden, unforseen way, a momentary supply curve is used to describe the initial change in the quantity supplied (Parkin, 1990). The momentary supply curve shows the response of the quantity supplied immediately following a price change. For many goods, the momentary supply curve is perfectly inelastic.

The long-run supply curve shows the response of the quantity supplied to a change in price after all technologically possible ways of adjusting supply have been exploited. Between the momentary and the long-run time frames, there are many intermediate time frames called short-run.

Figure 3.4: Momentary, short-run and long-run supply curves

The short-run supply curve shows how the quantity supplied responds to a price change,
when only some of the technological possible adjustments to production have been made. For instance, to increase output in the short-run, firms work their labour force overtime and perhaps hire additional workers. To decrease their output in the short-run firm lay off workers and reduce hours of work. The long-run supply curve is more elastic than the short-run supply curve.

3.4.3 Market Equilibrium

Given the prices of all inputs and outputs which the firm regard as beyond its own control, the firm will choose from the menu the activity which is most profitable, that is, which gives the maximum benefit between the value of outputs and the value of inputs. The activity choice thus depends in principle on the prices of all goods (Hahn, 1984).

A market is in equilibrium at some price when the quantity demanded is equal to the quantity supplied. That means the market clearance price is that price where quantity demanded is equal to quantity supplied (Solberg, 1982). The existence of market equilibrium is assured in the case of markets characterised as being competitive, in other words, markets free from monopoly power and other market imperfections.

Figure 3.5: Equilibrium price and changes in supply.

The position of a market supply curve for a good is dependent upon the underlying ceteris paribus condition affecting each firm in the market and the number of firms in the market. If the conditions in the market are such that more firms enter the market,
supply will increase at each price even though the quantity supplied by firms already in the market remains the same at each price. Likewise, market supply will decrease at each price if market conditions are such that some firms exit the market. The impact on the equilibrium price is illustrated by Figure 3.5. Market supply shifts to the right as firms enter the market and shifts to the left as firms exit the market.

3.4.4 Tourist area lifecycle

The dynamic nature of the various factors affecting both the supply and demand of tourism products requires constant research on the needs of the tourists. And the needs (demand) of the tourists change with the times. For this reason it is important for the tourism planners to consider the tourist area lifecycle (TALC).

The destinations go through a cycle of evolution similar to the lifecycle of a product (op. cit.). The shape of the TALC curve vary, but for each destination it will be dependent upon factors such as the rate of development, access, government policy, market trends and competing destinations - each of which can delay or accelerate progress through the various stages.

Figure 3.6: Hypothetical tourist area life cycle

Source: Nobbs, 1981
The features of the different stages of the TALC are as follows:

(a) **Exploration**

Small numbers of adventurous visitors are attracted by the unspoilt natural beauty or culture at the destination. Numbers are small due to poor access and facilities. At this stage the attraction of the destination is that it is yet unchanged by tourism.

(b) **Involvement**

At this stage, local initiatives to provide for visitors and later to promote the destination have begun. This results in increased and regular number of visitors. A tourist season and market area emerges, and pressure may be placed on the public sector to provide infrastructure.

(e) **Development**

Large numbers of visitors are now arriving at peak periods perhaps equalling or exceeding the number of local inhabitants. The control of tourism passes out of local hands, and external private concerns emerge to provide up-to-date facilities, which might alter the appearance of the destination. With increasing numbers and popularity the destination may eventually suffer problems of overuse and deterioration of facilities.

(e) **Consolidation**

The rate of increase of visitors has now declined, although total numbers are still increasing and exceed permanent residents. The destination is now fully fledged with all the major franchises and chains represented.

(e) **Stagnation**

Peak numbers have now been reached and the destination is no longer fashionable. It relies on repeat visits and business use of its extensive facilities, and major efforts are needed to maintain the number of visits. The destination may encounter environmental, social and economic problems.
(f) **Decline**

By this stage, visitors have been lost to newer resorts and the destination has become dependent on a smaller geographical catchment for day trips or weekend visits. Property turnover is high and tourist facilities are converted to other uses. Alternatively, the authorities may recognise this stage and decide to "rejuvenate" the destination.

(g) **Rejuvenation**

This involves deciding on new uses, new markets and new distribution channels, and thus repositioning the destination.

Development can be arrested at any stage in the cycle, and only tourist developments promising considerable financial returns will mature to experience all stages of the cycle (op. cit.). In the case of static market equilibrium, an intervention at any stage could be necessary, particularly, during the development stage. To increase the demand at the development stage, capacity (for example, appropriate training) will have to be built on local residents or owners to be able to provide what the market forces require, both in terms of infrastructure and control or management. Tourism management skills is essential to be able to react immediately and appropriately to the market demands before the industry becomes stagnant or even decline. Although the supply of tourism products in terms of physical carrying capacity cannot be expanded (is limited) up to a certain point, a thorough market research on other elements should be constantly examined to keep the market at equilibrium and to avoid unnecessary inflating of prices in the market.

3.5 **MACROECONOMIC PERSPECTIVE OF TOURISM**

Inman (1985) in his attempt to find reasons for the growth of the service economy, formulated three hypotheses for the relative growth of service employment. The first hypothesis argued that services have an income elasticity of demand greater than one - as a real per capita income increases, real services demanded per capita grow more than the proportional growth in income. Thus, services consume an increasing share of national income (ceteris paribus) and national employment. The second hypothesis he
tested, suggests that as economic specialisation and automation increase with economic
growth, it becomes efficient for services once provided within the firm / household to be
contracted out to experts outside the organisation. For example, legal and accounting
services are contracted out by firms, while restaurants and housekeeping services are
utilised by the household sector. This may then mean that the same volume of services
is being provided as before, but, that these services are
now measured as a separate market activity. It is also possible that increased
specialisation leads to higher service quality or lower average costs, which would
increase the demand for and production of such services.

The third hypothesis explains the growing relative importance of services in national
employment by the slower relative growth of labour productivity in services than in
agriculture or industry. The slower than average growth in worker productivity in
services, will mean higher than average costs in services. If the demand for services is
relatively insensitive to rising prices, then as the economy expands, services’ share of
total employment will increase.

Singh and Kaur (1982) when analysing the economic and social functions of tourism
identified the basic economic effects of tourism on:

(a) the balance of payments
(b) foreign exchange earnings
(c) tax revenue
(d) inflation
(e) employment
(f) economic growth
(g) economic development

Their equations showed the dependence of tourist consumption and tourism investment
on the relative price level of tourist products and disposable income of tourists. Also
that domestic disposable income is dependent on the level of total tourism investment
and the level of disposable income in the previous period. Inman (1985) tried to follow the spread effect of tourism through the national economy by estimating the number of circles tourism makes in the national economy, with the aim to estimate the value of the tourist multiplier and its multiplicative effects on various macroeconomic aggregates. These effects are further discussed below.

3.5.1 Balance of payments

Tourist spending gives rise to both inward and outward currency flows. Howell (1993) categorised these financial flows as follows:

(a) primary effects: arise out of currency inflows from foreign visitor expenditure in a host country, and outflows comes from the spending abroad by residents. They are recorded in various ways by banks and businesses.

(b) secondary effects: arise as the primary and direct expenditure is gradually felt in other sectors of the economy. They are divided into three categories of direct secondary effects (such as travel agent's commissions); indirect secondary effects as the tourist service industry passes some of its earnings on to other businesses (for example, when an airline contracts a local company to supply on-board meals which, in turn, means importing some of the food by that company); an induced secondary effect relating to the wages of those employed producing tourist goods and services. A proportion of this income may be remitted abroad by foreign employees.

(c) tertiary effects: refers to the currency flows which do not come from direct tourist expenditure and relate to things like investment opportunities stimulated by tourist activity.

Tourism has a noticeable impact on the balance of payments of a country or region (Ritchie and Goeldner 1986). Expenditures by tourists coming from other regions
represent injections into the area's economy and the imports of any intermediaries towards tourist products represent leakages out of the local economy. The balance of payment situation also directly affects the gross national product (GNP) of the country \( Y \), according to the formula:

\[ Y = C + I + G + (X - M), \]

where \( Y = \text{GNP} \); \( C = \text{consumption expenditure} \); \( I = \text{investment} \); \( G = \text{government expenditure} \); \( X = \text{exports} \); and \( M = \text{imports} \).

From the above formula, it is apparent that it is advantageous to the host country to attract more foreign visitors \( X \) than to have citizens of the country touring to other countries \( M \).

The most important macroeconomic effect of tourism as an export product could be derived from the balance of payments of a country. From the regional perspective, it means that tourism services will be exported not only to international tourists but also to domestic tourists (from other regions or provinces). Therefore, for example, as the current account of the balance of payment of a region or province strengthens as a result of the foreign and local currency that is received, the economic position of the region will be positively affected or the exchange rate of the country might be strengthened. The region will be able to save more which will lead to increased investment. In this way there will be a need for increased production, the results of which will be the creation of job opportunities and eventually there could be some kind of regional growth as Hugo (1992) suggested.

### 3.5.2 Foreign exchange earnings

Tourism is an important element of international trade. According to Shaw and Williams (1991), there is a high and a positive income elasticity of demand for tourism. According to the export base theory, the economic growth stems from the income generated from outside an area, that is, from exports. Ricardo's concept of comparative advantage provides an interesting theoretical perspective on specialisation in tourism. The argument is that an area should specialise in producing and exporting
those products in which it has a competitive or relative cost advantage compared to other areas.

Establishing the importance of international tourism receipts and expenditures is easier than quantifying them in greater detail. There are two main methods for estimating tourism expenditures (Shaw and Williams, 1991), and they are often used in conjunction: the direct and indirect methods. The direct method relies on information provided by tourist themselves and by financial institutions. The indirect method multiplies the number of tourist nights by an average of daily expenditures.

Exchange rate is a relative price of two monies. Variables affecting the supply of and demand for two monies will affect the rate of exchange between them (Frenkel, 1983). Since money is a durable asset, expectations about the value of variables affecting its future supply of demand will be important determinants of current demand. An increase in foreign exchange earnings will contribute positively on the balance of trade and that could lead to improved exchange rate in favour of the rand and this could also have a positive effect on the tourist inflows hence improve the balance of trade.

3.5.3 Tax revenue
Tourist must pay tax like most other people do (Ritchie and Goeldner, 1986). Since tourists come from other regions or countries, their expenditures represent an increased tax base for the host government. In addition to the usual sales tax, tourists sometimes pay taxes in less direct ways, such as airport tax, exit fees, custom duties and charges assessed for granting visas. Apart from these taxes collected from both tourists and residents increase due to tourism expenditure. Part of the increase in tax revenue could be channelled back to the tourism industry by the government as part of its investment.

3.5.4 Inflation
Tourists inject money into the destination economy. While this increases the income of the region, it might also cause inflationary pressures, (Ritchie and Goeldner, 1986).
Tourists typically have a higher expenditure capability than the residents do - either because tourists have higher incomes or because they have saved for the trip and are inclined to "splurge" while on vacation. Hence, they are able to bid up the prices of such commodities as food, transport, arts and crafts. Naturally, the suppliers of tourists services and products sometimes exploit the situation of an influx of tourists, (for example, peak seasons) to excessively increase their prices. This causes inflationary pressures, which can be detrimental to the economic welfare of residents of the host community. This is particularly true when inflation affects the prices of essentials, such as food, clothing and housing (op. cit.).

3.5.5 Employment

The effects of tourist expenditure on employment can be divided into three types (Nobbs, 1981):

- direct employment from expenditure on tourism facilities like tourist attractions, hotels, shop assistants, et cetera.
- indirect employment in businesses affected by tourism in a secondary way such as local transport, handcrafts and banks.
- investment employment mainly due to the construction of large infrastructural works, for example, airports, roads, electricity, water and sanitation works.

The amount of secondary employment generated depends upon the extent to which the tourism sector is integrated with the rest of the local economy (Mill, 1992). It is also argued that tourism is more labour intensive than other industries and for this reason it needs developmental support. The degree of labour intensity can be measured in terms of the cost per job created or the employment - output ratio (op. cit.).

The employment - output ratio is the number of workers employed divided by the contribution of tourism to the national economy. However, there is no unanimous agreement among researchers that the cost per job created in the tourism industry is less than in other industries (Johnson and Thomas, 1993). The large cost of providing the necessary infrastructure in the tourism industry, drastically increases the unit cost.
of creating jobs. In the early stages of tourism development, the cost per job created is likely to be high due to the costs described above. Similarly, the capital-output ratio will also be high because of the low volume of tourists in the initial stages of tourism development (op. cit.). As the destination develops, and as more tourists are attracted, the capital-output ratio declines. The cost per job created will also be reduced due to the experience and organisation of those at the destination. In addition, as tourism increases, physical development take place in facilities that are less costly than the construction of hotels. Jobs can thus be created at a lower average cost. The cost per job created depends on the type of facility constructed (Mill, 1992). The cost will be greater for a luxury hotel than for a smaller more modest property development. Also the luxury hotel will offer more job opportunities and hence higher employment-output ratios than will the smaller properties developments. The key to maximising the economic and job returns for the destination is to use materials and personnel indigenous to the region while maintaining a quality standard acceptable to the target market.

3.5.6 Economic growth

The major goal of any nation should be to make the most efficient use of its scarce resources so that people obtain maximum benefits from them (Nobbs, 1981). Vastly different approaches are used in an effort to achieve this and other economic goals. Which resources should be developed, and how and where should they be utilized? What opportunities are lost by investing resources in a particular way or by diverting resources from one investment category to another? Are benefits really maximised if the citizens of a particular region are hurt by an investment strategy which may improve the overall development of the country? (Jumper, Bell and Ralston, 1980). All these questions need to be addressed when deciding on an economic growth strategy.

Growth can occur only when certain ingredients are brought together for that purpose (Ochel and Wegner, 1987). These ingredients include a sufficient variety, quantity and quality of natural resources; an adequate supply of labour with appropriate skills, ample
amount of capital, technical and research support commensurate with the degree of sophistication of the growth which is planned and a political and economic environment favourable to growth (Jumper, Bell and Ralston, 1980). Growth is commonly expressed in terms of income, population, living standards, employment, production and life expectancy.

Jumper, Bell and Ralston (1980) believe that the kind of growth that occurs depends on the manner in which the ingredients of growth are brought together and managed towards a particular goal. For the tourism industry to prosper to the direction that will contribute to growth, these ingredients will have to be put together in a specific way that is required by the industry itself. For instance, where there are tourist attractions like wildlife, a skilled community developer with financial back-up can be able to develop that attraction to the standard required for tourism purposes.

The growth pole theory suggests that the detrimental effects of regional and international development disparities can be broken by controlled economic development (op. cit.). Unequal growth is viewed as essential and potentially useful in development. It may lead to improved efficiency in the use of resources because of the dynamics of the growth process.

Growth in one sector of an economy may stimulate growth in other related areas or sectors (Nobbs, 1981). Initially lagging sectors of the economy may not have been able to generate enough demand for their products in order to generate needed capital expansion, but growth stimulated by another interrelated dynamic sector may bring idle people and equipment into useful production. The growth pole strategy involves taking advantage of the developmental potential of economic sectors and geographic areas which have the greatest comparative advantage for economic growth.

Following Jumper, Bell and Ralston's (1980) argument, a growth pole is usually a large city or regional capital located within a lagging region. Rather than spreading scarce development funds evenly, resources are concentrated within the growth pole and
in relatively few economic sectors. Ideally investment funds would be concentrated on a particular propulsive industry, which would have both forward and backward linkages with other economic sectors. Forward linkages are a form of economic interrelationship in which the products of one industry form the raw materials for other industries. Backward linkages are the interconnections between an industry and its suppliers of raw materials (op. cit.). The propulsive industry is usually a basic economic activity in which most of the output is distributed to markets outside the growth pole and even outside the lagging region. Exports generate external capital needed to develop the region further and cause economic multiplier effects to occur. Thus, growth in a propulsive industry breeds growth in interrelated, both forwardly and backwardly linked industries, which in turn creates an enhanced economic environment for new investment. Such as propulsive industry can in some instance, be the tourism industry.

3.5.7 Economic development

(a) Economic versus social overhead capital

Choices over the use of scarce resources for economic development often involve a dichotomy between those who favour investment in economic overhead capital, such as highways and public works projects, and those who favour investment in 'people' (social overhead capital) such as schools, medical care and job training (Jumper, Bell and Ralston, 1980).

Most development economists agree that the benefits of real investment are more quickly felt than those in people (human capital). A modern highway system can, for example, connect formally isolated regions and bring about economic integration (for example, make tourists attractions accessible). If however, the skill levels of the people are not sufficient to organise an effective administrative structure, interconnections counts for very little. It is not easy to measure the benefits which accrue from investment in people as it is to measure the more tangible benefits of real investment. Therefore, investment in the tourism
industry, as it is mostly infrastructural, can be realised in a short space of time. However, simultaneous application of economic and social overhead capital is necessary to fulfil developmental goals. Economic investment is needed to create the initial impetus for growth, and investment in human resources is needed to sustain growth once it has begun.

(b) Economic development and tourism

A society’s level of economic development is a major determinant of the magnitude of tourist demand because the economy influences many critical and interrelated factors (Todaro, 1990). There have been a number of theories put forward to explain the process and sequence of economic development. One such theory mentioned by Todaro (1990) is by Rostow (1959), that shows that the economic development of nations can be divided into a number of stages as outlined in Table 3.3.

**TABLE 3.3: Economic development and tourism**

<table>
<thead>
<tr>
<th>Economic stage</th>
<th>Some characteristics</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traditional society:</td>
<td>Economic and social conditions deny most forms of tourism.</td>
<td>Much of Africa</td>
</tr>
<tr>
<td>Long-established land-owning aristocracy, traditional customs, majority employed in agriculture. Very low output per capita, impossible to improve without changing system. High poverty levels.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Preconditions for take-off:
Innovation of ideas from outside the system take place. Leaders recognise the desirability of change.

Take-off:
Leaders in favour of change gain power and alter production methods and the economic structure. Manufacturing and services expand.

Drive to maturity:
Industrialisation continues in all economic sectors. With a switch from heavy manufacturing to sophisticated and diversified products.

High mass consumption:
Economy now at full potential, producing large numbers of consumer goods and services. New emphasis on satisfying cultural needs.

The developing world.
From the take-off stage economic and social conditions allow increasing amount of domestic tourism. (mainly visiting friends and relatives)

Source: Smith and Eadington 1992

South and Central America, Asia

International tourism is possible. Inbound tourism is often encouraged as a foreign exchange earner.

North America, Australia, Japan

The developed world.
Major generators of international and domestic tourism.
As a society moves towards the high mass consumption stage, a number of important processes occur. The balance of employment changes from work in the primary sector (agriculture, fishing, forestry) to work in the secondary sector (manufacturing goods) and to the tertiary sector (services such as tourism) (op. cit.).

As this process unfolds, an affluent society usually emerges and the percentage of the population who are economically active increases from less than a third in the developing world to half or more in the high mass consumption stage (op. cit.). With progression to the drive to maturity, discretionary incomes increase and create demand for consumer goods and leisure pursuits such as tourism. Other developments are closely linked to the changing nature of employment. The population is healthier and has time for recreation and tourism. Improving educational standards and media channels boost awareness of tourism opportunities, and transportation and mobility rise in line with these changes.

Institutions respond to this increase in demand by developing a range of leisure products and services (Smith, 1989). These developments occur in conjunction with each other until at the high mass consumption stage and all economic indicators encourage high levels of travel propensity. It can be concluded that tourism is therefore, a result of industrialisation, and the more highly developed an economy, the greater the levels of tourist demand. As more countries reach the drive to maturity or high mass consumption stages, so the volume of trade and foreign investment increases and business travel develops. Business travel is sensitive to economic activity.

3.6 REGIONAL GROWTH MODELS

3.6.1 Supply - determined regional growth

Ghali (1977) distinguished between two types of regional growth models namely, those that attribute regional growth to the growth of inputs and those that attribute growth to the growth of demand for its output. This applies also to tourism as a strategy for regional development.

The supply - determined regional growth model assigns the determination of growth to
the growth of inputs. Input growth can occur indigenously or because of the interregional movements in response to factor price differentials. In the long-run, however, both commodity and factor movements will bring about factor price equalisation between regions; hence differential rates of regional growth can be explained on the basis of the costs of moving, which causes differential rates of growth of inputs or on the basis of the regional diversity in natural resources (op. cit.). Factors that can be regarded as inputs into the tourism industry are to a greater extent indigenous to those areas, and in that way prices can never be the same as in those areas where such inputs are imported.

However, Hugo (1992), concluded that the nature of the tourism sector (foreign and domestic) makes this sector suitable for balanced economic growth between regions, partly because this sector (as a tertiary sector) is the source of autonomous development. Following Hugo's (1992) argument, it can be said that, the tourism sector is in many cases the only source of autonomous development that can be developed into a life-sustaining way in certain areas. Thus, this sector can make a very important contribution towards the removal of hinderances to economic growth and development that emanates from unbalanced regional development.

3.6.2 Demand-determined regional growth

The group of regional growth models which assign the primary role to the growth of demand for the region's output, regards the supply of all inputs required for production, namely, capital, labour and natural resources facing a region as perfectly elastic. In this model the growth of demand for a region's output, particularly, the growth of exports (including tourism) is regarded as the essential determinant of regional growth (Ghali, 1977).

For capital and labour, interregional mobility is easier, less costly and does occur at large scale than international mobility, hence the region is drawing on a much larger supply of inputs than that available within its boundaries. Therefore, the rate of growth is limited by the growth of demand for its output rather than the limitations imposed by
indigenous growth of capital labour (ibid.).

Put formally, this model assumes that the demand for a region's output, which includes both the regions' demand for its own output as well as other regions' demand for the region's export, is perfectly elastic, so that the growth of demand imposes no constraints on regional growth.

According to the economic base model, the economy of a region is divided into two sectors, namely, an export sector and domestic sector. The level of economic activity within the region as measured by income or employment is similarly disaggregated. If we denote total economic activity in the region by Z and the level of economic activity in the export sector by Y and in the domestic sector by $G$, we have:

$$Z = Y + G$$

(1)

All this can be done on assumption that the level of economic activity in the domestic sector or export sector is directly related to the total level of economic activity:

$$G = aZ$$

or

$$Y = Az$$

(2).

Then we have a multiplier relationship:

$$Z(1-a) = Y$$

$$Z = Y / (1-a)$$, therefore, $$Z = kY$$

The value of the multiplier ($k$) is directly obtainable by taking the ratio of total income (or employment) to income (or employment) of the export sector. This model attributes growth to the growth of exports and it also indicates that a regional economy will cease to exist if it were not for exports.

3. 7 EXTERNALITIES ASSOCIATED WITH TOURISM

While tourism brings many benefits one has to be careful about the social impact associated with it. A negative externality results from an economic activity, for example, a factory where a number of people are employed (economic activity) but, in the process of production some people are negatively affected by the smell of the garbage disposal which also pollute the air. The effects of large tourist movements on the ecology and on the civic services can be disastrous if proper care is not taken. Environment is the first priority and "it is not so much the number of tourists that will prove a danger, it
would be a failure to provide drainage, disposal of garbage, supply of water, power, communications" (Singh and Kaur, 1982).

The degradation of the ecosystem and environment can ultimately destroy the scenic beauty to which tourists were attracted.

The negative impacts of tourism can occur in three domains:

(a) Physical and environment - for example, overcrowding, increase in population density.
(b) Economic - for example, land price inflation and economic dependence on a single industry.
(c) Social - for example introduction of undesirable activities such as prostitution, gambling and loss of cultural identity.

The real trend of the potential problems in the tourism industry, according to Mill (1992), is that the tourist market will continue to grow at a faster rate than the tourism destinations. The result will be the shortage of space at desired locations, producing a problem of how to ration what is available. It is also suggested that planners need to be aware of the social carrying capacity for tourism. Social carrying capacity is the stage in tourism growth at which local residents perceive an intolerable level of negative social impacts from tourism's development.

Each destination can accept only so much tourism because resources are limited, and on awareness by tourism planners of this capacity, they will ensure that the tolerance level is considered in their plans. Tourism has the ability to create its own pollution that can cause irreparable environmental and social damage and spoil an area for its inhabitants.

There is, therefore, a caution that as tourism is eagerly sought by the developing nations as an important source of revenue, it may provoke serious disruptions and cause ultimate long range damage in societies. It can also be predicted that mass
tourism in developing countries, if not controlled and regulated, might help to destroy whatever there is still left of unspoiled nature and of traditional ways of life (Smith, 1989).

Having been negatively affected by tourism, the local residents retaliate by exhibiting hostile behaviour towards tourists. This serves to reduce the attractiveness of the destination area which conversely affects the income potential and employment opportunities in the local tourism industry.

3.8 SUMMARY

This chapter, showed that tourism activity is a service industry with well defined characteristics. And like any other economic sector it has got both micro - and macroeconomic perspectives, with the micro-economic perspective offering information on the appropriate stages for interventions to avoid stagnation and decline in the services of the tourism industry, and the macro-economic impact of the industry on the economy in general via the effects on the balance of payments; employment; growth and development. It is also evident from various sources including the Government’s Growth, Employment and Redistribution Strategy (1996), that tourism is one of the key sectors identified for job creation and that expanding investment in this sector could create job opportunities.

The macroeconomic impact of the tourism industry as suggested by the literature above reveals undoubtedly that tourism contribute to growth and development which is the main theme of the study and also links directly to the study hypotheses previously identified. In other words, the theory of tourism confirms the stated hypotheses. In the next chapter an economic analysis of the tourism industry in KwaZulu-Natal will be presented.
CHAPTER IV

ECONOMIC ANALYSIS OF THE TOURISM INDUSTRY

4.1 INTRODUCTION

The main theme of the study is to investigate the economic benefits of the tourism industry to South Africa, and also examines the contribution of the tourism sector to growth and development in KwaZulu-Natal. Furthermore, projections of the future demand of the tourism industry are also presented. To obtain some information on the economic benefits a survey was undertaken and the secondary sources were also used. This chapter looks at the findings from the survey and analyses the results thereof.

4.2 SOUTH AFRICAN SHARE OF THE WORLD TOURISM MARKET

As a phenomenon of the modern age, tourism has become one of the high performance economic sectors, and one which has proved capable of withstanding economic recessions of recent years. In 1994, travel and tourism was the world's largest industry employing 94 million people directly, and 106 million people indirectly (Durban Unlimited, September 1995). The World Travel and Tourism Council, (Natal Mercury, 1996) estimate that 255 million jobs have been created world wide by the tourism industry up to 1996. It further projects that these jobs will increase to 385 million by the year 2006, attaining a real growth of 5 per cent. Tourism investments for 1996 amounted to $766 billion, and are expected to increase to $1.6 trillion by the year 2006.

It was also estimated that the industry accounted for 10 per cent of world gross domestic product, and was the number one earner of foreign exchange. In the same year, (1994) total world tourist arrivals was 532 million and total international tourism receipts were calculated at 337 billion US dollars. Arrivals in Africa were 18.3 million people and tourism receipts totalled 6.3 billion US dollars, and 45 per cent of this activity was located in Northern Africa. Since 1995 world travel, transportation and other private services have increased by more than 15 per cent per annum. According to BEPA (1992), South Africa's estimated share of the world tourism market was only 0.02 per cent, and this country is in a position to benefit from these developments because of its natural and technological comparative advantages, especially in the field of tourism.
export of financial services to the rest of Africa. Therefore, any modest increase in the share of world tourist market from 0.02 per cent would generate sufficient foreign exchange that could increase or create a surplus on the balance of payments.

Looking at the key tourism statistics provided by the Industrial Development Co-operation in 1996 the share of South Africa of the world tourism market is as follows:

(a) **Tourism job opportunities (1995)**

World = ± 100 million (6 per cent of the global workforce)
South Africa = 550 000 (about 4 per cent of the workforce)

(b) **Workers in tourism in relation to the economically active workforce**

World = 1 : 15
South Africa = 1 : 25

(c) **Tourism expenditure (international and domestic) as a percentage of the GNP (1995)**

World = 10 per cent
South Africa = 5 per cent

(d) **Rank importance of the tourism industry as an earner of foreign exchange (1994)**

World = number 1
South Africa = number 4

(e) **Foreign tourist arrivals (1994)**

World = ±532 million
South Africa = 4,48 million (including tourists from Africa)

(f) **Foreign tourist arrivals as percentage of the world total (1995)**

World = 100 per cent
South Africa: = 0.8 per cent
(g) Foreign exchange earned from tourism (1995)

World: = R 1140 billion (US$ 372 billion)

South Africa: = ± R 13 billion

(h) Foreign exchange from tourism earned as a percentage of the world total (1995)

World: = 100 per cent

South Africa: = 1 per cent

Source: Industrial Development Corporation, 1996.

4.3 SOUTH AFRICAN TOURISM INDUSTRY’S ECONOMIC IMPORTANCE

4.3.1 Contribution to GDP and GNP

Table 4.1 shows the contribution of the tourism sector to GDP and GNP of South Africa and also the of tourism revenue received from 1986 to 1995. This table shows that although there has been an increase in tourism revenue, which goes hand-in-hand with the increase in the number of foreign tourists, the actual contribution of the tourism sector to GDP and GNP has remained relatively static from 1990 to 1993 (only 4 to 5 per cent).

The White Paper on Tourism Development Policy (1992) indicates that the industry has the potential of contributing up to 8 per cent by year 2000 and 10 per cent in 2006. For these objectives to be achieved there has to be an increase in spending on marketing the industry. In 1995 the income from tourism was more than R20 billion. South Africa also enjoyed an increase of 22 per cent from 644 502 in 1986 to 4,5 million in 1995 in the number of tourists visiting the country. The increase in tourism activities up to 1995 supported at least 550 000 jobs. Government’s revenue from tourism came to R6,4 billion made up of about R600 million in personal taxes, R3,4 billion in company tax and VAT to the value of almost R2,4 million (Finansies en Tegniek, 12 July, 1996).

<table>
<thead>
<tr>
<th>YEARS</th>
<th>DOMESTIC EXPENDITURE (Rm)</th>
<th>TRAVEL RECEIPTS (Rm)</th>
<th>PASSENGER FARES (Rm)</th>
<th>TOTAL (Rm)</th>
<th>GDP AT CURRENT PRICES (Rm)</th>
<th>GNP AT MARKET PRICES (Rm)</th>
<th>TOURISM SHARE OF GDP (%)</th>
<th>TOURISM SHARE OF GNP (%)</th>
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<td>-</td>
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<td>12787</td>
<td>340963</td>
<td>331818</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>1993</td>
<td>10310</td>
<td>4334</td>
<td>1031</td>
<td>15675</td>
<td>383695</td>
<td>374237</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>1994</td>
<td>12355</td>
<td>5568</td>
<td>1282</td>
<td>19205</td>
<td>431711</td>
<td>422521</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>1995</td>
<td>13914</td>
<td>7100</td>
<td>-</td>
<td>23682</td>
<td>484021</td>
<td>473648</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

Source: SRB (own estimates), 1996
4.3.2 Contribution to foreign exchange earnings

To be able to determine the importance of foreign tourists, the following table shows the number of foreign tourists and the countries of origin from 1985 to 1995 (see also Figure 4.1).

**TABLE 4.2: INTERNATIONAL TOURISTS TO SOUTH AFRICA AND THEIR COUNTRIES OF ORIGIN, 1985 - 1995**

<table>
<thead>
<tr>
<th>YEAR</th>
<th>TOTAL NO. OF TOURISTS</th>
<th>EUROPE</th>
<th>AMERICA</th>
<th>AUSTRAL-ASIA</th>
<th>MIDDLE EAST &amp; ASIA</th>
<th>AFRICA</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>727 552</td>
<td>271 994</td>
<td>76 853</td>
<td>17 702</td>
<td>35 094</td>
<td>321 955</td>
</tr>
<tr>
<td>1986</td>
<td>644 502</td>
<td>203 368</td>
<td>49 721</td>
<td>12 707</td>
<td>27 250</td>
<td>347 442</td>
</tr>
<tr>
<td>1987</td>
<td>703 351</td>
<td>237 709</td>
<td>50 610</td>
<td>14 869</td>
<td>31 608</td>
<td>364 044</td>
</tr>
<tr>
<td>1988</td>
<td>804 985</td>
<td>274 681</td>
<td>55 010</td>
<td>16 263</td>
<td>37 932</td>
<td>413 368</td>
</tr>
<tr>
<td>1989</td>
<td>930 393</td>
<td>332 279</td>
<td>63 868</td>
<td>20 527</td>
<td>49 392</td>
<td>454 318</td>
</tr>
<tr>
<td>1990</td>
<td>1029 093</td>
<td>349 685</td>
<td>66 972</td>
<td>22 744</td>
<td>52 718</td>
<td>528 908</td>
</tr>
<tr>
<td>1991</td>
<td>1709 554</td>
<td>367 641</td>
<td>67 106</td>
<td>19 984</td>
<td>59 312</td>
<td>1186 529</td>
</tr>
<tr>
<td>1992</td>
<td>2703 191</td>
<td>389 562</td>
<td>72 805</td>
<td>24 433</td>
<td>65 571</td>
<td>2142 249</td>
</tr>
<tr>
<td>1993</td>
<td>3093 183</td>
<td>412 800</td>
<td>86 950</td>
<td>29 297</td>
<td>81 746</td>
<td>2462 277</td>
</tr>
<tr>
<td>1994</td>
<td>3668 956</td>
<td>444 767</td>
<td>109 378</td>
<td>35 749</td>
<td>106 425</td>
<td>2927 982</td>
</tr>
<tr>
<td>1995</td>
<td>4488 272</td>
<td>697 539</td>
<td>153 391</td>
<td>59 951</td>
<td>149 385</td>
<td>3290 931</td>
</tr>
</tbody>
</table>

Average annual growth rate (%) 19.9 9.9 7.2 13.0 15.6 26.2

Source: Satour, 1995

The trend reflected in Figure 4.1 shows that there has been an increasing number of tourists coming to South Africa as from 1985 to 1995. The impact made by these tourists in South Africa can directly be examined by looking at their countries of origin as shown in Table 4.2. Most of the visitors were from Africa and secondly from European countries.
Figure 4.1: Foreign Tourist Arrivals in South Africa, 1985 - 1995
Although visitors from Africa are less inclined to stay in hotels during their visit to South Africa, foreign tourists remain a significant factor as far as the tourism industry is concerned. Visitors from Africa have indeed become a major source of income for a number of downtown hotels, more especially in Johannesburg. Reasons for their visits include shopping, obtaining medical services and visiting relatives and friends. Their purchasing power, however, will remain a constraint on spending until such time as conditions in their countries of origin have changed for the better.

Although the weakening of the rand is not a desirable situation, the fact that the rand is weaker than the US dollar, makes it cheaper for tourists from Europe and America to visit South Africa, and, hence, coupled to the increase in their numbers had a positive impact of increasing foreign exchange earnings.

On the other hand, the visitors from African countries, as their numbers increase also, contribute significantly. The large number of visitors from Africa is a promising aspect of foreign tourism. Their numbers have increased from 529 000 in 1990 to 3.3 million in 1995, and at an average expenditure of R450-00 per visitor as indicated by Nieuwenhuizen (1995), it represents about R 1.5 billion spending by these tourists.

The increasing number of tourists from European countries coming to South Africa is another strong boost for the South African economy, particularly for earning foreign exchange. The neglect of the export potential of the service sectors, especially tourism, contributed to the hesitant growth performance of the country's economy in the past. This is seen from the contribution that it can make to the economy if it is developed and managed accordingly and the huge potential of the tourism industry to generate employment and improve living standards. Tourists from Europe has been increasing from 350 000 in 1990 to 698 000 in 1995. Considering that each visitor spends about R3 600 per visit, this becomes R2.5 billion in total spending. The tourism policy should consider the industry's short and medium term potential as a significant source of foreign exchange earnings. The tourism industry seem to be the most appropriate instrument available for the removal of the main constraints on economic growth and development, namely, the strong secular tendency of the current account towards disparity. The inflow of an additional one million foreign
tourists per annum, will improve South Africa's foreign exchange earning by about R3 600 million. The advent of one million visitors from Africa will add about R450 million.

4.3.3 Geographical contribution of tourism

According to a Satour market survey (1994) the value of tourism in South Africa was as follows:

TABLE 4.3: THE VALUE OF THE TOURISM MARKET IN THE RSA, 1994

<table>
<thead>
<tr>
<th>MARKET</th>
<th>NO. OF VISITORS</th>
<th>VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overseas Market</td>
<td>704 000</td>
<td>R 7 billion</td>
</tr>
<tr>
<td>Domestic business market</td>
<td>783 000</td>
<td>R 840 million</td>
</tr>
<tr>
<td>Domestic holiday market</td>
<td>12 112 000</td>
<td>R 12 billion</td>
</tr>
</tbody>
</table>

Source: Satour, 1995

The Satour survey also quantified the most important geographical market shares of domestic tourism as:

KwaZulu-Natal 25 per cent
Gauteng 19 per cent
Eastern Cape 15 per cent
Western Cape 13 per cent,

and market shares for business travel as:

KwaZulu-Natal 27 per cent
Gauteng 27 per cent
Western Cape 13 per cent
This survey also showed how the tourism revenue are spread throughout the country. Obviously, KwaZulu-Natal and the Western Cape are prime tourist destinations and these two regions also absorb disproportionately high percentages of the total tourist expenditure. Table 4.4 shows the proportion of expenditure on accommodation, food, transport, and spending money going to various regions, the total expenditure of each region in comparison with the percentage of trips made to that region and population living in that region.

Table 4.4 shows that KwaZulu-Natal and Western Cape collected 56 per cent of all tourist revenue with the seven other Provinces sharing the rest. The main findings are as follows:

(a) 20.6 per cent of the population live in KwaZulu-Natal, but 24.6 per cent of all tourist trips were directed towards this region, meaning that tourists came into KZN more frequently than to any other province during 1994, (compare for example, Gauteng in this regard).

(b) Furthermore, of all money spent by tourists, 32 per cent was in KwaZulu-Natal. This has a very strong positive economic impact locally.

(c) KwaZulu-Natal is particularly successful in attracting money spent on accommodation as 41 per cent of all money spent on accommodation came to this province (highest of all provinces).

(d) Comparing the percentage of total expenditure on different provinces it becomes clear that KwaZulu-Natal and Western Cape are the prime holiday destinations

(e) On food and transport tourist spend more or less the same in KZN and Western Cape, which is higher than in any other province.

(f) Tourists daily spending during their stay in KZN on things like entertainment, is much higher in this province than in other provinces.

All these findings confirm the fact that KwaZulu-Natal has enormous tourism potential.
TABLE 4.4: SHARE OF TOURISM EXPENDITURE BY PROVINCES, 1994

<table>
<thead>
<tr>
<th>PROVINCE</th>
<th>ACCOMMODATION</th>
<th>FOOD</th>
<th>TRANSPORT</th>
<th>SPENDING MONEY</th>
<th>TOTAL EXPENDITURE</th>
<th>TRIPS</th>
<th>POPULATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>GAUTENG</td>
<td>3.0</td>
<td>4.4</td>
<td>8.5</td>
<td>8.1</td>
<td>6.0</td>
<td>16.0</td>
<td>21.5</td>
</tr>
<tr>
<td>NORTHERN CAPE</td>
<td>1.4</td>
<td>3.0</td>
<td>2.8</td>
<td>1.9</td>
<td>2.3</td>
<td>2.0</td>
<td>1.0</td>
</tr>
<tr>
<td>WESTERN CAPE</td>
<td>21.2</td>
<td>24.3</td>
<td>27.2</td>
<td>24.1</td>
<td>24.2</td>
<td>12.9</td>
<td>10.3</td>
</tr>
<tr>
<td>EASTERN CAPE</td>
<td>9.1</td>
<td>10.0</td>
<td>9.5</td>
<td>10.1</td>
<td>9.7</td>
<td>9.3</td>
<td>14.3</td>
</tr>
<tr>
<td>KWAZULU/NATAL</td>
<td>41.0</td>
<td>28.7</td>
<td>27.3</td>
<td>31.1</td>
<td>32.0</td>
<td>24.6</td>
<td>20.6</td>
</tr>
<tr>
<td>MPUMALANGA</td>
<td>5.9</td>
<td>7.5</td>
<td>6.8</td>
<td>5.4</td>
<td>6.4</td>
<td>7.6</td>
<td>7.2</td>
</tr>
<tr>
<td>NORTHERN PROV.</td>
<td>3.7</td>
<td>7.5</td>
<td>4.5</td>
<td>4.3</td>
<td>5.0</td>
<td>8.9</td>
<td>10.1</td>
</tr>
<tr>
<td>NORTH - WEST</td>
<td>6.5</td>
<td>7.0</td>
<td>4.8</td>
<td>8.5</td>
<td>6.7</td>
<td>10.1</td>
<td>7.8</td>
</tr>
<tr>
<td>OFS</td>
<td>5.3</td>
<td>5.8</td>
<td>4.8</td>
<td>4.0</td>
<td>5.0</td>
<td>6.6</td>
<td>7.2</td>
</tr>
<tr>
<td>UNCLASSIFIED</td>
<td>2.9</td>
<td>1.8</td>
<td>3.8</td>
<td>2.5</td>
<td>2.7</td>
<td>2.0</td>
<td>0</td>
</tr>
<tr>
<td>TOTAL</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Satour, 1995
The Greater Durban region attracts some 3.4 million visitors a year, injecting an estimated R 3.3 billion cash flow into the city (Durban Unlimited, 1995). The tourism industry employs 65,000 people in the Greater Durban region, supporting an estimated 250,000 people. These statistics have shown KwaZulu-Natal as the country’s top domestic holiday destination with a 25 per cent market share. Durban is obviously the gateway to KwaZulu-Natal and enjoys the major share of the market. Investment is required to protect and increase this market share. Most of Durban’s international holiday tourism is of the VFR variety (visiting friends and relatives), and as such is difficult to quantify (as is also evident from the percentage transport spending).

4.4 DETERMINATION OF THE GROWTH AND DEVELOPMENT POTENTIAL OF TOURISM IN KWAZULU-NATAL (KZN)

4.4.1 Empirical research study and method

In an effort to determine the contribution of tourism to growth and development in KZN, the opinions of the main role players in the tourism industry in the province were obtained through interviews (for the attractions that were visited) and by making use of questionnaires (see Appendix A). Interviews were used because they allow an interviewee to express himself/herself fully on what he feels is important for the tourism industry. Interviewing all the role players in the provincial tourism industry was not feasible, due to the distance and time factor, hence a questionnaire was used. During the interviews, questions similar to those in the questionnaire were used.

The research analysis is both qualitative and quantitative. The availability of different types of attractions, infrastructure and facilities was considered to be the measure of the tourism potential; and the number of employees in the tourism industry (directly and indirectly) and the expenditure by tourists including international tourists was considered to be indicative of the contribution of the tourism sector to regional economic growth.
The sample was drawn from different stakeholders, namely, publicity associations, tour operators, hotel and restaurant associations within the province. The sample was constituted by associations rather than individual institutions involved in tourism. In other words, the non-probability sampling method (purposive sampling) was used. The planned sample size was 15 associations surveyed in January and February 1996. The survey method was used and the questionnaire was used as the data collecting tool. The following institutions were interviewed:

* KwaZulu-Natal Monument Council
* South African Tourism Board (Durban)
* Natal Parks Board
* Tourism Association of Natal-KwaZulu (TANK)
* Federation of Hotel Association of South Africa (FEDHASA)
* Association of South African Travel Agents (ASATA)
* Greater Durban Marketing Authority (Durban Unlimited)
* Voyager Travel
* South African Tourism and Safari Association (SATSA)
* Department of Nature Conservation
* Department of Economic Affairs and Tourism
* Department of the Premier (Communication)
* National Sports Council
* Maputaland Tourism Development Association
* Natal Technikon (Tourism Unit).

Data was collected from both primary (questionnaire) and secondary (reports from different tourism institutions) sources. The questionnaire was designed by the researcher.
assisted by Human Science Research Council (Regional Research Facilitation Function). The managers and or chairpersons of the abovementioned associations were requested telephonically to complete the questionnaires and some were visited by the researcher.

4.4.2 Limitations

Like any other research project this study is not without its limitations. Firstly, not all the institutions involved in tourism were interviewed. Secondly, the response errors are part of the limitations as some people tended to give incorrect information. Thirdly, most of the interviewed associations operate in Durban (70 per cent) leaving only 30 per cent in other areas of the province.

4.4.3 Research findings

The research findings will be discussed according to the questions contained in the questionnaire.

Question 1: Do the general public understand what tourism is all about?

The public still does not understand what tourism is and what it entails as, 93.3 per cent of the responses reflected this view.

Question 2: Is there scope for the growth of tourism in the province?

The industry can grow. All the respondents were positive, with each giving his or her own suggestions as to what can be done to ensure growth in the industry.

Question 3: How does KwaZulu-Natal compare to other provinces as a tourist destination?
On a scale of 1 (favourable) to 9 (unfavourable), respondents gave ratings as follows:

<table>
<thead>
<tr>
<th>Scale responses</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5 – 9</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number</td>
<td>6</td>
<td>1</td>
<td>3</td>
<td>5</td>
<td>0</td>
</tr>
<tr>
<td>Percentage</td>
<td>40</td>
<td>6.7</td>
<td>20</td>
<td>33.3</td>
<td>0</td>
</tr>
</tbody>
</table>

The largest percentage show that KwaZulu-Natal is number one of all provinces as a tourist destination, followed by those who felt it ranks number 4. It can therefore be said that this province compares well with other provinces.

**Question 4 : Types of accommodation available for tourists in the province?**

Respondents listed all types of accommodation, from 5 star hotels; motels; holiday apartments; caravans and camping sites.

**Question 5 : What are the motivating factors for tourists to choose a certain type of accommodation?**

Responses were the combination of the following factors: proximity (53.33%); price (66.66%) and comfort (40%). Three respondents did not respond. Price appears to be a critical factor for choosing accommodation. It is therefore possible that potential tourists do not become actual tourists because they cannot afford accommodation.

**Question 6 : What types of accommodation are insufficient?**

Most respondents indicated that accommodation is a serious problem - more rooms are needed. The following are the types of accommodation that were indicated to be much more needed:

(a) medium-priced hotels to cater for the low income group.

(b) holiday apartments (self-catering) that can be cheaply let to tourists.

(c) up market hotels to cater for foreign tourists.
Question 7: Are there sufficient amenities to cater for tourists?

Amenities were understood by respondents to mean facilities. The overwhelming number of respondents (99%) indicated that tourists facilities are not sufficient.

Question 8: Are the facilities accessible?

This question elicited varied responses, which might mean that respondents did not understand accessibility the same way. However, most appear to be indicating a favourable accessibility of tourist attractions. The responses were as follows:

Accessible = 2 (13.33%)

Relatively accessible = 6 (40%)

Not accessible = 4 (26.66%)

Incorrect responses = 3 (20%)

Question 9: Suggestions with regard to tourist facilities?

The following responses were received: should be accessible to communities; need to be upgraded; improve standards; should be made sufficiently available and be of international standard. Five responses were incorrect.

Question 10: Estimation of the number of tourists that the province receives per year?

Most of the respondents refrained from answering quantitative questions and only responded, as follows:

Domestic tourists: 2 000 000; 2 400 000; 2 500 000 (x2); 3 500 000 (x2); 3 900 000; 4 500 000 and 4 800 000. On average, domestic tourists amounted to 3.3 million per annum.

International tourists: 300 000; 320 000; 420 000 and 250 000. The average amounted to 320 000 tourists per annum.

Question 11: Are tourist attractions different for local and international tourists?

According to the responses received, attractions are different for local and
international tourists. Local tourists mostly enjoy a seaside holiday, whilst foreign visitors look for the African experience of wildlife, historical and cultural exposure.

**Question 12: For what purposes do tourists come to KwaZulu-Natal?**

Tourists visit KwaZulu-Natal mostly for holiday purposes (86.66%), secondly to visit friends and relatives (66.66%) and lastly, business trips (53.33%)

**Question 13: How long do tourists stay - duration of the trip (excluding business trips)?**

<table>
<thead>
<tr>
<th>Number of nights</th>
<th>Responses</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 - 3</td>
<td>4</td>
<td>26.66%</td>
</tr>
<tr>
<td>4 - 7</td>
<td>4</td>
<td>26.66%</td>
</tr>
<tr>
<td>8+</td>
<td>3</td>
<td>20%</td>
</tr>
</tbody>
</table>

The gap in responses results from the fact that some did not respond, but it seems that relatively short stays are the most common feature.

**Question 14: How much do tourists spend in the province?**

Most respondents admitted that they have no idea on tourist expenditure. Those who responded indicated that on average tourists spend between R500 and R1 000 per day (including accommodation).

**Question 15: Which attractions or areas are mostly and frequently visited by tourists in the province?**

Respondents identified three areas that attract tourists most: the Drakensberg; coast for seaside holiday and fishing and Northern KwaZulu-Natal.

**Question 16: Is KwaZulu-Natal tourist friendly?**

Positive responses were 40 per cent and negative responses were 45 per cent of the respondents. This indicates that there is still a long way to go in terms of tourism awareness and hospitality in our communities and employees in the tourism and
hospitality industries.

**Question 18**: Is KwaZulu-Natal sufficiently promoted as a tourist destination?

Twenty six per cent of the responses show that there is sufficient promotion taking place in the province and 73 per cent indicated that the province is not sufficiently promoted and also that there is negative publicity. Most suggestions put forward were that the province can best be promoted if there is a single well-managed marketing and promotional agency with sufficient funding. This can help to avoid unnecessary competition among stakeholders in the province.

**Question 17**: Problems encountered by tourists in KwaZulu-Natal?

Major problems indicated were personal safety, crime, and political violence.

**Question 19**: What can be done to improve or expand the tourism industry in KwaZulu-Natal?

The general comments were as follows:

(a) Bring all the role-players together as they are very diverse in this province.

(b) There is a need to have a more effective control over the training and accreditation of tourists guides.

(c) Engage communities on tourism education forums.

(d) Establishment of a single representative tourism authority fully backed by government and the private sector to control and develop the industry according to internationally accepted practices.

(e) Expand tourist facilities such as King Shaka Airport, public transport, signage roads that are safer and a 15 000 seater concert venue.

(f) There has to be a proper planning and utilisation of all the resources.

(g) Personal taxes should be reduced.

(h) Train people to be efficient service providers.
(i) There is a need to assess other markets that could be attracted and to address the potential market, especially, the untapped black family, middle and lower income groups.

(j) Provide simple motel type of accommodation with 4 to 6 bed units

(k) Provide amenities offering family units

(l) Positive publicity

(m) Political violence should be considerably reduced.

4.4.4 Analysis of the findings

As indicated by the respondents, the majority do not understand the economic potential and contribution that tourism in the broadest sense can mean to the province, nor do they appreciate the benefits that it can bring to them as individuals and local communities. However, this situation is changing as more are becoming aware, but a serious effort is needed to bring greater consciousness to the public and to engender a real sense of hospitality rather than one of tolerance.

There is a room for the industry to grow. In the first place, KwaZulu-Natal has lagged behind other provinces in the past - not only as a result of its own lethargy, but also because of a lack of proper marketing of the province. To address this, it is essential that marketing efforts are properly co-ordinated at provincial level. This however, does not mean that provincial government must be directly involved, but there should be a single marketing authority made up of those elements of the industry which are going to benefit from increased tourism.

But, profit is the main motivating factor for private enterprise, which makes up the bulk of the tourism industry. The industry must take the initiative in marketing, but be
given institutional support and encouragement to get the initiative off the ground, and once launched, it should be self-sustaining.

One other field that could lead to the expansion of the industry, is the provision of proper tourist infrastructure. This tends to be difficult because tourism is somehow a chicken and egg situation. The industry is reluctant to invest if there are no tourists, but, the province will not get tourists if the infrastructure is not in place. Potentially, this province has the ability to be the top destination in the country, while in actual fact it only ranks the second or the third. As far as facilities are concerned, accommodation is problematic. There is an adequate range of types of accommodation available, from luxury hotels to tented camps and trail huts, but all are concentrated in certain areas, while other areas do not have even 200 beds. For example, there are less than 500 beds in the whole of Northern Natal.

According to the most of the responses (85%) received, the more scarce and the most needed type of accommodation is the medium-priced hotels and/or self-service flats to cater for the low income and the black community which is seen as an emerging market.

To promote the province more efficiently, an extensive and comprehensive data base and network of co-ordinated information centres is necessary to make planning of visits more readily accessible to tourists once they are here. Many tourists can be persuaded to stay longer in the province if information on attractions is readily available. It appeared from this survey that sometimes accessibility is limited by transport facilities. An efficient public transport network does not exist, so private enterprise must be encouraged to fill this gap. A lot of small operators and companies are already involved, but they are working completely independently and need some sort of co-ordinated advertising campaign so that visitors know the range of facilities that are available.
Tourists tend to gravitate to certain destinations, and this can probably be attributed to marketing and advertising, but in the case of domestic tourists, to habit and familiarity. The frequency to attractions goes hand-in-hand with the availability of facilities. The greater Durban area has higher concentrations of facilities such as hotels. This together with the fact that there is an airport, means that most tourists gravitate to Durban initially. It may then be used as a "springboard" to reach other destinations within the province (depending on the availability of the transport).

Without efficient and innovative transport facilities, many overseas tourists do not move further than Durban. One other aspect that needs attention is the fact that whilst tourists can do day trips out of Durban, there are simple not enough facilities in other centres to enable them to spend longer time there. The Drakensberg is another area commonly visited, again, because of the concentration of services. Lastly, at the Northern Coastal resorts, where transport and accommodation still need to be improved.

4.5 ESTIMATION OF THE ECONOMIC IMPACT OF TOURISM

The economic impact of the tourism industry in KwaZulu-Natal can be estimated as follows: Working on the assumption that each holiday trip takes the maximum of three days and that tourists spend R 500 per day, as the survey suggests. It means that for each trip tourists spend R1 500. Knowing that we have 3,3 million domestic tourists per annum, tourism expenditure can amount to R5,0 billion. With the influx of 320 000 foreign tourists, and an expenditure of R3 600 per person per visit, tourism expenditure becomes R1,2 billion. Therefore, total tourism expenditure can amount to R 6,2 billion per annum. This figure seems like a big amount, whereas it is not, because there is large leakages out of the regional economy in the form of imports from other provinces, as much of the tourist products, especially in the agricultural sector, are imported from the Gauteng province. In 1993, according to the Regional Economic Forum Tourism Working Group report, tourism expenditure was R5 226 million. This shows a dramatic
increase in tourism expenditure as a result of inflation and increase in the number of tourists coming into the country. Considering that there is one job for every ten tourists, it can be said that presently the employment capacity of the tourism industry in KwaZulu-Natal is approximately 330,000 jobs.

Furthermore, there is a large amount of money that goes to the government in the form of tax revenue, both directly and indirectly. For instance, the VAT collected from tourism expenditure of R 6.2 billion could be R 8.7 million.

A survey on South African domestic tourism market (Satour, 1995), shows the provincial source markets as follows:

Apparent from Table 4.5 is that tourists in KwaZulu-Natal originate mostly locally (49%), with 51% of total tourists coming from other provinces, which can be regarded as foreign tourists and their expenditure impact significantly on the provincial balance of payments. In fact, when travellers from outside KwaZulu-Natal are spending on goods and services within the province, tourism act as an export industry by bringing in new revenues from external sources. Their expenditure also increase the general level of economic activity within the region, both directly and indirectly, - create new jobs and income. Taxes collected by the government also increase with higher level of economic activity.

KwaZulu-Natal province has not yet been very successful in attracting international tourists. According to the report by Korsman and Van Wyk (1994) this province attracted less than 17 per cent of the total international tourists visiting South Africa. However, after the general elections in 1994 the situation has improved because, the study on the international tourism market (Satour, 1995), shows that 32 percent of all the international travellers who came to South Africa in January and February 1995, went to KwaZulu-Natal. This compare well with 17 per cent in 1993, although it is still bad compared with 63 per cent to Gauteng and 56 per cent to Western Cape. This is one area that needs serious attention because the value of the international visitors in terms of foreign exchange could make a vast difference in the import/export trade.
TABLE 4.5: PROVINCIAL SOURCE MARKETS OF TOURISM, 1994

<table>
<thead>
<tr>
<th>Source</th>
<th>W.C</th>
<th>N.C</th>
<th>OFS</th>
<th>N.W</th>
<th>E.C</th>
<th>KZN</th>
<th>MPU</th>
<th>N.PR</th>
<th>GAUT</th>
</tr>
</thead>
<tbody>
<tr>
<td>N. PROVINCE</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>9</td>
<td>0</td>
<td>0</td>
<td>4</td>
<td>43</td>
<td>43</td>
</tr>
<tr>
<td>MPUMALANGA</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>4</td>
<td>0</td>
<td>1</td>
<td>36</td>
<td>15</td>
<td>42</td>
</tr>
<tr>
<td>N. WEST</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>44</td>
<td>1</td>
<td>7</td>
<td>12</td>
<td>2</td>
<td>28</td>
</tr>
<tr>
<td>GAUTENG</td>
<td>5</td>
<td>1</td>
<td>3</td>
<td>16</td>
<td>4</td>
<td>13</td>
<td>9</td>
<td>24</td>
<td>25</td>
</tr>
<tr>
<td>OFS</td>
<td>5</td>
<td>3</td>
<td>43</td>
<td>8</td>
<td>3</td>
<td>5</td>
<td>2</td>
<td>0</td>
<td>31</td>
</tr>
<tr>
<td>KZN</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>1</td>
<td>49</td>
<td>5</td>
<td>6</td>
<td>31</td>
</tr>
<tr>
<td>N. CAPE</td>
<td>34</td>
<td>27</td>
<td>0</td>
<td>21</td>
<td>6</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td>WEST.CAPE</td>
<td>46</td>
<td>3</td>
<td>4</td>
<td>1</td>
<td>12</td>
<td>8</td>
<td>2</td>
<td>1</td>
<td>23</td>
</tr>
<tr>
<td>E. CAPE</td>
<td>24</td>
<td>2</td>
<td>5</td>
<td>4</td>
<td>32</td>
<td>18</td>
<td>1</td>
<td>1</td>
<td>13</td>
</tr>
</tbody>
</table>

Source: Satour, 1995

4.6 PROJECTIONS OF TOURISM DEMAND

The above analysis reveals that the impact and the importance of tourism is not yet fully known. For instance, there are many gaps in terms of the procedures to be followed in developing the industry. The correct measures to design appropriate policies and strategies are still at an early planning and developmental phase and no proper structures are in place. As a result most of the information on the industry's performance is not available. Most importantly is the fact that the tourism industry in this region is making a great contribution to the regional economy purely from the amount of tourism expenditure and the size of the labour force involved. When the planning phase is completed and the industry is properly managed, it will expand and the economic impact will filter down to the general public.
Decisions regarding the tourism infrastructure of a country is usually based on future perceptions. The most important contributors to the tourism infrastructure, viz, tourism promotion organisations and tourism businesses, base their decisions on environmental changes and the demand for their products and/or services. The forecasting of tourism demand is generally seen to be one of the more complex functions of tourism management.

The changes and challenges usually associated with developing tourism markets result in tourism businesses trying to convert negative and/or latent demand into effective demand. The following calculation was done to determine the tourism demand in South Africa (see also Table 4.6).

Based on Table 4.6, the tourism demand can be projected using the following formula and assuming a linear relationship:

\[ Y = a + bX \]

with \( Y \) = number of tourists and \( X \) = time (years).

Calculation of the parameters yielded the following results:

\[ b = \frac{n(\sum XY) - (\sum X)(\sum Y)}{n(\sum X^2) - (\sum X)^2} \]

\[ = 388 \]

\[ a = \frac{\sum Y - b(\sum X)}{n} \]

\[ = -464 \]

\[ r = 0.9 \]

and \( r^2 = 0.81 \).

Thus, \( Y = -464 + 388X \)
### Table 4.6: Projections of the South African Foreign Tourism Demand, 1985 - 1995

<table>
<thead>
<tr>
<th>YEAR (X)</th>
<th>NO. OF TOURISTS (Y) ('000)</th>
<th>$XY$ ('000)</th>
<th>$X^2$</th>
<th>$Y^2$ ('000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>728</td>
<td>728</td>
<td>1</td>
<td>529,984</td>
</tr>
<tr>
<td>2</td>
<td>645</td>
<td>1,290</td>
<td>4</td>
<td>416,025</td>
</tr>
<tr>
<td>3</td>
<td>703</td>
<td>2,109</td>
<td>9</td>
<td>494,209</td>
</tr>
<tr>
<td>4</td>
<td>805</td>
<td>3,220</td>
<td>16</td>
<td>648,025</td>
</tr>
<tr>
<td>5</td>
<td>930</td>
<td>4,650</td>
<td>25</td>
<td>864,900</td>
</tr>
<tr>
<td>6</td>
<td>1029</td>
<td>6,174</td>
<td>36</td>
<td>1,058,841</td>
</tr>
<tr>
<td>7</td>
<td>1,710</td>
<td>11,970</td>
<td>49</td>
<td>2,924,100</td>
</tr>
<tr>
<td>8</td>
<td>2,703</td>
<td>21,624</td>
<td>64</td>
<td>7,306,209</td>
</tr>
<tr>
<td>9</td>
<td>3,093</td>
<td>27,837</td>
<td>81</td>
<td>9,566,649</td>
</tr>
<tr>
<td>10</td>
<td>3,669</td>
<td>36,690</td>
<td>100</td>
<td>13,461,561</td>
</tr>
<tr>
<td>11</td>
<td>4,488</td>
<td>49,368</td>
<td>121</td>
<td>20,142,144</td>
</tr>
<tr>
<td>$\Sigma$</td>
<td>66</td>
<td>20,503</td>
<td>506</td>
<td>57,412,144</td>
</tr>
</tbody>
</table>

*Source: Satour, 1995*
Since the sign of r is positive (same as that of b), it means that there is a direct correlation between the number of tourists coming into South Africa and the time (years). As $r^2$ is equal to 0.81 it indicates that the number of years (independent variable) explain about 80 percent of the variations in the number of tourists coming into the country. In other words, there is a linear relationship between years and number of tourists. Based on this linear relationship, projections for the next ten years yielded the following results:

1998 = 4 968 000  
2000 = 5 744 000  
2002 = 6 520 000  
2004 = 7 296 000  
2006 = 8 072 000

The projections as shown above reflect a steady increase in the tourism demand, and in 2006 foreign tourists coming into the country will reach 8,1 million. However, these projections are based on the assumption that everything remains the same. An optimistic scenario can also be created based on the fact that presently the country is undergoing transformation, which gradually changes its image in the international community. If this transformation becomes a success, in the same year (2006) the number of tourists coming into the country could be far ahead of what is projected.

As a result of the appealing nature of South Africa about one third of all South Africans go on holiday over a period of one year. This implies that almost thirteen million people go on holiday every year. The market for domestic tourists is equally important, and the demand for domestic tourism is increasing sharply because of the black market which is only emerging now. The only inhibiting factor for domestic tourists is the price of a holiday, especially for accommodation, and as a result, a larger percentage of tourists use friends and relatives' accommodation (as indicated in Table 4.7).

Most domestic tourists prefer KwaZulu-Natal as a holiday destination as seen on Chapter II.
TABLE 4.7: PATTERN OF DOMESTIC TOURISM BY TYPE OF ACCOMMODATION, 1992

<table>
<thead>
<tr>
<th>Type of Accommodation</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family and friends</td>
<td>57.4</td>
</tr>
<tr>
<td>Hotel</td>
<td>8.3</td>
</tr>
<tr>
<td>Game / Country lodge</td>
<td>0.8</td>
</tr>
<tr>
<td>Self-catering flat</td>
<td>12.4</td>
</tr>
<tr>
<td>Guest houses</td>
<td>2.3</td>
</tr>
<tr>
<td>Caravan/camping</td>
<td>9.2</td>
</tr>
<tr>
<td>Other</td>
<td>8.9</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Nieuwenhuizen, 1995

Deducing from the national situation and the general performance of the South African economy (taking cognisance of the inflation rate), there will be a doubling of spending by tourists in the next five years in KwaZulu-Natal. This will create a substantial demand for the construction of infrastructure and new hotels. Between 1 400 and 3 000 additional hotel rooms will be needed in the province (Nieuwenhuizen, 1995). The rise in rates and revenue as a result of the inelastic supply of accommodation, will in the long run justify the construction of new hotels, inclusive of luxury ones. Although hotels can be built and brought into stream within a period of two years, the construction industry at this stage is unlikely to have the capacity to do so on a large scale.

The development of the large backlog in the construction industry, inter alia, as a result of increased activity in other sectors of the economy, would have adverse implications all over the
economy. KwaZulu-Natal has already established itself as South Africa's top holiday region and therefore, can expect an increase in tourism expenditure.

The direct economic cost to the hotel industry being unable to accommodate an increase in the number of foreign tourists can be great, cognisance being taken of the fact that on average R3 600 is being spent locally by each tourist. The indirect cost of a shortage of accommodation would be even higher, especially if KwaZulu-Natal becomes known as a less reliable destination.

All these projections are based on the assumption that the political conditions within the country will be normalised. These positive projections, together with the fact that KwaZulu-Natal is a top holiday destination for domestic tourists, serve as a challenge for KwaZulu-Natal to implement tourism strategies as soon as possible, particularly those pertaining to tourism development and management. In fact all those areas identified as having tourism potential should be developed as a matter of urgency. This may help to capture more international tourists to the province, which appears to be still problematic. In short, in order to cater for the projected demand there has to be an action on two major areas: accommodation and increasing the scope for tourists, by exposing all the attractions for them. In the next chapter some of these issues pertaining to tourism policy, planning and marketing in KwaZulu-Natal will be addressed.