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The Impact of Trade Liberalisation on the South African Tourism Industry

Paul Robertson
University of Cape Town

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LIST OF FIGURES: Normal, TNR, 14, B

LIST OF ABBREVIATIONS

CGE	Computer-Generated Equilibrium
CTS	Council for Trade in Services of the WTO
DEAT	Department of Environmental Affairs and Tourism (South Africa)
DTI	Department of Trade and Industry (South Africa)
EU	European Union
FDI	Foreign Direct Investment
GATS	General Agreement on Trade in Services
IDC	Industrial Development Corporation

SADC	Southern African Development Community
SATOUR	South African Tourist Board
SBU	Special Business Unit of the IDC
SMME	Small. Medium and Micro Enterprises
TSA	Tourism Satellite Accounting
T&T	Travel and Tourism
WTO	World Trade Organisation (not World Tourism Organisation herein)
WTTC	World Travel and Tourism Council

1. INTRODUCTION

The tourism sector of the South African economy has been characterized by rapid growth in the mid-1990s which has levelled off more recently, and an increasing contribution to overall employment. The question now is how South Africa's negotiation process in removing barriers to the trade in services might affect the tourism and travel industry, and by extension, whether this sector is likely to maintain above average growth in an environment of trade liberalisation.

South Africa is in the process of removing barriers to trade such as tariffs and discriminatory laws that do not allow foreign businesses to compete on an equal footing with domestic ones. However, it is arguable that South Africa needs some degree of protectionism in order to improve its capabilities before going head to head with institutions from more technically advanced nations. Furthermore, it is possible that concessions already made to lure overseas investors place them at an advantage vis-à-vis their South African counterparts. This paper aims to identify some of the challenges to tourism growth in South Africa by analysing the likely impacts of trade regime openness. In this sense the study is inward-looking and does not attempt to treat the subject of South African interests abroad.

The first section presents a discussion about the various definitions of tourism and how these impact the scope of analysis. Secondly, a characterisation of tourism and the role it plays in the South African economy is elaborated. [Also discussed are the pivotal structures and institutions involved, as well as recent forecasts from the industry.] Next, the regulatory environment which governs foreign commercial presence and investment is outlined, with attention to candidate areas for liberalisation. From the accepted literature in the field of tourism and trade in services comes a discussion of the analytical tools of economics. Finally, by applying established economic models to the tourism sector under trade liberalisation, a final assessment of South African tourism is formulated.

2. DEFINING TOURISM

2.1 Definitions

Tourism describes many different economic activities under one heading. In order to clarify the scope of discussion, one definition will be advanced. In a traditional sense, one thinks of tourism as encompassing all the industries that are involved to some degree in recreation or holidays that are taken away from the place of normal residence. Yet this definition is open to exceptions and cannot be applied universally - for example, is normal place of residence defined by the area in a radius of some length from one's home, or does it make more sense to use areas of concentrated economic activity as regions? How long must someone be away for the activity to fall under tourism? It is easy to imagine the inconsistencies that might arise from such definitions.

For purposes of comparison, the World Trade Organisation (WTO) has adopted the following definition of tourism:

> The activities of persons travelling to and staying in places outside their usual environment for not more than one consecutive year for leisure, business and other purposes."[1]

While easier to apply, the definition includes areas of activity that one may not immediately associate with tourism. With this definition, all business travel and consumption overseas becomes a form of tourism. Thus when calculating the benefits that tourism might accrues to its host economy, the estimates become inflated over those strictly pertaining to the leisure and recreation market.

The WTO definition has already become the standard one used in discussion of trade in services. Thus, for purposes of accurate data comparison this will be the definition used throughout the rest of this paper. However, the scope of analysis will be somewhat more restricted. Although business activity is included in the definition, the focus of the paper will be those sectors more traditionally associated with tourism, such as leisure and recreation activities, guide services, and transport and hotel services.

Multiple sectors of an economy are thus grouped together under the umbrella of the tourism and travel industry that would otherwise remain unrelated. Transportation, accommodation, entertainment, and recreation rely on very distinct factor supply chains because the inputs and skills required by these sectors are vastly different. It is the common profile of the demand-side of the market which brings these many sectors into the same discussion. This element of complementarity will be demonstrated shortly, as developments within any of the prominent sectors has implications for the tourism industry as a whole.

2.2 Data collection

Having defined tourism, the task turns to the gathering of information which will be applied to the framework of analysis. The tourism data which are most readily available are arrivals and departures of visitors. This information is quite useful in profiling the market, and thus helpful to suppliers of tourist services. However, to obtain a more accurate picture of the impact of trade liberalisation, it is desirable to have not only information about consumers but investors as well. In this respect the data is lacking, for although one finds aggregates in tourism investment these figures are not distinguished by international and domestic origins. Therefore, quantifying the effects of liberalisation on foreign direct investment (FDI) flows, and thence the impact of FDI on the South African industry as a whole, becomes more speculative.

Without such data, it is still possible to construct a range of scenarios supposing different shares of FDI out of total industry investment. With more time, such methods could be enhanced with computer-generated equilibrium (CGE) modelling techniques. For the present, the study is best restricted to using more qualitative forms of analysis.

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[1] WTO, from www.wto.org.

3. CHARACTERISTICS OF THE SOUTH AFRICAN TOURISM INDUSTRY

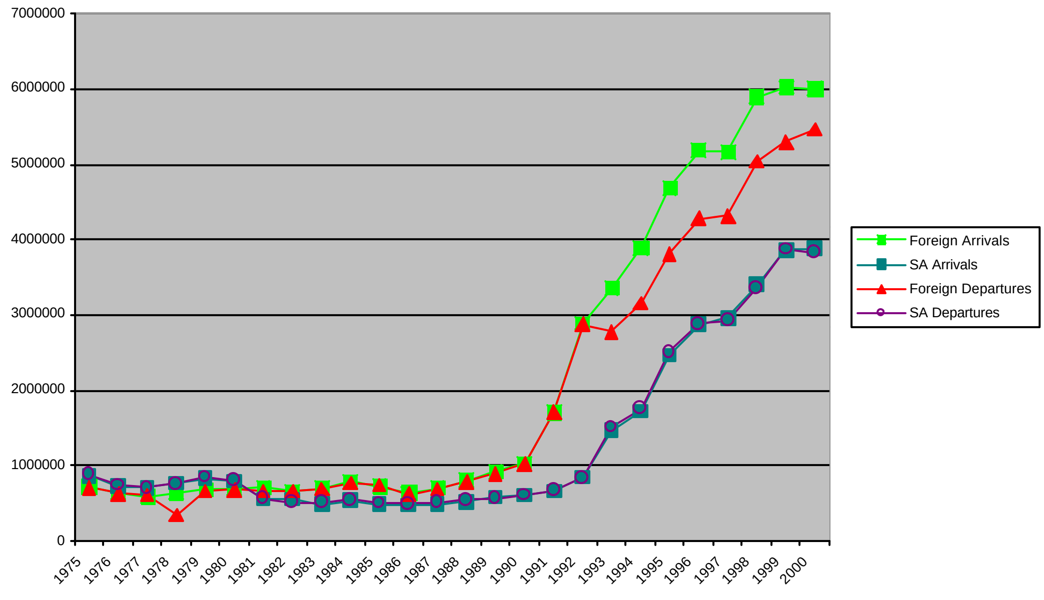
3.1 SA Tourism today

Tourism was identified as an engine for growth by the Department of Environmental Affairs and Tourism (DEAT) in its 1996 White Paper. After a doubling of tourist arrivals from 1992-1996, it was estimated that for every eight visitors a new job was created. Even so, tourism does not occupy the place in the South African economy that it ought to if one considers the percentage of GDP attributable to tourism in other economies. The U.S. share, for example, is 10% of GDP while the South African share is about 2.6%. If tourism were to grow to this potential, it was estimated that two million additional jobs would be created.

Although South Africa has experienced a tremendous upsurge in foreign arrivals since the new dispensation, the so-called "democracy dividend" from the mid-1990s is over and South Africa has to start employing sophisticated marketing strategies in order maintain even a modest rate of 2% growth.[2]

Yearly visitor arrivals and departures are strongly correlated with industry growth. As seen from Figure 1 below, foreign arrivals have risen sharply after 1994, and have started to outpace departures, indicating ever-increasing lengths of visits.

Figure 1: Arrivals and departure of foreign visitors and SA residents 1975-2000



Source: Statistics SA

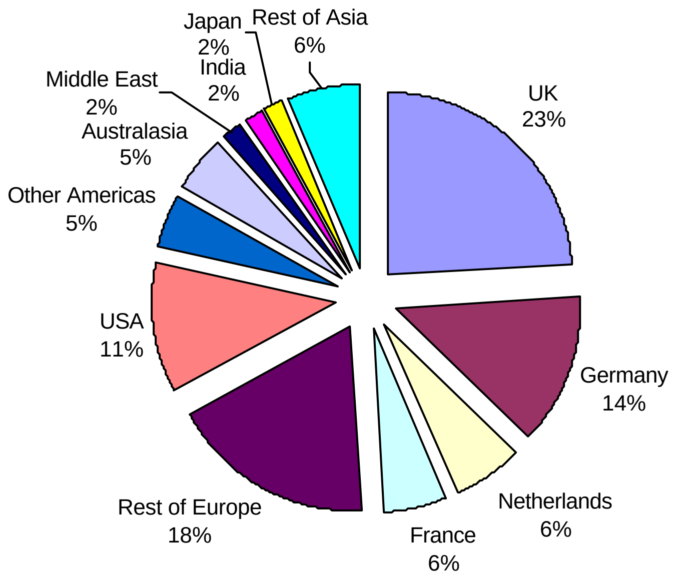
The vast majority of visitors are citizens of neighbouring African nations, and particularly of Lesotho (about 1.3 million annually). Of the 6 million visitors each year, over 4 million are from the African continent. Beyond the continent,

[2] SATOUR strategy publication

approximately 67% of overseas visitors come from European nations, with the UK (23%) and Germany (14%) comprising the brunt of this share (see Figure 2). U.S. nationals make up the third largest category of visitors, yet are the largest per capita gross spenders of any group.[3] The relative shares of these groups have changed slightly in recent years, with the U.S., Australia, Japan, China, India and other Asian nations increasing their consumption of South African tourism.

The purpose of visit is also an important factor in learning about who is coming to South Africa. Distinguishing between business and personal visits, one can see that scarcely 20% of those choosing to come do so for business purposes. These statistics have played an important role helping to target marketing campaigns with a limited budget. South Africa hopes to increase its share of overseas high-spenders at the possible expense of more budget-conscious groups from neighbouring countries. As a result, campaigns are due to be directed at countries with an already solid base of visitors that are also poised for continued tourism growth. The U.S., Netherlands, Australia, Japan, and the U.K.

Figure 2: Shares of Overseas Visitors



Source: Statistics SA

The measurement of tourism's effect on an economy has both a direct and an indirect component. In South Africa, the travel and tourism industry constitutes about 2.6% of GDP.[4] But in a much wider sense, the total downstream impact of the industry is closer to 7%. The difference between the two figures lies in the industries which are wholly or partially dependent on tourism for their existence (such as transportation manufacturing, financial services, construction, etc.). Including these indirect effects,

[3] SATOUR, 2001
[4] WTTC, 1998, p. 4

one can speak of a travel and tourism economy much greater than that of the industry alone. However, it must also be noted that if one were to do this for every sector of the economy, the sum of the sectoral shares would easily exceed 100%, so it is with this cautionary remark that the concept of a travel and tourism economy is introduced.

3.2 Employment

The generation of employment is one of the strongest recommendations for tourism. There are many labour-intensive features of its prominent sub-sectors. Typically, the skills required in this sector are low to medium, and the wages and salaries reflect these requirements. This means that although there are opportunities for all to participate, the sector suffers from a lack of status and has trouble attracting people with higher qualifications.

Currently, it is estimated that there are over 490,000 people employed directly by the travel and tourism industry in South Africa. This represents about 3% of total employment. According to the World Travel and Tourism Council (WTTC), the employment figure rises to over 1,100,000 jobs when one looks at the larger travel and tourism economy. This would equate to approximately 1 in every 14.5 jobs in South Africa.

[employment figures graph to be inserted]

Amounts for both the industry and the broader travel and tourism economy have been steadily rising over the past several years. WTTC forecasts for the next ten years are for continuing growth. It is also interesting to note that the tourism industry in South Africa did not recoil as severely as those of other countries after the September 11 terrorist events, and stayed well ahead of the African and world trend for this period.

The South African Government's 1996 White Paper on Tourism recognised the importance of tourism for employment generation among previously disadvantaged groups and recommended an overhaul of existing institutions in order to better serve this goal.

3.3 Investment

Capital investment in tourism has been fairly constant since the mid-1990s. This seems odd when one considers the growth of the industry in the same period. Tourism investment as a share of GDP has remained constant at just over 10%, which compares well with the world average of 9.2%.

Ideally, for an analysis of this kind it would be possible to decompose the industry into its sub-sectors and sources of investment (foreign or local), but as mentioned earlier, data is not easily refined into these subsets. Furthermore, most of the available data is geared towards developing marketing strategies for holiday-makers. Although one is able to differentiate between vacationers and business visitors in the arrivals and departures data, not much more is known about potential and current investors in South Africa. This is an area that could be corrected.

The WTTC forecasts more robust investment figures for the years ahead, with the assumption that South Africa will have addressed some of the investor uncertainty and risk issues. David Kaplan, Chief Economist at the DTI, identified uncertainty as the number one issue plaguing investment in South Africa.[5]

3.4 Exports

The activities and purchases of international visitors are, by definition, measured as exports in the host economy. Services in tourism are unique among exports because they are consumed in the same country in which the services are produced. Although exports can refer to both the spending on merchandise and activities by foreigners, it is only the non-merchandise spending component that is discussed under the trade in services.

For smaller developing countries in particular, the export share of tourism is the most significant portion of the industry, and often for the entire economy. In South Africa, T&T exports represent about 35% of consumption within the industry, and are about 10% of total exports. T&T exports include a visitor-spending component about 3.5 times larger than the merchandise component. It is the visitor spending that touches the trade in services issues, since transport, accommodation, car hire, and the like are all service industries. If there were to be a consequence of trade liberalisation, it would be evident in both the share of T&T among exports and absolute growth in T&T exports.

3.5 Government Spending

Expenditure by the South African government on tourism services and facilities is considered very small in comparison with world averages, and has remained constant at about $130 million since 1997. This sum represents about 0.6% of all government spending. This can be interpreted as a threat to future growth or as a sign of confidence in the industry. To the extent that government spending is linked to growth, a zero-growth budget for tourism spending could mean a future bottleneck in the provision of services.

However, South Africa is unique in that the return experienced from current expenditure is of several magnitudes larger than most countries. The ratio of tourism's contribution to the economy versus government spending is about 15:1, while the world average is about 1.7:1. Interpreting this is more difficult, but it would appear that South Africa owes its dividends to other sources than government spending.

3.6 Taxes

Less recent information is available on tax revenues; in 1998 these represented R15 billion, or about 8.4% of all taxes paid in South Africa. Of this, R6.6 billion is generated from the wages and salaries of employees in the industry, R5.9 billion is the estimated contribution from indirect taxes, and a further R2.6 billion comes from

[5] Kaplan, 2001.

businesses. As tax collection improves it is expected that revenues will continue to grow, which assumes employment and consumption also grow in this sector.
From the above it can be seen that the travel and tourism sector is managing to defy some of the negative trends elsewhere present in South Africa. Employment is growing, and the share of private investment is on par with that of other nations. Moreover, the consequences of last year's terrorist events were not felt as severely in South Africa.

4. REGULATORY ENVIRONMENT

Presented below is an overview of the regulatory environment of South Africa as it relates to tourism and the trade in services.[6] A comprehensive reference to this framework [will be] available as an Appendix to this study. The aim of this section is first to focus on the movement of people, which largely meets our definition of tourism. Following this section are overviews of some of the areas of regulation related to intermediate services in tourism.

Tourism in South Africa is unregulated in the sense that consumption by foreigners is not subject to controls. A discussion of how trade liberalisation affects tourism is thus not based on any direct controls in this industry, but rather on how other activities which allow the supply of tourism goods and services in this country are affected by regulation. So in this respect the body of regulation which affects tourism is largely the same as that which affects any other industry.

4.1 Movement of people

There is one notable exception - the movement of natural persons. The activities of foreign individuals who remain in South Africa under one year (including those who enter with work, business or study permits) can be classified under tourism. Thus, the movement of these people into the country is a matter of tourist regulation. This aspect of regulation is fully bestowed upon the government to manage, although it is members of the tourist industry who have the greater stake in seeing liberalisation occur in this area.

Under the present arrangements, not all members of the WTO are granted equal entry rights, as is the eventual goal. Citizens of the US, Canada, Japan, Australia, New Zealand, and most of the Western European nations receive preferential treatment for a variety of reasons: reciprocal arrangements, low history of visit-length violations, and their value to the economy in terms of spending per capita all play a factor in this preferment. Typically, these nationals are issued visitor permits on arrival for stays up to 90 days according to return/onward flight dates. Upon supplying further proof of a bona fide intention as a visitor (such as means of financial support) and at the discretion of Immigration, these nationals can request a temporary residence permit up to one year.

[6] The Department of Trade and Industry (DTI) has created a document, "Information for Foreign Investors and Prospective Immigrants to South Africa," which thoroughly treats the subject. Except where noted, regulations cited in this chapter are from this source.

As of November 2000, nationals of the neighbouring countries of the Southern African Development Community (SADC) did not enjoy the same treatment, and are granted visits not exceeding 30 days on average. Research conducted by the South African Tourism Department (SATOUR) shows that nationals of these countries generally come on much shorter - but more frequent - visits than their overseas counterparts.[7] In fact, SADC citizens represent the greatest proportion of foreign visitors.[8] If their short lengths of stay are not a result of the relatively more restrictive visa conditions themselves, then it would do no harm to extend the stipulated period of visit.

Foreigners planning to work in the Republic are not officially differentiated by nationality. In order for a foreign national to enter South Africa with the intention of working, certain standards must be met which show that not only will the country benefit from the person's skills, but that these same skills are not possessed by a South African who could fill the desired post. These clauses are expressly designed to protect the domestic labour market but are arguably more restrictive than necessary. Firstly, they provide for the use of a much stricter standard of credential analysis than exists in the domestic labour market. Secondly, prospective employers are required to draw up a plan of skills transfer from the foreigner to a South African citizen who will hold the post in the long-run. This places the onus on the employer to a) find or have employed an under-qualified South African candidate at the time of the foreigner's application; and b) arrange for training that might better be accomplished through the educational system, professional organisations, or through other means than its foreign employees. The assumption is that the qualifications of the foreigner are of the sort that cannot be obtained in South Africa, rather than the sort that may simply be scarce in South Africa for other reasons.

Requirements are less stringent for those seeking business visas, who are either representing a foreign business, visiting a branch office in a temporary capacity, or exploring investment opportunities. Key personnel transfers to South African branches of foreign firms are also more easily secured, and the movement of these persons need only be justified in a letter to Home Affairs. Secondments, or employees paid outside of South Africa for their work inside the country, require only a visitor visa.

As of 2001 work (and study) permits could be issued for a three-year period instead of a yearly renewable one. This move reduces the administrative burden on both the permit-holder and the Department of Home Affairs but has little impact on the movement of labour. As part of the WTO negotiations on Trade in Services, the European Union (EU) has requested of South Africa to reduce the credentialing criteria for certain professional sectors to one year of experience and a university degree or equivalent professional diploma.[9]

When referring to the tourism industry, the movement of natural persons has consequences for both South African and foreign businesses. Foreign-held businesses

[7] SATOUR, marketing document from site www.southafrica.net
[8] DEAT arrivals and departures data, 2001
[9] GATS negotiations document from the EU, 2000.

are more easily able to import labour under secondment and transfer arrangements, so it is possible to imagine that some might benefit from overseas expertise. But given the adequate skills base in South Africa it is unlikely this would occur for any but the most senior positions. Still, foreigners in the South African tourism industry might possess a level of education, global experience, and linguistic or cultural affinity with clientele that a South African employer might find desirable but inaccessible. Finally, and although the effect would be longer term, the opening of the tourism labour market would help to remove wage pressure that existed for the most senior positions. If skills within South Africa are scarce for such jobs, then welcoming more foreigners could relieve this pressure.

4.2 Exchange control

There are no restrictions for non-residents on exchanging rands since the abolition of the financial rand in 1994. Likewise there are scarcely any controls over the repatriation of investment income. The single case occurs when a South African company is 75% or more foreign-owned. Such companies are known as "affected companies" and are limited in the amount that they may borrow from South African sources. Companies that are 100% foreign-owned can borrow up to 100% of their effective capital only. The percentage allowed increases as the percentage of South African ownership also increases, according to a formula:

100% of effective capital + (% South African interest / %Foreign interest) x 100%

Thus a situation may arise where the repatriation of funds would not permitted if the amount of effective capital would be reduced to a point below what is required to have qualified for South African financing.

This, however, is somewhat less restrictive than the 10% foreign asset base limitation South African firms face. Although this was recently improved from 5%, it does not permit the same flexibility in investment as is possible for foreign-owned firms. Residents must obtain permission from the Treasury through its agents, the exchange authorities, when converting large sums of rands into foreign denominations.

Such controls are maintained in order to prevent capital flight, although they may ironically contribute to weak investment through uncertainty. Controls can act as a signal to question the reasons behind the enactment of such restrictions, and may serve only to advertise and substantiate perceived risk.

4.3 Sources of financing

Foreign firms are not treated differently than South African ones by lending institutions, except for the limits imposed by the percentage of ownership described above. In its latest requests for the WTO Trade in Services negotiations, the European Union (EU) has requested of South Africa that this limitation be suppressed.[10] The South African banking system is known to be efficient and

[10] GATS negotiation document from EU, 2000.

sophisticated, but suffers from higher real interest rates than those available at equally reputable institutions overseas. Otherwise, the financial market is not heavily regulated and banks are generally left to set their own criteria for lending.

Of particular interest are tourism financing schemes offered by the Industrial Development Corporation (IDC). Originally there were two packages which offered below prime lending rates for investors who either develop appropriate tourist facilities in ecologically protected zones or improve existing accommodation elsewhere. Now the role of the IDC in tourism has expanded with the creation of a Strategic Business Unit focused on broader initiatives. Using partnerships with the DTI, Khula Enterprises, and the Development Bank of South Africa to encourage investment in other types of tourist facilities, the SBU has helped to develop convention centres, cultural villages, and health tourism facilities. The IDC also offers a discounted rate on the funding of operations which will create new employment opportunities. The criterion here is that the capital cost not exceed R 100,000 for each opportunity created.

However, the SBU fears that the market may soon be saturated in South Africa, and the attention of the unit is moving across neighbouring borders now as well.[11] The IDC starts funding at R 1 million, so this precludes development in the Small, Medium, and Micro-Enterprise (SMME) category.

These schemes are still largely targeted towards the making or refurbishing of upper-end establishments by investors with sufficient collateral at their disposal. The 1996 White Paper identified this as a problem area because 1) there may be a surfeit of 5-star properties already and, 2) participation in the tourism economy is not enhanced by the continued exclusion of groups without access to funding. [12] It goes on to quote Kessel Feinstein, an independent consultancy, as saying that the current incentives are "so little as to be meaningless in encouraging any development."

4.4 Labour

Potential investors should be familiar with the some of the labour legislation, including the Basic Conditions of Employment Act (1998), the Employment Equity Act (1999) and the Skills Development Act. South Africa has made enviable strides in legislating the rights of workers, which are on par with those of developed nations. Trade unions are also well organised and exert a lot of upward pressure on nominal wages.

There are two aspects of the labour market of interest to foreign investors. Under the Skills Development Act, foreign investors are expected to import new technologies to improve productive capacity. It is unclear how legislation addresses this issue and whether there is a monitoring process in place. Secondly, given the relatively high unit cost of labour compared with other markets in South Africa, there is much scope for examining the role this plays in investment as well.[13] [Uncertainty issues…]

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[11] Dampier, 2002

[12] 1996 White Paper

[13] Fedderke, 2001

4.5 Other issues

Business registration and land acquisition and re-zoning are other areas of regulation that affect commercial presence but which are neither discriminatory towards foreign investors nor unduly encumbered processes. Tax incentives are offered for industrialists involved in export, but schemes for attracting overseas investment in tourism are not as well known. This problem was also identified in the 1996 White Paper, which recommended that either a new institution devoted to tourism be created or that the existing state institutions be more aggressive about funding this sector.

5. WHY LIBERALISE TRADE IN TOURISM?

Initial fears when discussing trade liberalisation for developing economies include notions such as: 1) due to their less developed markets and capacities, developing nations will not be well-positioned to reap the benefits, 2) increased competition from abroad will change the structure of business ownership in the developing nation, and 3) the argument for openness hinges on the arrival of FDI, and yet the developing nation may be conceding protection of its industries without any guarantee of increased foreign capital flows. All of the above have implications for service delivery and inequalities in income distribution. However, the possible benefits from an open trade regime should also be examined.

Tourism is rightly called an engine of growth because of the export earnings it brings. By allowing balance of payments stabilisation, tourism revenues can help to generate more transparent and predictable exchange rates. This in turn helps reduce variation in real interest rates, which will remove uncertainty for investors. Processes that facilitate the movement of people across borders encourage tourism.

To answer the first criticism, one must understand that all countries have comparative advantage.[14] Through specialisation, scarce resources are made available that would have been less competitive or productive elsewhere. Once these areas of specialisation are harnessed goods become available more cheaply because they are being produced more efficiently. Some will become export earnings and others will be imported more cheaply than previously available.

Goods will be made available more cheaply as more efficient means of producing them are substituted. This doesn't necessarily mean capital-intensive methods, but where labour is replaced, new technology has been transferred. Given the increasing composition of services in South African GDP, there is every hope for employment creation technologies to arrive.

For consumers in developing countries this has important dimensions as well. Once export sectors are functional, industries will experience growth from access to new markets and employment will rise. As incomes rise, so do savings and consumption – both powerful stimuli for economic growth. Economies that grow with stable regimes

[14] Hodge, 2001.

are strong attractors of FDI, so by removing uncertainty there is much greater assurance of attracting foreign capital.

For many developing countries, tourism represents an opportunity to improve standards of living in the near term. Because many skills in travel and tourism can be acquired on the job or through short-term training, there are opportunities for many people to participate.

6. MEASURING TOURISM'S CONTRIBUTION

Several methods have been proposed for measuring the effects of tourism on economies; both regional and national models exist. However, many are prone to exaggeration of the downstream impacts and should be used with caution in this respect.

6.1 Tourism Satellite Accounts

The World Travel and Tourism Council (WTTC) has championed the use of Tourism Satellite Accounts (TSAs) in order to better represent T&T contributions to overall production, employment, and other salient features of an economy. TSAs include indirect as well as direct expenditures when calculating overall impact. Thus in addition to measuring accommodation, transport, and entertainment expenditures, a portion of financial, distribution, and other commonly used services in the tourist industry are also measured. By ascribing certain percentages of these other sectors to the total tourism economy, TSAs more fairly represent the impact of linkages between tourism and other industries in job creation and the overall economy.

The criticism levelled at TSAs is the way in which contributions outside of the tourism sector are calculated in fixed proportions, and more importantly how future growth is assumed to be unhindered by these proportions in WTTC projections. TSAs may be closer to portraying a more accurate picture of the influence on the economy, but a wide margin of error should be acknowledged in the T&T economy figures.

For a related reason, the growth projections should also be treated with some scepticism. It is difficult to maintain that the tourism economy will achieve a particular growth rate aided by fixed sectoral shares, particularly if these shares are in some way unbalanced. If the share of financial services used, for example, indicates that the needs of tourists are barely being met today, this proportion indicates a constraint and not a fixed contribution. In other words, if the sectoral shares used by tourists are in some way unbalanced today, they will act as a potential bottleneck tomorrow.

6.2 Multiplier analysis

Multiplier analysis is another method of measuring economic impact. This is simply the Keynesian notion of successive rounds of expenditure, direct and indirect, trickling down into the economy, and measured the change in GNP brought about by an injection of tourism spending (usually export tourism). Both regional and national models are calculated with widely varying results. This is because multipliers depend on assumptions made about 1) labour- and capital-intensity, 2) stability of ratios of export and other consumption, and 3) the proportion of imports consumed by agents in the economy.

In order to distinguish export tourism from tourism in general (in order to see the balance of payments benefits, for example), Deegan and Dineen (1991) find it necessary to distinguish between the capital intensities of industries in which foreign and domestic visitors are consumers. If one is relatively higher than the other, then there will be different income effects. They cite a study of Irish tourism multipliers that were revised because international visitors were found to consume more capital-intensive services from the international carriers, so that their expenditure had a below average effect on the local economy.[15]

If tourism flows are subject to wide degrees of variation, then tourism multipliers will yield some unlikely results because they assume elastic supply. This may be the case for smaller, developing countries with highly imperfect markets or regions whose industry is affected by severe weather, political instability, or other factors.

The amount of imports that a community or nation consumes can also cause the multiplier to vary. As tourism and earnings increase, consumption of imports may also increase. This reduces the multiplier measurement so that although it captures the impact on export earnings accurately, it may not be a good measurement of tourism's effect on the region of interest.

Finally, the greatest flaw in using multipliers is that they are influenced more by the economy being measured than the injection from tourism. A Norwegian study concluded that, "…'multipliers' depend on the nature and age of the local tourism industry, and the size of the local economy."[16] Moreover, effects from one area could not be generalised to another similar area, which undermines suggestions that one developing country should be able to assume the multiplier of another. Thus estimations of multipliers for South Africa should be treated with skepticism.

6.3 Input-output models

Input-output and CGE models are another way of examining both primary and secondary effects of tourism revenue injections. This type of model is very time-consuming and costly to produce as well as maintain, but feasible in larger economies where resources can be more easily devoted to such an undertaking.

For South Africa, Lewis (2001) uses a CGE model to ascertain that a 3% rise in capital stock devoted to tourist activities induces a 1.9% rise in GDP. He surmises that the less than equal share rise in GDP is due to constraints in factor markets, such as skilled labour and technology. More significantly, the effect on unemployment is

[15] Deegan and Dineen, 1991.
[16] Huse et al, 1998.

skewed in favour of the professional sector, with job opportunities for the less skilled arising in sectors peripheral to tourism.

Each methodology has its merits and may be appropriate depending on the presence of constraints as mentioned above. Until forecasting tools become more reliable these methods can only provide directional indicators at best, and interpretation of results should allow for wide margins of error. It is too soon to examine the effects of liberalisation on tourism and the economy today, but an overview of the progress to date will allow some idea of what lies ahead.

7. PROGRESS TO DATE: THE GATS AND TOURISM

The General Agreement on Trade in Services, or the GATS, is actually a continuing process of negotiation that began with the Uruguay Round of the General Agreement on Trade and Tariffs (for which the WTO became the administrative institution in 1995). Since 2000 the GATS has become a subject of more intense debate as WTO member nations began meeting the first deadline for trade facilitation commitments. The latest steps made are contained in the Ministerial Declaration of the Doha Round, which took place in November, 2001. This agreement exhorts countries to make further commitments to liberalising their service industries and encourages them to identify barriers they experience in their trade with other nations. The deadline for this process is March, 2003, when the next round of negotiations for trade in services will take place in Mexico.

The Council for Trade in Services (CTS) is the administrative body of the GATS, and oversees the implementation of services agreements. Specific commitments and requests are forwarded to the CTS, which is under the authority of the General Council of the WTO. While commitments for the most part relate to the areas of market access, national treatment, and most-favoured nation exemptions, there are specific sectoral requests that cover areas such as air transport and tourism. The growth of tourism will no doubt be affected by the outcome of negotiations in many of these sectors, but a discussion of their progress is beyond the scope of this paper.

In order to standardise the manner in which people refer to the various aspects of trade in services, four Modes of Supply are recognised: Cross-border transactions (Mode 1), Consumption abroad (Mode 2), Commercial presence (Mode 3) and presence of natural persons (Mode 4). These are often referred to simply by their mode number. The WTO definition of tourism is fully captured by Mode 2 - consumption abroad.

A CTS symposium on tourism was conducted in February, 2001, and a proposal from the Dominican Republic, El Salvador and Honduras was delivered at the CTS April, 2001 meeting urging nations to recognise the special needs of developing countries as tourism trade becomes increasingly open.[17] Since that time, members have been

[17] In response to this, the U.S. Trade Representative's Office published a discussion piece for WTO members to review, which addresses concerns related to the hotels and lodging sub-sector as well as

formalising their commitments, considering queries from other members and revising queries of their own.

Under the tourism heading, not many requests have been received by South Africa to date.[18] These requests cannot be made public until negotiations actually take place, but the EU positions on many matters are available to the public. Of these, only a request to expand the scope of hotels and lodging commitments to include restaurant services for Modes 1, 2, and 3 has been received.

7.1 Intermediate Services

Requests are numerous in the transport, financial, telecommunications, energy and distribution services, which comprise the support infrastructure for tourism and other industries. The reliance of tourism on these intermediate sectors cannot be over-stated – poor capacity in any of them could slacken the growth of the entire industry. For example, maintaining a safe, reliable, and affordable transport network is paramount in delivering tourism services. Access to foreign exchange brokers, communications, and information services are arguably just as crucial to tourism's success as the standard of accommodation, restaurants and entertainment. The scope of negotiations here will determine the outcome of trade liberalisation's impact on tourism since these services are integral to the smooth operation of that industry.

[to be further developed with more attention to each sector]

8. POLICY CONCLUSIONS[19]

- The tourism industry itself is not unduly regulated and thus will not see direct impacts from trade liberalisation.

- The intermediate services which are crucial to the delivery of tourism services may experience changes depending on the level of GATS commitments undertaken. The downstream impact of these changes will be the largest impact on tourism.

- Exchange controls, which are due to be relaxed, should have a positive impact on investment by reducing perceived risk or uncertainty.

- The movement of labour needs to be facilitated so as not to encumber businesses or remove opportunities for skills and technology transfer.

- An increase in Government spending in tourism should be considered to ensure appropriate infrastructure development and capital stock.

exchange controls, movement of persons, and commercial presence. There is a fairly exhaustive outline of suggested negotiation topics in the document which is provided in Appendix 1.

[18] Interview with DTI negotiator, July, 2002.

[19] Policy conclusions are still being developed as the study continues. This list is simply a beginning.

- More information needs to be captured about visitors and investors. At present information is gathered for marketing purposes only.

- Impact analyses and forecasts differ widely from the use of different measurement criteria. There is room for improvement in how tourism is quantified.

- Government and private stakeholders in tourism could benefit from forums which help to share information about and solidify negotiating positions.

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APPENDIX 1

Obstacles in the hotel and tourism sector, as identified by the U.S. Trade Representative's Office:[20]

- Overly burdensome exit fees or taxes, or similar restrictions on the departure of outbound travelers
- Unavailability of information for travelers on applicable duty-free allowances for returning residents on specified merchandise purchased abroad for personal or household uses
- Limitations on the participation of foreign capital in terms of maximum percentage limit on foreign shareholding or the total value of individual or aggregate foreign investment
- Measures that restrict or require specific types of corporate, partnership, or other business organization structure
- Limitations on the purchase or rental of real estate for this sector
- Economic needs test on suppliers of hotel and lodging services
- Suppliers of hotel and lodging services are not permitted to enter into and exit from joint ventures with local or non-local, private or government partners
- Measures requiring the use of local partner to establish in the market
- Where government approval is required, exceptionally long delays are encountered and, when approval is denied, no reasons are given for the denial and no information is given on what must be done to obtain approval in the future
- Lack of national treatment for financing arrangements for construction and operation of hotels and lodging places
- Denial of access to and use of public services on reasonable and nondiscriminatory terms and conditions
- Denial of access to government programs available to domestic service providers
- Tax treatment that discriminates against foreign service providers
- Discrimination against foreign service suppliers with respect to choice of business organizations available to domestic suppliers

[20] USTR, accessed June, 2002 from site:

- Discrimination against foreign partners in a joint venture
- Discrimination against franchises as opposed to other forms of business organization
- Discrimination against foreign franchises
- Lack of readily available information on zoning and lack of an opportunity for service suppliers to meet with local officials and community representatives to discuss location of facilities
- Lack of transparency of domestic laws and regulations and fairness of administration
- Denial of full consumer access to electronic means for making hotel reservations
- Denial of freedom for service providers to select sources of supply of services
- Denial of freedom for service providers to offer incentives, rewards, and other promotional programs
- Minimum requirements for local hiring that are disproportionately high, causing uneconomic operations
- Lack of means to facilitate temporary entry and exit of specialized, skilled personnel (including managers)
- Restrictions or excessive fees/taxes on international currency transactions
- Lack of means to facilitate temporary entry and exit of event organizers and specialized, skilled personnel (including managers) needed to conduct international conferences and conventions efficiently
- Restrictions or excessive fees/taxes on licensing or royalty payments
- Lack of means to facilitate temporary entry and exit of conference and convention participants from various countries
- Information on provisions for temporary entry and exit of equipment, supplies, and other materials are not made readily available to organizers of prospective international conferences and conventions