Sub-Saharan African Travel Services Trade

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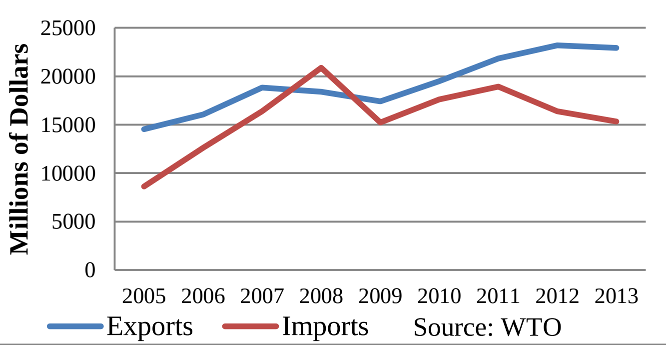
The share of Sub-Saharan Africa (SSA) in the world tourism market is small but growing, up from 2.4% of total arrivals for all transportation modes in 1990 to 3.3% in 2010. Over the last eight years, SSA exports of travel services (including personal travel, business travel, and travel for health and education purposes) have risen steadily, while import growth has been more volatile owing to currency fluctuations. South Africa is the largest exporter of travel services, while Nigeria is the largest importer; the United States and the European Union (EU) are the largest sources of travelers (for all purposes) to SSA. Investment in hotels in SSA is rising to meet potential demand expansion driven by both overseas tourism and growth in the African middle class; however, relatively costly transportation and lodging compared to other global destinations, as well as perceived political instability, pose challenges for future growth.

SSA travel exports have increased, led by South Africa

Figure 1: Trade in SSA Travel Services



SSA's exports of travel services[1] (i.e., foreign travelers visiting SSA countries) rose from $14.5 billion in 2005 to almost $23 billion in 2013 (a 5.8% compound annual growth rate, or CAGR) (figure 1). Travel exports dropped slightly during the global financial crisis of 2007–09 before returning to growth in 2010. The top three SSA exporters of travel services are South Africa (with 40% of the total), followed by Tanzania (8%) and Mauritius (6%). South Africa benefits from its high-quality infrastructure—particularly transport and lodging—as well as direct air links to the United States and Europe. It ranks highest of any African country (48th in 2015) on the global Tourism Competitiveness Index, based on regulation, business environment, and human capital in the tourism sector. South Africa draws larger shares of inbound tourism spending from business travelers than the SSA average and also benefited from a boost in tourist numbers after hosting the World Cup in 2010, with tourist arrivals almost doubling from 2008 to 2013.

SSA travel imports have fluctuated in recent years

Imports (SSA travelers visiting other countries) increased from $8.6 billion to $15.3 billion (7.5% CAGR) over the 2008-2013 period. However, this growth has been uneven, and imports have not fully recovered from a sharp decline in 2008–09. The fluctuations in SSA travel imports are largely driven by currency movements in Nigeria and South Africa. From 2008 to 2013, in local currency terms, Nigeria's spending on outbound travel grew 2.3%; in dollar terms, however, it fell 9.6%. This discrepancy was due to a 25% devaluation in Nigeria's currency relative to the dollar in 2008, largely owing to a drop in both the price of oil and Nigeria's oil exports. South Africa's currency also depreciated relative to the dollar, chiefly due to an outflow of foreign capital. Nigeria's sizable population and large diaspora (in other African nations and elsewhere) mean that Nigerians do more foreign traveling than other SSA residents. South Africa's relatively large middle class and relatively well developed business sector also promote foreign travel.

U.S. and EU tourists remain important to SSA, but intraregional travel is expected to grow

France was the largest source of extraregional tourists traveling to SSA in 2009 (latest information available), with the United Kingdom, Germany, and Portugal also sending large numbers of tourists. European travel patterns in SSA tend to follow former colonial and linguistic boundaries, with French

[1] Travel services are measured through foreign nationals' purchases of goods and services, such as food and lodging, while traveling abroad. An American's visit to a foreign country would be considered a U.S. import of travel services, and a foreign national's visit to the United States would be considered a U.S. export.

tourists prominent in West Africa and British visitors concentrated in Southern and East Africa. The United States is the largest source of tourists to Ethiopia, Ghana, and Rwanda. Chinese visitors to Africa (including North Africa) grew 110% from 2012 to 2013, while tourist flows from Brazil and Russia have also increased in recent years as the middle classes in these countries have become more affluent.

In addition, each year over 10 million people travel across borders within SSA for reasons of tourism, including travel to visit friends and relatives, shop, seek medical treatment, and attend religious events; they represent about one-third of total international visitors to SSA.[2] South Africans are estimated to make up almost half of SSA travelers visiting other African countries. The World Tourism Organization (UNWTO) forecasts that 75% of all tourists in SSA will be intraregional travelers by 2021, as the African middle class expands. Over half of African households are projected to have some discretionary spending power by that year. Poor road quality and the high cost of regional air transportation constrains intra-SSA travel, but budget airlines serving the African market such as FastJet in Tanzania are beginning to emerge.

Investment in the SSA tourism sector is small but growing

Total capital investment (foreign and domestic) in the SSA tourism sector was estimated at $18 billion in 2013, up from $10 billion in 2005. Foreign direct investment plays a significant role in the tourism sector alongside non-equity modes of investment (such as management contracts and franchises). SSA has drawn roughly 7% of the world's foreign investment in hotels, compared with SSA's 5% share of global FDI flows. South Africa leads SSA in tourism FDI (with $6.1 billion received in 2011), followed by Kenya ($404 million) and Ghana ($270 million). Large overseas brands have recently begun showing more interest in SSA as a result of increased political stability and sustained economic growth. In 2014, Marriott acquired Protea Hospitality's holdings in seven African countries for nearly $200 million, doubling the number of rooms Marriott has on the continent. Hilton also reportedly plans to add over 20 properties with 6,000 rooms to its SSA holdings, including in Sierra Leone and Chad.

Some hotel companies find profitability while mitigating political and economic risks by operating properties through management or franchise contracts, rather than buying them directly. As an example, management fees earned for a hotel Hilton operates in Lagos, Nigeria, are among the most lucrative for that company anywhere in the world. Growth in revenue per hotel room in SSA is forecast to be 7–15% (double the average for Asia and America) for 2015. However, of the estimated 390,000 hotel rooms in SSA, only 10% currently meet international quality standards, with South Africa supplying half of these. Hotel development costs are estimated to be 25–100% above the world median due to higher capital costs and complex, lengthy procedures for securing property titles and permits.

The future presents opportunities and challenges

The rise in business travel resulting from greater economic integration (both within SSA and between SSA and other regions) and emerging industries like medical tourism present opportunities to diversify SSA's tourism industry. In fact, in 2013 an estimated 35% of tourism spending in SSA was on business travel. South Africa also welcomed nearly 400,000 medical travelers in 2010, up from 327,000 in 2006. However, major challenges remain. Overseas flights to SSA cost 50% more than flights to comparable destinations abroad, while safari tours were 38% more expensive than in Asia and Latin America (chiefly due to costlier accommodations). The United States also has travel warnings for some SSA countries due to threats of violence or instability, including for large tourist markets such as Kenya, while countries like Nigeria and South Africa still struggle to meet demand for electricity and other essential services.

Sources: UNWTO, *Annual Report,* 2013; World Bank, *Tourism in Africa*, 2013; WTTC Country Reports; SAMP, *Medical Tourism and Migration in Southern Africa,* 2012; WEC, Tourism Competitiveness Index 2015; Bloomberg Business; UNCTAD, *FDI in Tourism*, 2007; African Development Bank, *Africa Tourism Monitor,* September 2013; WTO interactive tables, EY, *Attractiveness Survey Africa* 2014; Amex, *Emerging Africa: Exploring Meetings on a Changing Continent,* 2015

[2] This statistic is likely an underestimate owing to weak statistical capacity in some SSA countries, the informality of many border crossings on the continent, and seasonal migrant labor in South Africa (which is not tourism in the traditional sense but falls under the WTO definition of travel services).