



**tourism**

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## **Speech delivered by Tourism Minister Marthinus van Schalkwyk at the Hotel Investment Conference Africa (HICA), Durban**

### ***Tourism in a new world: Risks and opportunities***

**9 May 2013**

Last month, I participated in the World Travel and Tourism Council's global summit in Abu Dhabi as well as the World Tourism Forum in Lucerne. At both events, we took a close look at critical challenges and opportunities that we will be facing in our customer and market environments over the next couple of years. I thought of sharing with you today four of the megatrends, the tectonic shifts, that I believe are and will increasingly be affecting the way we do business in the tourism sector globally, and especially here on the southern tip of Africa, over the next ten to twenty years.

Having just hosted the BRICS summit of emerging economies here in Durban, the tectonic shift in economic and political power from the North to the South and from the West to the East – the first shift I would like to share with you today – needs little elaboration. We know that the emerging powers will very soon be the biggest source markets in the world – initially in volume, but eventually catching up in terms of outbound spend. As destinations, emerging-market arrivals will surpass those from the traditional markets by as early as 2015. Already, this has major implications for the way we position and market our destination and products. This shift was reflected in our fourth portfolio review of South African Tourism's market growth and expansion. In the fifth portfolio review for 2014 and beyond, we can expect some of those emerging markets that were previously categorised as investment markets, where we invested ahead of return, to become core markets that deliver a much greater share of our bread and butter. Of course, in terms of value, the traditional markets – despite their currently stalled engines – will remain the mainstay of our inbound tourism industry for many years to come. But, in the long run, we can ignore neither the changing contours of wealth and power in the world, nor the speed of change. I was recently reminded that it had taken Britain some 150 years to double their gross domestic product (GDP) per capita – with a population that, back then in 1870, was less than ten million strong. India and China today have 100 times that number of people, and are on course to double their GDP per capita in one tenth of the time it took the British.

This brings me to the second tectonic shift that I would like to highlight today. We all know that the growth in tourism and aviation is tied at the hip to urbanisation. People movement to cities is the first step, and also a strong lead indicator of tourism and air passenger transport growth. Increasingly, the world population is becoming an urbanised population. By 2030 we expect 60% of the world's population to be urbanised, up from 50% today – which translates into at least one billion new city

dwellers. Every year, the 65 million people urbanising around the world is equivalent to adding five cities the size of London. And we know that these new cities are springing up in the new markets: on our doorstep in Africa, and in Asia. By the middle of this decade, there will be just over 50 African cities with populations exceeding three million. By 2030, about half of all the people on our continent will be living in urban areas, with access to airports and other transport infrastructure. Similarly, we also know that there is a strong urban bias in travel from China, with source markets currently concentrated in major metropolitan complexes such as Guangzhou, Beijing and Shanghai. But this too is an evolving space, and by 2020, we know there will be dozens of urban locations in China where the disposable income per capita will be greater than Shanghai's today. For us, reaching this rapidly rising middle-class and underserved market in mega-cities and second-tier cities in the developing world presents an important future opportunity, but also challenges. It will require that, for example, connectivity and bureaucratic barriers associated with visa applications are addressed.

The third tectonic shift is the changing demographics of our customer base. The world population is ageing rapidly – and this will accelerate over the next two decades. On the one hand, this could trigger greater instability due to depressed economic growth and other social pressures in ageing markets. But, for us in the tourism industry, it also means we will increasingly have to cater for older, more mature and, maybe, more value-conscious travellers. We will have to hedge, and we will need to do so through a hybrid approach. Yes, we must gear for a hyper-connected generation of younger travellers, who are connected 24/7 to everything everywhere. But we should not forget to hone business models, innovate distribution channels, and offer itineraries and products that cater for the needs of the ageing traveller of tomorrow. The wants and needs of the non-Twittering generation – who represents a very significant market segment - cannot fall by the wayside.

Let me conclude with the fourth tectonic shift – the role of disruptive technologies in the age of hyper-connectivity. Hyper-connectivity finds expression in the rapid growth of aviation hubs as the arteries of contemporary life; intra-sector connectivity between cross-border air, rail and road, as we also witness here in our own region; business connectivity and commercial links; people-to-people connections, and – the glue that increasingly welds it all together – computer/internet and mobile connectivity. These are all inevitabilities, and are changing the way people work and relax. Already, the entire travel and tourism value chain relies on this seamless connectivity as part of our product and experience offering, promotion, payment and operations.

Opportunities are abound – markets are closer than ever before, cyberspace word-of-mouth over fibre optic cables is a reality, e-visas and e-passports that contain all your biometric data are just around the corner, semantic translation and avatars could soon connect us to customers in new ways, and geo-location and near-field communication are creating new growth and business opportunities.

But, let us not romanticise hyper-connectivity opportunities. Also remember to ask about the hyper-vulnerabilities on the horizon. Hyper-connectivity will disrupt many current business models, and only those in our industry that move fast to innovate will remain competitive in the era of digital natives.

In this hyper-connected world, we have to work harder than ever to control content. Real time reputational risks associated with the social media and internet's amplification of our every move are greater than ever before. Tourists seek ease and satisfaction – and they know there are options just a click away. Two-thirds of people on our continent even now have access to smartphones. We must accept that they are empowered more than before to be at the centre of decision making on travel and tourism options, customisation and the creation of authentic experiences. And when they have bad experiences, they will share these instantly and constantly.

But there are also massive other potential disruptions in the age of interdependence, supply chain globalisation and 'big data'. These include potential disruptions of the cloud-based economy, and trust issues in data security. Just imagine, for example, what would happen when air traffic navigation systems are scrambled by cyber terrorists with thousands of planes in mid-air, which is something that now occupies our minds in a number of international forums. Similarly, our industry could suffer heavy losses should the Internet, air traffic booking systems or financial systems fail even just for a week or two in the face of determined cyber sabotage.

Needless to say, among you, there will be winners and losers in this new world characterised by hyper connectivity. And among destinations there will be winners and losers. Disruptive technologies also trigger disruptive economics. Technology is diluting entry barriers in our industry, attacking profitability zones and changing job descriptions. Some business models will have to be radically innovated and processes adapted for digital linkage. I personally believe we are very close to much greater disintermediation through the equivalent of an Apple travel application that covers our full value chain – from flights, hotels and activities, to car rental, baggage handling, payment and all the rest. And all of this will be on the back of digital personal identities, which render the integrated travel experience much more convenient and personalised. The winners among us will demonstrate the ability to anticipate and adapt quickly.

With these few words, I thank you for this opportunity to share with you just a couple of reflections on the dynamic changes taking place in our business environment. These changes are complex, fast-moving and interconnected. We have much to gain from these tectonic shifts and the globalisation of markets if we play our cards right. Those who innovate will be best-positioned to seize the new opportunities. Let us heed the early warning signals, hedge against the risks, adjust course and reposition early upon reading the signposts as an elusive yet exciting tomorrow becomes today's reality.

Thank you.

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**Issued by Ministry of Tourism**