

COVID-19 AND TOURISM

ASSESSING THE ECONOMIC CONSEQUENCES

EMBARGO

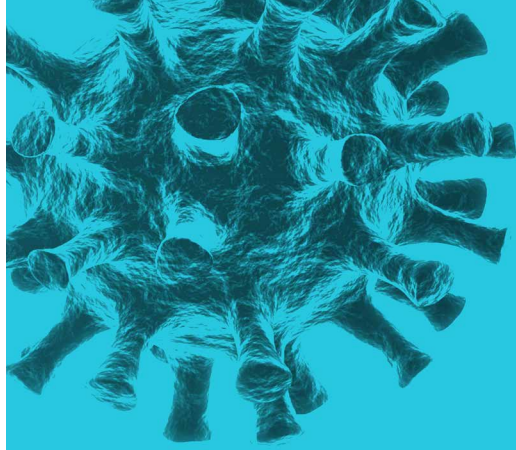
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Abstract

The COVID-19 pandemic has caused significant disruptions in the global economy.

By the end of the first quarter of 2020, the COVID-19 pandemic had brought international travel to an abrupt halt and significantly impacted the tourism industry. For many developed and developing countries, the tourism sector is a major source of employment, government revenue and foreign exchange earnings. Without this vital lifeline, many countries may experience a dramatic contraction in GDP and a rise in unemployment. Using a computable general equilibrium model (GTAP), we assess the implications of the COVID-19 crisis on the tourism sector. Depending on the duration of the global lockdown, the paper estimates the direct and indirect costs of the shutdown for 65 individual countries and regions and 65 sectors, covering the global economy. In some countries, unemployment could rise by more than 20 percentage points and some sectors could nearly be wiped out if the duration of the tourism standstill is up to one year. Further the paper puts forward policy recommendations for governments to avert the worst effects and facilitate recovery.



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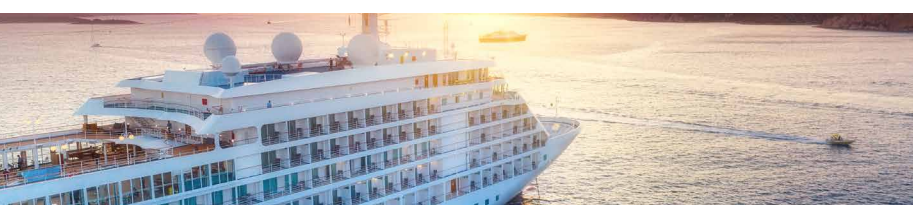
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Introduction

By June 2020, COVID-19 infected over 10 million people and caused the deaths of over 500,000 worldwide (WHO¹). Globally, the spread shows no sign of abating. Although daily cases in Europe and Western Pacific are declining, they are increasing in the Americas, South East Asia and Africa. In response, most countries have closed their borders to visitors and tourists. The UN World Tourism Organization² reported during the second quarter of 2020 for the first time ever that 100 per cent of global destinations introduced travel restrictions. As a result, international tourism has been almost totally suspended, and domestic tourism curtailed by lockdown conditions imposed in many countries. Although some destinations have started slowly to open up, many are afraid of international travel or cannot afford it due to the economic crisis.

Tourism is a critical sector of the international economy. In 2019, the tourism sector accounted for 29 per cent of the world's services exports and about 300 million jobs globally.³ It is an important source of income and employment for developed and developing countries. The global contraction in tourism arrivals could have devastating economic consequences as some developing countries are highly dependent on tourism. In some countries, such as several small island developing states (SIDS), tourism accounts for more than half of the GDP.

This paper focuses on the potential economic effects of the halt of tourism, in the short and medium term, in the major tourist destinations as well as in those countries highly dependent on tourism (as a share of GDP). In this context, special attention is placed on developing countries where the prosperity of some communities can be seriously compromised by the fall of tourism revenues. The paper considers three different scenarios to quantify the impact of the reduction in global tourism on country incomes, trade and employment using a general equilibrium model which captures the backward and forward linkages between sectors. The paper concludes with policy implications.

¹ <https://covid19.who.int/> accessed 26 June 2020.

² <https://www.unwto.org/news/covid-19-travel-restrictions>

³ <https://www.e-unwto.org/doi/pdf/10.18111/9789284421152>



How the COVID-19 crisis hits tourism

Tourism is one of the fastest growing economic sectors and is an important driver of economic growth and development. In 2018 there were 1,407 million international tourist arrivals, a six per cent increase on the previous year.⁴ Tourism receipts amounted to \$1,480 billion, an increase by 4.4. per cent, higher than global GDP growth as in the previous 8 years. Passenger transport is worth another \$250 billion. Tourism exports account for seven per cent of global trade in goods and services, or \$1.7 trillion. In 2019, the most popular destinations were France, Spain, the USA and China.

Tourism is a major source of employment globally. The labour market has some distinguishing features. The industry is labour-intensive in nature. A high proportion of the jobs are undertaken by women, 54 per cent, significantly higher than in most other sectors, and young employees, meaning the industry is seen as inclusive. However, women are more likely to be entrepreneurs in tourism than in other sectors and most women hold low skilled jobs in the tourism sector, making them vulnerable to shocks. There is also a significant amount of indirect employment in construction and infrastructure development, plus supplying food and drink and souvenirs to tourists. Furthermore, many employees have direct contact with tourists in travel agencies, airlines, ships, hotels, restaurants, shopping centres and various tourist attractions.

COVID-19 is a health and economic crisis on a global scale. While little is known at this time about many aspects of the disease (such as asymptomatic transmission, preventative measures, possible treatments, the likelihood of a vaccine and long term effects), it is generally agreed that the virus is easily transmissible and that the fatality rate is low when compared to previous pandemics such as SARS, Ebola and the bubonic plague. Fatalities are heavily skewed towards older people and those with existing ailments.

To slow the spread of the virus, many countries have encouraged or mandated the use of sanitary practices such as hand washing, social (spatial) distancing and isolation. Government have introduced a slew of policy measures such as targeted testing and tracing, lockdown measures, upgrading public health facilities and closure of borders. The measures have impacted many industries and the delivery of personal services, resulting in demand and supply side shocks.

International tourism is among the economic sectors most impacted by the COVID-19 pandemic. The United Nations World Tourism Organization (UN WTO) estimates a loss of 850 million to 1.1 billion international tourist arrivals, \$910 million to \$1.1 trillion in export revenues and 100-120 million jobs, depending on whether the borders are opened in July, September or December. Most destinations were entirely closed in April and May 2020, opening only in some regions slowly for the northern summer. UN WTO projections reflect considerable uncertainty about the duration of the pandemic, in addition to the government response to support economic activity.

⁴ Data in this section is from UN WTO (2020).

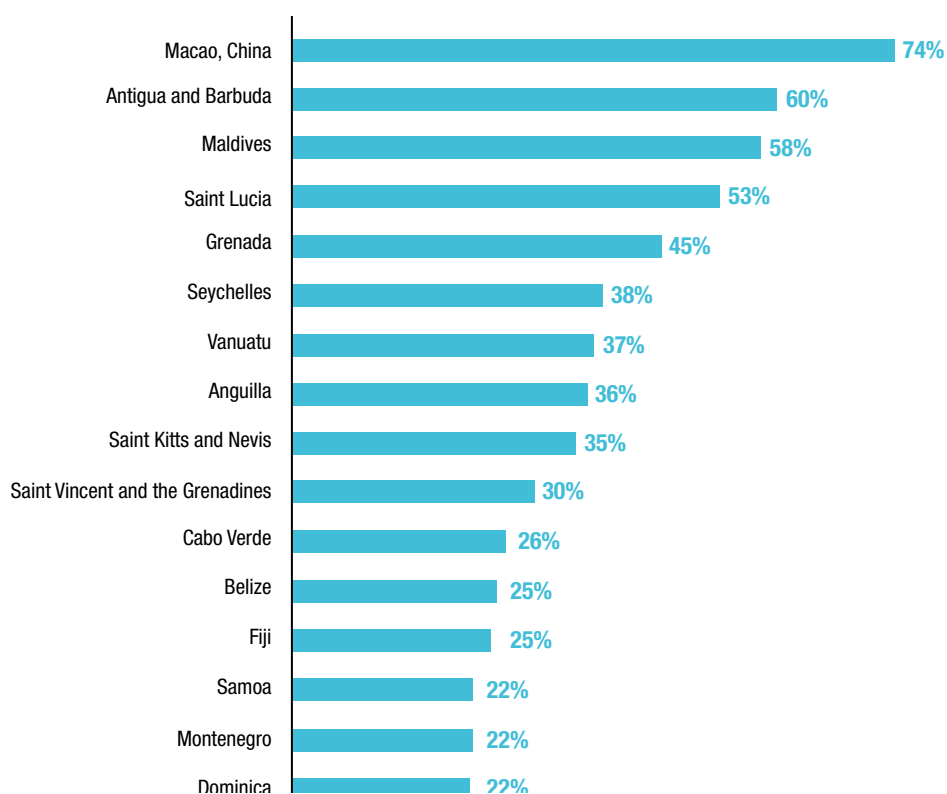
⁵ Zarrilli and Aydiner-Avsar (2020) provide an overview of female employment in the tourism sector in SIDS countries and how they might be affected by the COVID-19 crisis.

For Least Developed Countries (LDCs), tourism is also an important sector contributing 9.5 per cent to their GDP on average.⁶ For 42 out of 47 Least Developed Countries, tourism is considered a key sector of the economy.⁷ Some larger high or middle income countries, such as Croatia, Greece and Thailand, also depend significantly on tourism with a share of inbound tourism between 8 and 18 per cent.

Countries most dependent on tourism include many small economies and notably, SIDS (Coke Hamilton, 2020). This is illustrated in Figure 1 which shows the inbound tourism as a share of GDP in the 20 most dependent countries. Common characteristics among these countries include small domestic markets, a low degree of export diversification and remoteness. As a result, these economies are highly vulnerable to external shocks and thus, are among the most impacted by COVID-19. It is anticipated that the economic blow to SIDS will result in record amounts of revenue losses without the alternative sources of foreign exchange revenues necessary to service external debt and pay for imports.⁸

Figure 1.

Inbound tourism expenditure as share of GDP, selected economies, 2018



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