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Kris TeRauds

Economic Affairs Officer

Division on Africa, Least Developed Countries and Special Programmes

kris.terauds@unctad.org

Prospects for the post-pandemic tourism and economic recovery in Vanuatu

Abstract

In many small island developing States (SIDS), tourism is the engine of economic growth, export earnings and formal employment. The COVID-19 pandemic ravaged global tourism, through a major slowdown of international tourism arrivals, billions of dollars of lost revenues and millions of lost jobs. The pandemic's impact was even more severe in highly vulnerable, tourism-dependent SIDS, with many of them closing their borders entirely to protect their populations and health systems.

In this paper, we examine the impacts of the COVID-19 pandemic on economic development prospects in SIDS, through case study of Vanuatu, a tourism-dependent economy that suffered major macroeconomic impacts from the pandemic. We provide a forward look at the prospects for the post-pandemic recovery of tourism and the national economy, with policy recommendations for Vanuatu. We also aim for this case study to be useful to policy makers in other tourism-dependent SIDS and developing countries, as they undertake their post-pandemic recovery.

Key words: Small island developing States (SIDS), tourism, COVID-19, post-pandemic recovery, structural change

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Introduction

In many small island developing States (SIDS), tourism is the engine of the national economy, generating 30 per cent or more of gross domestic product (GDP), the majority of export earnings and a large share of formal employment. As well as jobs and incomes, tourism leads to investments in human capital, transportation and utilities infrastructure, increasing the country's productive capacity and contributing to socioeconomic development around resort areas.

Trade-offs of tourism development in SIDS typically include: increased pollution; stress on freshwater resources and waste management infrastructure; and the degradation of coastal and marine habitat.

Tourism was one of the industries hardest hit by the COVID-19 pandemic. In 2020, the United Nations World Tourism Organization (UNWTO) reported that international tourist arrivals slowed by 73 per cent worldwide from 2019, representing lost receipts of an estimated US$ 0.9 to 1.2 trillion. Arrivals grew modestly by four per cent in 2021, but were still down 72 per cent from pre-pandemic levels.[1]

The impact of COVID-19 on tourism in SIDS was even more severe. By the end of 2021, international tourism arrivals were down from pre-pandemic levels by 90 per cent or more in many SIDS. As a result, SIDS economies contracted by an average of 6.9 per cent in 2020, more than the averages among developing countries, excluding China (-4.6 per cent) and the least developed countries (LDCs, -0.03 per cent).[2]

According to the ILO modelled estimates, the employment impact of the pandemic was more moderate and varied by region. In Caribbean SIDS, for example, the average unemployment rate rose from eight per cent in 2019 to 10 per cent in 2020. Over the same period, the average rate among Indian and Atlantic Ocean SIDS rose from 9.8 to 11 per cent, while the rate in Pacific SIDS rose only slightly, from 2.9 to 3.1 per cent.[3]

These figures may underestimate the pandemic's full impact on employment. Many SIDS offered COVID-19 assistance packages to employers and workers, which likely reduced job losses in 2020. As the pandemic continued to undercut economic activity into 2022, pressure mounted on government spending on these assistance packages, as well as on employers, meaning more job losses may be recorded in 2021.

Furthermore, official data records formal employment and may not capture informal, casual and contract-based jobs, which represent an important part of real employment in SIDS and the tourism industry. Indeed, anecdotal evidence suggests that the slowdown in tourism led to tens of thousands of lost jobs, especially among casual workers and small businesses that supply the industry, with women and youth overrepresented among these groups. These lost livelihoods represent serious risks to socioeconomic development in SIDS, with consequences, for example, to poverty rates and access to nutritious food, education and medical services.

[1] UNWTO, https://www.unwto.org/international-tourism-and-covid-19.
[2] UNCTADStat, https://unctadstat.unctad.org.
[3] ILOStat, https://ilostat.ilo.org/.

Overall, the impacts of the COVID-19 pandemic on tourism threatens to unravel socioeconomic progress SIDS achieved over the last decade or more and complicates their pursuit of the Sustainable Development Goals (SDGs). As global tourism resumes in 2022 and beyond, questions remain about how consumption patterns will change – for example in high-density tourism segments, such as cruise ships and beach resorts – with consequences for the viability of SIDS' development strategies.

In this paper, we examine the impacts of the COVID-19 pandemic on economic development prospects in SIDS, through case study of Vanuatu, a tourism-dependent economy that suffered major macroeconomic impacts from the pandemic.[4] We provide a forward look at the prospects for the post-pandemic recovery of tourism, with policy recommendations for Vanuatu.

At the time of writing in early 2022, the COVID-19 pandemic remained a global threat, despite some early signs of relenting. Some countries had reopened to international tourism; others remained closed. All countries were still measuring the health and economic impacts of the pandemic. In this fluid situation, with limited data and perspective on the full impact of the pandemic, we focussed this paper on the prospects for Vanuatu's post-pandemic recovery. We provide recommendations on how the country can adjust its tourism strategy in the post-pandemic landscape, while diversifying its economy and building productive capacities.

As well as providing specific policy analysis and recommendations on Vanuatu, we also aim for this case study to be useful to policy makers in other tourism-dependent SIDS and developing countries, as they undertake their post-pandemic recovery.

[4] Annex 2 outlines our selection of Vanuatu as a representative case study of tourism-dependent SIDS.

1. Tourism, COVID-19 and economic development in SIDS

In many small island developing States (SIDS), tourism is the engine of the economy, generating economic activity, government revenue and formal wage employment (Pratt, 2015). Prior to the COVID-19 pandemic, tourism generated approximately US$ 30 billion per year for SIDS, representing their main source of foreign exchange and more than 30 per cent of GDP, on average.[5]

Tourism-driven strategies respond to the significant barriers that SIDS face in entering manufacturing industries, such as their small size, geographic isolation and narrow resource base. Tourism contributes to economic development by generating foreign exchange, business income and formal employment. In low-income SIDS, these business and employment opportunities are typically more lucrative than alternatives in other local sectors, often small-scale agriculture and informal wage employment. Given SIDS' limitations, tourism- and other service-driven strategies often represent the only feasible avenue to these benefits.

In this way, tourism makes vital contributions to SIDS' pursuit of the Sustainable Development Goals (SDGs), including SDGs 1 (poverty reduction), 8 (decent work and economic growth) and 9 (industry, innovation and infrastructure).

The importance of tourism as a "driver of sustainable economic growth and decent job creation"[6] is enshrined within a dedicated subsection of the 2014 SIDS Accelerated Modalities of Action (SAMOA) Pathway, which is intended to guide international action towards sustainable development in SIDS. In its vision for sustainable tourism, the Pathway includes recommendations to: diversify the service offering to include eco- and agritourism; enhance the participation of local communities in decision-making; increase employment opportunities for women, youth and persons with disabilities; and preserve cultural, built and natural heritage, particularly ecosystems and biodiversity.

By contrast, tourism is predominantly a low-technology service, employing mostly low-skill, low-wage workers. With limited potential to improve labour productivity, wages and technology transfer – important levers and benefits of industrial development – tourism-driven strategies may offer fewer opportunities for long-term improvements in productive capacity and structural transformation (McCausland & Theodossiou, 2012; Haraguchi, Cheng, & Smeets, 2016).

International tourism can also lead to negative environmental and social consequences. For example, dense resort areas, cruise ships and large numbers of tourists can exacerbate pollution and overburden sanitation and transportation infrastructure. Over-visitation of sensitive ecosystems, such as mangroves, coral reefs and beaches, can lead to their

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[5] UNCTAD, (2020). Impact of COVID-19 on tourism in small island developing states. Blog entry. Available at: https://unctad.org/en/pages/newsdetails.aspx?OriginalVersionID=2341. Accessed: 2 November 2021.

[6] See, paragraph 30: United Nations General Assembly (2014). Resolution 69/15: Small Island Developing States Accelerated Modalities of Action (SAMOA Pathway). Available at: https://sustainabledevelopment.un.org/sids2014/samoapathway. Retrieved 23 February 2022.

erosion and destruction. Tourists' purchasing power can inflate the cost of living around resort zones, forcing local residents to move away. And limited opportunities to earn above-average wages in the tourism industry can widen inequality in local communities. Furthermore, in some countries, weak governance and a high share of foreign ownership of tourism assets leads to perceptions that profits flow out of the country, leaving too few benefits for host countries and communities (MacNeill & Wozniak, 2018; Rasoolimanesh, Noor, & Jaafar, 2019).

In early 2020, travel restrictions related to the COVID-19 pandemic halted the flow of international visitors and tourism in SIDS stalled, leaving governments, business owners and employees scrambling to make ends meet (UNCTAD, 2021; UNTWO, 2021). As the pandemic and the interruptions to international travel endure, the shock to SIDS economies amplifies, threatening an extended loss of income and employment among the population, fiscal and debt crises in some countries, and years of lost progress towards national objectives and the Sustainable Development Goals (SDGs).

Among the most vulnerable economies in the world (Encontre, 1999; Scandurra, Romano, Ronghi, & Carfora, 2018; Guillaumont, 2010), many SIDS are grimly accustomed to enduring and recovering from external shocks. Relative to other developing countries, they typically suffer more severe impacts and take longer to recover from acute shocks, such as the 2008-09 global financial crisis, or extreme weather events, such as Hurricane Maria in the Caribbean in 2017, or Tropical Cyclone Harold in the Pacific in 2019. SIDS are also among the countries most threatened by chronic and mounting climate change risks, such as sea level rise and the warming and acidification of oceans (IPCC, 2014; Wong, et al., 2014; Nurse, et al., 2014; Oppenheimer, et al., 2019).

This cycle of recovering from one shock, before the next one strikes, undercuts SIDS' efforts to realise long-term sustainable development. Scarce resources spent on recovering from shocks are unavailable to spend on infrastructure and productive assets, or to diversify into new industries. Governments and businesses must often borrow to finance rebuilding costs and weather business interruptions, for example when natural disasters shut down tourism operations or agriculture in affected areas (Slany, 2020). Even if SIDS succeed in recovering from each shock, this costly cycle limits their capacity to invest in the productive transformation of their economies.

Despite SIDS' experience with recovering from shocks, the COVID-19 crisis represents a new kind of challenge. Natural disasters can cause deplorable loss of life and destruction of livelihoods, requiring a humanitarian response, with economic recovery concentrated on rebuilding supply-side capacity, including infrastructure, productive assets and supply chains. By contrast, economic shocks tend to hit supply-side capacity through financial channels, such as tighter credit markets and reduced investment flows. Economic shocks also impact demand – in SIDS, for example, this manifests as fewer foreign tourists, or reduced demand for export goods and services.

Whether the effects of these familiar types of shocks are big or small, long- or short-term, they are typically temporary, meaning that recovery involves an expectation of a return to some form of "business as usual". By contrast, the COVID-19 crisis threatens to permanently change consumption patterns in many sectors, including tourism, which would preclude a return to "business as usual" in SIDS.

As just one example, the tourism sector in many SIDS is structured around mass tourism segments, such as beach resorts and cruise ships. The economics of these segments are based on gathering thousands of tourists in a resort or cruise ship. So long as social distancing measures remain in force, to slow the spread of COVID-19, the economics of mass tourism are likely to change, especially in smaller markets like SIDS. And, to the degree that the practice of social distancing endures post-COVID-19, either through changing consumer preferences or public health policies, mass tourism may no longer be economically viable in smaller-scale, higher-cost markets like SIDS.

Other, larger tourism destination markets – many of them advanced economies – have weathered the pandemic with a boost from domestic tourism. Even before the pandemic, in 2019, domestic travel represented 70 per cent of global tourism spending, led by markets such as China, the USA, Germany, India and Japan (Goretti, et al., 2021). Throughout 2020, when international travel was complicated, risky or impossible, consumers in these countries travelled to domestic destinations, providing tourism businesses and employees with much-needed income.

By contrast, lower income levels and costly internal transportation in most SIDS mean that there is not enough purchasing power to justify a domestic tourism market. As a result, tourism services in most SIDS cater almost exclusively to the preferences and purchasing power of international visitors and are therefore priced beyond the reach of locals (Vanzetti & Valensisi, 2021). Faced with the total suspension of international tourism during the pandemic, some SIDS belatedly attempted to promote domestic tourism. Anecdotal evidence suggests that, to accommodate the few locals who were able to respond to these calls, participating hotels and restaurants offered reduced services and rates, in an effort to cover some costs and keep some employees.[7]

Due to the risk that COVID-19 will permanently alter consumption patterns for mass tourism, SIDS face a high degree of uncertainty about how to approach a recovery from the pandemic. In the current context, while COVID-19 continues to circulate worldwide, how will SIDS governments finance the business interruptions caused by the near-total halt in tourist arrivals? Looking forward, once borders reopen and sanitary measures ease, can they continue to attract enough visitors to maintain the economic viability of their mass-travel tourism services, such as beach resorts and cruise ships? And, over the long term, can SIDS continue to rely on tourism as the engine of their economies?

Faced with these uncertainties, should SIDS focus their pandemic recovery efforts on reopening and marketing their existing mass-travel services? Should they anticipate changes in consumption patterns by concentrating their recovery on developing alternative forms of tourism? Or should they concentrate their recovery on a mixed strategy, by developing manufacturing or other services alongside tourism?

Adjusting economic strategies and developing new industries is particularly challenging for SIDS. In general, their small size, lack of productive capacities and geographic isolation complicates their competing in manufacturing and the export of physical goods. Although most SIDS depend heavily on trade, their lack of productive capacities means that they

[7] See, for example: https://www.abc.net.au/radio-australia/programs/pacificbeat/van-tourism-impact-covid-19/13488182

typically have a low ratio of domestic value added in their exports. As a result, their trading profile is dominated by imports of staples and intermediate goods, and the export of raw materials and services (McGillivray, Naudé, & Santos-Paulino, 2010; UNCTAD, 2014). Outside of formal wage employment in tourism and other service sectors, small-scale agriculture remains the main source of livelihood for the population in most SIDS.[8]

The resulting industrial profile offers limited opportunities to improve labour productivity, wages and technology transfer, and thus the potential for long-term improvements in productive capacity and structural transformation.

Despite these challenges, most SIDS do not have access to concessional finance or preferential trade measures, such as the package of international support measures (ISMs) available to least developed countries (LDCs).[9] SIDS have argued that they require a similar package of support measures, given their extreme vulnerability and the structural challenges to their economic development. But consensus remains elusive on a formal classification of SIDS and the mechanisms needed to support them.

As a result, external debt levels in SIDS represent an average of 62 per cent in 2019, considerably higher than the average of 29 per cent among all developing countries. SIDS are therefore among the countries most at risk of debt distress.[10]

Hampered by these constraints, policy makers in SIDS face limited options on how to respond to COVID-19 and adjust their tourism-driven strategies to the post-pandemic context, either by pivoting from mass tourism into alternative forms of tourism, or by diversifying into other industries.

2. Pre-pandemic situation in Vanuatu

In this section, we outline key characteristics of Vanuatu's economy and tourism subsector in 2019, as a baseline to measure the subsequent effects of the COVID-19 pandemic in Section 2.

1.1. National economy

On the eve of the COVID-19 pandemic, Vanuatu's 2019 gross domestic product (GDP) was approximately 907 million United States dollars (US$), calculated in current prices.[11] As shown in Figure 1, GDP growth in Vanuatu averaged 4.2 per cent from 2010 to 2019,