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Tourism: How Asia and other emerging markets could bounce back

The pandemic has given many countries a long path to recovery

Shirley Shen,
Economist (Emerging Asia)
Macro Research – Core Investments

Irina Topa-Serry,
Senior Economist (Emerging Markets)
Macro Research – Core Investments

Key points

- The tourism industry suffered a massive shock in 2020 due to the pandemic, impacting many emerging markets
- In Asia, Thailand, Hong Kong, Malaysia, and Singapore are among the most dependent on tourism as a driver of GDP growth. Outside Asia, Turkey is also highly dependent
- The economic recovery is underway but will likely be long and arduous for developing markets. This reflects in part the slow pace of vaccination, and the low probability of quickly achieving something close to collective immunity – which would allow full international travel to resume
- Containing the virus outbreak is a pre-requisite for any sort of tourism recovery – domestic or outbound. There are silver linings for the sector, with rising domestic tourist flows in countries where the pandemic is under control. However, a complete recovery – featuring the return of international travellers – is still some time away

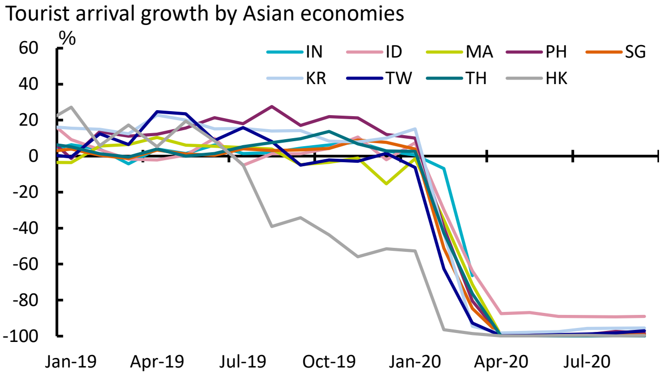
Tourism left reeling

Tourism has been one of the sectors most affected by the COVID-19 pandemic. Governments worldwide imposed strict movement restrictions and closed borders in the hope of stopping the spread of the virus. According to the United Nation's World Tourism Organization, revenue loss during 2020 in the international tourism sector was projected at $1.3tn and total international arrivals fell by one billion, or 74%, from 2019. The overall estimated damage was more than 11 times greater than in 2009, in the wake of the global financial crisis.

Asia, in particular, saw its tourism industries battered by the pandemic travel bans. Arrivals across the region had plummeted to unprecedented lows by the second quarter (Q2) of 2020 (Exhibit 1).

Exhibit 1: Tourism has been badly hit

Tourist arrival growth by Asian economies



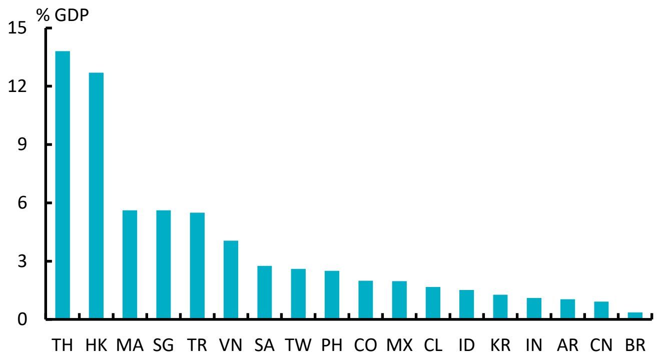
Source: CEIC and AXA IM Research, as of September 2020

Tourism matters more for some than others

According to the World Travel & Tourism Council (WTTC), travel and tourism accounts for 10.3% of global GDP and provides 330 million jobs worldwide. During the five years preceding the pandemic, one out of every four net new jobs created in the world has been in this sector. While all emerging markets (EMs) saw incoming tourist flows drop sharply during 2020, the relative impact on their economies differed greatly.

The Caribbean is the world's most dependent area on tourism, ranging from 30-35% of GDP in Jamaica and the Dominican Republic to 55-60% in the Virgin Islands and 73% in Aruba. Thailand (13.8% of GDP), Hong Kong (12.7%), Croatia (10.9%), Malaysia (5.6%), Singapore (5.6%), and Turkey (5.5%) are also exposed to any change in tourism receipts. On the other hand, geographically larger countries, such as China, India, Indonesia, Mexico, Korea, and Brazil, are proportionately less affected by tourist flows (Exhibit 2).

Exhibit 2: Tourism receipts are a large income source*



Source: CEIC, WTTC and AXA IM Research

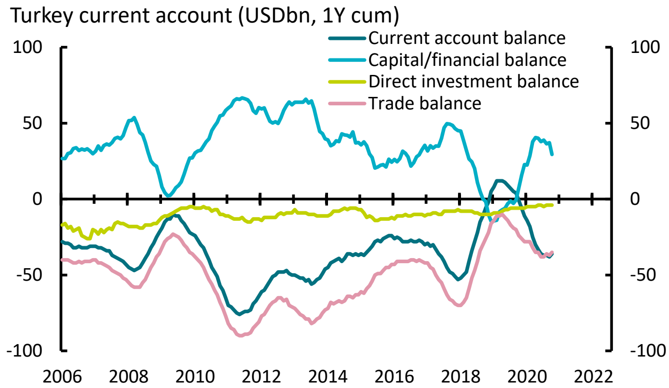
Tourism shocks can have several transmission channels. For economies where tourism accounts for a significant portion of its income, the pandemic created a massive growth shock. Mobility restrictions put a halt on tourist arrivals and spending. As a labour-intensive industry, this led to large-scale redundancies and thus a revenue jolt to households dependent on the sector. Governments in many economies tried to support this income loss to varying degrees. Measures have included relief packages such as cash handouts and domestic consumption subsidies to help the affected services sectors.

In Thailand, the government allocated $718 million (2% of GDP) to boost domestic tourism. Georgia offered a new visa programme targeted at self-employed, remote workers as of last summer. Barbados announced a '12-month Barbados Welcome Stamp' allowing foreign visitors to live and work on the island for up to a year.

A collapse in the tourism sector can also have a significant impact on a nation's balance of payments. This in turn can cause significant adjustments and affect countries with fragile foreign exchange reserves, even when the tourism sector may not appear a major income source per se.

Turkey is a prime example. Tourism accounts for less than 6% of national income but it is a large source of external funding usually from May through to September, bringing the country much needed foreign currency to match external debt redemptions. The 2020 coronavirus impact on tourism was greater than the 2016 shock[1]. Moreover, the slide in the currency last year (-30% up to its peak in November 2020) echoed the lira's steep drop of 2018 when it slid by 43% in just nine months, alarmingly raising the risk of a balance-of-payments (BoP) crisis (Exhibit 3).

Exhibit 3: Turkey BoP adjustments



Source: Refinitiv Datastream and AXA IM Research, as of April 2021

Other EMs have seen deteriorating tourist income accompany losses in other sectors. For commodity-driven EMs, the pandemic aggravated external pressures as a result of plummeting exports mainly through the free fall in commodity prices. Moreover, the panic in global financial markets also triggered large capital outflows in 2020, which have exacerbated balance-of-payments adjustments.

Egypt has suffered from just such a combination of effects. The economy has seen a sudden halt of tourism, a fall in exports, a drop in remittances, and lower revenues from the Suez Canal. At the peak of global risk aversion during March and April 2020, Egypt experienced capital outflows of nearly $16bn, putting great pressure on the balance of payments. Remittances from overseas workers have nevertheless provided a powerful source of external financing in countries like Mexico (remittances increased by 11% in 2020), most likely boosted by strong public support in the US, such as payments to households either directly or via unemployment benefit schemes.

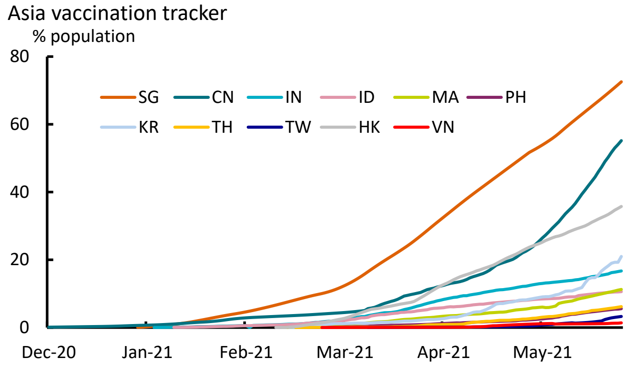
[1] This year, bomb attacks, unrest in the south-eastern region of Turkey and a violent coup attempt kept tourists away.

Recovery to pre-COVID levels is a gradual process

While economic recovery has begun, restrictions on travel and social distancing are only being lifted gradually and have been subject to swift reversals in many instances. In the absence of widespread vaccination, fears of the pandemic caused by the periodic resurgence of infections are likely to reduce the appetite for travel compared to the pre-pandemic period.

This is particularly so given that revival of the virus lately, notably in Asia. Not only did many of the most populous economies (India, Indonesia, and the Philippines) fail to contain the virus outbreak, but vaccination has progressed only slowly (Exhibit 4). Within Asia, only Singapore is expected to come close to achieving collective immunity by end-2021. For the rest of the region, a lack of government forward guidance, inadequate vaccine supply, uneven distribution and the emergence of new virus strains suggest that a complete opening of the border is still some way off.

Exhibit 4: Vaccination pace is moving slowly



Source: Our World in Data and AXA IM Research, as of 07 June 2021

What's more, in our recently published research on the assessment of how vaccines will improve the outlook for economic activity, we contend that current vaccines programmes are unlikely to make collective immunity achievable[2]. This suggests that even for countries with high vaccination rates there will be an ongoing need for non-pharmaceutical interventions and partial restrictions to remain in place. These measures could include, among others, partial social distancing enforcement, mask wearing, track-and-trace efforts and border controls.

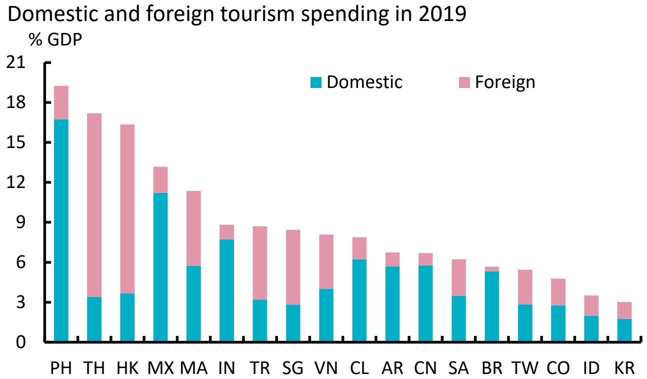
Even if some tourism-reliant economies do eventually open their borders, it is unlikely that traveller flows will rapidly normalise to pre-COVID-19 levels as travel policies may not be fully aligned among countries/regions under different health protocols. One example is the current situation between mainland China and Hong Kong. Mainland Chinese citizens can enter Hong Kong without the need to quarantine as long as they have the necessary documentation and a negative COVID-19 test result. However, the travel policy from Hong Kong to the mainland is still under strict protocols. This will dampen the enthusiasm of Chinese tourists visiting Hong Kong if their trips back home are still subject to a three-week quarantine at government-designated hotels.

Yet, silver linings exist

The above points suggest that a recovery for the tourism sector will be long and arduous. One first step that can support the tourist industry is domestic travel. There are signs this is already picking up, especially in economies with successful virus containment and where domestic restrictions have been lifted. For instance, the number of domestic Chinese tourists during the Labour Day holiday this year was 18% higher than in 2019.

Exhibit 5 shows the breakdown of domestic versus foreign visitors in several EMs for 2019. In some countries, domestic tourism accounted for the vast majority of revenues in the industry: Brazil (94%), India (87%), China (86%), Argentina (85%), Mexico (85%) and the Philippines (85%). For these countries, the impact of closed borders on the tourism industry may be small, so long as domestic tourism flows continue to normalise.

Exhibit 5: Domestic tourism will recovery faster



Source: CEIC, WTTC and AXA IM Research

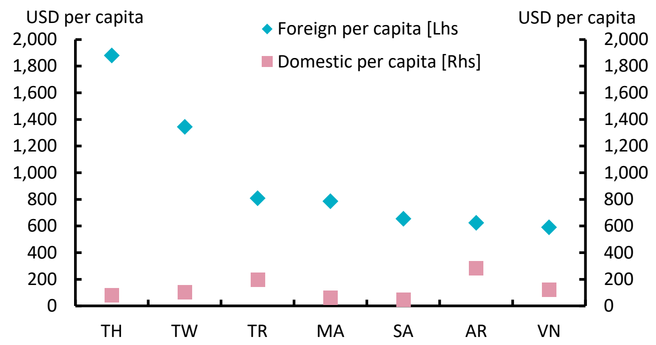
Conversely, countries with a high reliance on incoming visitors will suffer. This not only reflects the potential for sharp falls in numbers in places like Thailand, Hong Kong, Turkey and Singapore, but also the relative spending capacity. Exhibit 6 shows spending on a per capita basis, illustrating that that foreign tourists usually spend far more than domestic tourists. Thailand, Taiwan, and Malaysia face the largest disparity between foreign and domestic tourist spending. These countries will find it far harder to fill the gap

[2] Page, D. and Qin, Y., "Escaping COVID-19: will vaccines be sufficient?", AXA IM Research, 19 May 2021. The study shows that the current vaccine efficacy rates, combined with the portions of populations strongly opposed to vaccines, as well as the fact that most countries have no intentions of vaccinating children under the age of 18, will make collective immunity impossible for some and unlikely for most. However, a small portion of economies (four out of the 58 countries/regions) show plausible prospects of collective immunity. Taiwan is the only Asian economy that falls within this plausible category.

with purely domestic tourism compared to countries like China, Brazil, India, Argentina, Mexico and the Philippines which can count on a large, high-spending domestic traveller base.

Exhibit 6: Reallocation from outbound spending

Domestic and foreign tourism spending per capita in 2019

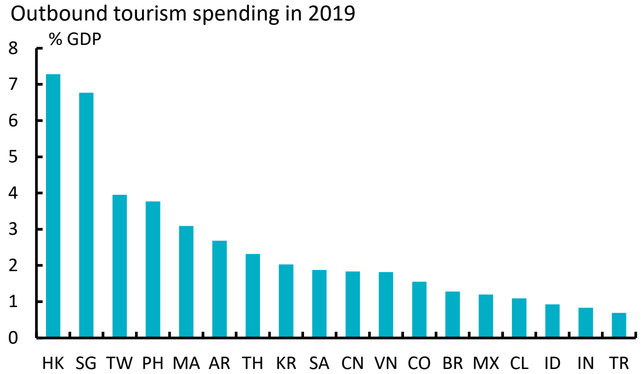


Source: CEIC, WTTC and AXA IM Research

It is also worth noting that the size of the outbound tourism market could be a proxy for potential gains in domestic tourism, as well as for domestic consumption in general. Simply put, people may spend their international travel budget at home. Domestic tourism, consumer durable expenditures and home improvement spending could therefore compensate for some of the losses in the tourism industry (Exhibit 7). Admittedly, the potential boost will likely to be limited given that not all outbound tourism spending will be diverted to domestic travels and consumption.

Exhibit 7: People may choose to reallocate locally portions of their normal outbound spending

Outbound tourism spending in 2019



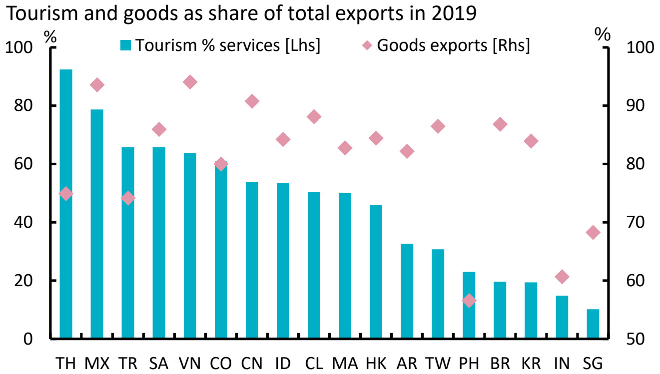
Source: CEIC, WTTC and AXA IM Research

Trade of goods and non-tourism services – which includes financial and information technology services – will also help to make up for the loss of some foreign tourism receipts in some cases. Countries with a high contribution of goods exports to their current accounts are less vulnerable to prolonged weak tourism. Similarly, economies with low shares of foreign tourism in services trade will fare better compared to those that are more dependent on tourism exports.

Thailand appears the most susceptible given its high share of tourism exports in total services trade and its relatively low contribution from goods exports to overall trade. Although China, Vietnam and Mexico also have a comparatively high importance of tourism within services, trade of goods makes up over 90% of current account activities in these economies, making them relatively less vulnerable (Exhibit 8).

Exhibit 8: Trade of goods may make up for the loss

Tourism and goods as share of total exports in 2019



Source: CEIC, World Bank and AXA IM Research

It may be that pilot travel destinations and bilateral arrangements offer another route for some international travel to resume, although it has so far been a difficult path to pursue. Despite its elevated daily case counts, Phuket (Thailand's largest holiday destination) will be open to foreign, vaccinated individuals starting in July without the need to quarantine. Also, Korea and Singapore have separately reached 'fast-track' entry agreements with mainland China that exempts business travellers from strict quarantine measures in limited Chinese provinces. Other similar 'travel bubbles' are also under consideration[3].

Exhibit 9: China is the top source of foreign visitors*

Top 3 sources of tourist arrivals in 2019			
TH	CN (31%)	MA (11%)	KR (5%)
HK	CN (78%)	TW (3%)	US (2%)
KR	CN (38%)	JP (19%)	TW (7%)
PH	CN (22%)	US (13%)	JP (8%)
SG	CN (22%)	ID (16%)	IN (7%)
TW	CN (38%)	JP (18%)	KR (10%)
VT	CN (32%)	JP (5%)	TW (5%)
IN	BD (24%)	US (14%)	UK (9%)
ID	MA (18%)	CN (13%)	SG (12%)
MA	SG (39%)	ID (14%)	CN (12%)

Source: CEIC and AXA IM Research

For Thailand, Hong Kong, South Korea, the Philippines, Singapore, Taiwan, and Vietnam, securing a travel bubble

[3] Travel bubbles, where economies open their borders bilaterally with minimal to no quarantine measures, are likely to start with intra-regional travel between economies that have effectively contained the virus. One such "travel bubble" between Hong Kong and Singapore has been under negotiation but is a good illustration of how vulnerable they can be with a recent flare up in cases in both jurisdictions pushing back hopes for implementation.

with mainland China would be a major boost to their tourism sector's recovery prospects (Exhibit 9). However, such a policy is unlikely to be top of China's agenda given its low dependence on tourism revenue and the relatively large costs associated with bringing fresh virus cases back into China. Therefore, the potential for such arrangements in the near to medium-term is limited, in our view.

More broadly, Croatia is likely to be a key beneficiary from recent European Union (EU) action aimed at reviving European tourism by opening up to foreign tourists coming from relatively low-infection areas, and who are fully vaccinated with EU-approved vaccines.

Overall, containing the domestic virus outbreak is a pre-requisite for any sort of tourism recovery – domestic or outbound. Economies that continue to suffer from high numbers of COVID-19 cases will have a harder time capturing travel demand and securing travel bubbles with others, regardless of their own reopening policies.

The current virus resurgence and slow vaccine rollout continue to cast a dark shadow over the tourism sector. Despite some offsets from increased domestic tourism in certain countries, we believe a full recovery of the industry globally lies a long way off. Moreover, vaccine passports or other pre-screening requirements could continue to be a major part of the future of travel.

*** International country codes used for the charts in this paper are as follow** – Argentina (AR), Brazil (BR), Chile (CL); China (CN); Colombia (CO); Hong Kong (HK); Indonesia (ID); India (IN); Malaysia (MA), Mexico (MX); Philippines (PH); Saudi Arabia (SA); Singapore (SG); South Korea (KR); Thailand (TH); Turkey (TR); Taiwan (TW); Vietnam (VN)

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AXA Investment Managers SA
Tour Majunga – La Défense 9 – 6 place de la Pyramide 92800 Puteaux – France
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