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Conference Proceedings

Nemzetközi tudományos konferencia
a Magyar Tudomány Ünnepe alkalmából
International Scientific Conference
on the Occasion of the Hungarian Science Festival

Sopron, 2022. november 3.
3 November 2022, Sopron

TÁRSADALOM – GAZDASÁG – TERMÉSZET: SZINERGIÁK A FENNTARTHATÓ FEJLŐDÉSBEN

SOCIETY – ECONOMY – NATURE: SYNERGIES IN SUSTAINABLE DEVELOPMENT

Szerkesztők / Editors:
OBÁDOVICS Csilla, RESPERGER Richárd, SZÉLES Zsuzsanna, TÓTH Balázs István

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Tourism in Troubled Times: the Eeconomic and Social Effects of Short- and Expected Long-Term Changes

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Abstract
The COVID-19 pandemic has changed our everyday life, including the functioning of our economies. Though by now, the limitations caused by the pandemic have been cancelled or eased in most countries of the world, many of the changes have stayed with us. In 2022, the war of Russia in Ukraine has caused new, for a long time unseen economic problems, first of all, but not only for Europe. This contribution, focuses on one of the most visible changes that occurred in the economy, raising the question how much of the changes after the pandemic and the effects of the war (including security considerations, energy prices) will remain with us on the long run, and how the tourism sector can adapt to this „new world". The general conclusion is that at least some elements of the changes will remain and should be considered as a transformation of the sector. For this reason, the changes should be dealt with by corresponding steps in economic policies, especially in those countries where tourism is an especially important sector of the economy.

Keywords: tourism, crisis, economic policy
JEL Codes: Z30, E32, E61

1. Introduction

The 2020s have brought dramatic – and for most people, unforeseen – changes in our life. The COVID-19 pandemic has, among others, very much narrowed the possibilities of mobility of people. While the situation has substantially improved in 2021 and 2022, its consequences are still with us. In addition to them, in 2022, the Russian invasion in Ukraine has added another factor which, beyond its tragic direct consequences, has caused additional uncertainty worldwide.

Tourism, and especially international tourism is one of the economic sectors that have suffered most of these dramatic events. In this paper, I provide a brief description of the changes and a reflection on the short- and potential long-run consequences of the changes on international tourism. First, I outline the economic importance of the sector using official data of the United Nations World Tourism Organisation (UNWTO) database. Following this, I present the effects of the COVID-19 pandemic on international tourism from the outbreak of the pandemic to mid-2022 and discuss the short- and the potential long-run effects of the pandemic on the sector. After that, I tackle the effects of the Russian invasion of Ukraine from the point of view of international tourism. I conclude the paper with some summary remarks and open questions.

2. The economic importance of tourism

Services play a very important role in modern economies. In recent decades, international trade in services has increased more rapidly than international trade of goods. International tourism is one of the sectors behind this development: in some countries in a specific situation – these countries are categorised as ‘Small Islands Developing States’ (SIDS) – tourism can even provide (including direct and indirect effects) over half of the GDP, but its contribution can be important in other countries, with an advantageous, but still less specific situation for tourism (see Figure 1); the figure for Hungary was 10.2% in 2017 (OECD, 2020).

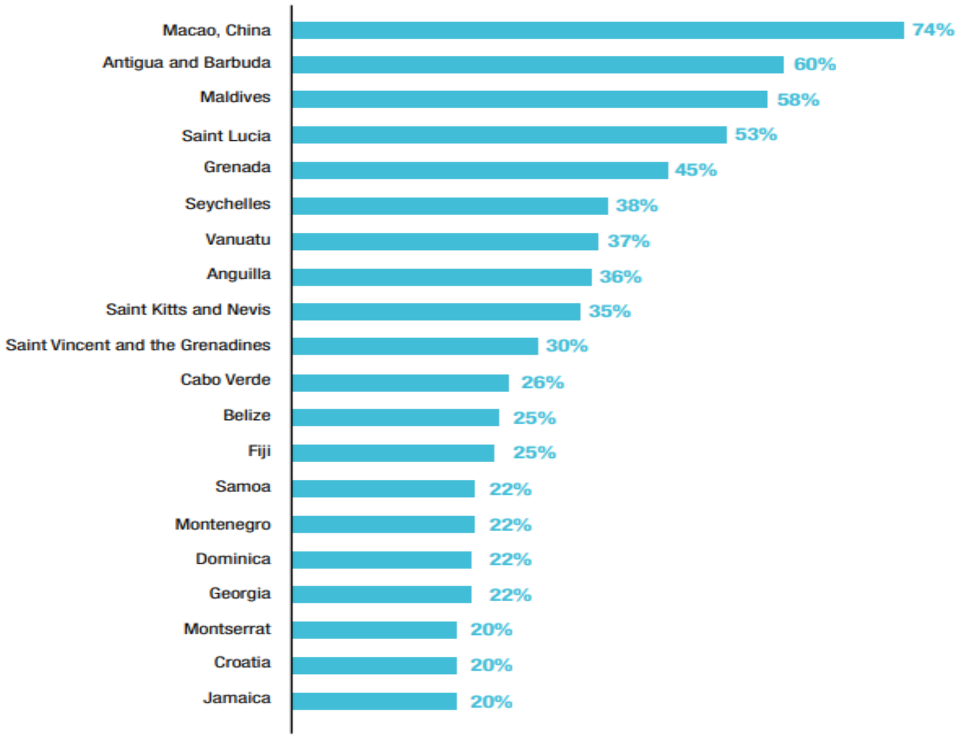

Figure 1: Inbound tourism expenditure as a percentage of GDP (selected economies, 2018)

Source: UNWTO, in: UNCTAD (2020, p. 8.)

One can also express the importance of international (inbound) tourism as the share of revenues from it in total exports. As the data in Figure 2 demonstrate it, some of the SIDS – some of which are worldwide known tourism destinations – are really heavily dependent on the sector, especially because they do not possess any other comparable export revenue sources. For Hungary, we have a figure on the share of travel exports in total service exports – being 23.5% – for the year 2018 (OECD, 2020).

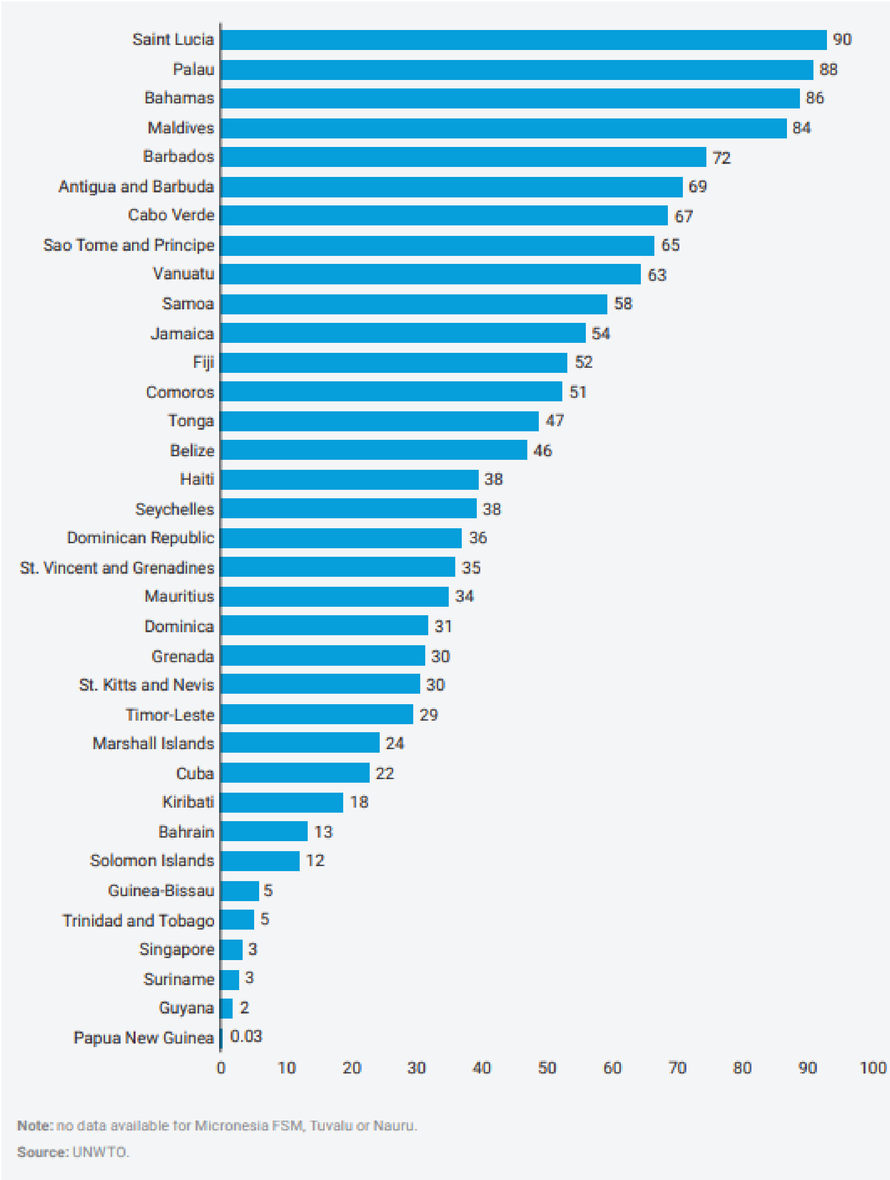

Figure 2: International tourism revenues as share (%) of total exports in SIDS
Source: UNWTO, in: United Nations (2020, p. 10.)

The importance of the sector can also be seen in the number of jobs related to tourism. Figure 3 presents the related figures for the countries where employment in tourism and related sectors is over 1 million persons.[1] Beyond these countries, there are several others with hundreds of thousands of employees (based on the same dataset, the figure for Hungary was 443 thousand, referring to the year 2019; this meant roughly 10% of total employment in the country)[2]. Despite the heterogeneity of the data (country methodologies can differ to a great extent), employment figures confirm th that tourism is an important economic sector in many countries.

[1] The figure is based on UNWTO data; among other countries, for Canada, China, Germany and Turkey (countries where one would expect a high figure) there were no data in the source.
[2] The OECD data for Hungary for 2018 are 418 thousand, meaning 9.6% of total employment (OECD, 2020).

Country	Employees in thousand	Latest data
India	38 691	2018
United States	6 115	2019
Japan	5 889	2019
Philippines	4 681	2020
Thailand	4 258	2016
Malaysia	3 458	2020
United Kingdom	2 743	2016
Spain	2 334	2020
Brazil	2 192	2019
Indonesia	2 058	2020
Mexico	2 006	2020
Egypt	1 993	2015
Nigeria	1 429	2016
France	1 368	2018
Türkiye	1 355	2020
Russian Federation	1 338	2015
Argentina	1 260	2019
Uganda	1 173	2015

Figure 3: Total employment in tourism industries, in thousand; selected countries
Source: UNWTO[3]

It is obvious that if such an important sector is heavily hit, the effects are very painful for the whole economy. This is exactly what we have witnessed since the COVID-19 pandemic broke out in 2020. In 2022, another major uncertainty factor added to the decreasing, but in some regions of the world still important effects of the pandemic: the Russian invasion in Ukraine has deteriorated the situation in the countries of the region (including Central and Eastern Europe) as well as contributed to the general uncertainty, having a negative effect, among others, on international tourism. In the following points of this paper, I will concentrate on the effects of these major negative events.

3. COVID-19 and international tourism

The COVID-19 pandemic has hit the world early 2020 in a way we haven't seen before: the connections that are so important for the functioning of the global economy, have been mostly cut. Especially, the movement of people has been severely limited – and this had a very direct and severe effect on tourism, especially on international tourism. In this section, these effects and the related measures will be discussed.

3.1. The effects of the pandemic on international tourism

As a consequence of the COVID-19 pandemic, after the last "normal" year of 2019, the results in 2020 have signalled a huge drop in in international tourism. According to UNWTO data, international tourist arrivals have decreased by 71% from 2019 to 2020 – in other words, the

[3] https://www.unwto.org/tourism-data/global-and-regional-tourism-performance (Downloaded on 3 Dec. 2022.)

number of international tourist arrivals in 2020 has been just a bit more than a quarter of the 2019 figure. All regions have been severely hit: in Africa, the decline was 75%, in the Americas 67%, in Asia and the Pacific 80% (the highest percentage change), in Europe 66%, in the Middle East 73%. Regarding subregions, the smallest decline was 60% (in Western Europe and in the Caribbean), the biggest one was 88% (in North-East Asia).

Regarding the (overall) change by month, while in February 2020 the decline was 12% compared to February 2019, in March, the change compared to the same month of the previous year, the decline was already 65% – the figure reflects the spread of the pandemic and the resulting strict limitations in the movement of people. April, May and June 2020 have brought the biggest decline: in each of these three months, the number of international tourist arrivals was been 90% less than in the same month of 2019; in other words, international tourist arrivals have shrunk to one-tenth of their previous-year number. July, August and September 2020 were somewhat better – but this is to understand only in relative terms: the declines compared to the same months of the previous year have been 75%, 72% and 76%, respectively. October, November and December 2020 have brought another wave of worsening, with 82%, 86% and 84% declines compared to the same months of 2019.

With the beginning of vaccination worldwide, there was much hope that 2021 would be substantially better than 2020. Indeed, in 2021, we could witness a certain reopening of the world, but with steps forward and backward, and also with substantial regional differences (depending on the different ways selected in different countries to handle the pandemic as well as the huge differences in vaccination rates).

For 2021 (and later also for 2022), the UNWTO has chosen 2019 as the basis for comparison. The logic behind this choice is that 2019 was the last "normal" year from the point of view of tourism (and also from many other aspects – but this goes beyond the scope of the present paper). According to UNWTO statistics, the number od international tourist arrivals in 2021 was still 70% lower than in 2019 – meaning that the overall picture in this respect remained about the same as in 2020.

Among the regions, in 2021, Asia and the Pacific was hit the hardest (with 94% decline in international tourist arrivals compared to 2019), Africa followed with 74% decline, the Middle East with 71% decline, the Americas with 62% decline, Europe with 59% decline. Among the subregions, South-Esat Asia (98% decline) South America (85% decline) and South Asia (82% decline) were hit the hardest, while Western Europe, Central America, Southern/Mediterranean Europe and especially the Caribbean had better results (57%, 55%, 54% and 35% decline, respectively, compared to 2019).

Despite these still gloomy figures, a clear positive trend could be seen in the development of overall figures (on international tourist arrivals) during the year. In January, February and March, the decline rates compared to the same months of 2020 were 86%, 87% and 85%; in April, May and June, there was already some positive change (with decline rates 86%, 82%, 77%, respectively). July, August and September were clearly better than in 2020; compared to the same months of 2019, the decline rates were 61%, 56% and 56%, respectively. In October, November ands December, the decline rate reached during the summer seemed stabilised (with 54%, 58% and 60% declines, respectively). All in all, 2021 has brought some positive changes compared to 2020, but in most regions, we could not witness a real breakthrough.

2022 has already brought in many regions the promise of a breakthrough: while international tourist arrivals figures are still lagging behind those in 2019, the positive trend is clear (at least until July 2022, the last month for which UNWTO data were available). The overall decline in January-July 2022 compared to the same period of 2019 was 43%, showing a big difference from the figures of 2020 and 2021. Regarding the regions, South East Asia was still severely hit (86% decline), but Africa, the Americas, Europe and the Middle East showed far better results than in the two previous years (40%, 35%, 26% and 24% decline rates, respectively, compared to 2019 international tourist arrivals). Regarding subregions, North-East Asia, South Asia and Oceania were hardest hit (93%, 85% and 75% declines, respectively), while Southern/Mediterranean Europe, the Caribbean and Central America performed best (15%, 18% and 20% declines, respectively). In Europe (beyond Southern/Mediterranean Europe) subregions Western Europe and Northern Europe also registered good results (26% and 27% decline, respectively). The situation of Central and Eastern Europe has also improved compared to 2020 and 2021: in the first seven months of 2022, the decline compared to the same period of 2019 was 45%, against the decline rates of 70% in 2020 and 65% in 2021, but the position of the subregion within Europe has deteriorated – the feeling of insecurity on potential visitors caused by the war in the direct neighbourhood of the region from late February 2022 could have an effect in this quite remarkable – and for the subregion, very negative – change.

According to UNWTO figures (including collected statistical data and estimations), the overall consequences of the above changes resulted in the loss of 2.1 billion international tourist arrivals (total for 2020 and 2021), causing a loss of over USD 2 trillion of export revenues from tourism and putting 100 to 120 million jobs at risk.

3.2. Measures to mitigate the negative effects of the pandemic

Being aware of the importance of the sector as well as of the magnitude of the harmful effects of the pandemic, policymakers have worldwide initiated several types of measures. The UNWTO has collected and grouped these measures in a special section of its website (UNWTO, n.d. a) and in a publication prepared at the relatively early stage of the pandemic (UNWTO, 2020); according to this collection, the following main groups/types of measures can be identified:

- Monetary policy measures: in general, more flexibility has been applied with regard to the specific circumstances. In Europe, the change in the approach of the European Central Bank (ECB) in this respect has been remarkable, the treatment of non-performing loans and the provision of liquidity in a time of crisis being crucial elements of this change.
- Jobs and skills: measures aiming at preserving jobs and helping the adaptation of employees to the new circumstances have been applied in many countries. Measures varied to a great extent; among others, they often included the partial financing of wages by the state, grants and direct subsidies (especially for small and micro-enterprises), financial assistance for keeping people employed, easing of some contributions, encouraging online activities, including telework and training to digital transformation.
- Market intelligence: the analysis of the changes and the preparations for the fulfilment of new requirements (including health safety) have been very important practically everywhere. Of course, the result of the analysis has led in many cases to decisions that have changed earlier practice – but this was a necessary reaction to the dramatically changing situation.
- Public-private partnership: joint efforts of private entrepreneurs and public actors (state, local municipalities, etc.) have been important, as the preserving economic activity and the related jobs have been crucial for all of them. As a result of their joint actions, partners have been able to divide their costs and risks, while – in case of success – all of them could enjoy the results. The creation of specific funds as well as the elaboration of crisis management strategies have been key elements of such public-private partnership.
- Restarting tourism: after the first months of (almost) total deadlock, measures have been applied in many countries – depending, of course, on the situation in the given country – in order to revitalize the sector. Measures included in many countries health safety labelling, the introduction of specific vouchers, the introduction of digital immunity passports.

- Fiscal policy: easing in this respect has been introduced in most countries – in general and also specifically for the tourism sector. Exemptions/reductions/deferrals of taxes and other social contributions have been applied, with special regard to small and micro-enterprises. Discount on utility expenses as well as cash-flow assistance have also been important elements in many countries.
- Health and safety: the introduction of health safety protocols, certifications and labels has been an important step for regaining the confidence of the public after the shock of the pandemic. While differences between various parts of the world can be observed, we can say that these measures have become an important element everywhere.
- Domestic tourism: promoting domestic tourism has been a logical reaction to partially compensate for the absence of most of international tourism. Holiday vouchers, promotion campaigns, the development of supply have been widely used instruments.

The above measures have contributed to a great extent to the changes that the tourism industry went through. International tourism has been partially replaced by domestic tourism. Internet-based tourism-related services have developed further and thus the role of tour operators has continued to diminish (or at least change). Health safety has become a new key issue in tourism.

While these effects can be clearly seen by now, questions about longer-term and even broader effects arise logically: Will there be a shift from mass tourism towards greener tourism? Will there be shift between domestic/international/inter-continental tourism? Will the role of the various service providers (agencies, tour operators, carriers, websites, etc.) change further? For the moment, these are open questions.

Regarding the development of tourism, the United Nations (UN) have proposed "A Roadmap Towards a More Sustainable and Inclusive Tourism Sector" with the following objectives:

- "Managing the crisis and mitigating the socio-economic impacts on livelihoods
- Boosting competitiveness and building resilience
- Advancing innovation and the digitalization of the tourism ecosystem
- Fostering sustainable and inclusive green growth
- Strengthening coordination, partnerships and solidarity for socio-economic recovery" (United Nations, 2020, p. 16.).

The objectives set in the document have been in line with the needs of the sector, and also the experiences during the pandemic have shown that the sector (of course, not without substantial losses and sacrifices) was able to adapt to the changing environment.

By early 2022, with the decline of the pressure of the pandemic (in most, but not all regions of the world), one could even question whether a kind of "new normal" – sustainable, environment-conscious tourism, in line with the above UN roadmap, but also with the Global Code for Ethics for Tourism (UNWTO, 1999) existing since 1999 (!) – could be established. Unfortunately, beyond the recent tourism development trends that did not fully confirm these hopes, a new dramatic event has changed the environment again, when Russia launched its invasion in Ukraine in February 2022.

4. The Russian invasion in Ukraine and international tourism

This section tackles the already tangible effects of the Russian invasion in Ukraine on international tourism and the measures that have been used in various countries to mitigate the negative economic effects.

4.1. The effects of the Russian invasion in Ukraine on international tourism

The Russian invasion in Ukraine, beginning on 24 February 2022 happened at a moment when the international economic environment, with all the current troubles, has been on the way towards more optimism as the restrictions because of the pandemic have been lifted or eased in most regions of the world. The war has substantially changed this situation.

UNWTO has assessed since the very early stage of the war its effects on international tourism. Based on these assessments (UNWTO, n.d. b), the effects can be summarised as follows:

- The war caused added risks in general and for tourism in particular – at a time when the recovery of the sector from the effects of the pandemic was still weak and uneven. Beyond the countries directly involved in the war, these effects can mostly be felt in Europe, especially in Central and Eastern Europe which is geographically close to the armed conflict (and the distance seems to be even smaller if the observer looks at is from another continent).
- Regarding Russia and Ukraine, the most important direct effect on international tourism is the disruption of outbound tourism from the two countries (inbound travel into these countries, though existed, had a smaller role in world tourism). This disruption means ca. 3% of global spending on international tourism; the estimated loss for 2022 is USD 14 billion. The loss is not equally distributed; some countries (e.g. tropical islands, many of them being SIDS, where Russian tourists had a considerable share in international arrivals) have lost much (in absolute, but even more in relative terms).
- The uncertainty caused by the war had a negative effect on consumer confidence, especially in more risk averse markets and population segments. As already mentioned, the effects of the added risk are not the same for all countries (countries geographically close to the war experience considerable negative effects).
- As a result of the above factors, the impact on destinations – both on traditional and emerging ones – is complex. Not surprisingly, it is smaller countries (in many cases, but not exclusively SIDS) where international tourist arrivals from Russia (and Ukraine) were important before the war that suffer most.
- Economic problems caused or aggravated by the war also cause additional difficulties. Weaker economic growth (or even recession) and – at the same time – higher inflation curbs the demand side on the international tourism market. At the same time, higher oil prices, as well as generally higher prices and interest rates increase travel costs, thus making supply more expensive. Micro-, small and medium enterprises are especially severely hit by these factors – at a time when many of them has not yet fully recovered from the economic effects of the COVID-19 pandemic.

All the above problems cause a real threat to many tourism-related jobs and businesses. Bearing in mind the importance of tourism outlined in section 1 of this paper, one can say that the potential effects are not only important for the sector but are considerable at the level of the national economies, as well.

4.2. Measures and outlook

As a reaction to staggering economic growth and increasing inflation, many countries have introduced measures to mitigate the negative effects. It is important to emphasise here that these measures are not limited to tourism, but, via their (expected) effects, they can contribute to easing the situation of the service providers and consumers of the sector.

On the website of Bruegel, a regularly refreshed dataset and information catalogue on national fiscal policy responses to the energy crisis has been established in November 2021

(Sgaravatti et al., 2021). In the dataset and catalogue, actions are divided into the following main categories:

- "Reduced energy tax/VAT,
- Retail price regulation,
- Wholesale price regulation,
- Transfers to vulnerable groups,
- Mandate to state-owned firms,
- Windfall profits tax/regulation,
- Business support,
- Other" (Sgaravatti et al., 2021).

The use of the various instruments shows big differences across countries; elements that can directly affect tourism are similar to some of those applied to mitigate the effects of the COVID-19 pandemic. A similarity with the pandemic is that the situation can only stabilise if the original source of the turmoil (in the case of the pandemic, the mortal spread of the virus (via vaccination), in the case of the war, Russia's invasion in Ukraine) is stopped.

Until that does not happen, the outlook of international tourism remains quite gloomy. Despite the (of course, still relative) positive changes in 2022, the scenarios of the UNWTO still calculate with no rapid catching up to the 2019 results of the sector; the scenarios established (although still during spring 2022) in the latest available edition of a specific UNWTO document dealing with the effects of the war on international tourism (UNWTO, 2022) estimated international tourist arrivals in 2022 being 50% to 63% inferior to their number in 2019. Of course, in some regions, especially in some parts of Asia, restrictions due to the pandemic still play an important role in that; changes concerning the sector (both demand and supply) during the pandemic also contribute to this picture; still, the effects of the war, and of the complex economic crisis (to a great extent linked to the war) are manifest.

5. Concluding remarks – open questions

The recent years have been very difficult for international tourism: due to some of its specific features (most importantly: movement of people from one country to another), this sector was extremely heavily hit by the limitations during the COVID-19 pandemic. As a result of the pandemic, the sector went through a certain transformation, it began to increase again, but it is still far from its pre-pandemic results. In such a situation, the Russian invasion in Ukraine created an additional factor of instability, not only regarding security, but also with major economic effects.

In this situation, questions logically arise regarding the short-term survival of firms in the sector, but also regarding their long-term viability and the prospects of the sector as a whole on the long run. While present measures (aimed to mitigate the negative economic effects of COVID and of the war) have to concentrate on short-term survival (e.g., for financial reasons), they also have to take into account (as we have seen it, they partially do it) long-term effects, including potential long-term changes. Many of these potential changes are not yet clear – will there be major shifts in destinations, in the share of various types (including eventual new types) of services? Among other things, the prospects (and the role on the market) of big firms and micro-, small and medium enterprises depend to a great extent of such changes.

More broadly, the role of tourism in the economy on the long run is also at stake. We could see that today international tourism plays a very important role in the economies of many countries – this is reflected in shares in GDP, exports and employment, as well. If in the future this role decreases substantially, important structural changes – concerning not only the tourism sector, but the whole economy – will be necessary. These changes can mean a transformation of the existing sectors (digitalisation has a key importance in that), the change in the weights of the existing sectors, and also the eventual emergence of new, for now unknown or marginal economic activities. Right now, such a reflection is part of the open questions – for those actors of the sector that hope to be there to address them properly, the present critical phase has to be successfully overcome.

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