

# The Covid-19 Pandemic Impact on Tourism and Economic Growth in South Asia

## Are there any lessons for the future?

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From the first quarter of 2020, the fast-spreading Covid-19 pandemic which was continuing unabated with the periodical emergence of new variants in the next 18 months, brought immense misery to the world. The international tourism sector became one of the most affected sources of external earnings for developing countries. For the Indian subcontinent countries in the South Asia region which has an intergovernmental organization, known as the South Asian Association for Regional Cooperation (SAARC), the forecast was that there would be a 42% to 60% drop in international tourist arrivals in 2020 and 2021. There was also a growing fear of global inability to contain the spread of the pandemic. The developed and developing countries all over the world have already experienced substantial loss of lives and livelihoods by late 2020. After nine months of research, a group of well-known international pharmaceutical companies came up with vaccines, which were introduced in early 2021. However, the tasks of logistics involved in storage and delivery in time to the needed locations and ensuring access to all countries in two minimum doses appeared formidable.

The International Monetary (IMF) Fund in its World Economic Outlook of October 2020 (IMF 2020) cautioned that a return to normalcy would be “a long ascent back to pre-pandemic levels of activity”. A review of Covid-19 impacts on international tourism undertaken by the World Tourism Organization (UNWTO, 2020) reported that international tourist arrivals declined by 67% in 2020. The year-end review by the IMF in December 2020 pointed out the decline in international travel was much less than 8% during the global financial crisis in the first decade of the New Millennium and 17% during the SARS epidemic of 2003. The International Monetary Fund (IMF)’s World Economic Outlook (2021) reported that the COVID-19 pandemic reduced the per capita income by 6.3% in developing countries compared to 2.8% in advanced economies. It was also feared that the tourism-dependent economies in the developing world fare much worse. The island countries in the Caribbean and the South Pacific regions experienced a decline in growth by 12% while other Pacific Island countries by 6% in their GDP.

The IMF’s WEO 2022 had much more grim news. Although the world economic growth rate climbed out of the dismal performance with a negative 3.1% in 2020 to a record 6.1% growth rate in 2021 with hopes for a recovery toward pre-Covid-19 pandemic level output, the Russian-Ukraine war, which began in late February 2022 and continuing, introduced new uncertainties with supply-demand chain disruptions in petroleum crude and its refined products as well as food grains have already caused worldwide inflationary conditions. The expected world growth rates for 2022 and 2023 are much lower, both at 3.6%. As for the emerging market and developing countries, the corresponding growth rate estimates for 2021 and 2022 were 6.8% and 4%, respectively and projection for 2023 and 2024 is 4% and 4.1%, respectively.

Among the SAARC countries, especially in India the effects of domestic supply and demand shocks emanating from the Covid-19 pandemic were severe. They resulted from a fall in domestic employment due to a declining demand for manufactured consumer goods and agricultural products including vegetables and fruits, as well as a stoppage of construction activities. They contributed to a steep decline in incomes consequent to lay-offs and the return of the urban-based labour back to villages of origin. Besides the conventional shocks in trade in goods and services and fluctuations in foreign direct investment (FDI), there were two more external supply shocks of importance to developing countries. These relate to (i) remittances from their citizens, residing and working overseas in advanced countries; and (ii) earnings from international tourism activities. It was estimated that Covid-19 will cause remittances to decline by 14% in 2021 relative to the 2019 pre-Covid-19 level. For the South Asian region, it was estimated to decline by 22% to US\$109 billion in 2020, following a 6.1% growth in 2019.

The World Bank bi-annual study in 2022 with a focus on South Asia observed that growth in 2023 would resume roughly to pre-COVID-19 levels. South Asia’s GDP recovered from a negative growth (-4.5%) in 2020 to record a positive growth at 7.8% in 2021 and is expected to grow by 6.6% in 2022 and 6.3% in 2023.

**TABLE : Tourism and Economic Growth in South Asia: Pre-pandemic and Post Pandemic years**

COUNTRY	PARTICULARS	2015	2016	2017	2018	2019	2020	2021	2022
<b>Bangladesh</b>	International Tourist Arrivals (in million)	0.13	0.18	0.24	0.27	0.32	0.18	0.14	NA
	GDP in US dollars (billion)	195.08	265.24	293.75	321.38	351.24	373.90	416.26	460.20
	International tourism earnings in US\$ (million)	150.30	214.30	348.00	357.00	391.00	217.90	NA	NA
	International tourism earnings (% of GDP)	0.08	0.08	0.12	0.11	0.11	0.06	NA	NA
	International tourism earnings (% of exports)	0.43	0.57	0.89	0.81	0.87	0.57	NA	NA
	Inward personal remittances in US\$ (billion)	15.30	13.57	13.50	15.57	18.36	21.75	22.21	21.50
	Inward personal remittances (% of GDP)	7.84	5.12	4.60	4.84	5.23	5.82	5.33	4.67
<b>Bhutan</b>	International Tourist Arrivals (in million)	0.16	0.21	0.29	0.27	0.32	0.03	NA	NA
	GDP in US dollars (billion)	2.00	2.16	2.45	2.45	2.54	2.33	2.54	NA
	International tourism earnings in US\$ (billion)	0.12	0.14	0.15	0.12	0.12	0.08	NA	NA
	International tourism earnings (% of GDP)	3.85	3.74	4.83	4.54	4.39	2.51	NA	NA
	International tourism earnings (% of exports)	7.00	7.20	7.10	7.00	7.40	NA	NA	NA
	Inward personal remittances in US\$ (billion)	0.02	0.03	0.04	0.06	0.06	0.08	0.07	0.10
	Inward personal remittances (% of GDP)	0.98	1.59	1.76	2.38	2.23	3.59	2.89	NA
<b>India</b>	International Tourist Arrivals (in million)	13.76	15.03	16.81	17.42	17.91	6.34	7.01	NA
	GDP in US dollars (billion)	2103.59	2294.80	2651.47	2702.93	2835.61	2671.60	3150.31	3385.09
	International tourism earnings in US\$ (billion)	21.47	23.11	27.88	29.14	31.66	13.41	NA	NA
	International tourism earnings (% of GDP)	1.02	1.01	1.05	1.08	1.12	0.50	NA	NA
	International tourism earnings (% of exports)	5.01	5.37	5.70	5.43	5.80	2.77	NA	NA
	Inward personal remittances in US\$ (billion)	68.91	62.74	68.97	78.79	83.33	83.15	89.38	111.22
	Inward personal remittances (% of GDP)	3.28	2.73	2.60	2.91	2.94	3.11	2.84	3.29
<b>Nepal</b>	International Tourist Arrivals (in million)	0.54	0.75	0.94	1.17	1.20	0.23	0.15	0.61
	GDP in US dollars (billion)	24.36	24.52	28.97	33.11	34.19	33.43	36.92	40.83
	International tourism earnings in US\$ (billion)	0.51	0.50	0.71	0.74	0.80	0.24	NA	NA
	International tourism earnings (% of GDP)	0.00	0.00	0.00	0.00	0.00	0.00	NA	NA
	International tourism earnings (% of exports)	22.69	23.53	29.29	27.64	29.38	13.44	NA	NA
	Inward personal remittances in US\$ (billion)	6.73	6.61	6.93	8.29	8.24	8.11	8.23	9.29
	Inward personal remittances (% of GDP)	27.63	26.96	23.91	25.03	24.12	24.25	22.28	22.76
<b>Pakistan</b>	International Tourist Arrivals (in million)	NA	NA	NA	NA	NA	NA	NA	NA
	GDP in US dollars (billion)	270.56	313.63	339.21	356.13	320.91	300.43	348.26	376.53
	International tourism earnings in US\$ (billion)	0.92	0.79	0.87	0.85	0.99	0.77	NA	NA
	International tourism earnings (% of GDP)	0.34	0.25	0.26	0.24	0.31	0.25	NA	NA
	International tourism earnings (% of exports)	3.20	2.94	2.93	2.75	3.23	2.80	NA	NA
	Inward personal remittances in US\$ (billion)	19.31	19.82	19.86	21.19	22.25	26.09	31.31	29.87
	Inward personal remittances (% of GDP)	7.14	6.32	5.85	5.95	6.93	8.68	8.99	7.93
<b>Sri Lanka</b>	International Tourist Arrivals (in million)	1.80	2.05	2.12	2.33	1.91	0.51	2021.00	0.72
	GDP in US dollars (billion)	85.14	88.01	94.38	94.49	89.01	84.44	88.50	74.40
	International tourism earnings in US\$ (billion)	3.98	4.59	5.08	5.61	4.66	1.08	NA	NA
	International tourism earnings (% of GDP)	4.67	5.22	5.39	5.93	5.24	1.27	NA	NA
	International tourism earnings (% of exports)	23.48	26.31	26.63	27.67	24.02	8.22	NA	NA
	Inward personal remittances in US\$ (billion)	7.00	7.26	7.19	7.04	6.75	7.14	5.52	3.60
	Inward personal remittances (% of GDP)	8.22	8.25	7.62	7.45	7.58	8.46	6.24	4.84

Notes: NA= Not Available

Sources: World Development Indicators, World Bank & World Travel and Tourism Council

### Benefits of Tourism

Reforms by India, introduced in mid-1990 to open its economy has resulted in a gradual shift away from fixed exchange rate regimes towards the eventual adoption of a flexible rate regime and relaxation of exchange controls together with mobility of capital and labour. They contributed to the liberalization of the economy encouraging foreign direct investment (FDI) inflows in the manufacturing and services sector, including hotels and resorts and airline services. International tourism began to make a mark. The increasingly liberalized air transport market, the emergence of low-cost carriers offering inexpensive flights, and the relaxation of visa requirements eased travel to South Asia, including India.

Annual international tourism earnings have been contributing to the foreign exchange reserves of each country, thus providing a sizable cushion to reduce pressures on the current account in the balance of payments. Since exports of SAARC countries were growing slowly or remaining stagnant, the rise in tourism earnings has been a major support, especially when South Asian countries found themselves unable to withstand competition from China in the much less expensive manufactured consumer goods. Rise in foreign exchange reserves have also enabled SAARC countries to raise their creditworthiness to borrow more from international and private lending agencies.

A 2021 assessment by World Tourism and Council (WTTC) shows tourism's contribution to GDP increased by USD 1 trillion (+21.7% rise) in 2021 to reach USD 5.8 trillion, while the sector's share of the whole economy increased from 5.3% in 2020 to 6.1% in 2021. Additionally, the sector saw a recovery of 18.2 million jobs, representing an increase of 6.7%. The latest review for 2022 WTTC encouraging: Before the pandemic, tourism impact (from direct and indirect) accounted for 1 in 5 new jobs created across the world during 2014-2019, and 10.3% of all jobs (334 million) and 10.4% of global GDP (US\$ 10 trillion) in 2019. Meanwhile, international visitor spending amounted to US\$ 1.9 trillion in 2019. Following the severe contraction in 2021, there were signs of recovery, as vaccines that were introduced in 2021 began to prove effective. A recovery, which began in the second half of 2021, picked up in 2022. In 2022, the tourism sector contributed 7.6% to global GDP; an increase of 22% from 2021 and only 23% below 2019 levels. In 2022, there were 22 million new jobs, representing a 7.9% increase in 2021, and only 11.4% below 2019.

International spending rose by 81.9% in 2022, but was still 40.4% behind 2019 numbers, while spending by domestic tourists increased by 20.4% in 2022, only 14.1% below 2019. Although the WDI figures of the World Bank have not updated international tourist arrivals for many countries, WTTC reports India received 6.19 million overseas visitors during 2022 as compared to 1.52 million during the same period of 2021 as against 10.93 million in 2019.

Before the pandemic, tourism impact (from direct and indirect) accounted for 1 in 5 new jobs created across the world during 2014-2019, and 10.3% of all jobs (334 million) and 10.4% of global GDP (US\$ 10 trillion) in 2019. Meanwhile, international visitor spending amounted to US\$ 1.9 trillion in 2019. .... In 2022, the tourism sector contributed 7.6% to global GDP; an increase of 22% from 2021 and only 23% below 2019 levels. In 2022, there were 22 million new jobs, representing a 7.9% increase in 2021, and only 11.4% below 2019.

An econometric study by T K Jayaraman and Keshmeer Makun which appeared in the Journal of Applied Economic Sciences of 2022, established the presence of asymmetry in the relationship between tourism and growth in South Asia, which was supported by fast growing use of information and communication technology (ICT). Aside from confirming that the positive shock in tourism earnings has a beneficial effect on long-run growth, the study revealed an uncomfortable fact that the negative shock in tourism earnings led to a far greater substantial reduction in growth both in the long and short run. The results of the study are relevant in the context of the tapering pandemic which has drastically reduced the number of tourist arrivals in the SAARC region.

Full consumer trust of the same level as in pre-Covid days cannot be restored and assured, as the fear of international tourists especially from advanced countries is likely to persist for some more time and well into 2023. The US press reports of recent weeks have confirmed evidence of positive presence of the Omicron variant in some parts of the county.

### Needed steps

Steps towards the encouragement of intraregional tourism within South Asia would lead to greater travel in the short run since international travel from outside the region would take some more time to materialize. First and foremost is the need to return to a confidence level matching that of pre-Covid-19 pandemic years. In the recovery phase, the sub-continent countries may consider special efforts such as waiving visa requirements, attractive discounts on travel fares, and accommodation charges to attract travelers within the

region. Restoration of confidence to travel can be fostered by improved sanitary and hygienic conditions.

The World Bank (2021b) has commended the ICT's role in tourism. The pandemic has "brought to light the hidden potential during the lockdowns in several spheres, including payment systems, telehealth, online hygiene education, and many other digital applications". Given the higher degree of broadband and mobile internet penetration in each SAARC country there is great scope for improvements in many areas of economic development, especially in small and medium enterprises, manufacturing consumer goods and their supplies for domestic consumption, delivering health and education services promoting more balanced development within the region. More importantly, other sectors such as fisheries and marine products development which have export potential in SAARC countries with coastal resources; and similar efforts towards land-intensive exportable agricultural products in landlocked countries such as Bhutan and Nepal can now be taken up more seriously in collaboration with regional and international commercial interests. ■



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