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COVID-19 and South Asian Tourism: Challenging Times Ahead

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Summary

Tourism, which contributes significantly to the gross domestic product of several small South Asian countries, has been badly hit by the COVID-19 outbreak. It will not be an easy road ahead for these countries as the world is likely to grapple with a new normal which will include travel restrictions, social distancing and increased travel costs. The respective governments will need to provide direct financial support in the hope of reviving this sector.

The COVID-19 pandemic has stalled economic activity across the world slowing it down to levels only comparable to the Great Depression of the 1930s. Estimates by the Asian Development Bank suggest that the global economy could be impacted by almost US$8.8 trillion (S$12.6 trillion) while South Asia could take a hit of US$142-208 billion (S$203-297 billion). The impact on emerging economies is particularly significant given their dependence on the developed countries for growth as well as their lack of ability to deal with healthcare challenges posed by the outbreak.

The COVID-19 pandemic has differential effects on different sectors of each country's economy. The travel and tourism sectors have come to a grinding halt with almost 96 per cent of the world tourism destinations introducing restrictions in response to the outbreak. The tourism industry is valued at approximately US$2.9 trillion (S$4.1 trillion). According to the World Tourism Organisation, the industry is expected to lose US$910 billion (S$1.3 trillion) to US$1.2 trillion (S$1.7 trillion) globally, with a reduction in tourist footfalls by about 60-80 per cent in 2020.

In the current COVID-19 scenario, hitherto unknown moves like the total discontinuation of flights (both international and domestic) have taken place, along with lockdowns across the world. As a result, the implications on tourism are unprecedented. This makes both inbound and outbound tourism effectively zero for the period of the lockdowns, which is around two to three months for many economies (including South Asia). These coincide with the summer months when demand for tourism is also greater due to school holidays.

Tourism in South Asia

South Asia as a region has several economies which are crucially dependent on tourism as a major source of livelihood. Tourism in the Maldives accounts about 40 per cent of its gross domestic product (GDP). The economies of Nepal, Bhutan and Sri Lanka are also directly dependent on tourism (about five per cent of GDP), while three per cent of India's GDP is attributed to this sector. In addition, various other businesses linked to the tourism value chain are also adversely affected by the pandemic. According to estimates, the Maldives might see a contraction of 8 to 13 per cent of its GDP this year.

In the past couple of decades, governments of various countries – at the federal and local levels – have encouraged such initiatives as public-private partnerships to get lesser-skilled locals to start hotels, home-stays, restaurants, etc. In most cases, these have met with success as a vibrant local economy dependent on tourism has emerged in these countries. As such, the impact of COVID-19 would lead to substantial slowing down of activities and, in more extreme cases, a loss of livelihood for the people.

South Asia receives its most number of tourists from countries which are currently affected in reasonable measure by the COVID-19 outbreak, resulting in a further impact on the tourism sector. For the Maldives, China (19 per cent) is the largest source of tourists followed by the European countries. For Nepal, China and India form its biggest source followed by the European countries, the United States and Australia.

Once the lockdown ends, nations will have to adjust to a new normal where each of the following is likely to be a reality: a) airfares will increase with new social distancing norms and an expected decline in business travel as organisations turn to online platforms to conduct business; b) hotels, restaurants and market places in tourism locations will have to adhere to social distancing with other preventive measures; and c) depending on the future waves of infection, some countries may choose to draw up negative lists of countries which are more adversely impacted by the COVID-19 outbreak and may temporarily stop receiving tourists from such locations. Each of these scenarios will make tourism a more expensive experience, thereby putting stress on the returns on investment for the industry.

Government Intervention

Most governments worldwide have injected liquidity such that businesses find it easier to recover and livelihoods are not severely affected due to the crisis. For tourism, however, direct government intervention may be necessary, given that the sector's marketability is primarily due to the experience that individuals have while on the trip. This makes it particularly difficult to try virtual solutions to spur demand in this sector. Hence, in the short run, it might require substantial dedicated funds from respective governments to keep all tourism stakeholders afloat. Tax holidays for tax-paying agents in the system like hotels and restaurants, coupled with phased collection of taxes over the next few years, could be a possible model. The Maldivian government has already announced that the country would be open to receiving tourists from July 2020.

Given the negative implications of the pandemic on the tourism sector for countries such as the Maldives, Bhutan and Nepal, direct government intervention will be needed to keep the sector afloat. The net effect on South Asia's tourism will need to factor medical facilities available to tackle COVID-19, increased precautions, rise in cost tourism cost, individual country's effectiveness to deal with the pandemic and the speed of global economic recovery to spur demand.

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