Policy responses to COVID-19
Addressing the impact of the pandemic on tourism in Asia-Pacific small island developing States

By Yusuke Tateno and Andrzej Bolesta
Often compared to a paradise on earth due to their pristine tropical environment, **Asia-Pacific small island developing States (SIDS) have emerged as one of the world’s leading tourist destinations.** By targeting niche market segments, such as high-end and environmentally sustainable tourism services, many of these States have benefited greatly from the growing demand for international travel and cruise ship vacations. Indeed, international arrivals to the 14 Asia-Pacific SIDS (that are also members of ESCAP)\(^1\) reached 3.6 million in 2018, which is 1.6 million more visitors compared with ten years ago. This marks an 82% increase, which is significantly higher than SIDS in Latin America and the Caribbean (40%) and the global average of 25% (see figure 1).

However, **this trend may be in jeopardy, due to the current COVID-19 pandemic** that is rapidly spreading around the world. While the number of affected persons is currently limited in the Asia-Pacific SIDS,\(^2\) these States will suffer significant economic consequences as a result of their high reliance on rents from the tourism sector. Cook Islands, Maldives and Palau seem most vulnerable with the highest dependence on tourism and tourists from China and Europe - the two having been epicentres of the outbreaks - whereas other countries such as Fiji, Samoa, Tonga and Vanuatu are also greatly exposed to sudden shocks in tourism demand.

![Figure 1: International tourist arrivals in small island developing States (2008=100)](image)


Note: The series are indexed to year 2008 (2008=100). (*) Data for 2019 and 2020 include estimates.

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\(*\) This policy brief, prepared by Yusuke Tateno and Andrzej Bolesta of the Countries with Special Needs Section of ESCAP, is in part based on material from *Asia-Pacific Countries with Special Needs Development Report: Leveraging Ocean Resources for Sustainable Development of Small Island Developing States* (Sales No. E.20.II.F.11). It benefited from comments by Oliver Paddison and Naylin Oo. For further information on this issue, please contact Hamza Ali Malik, Director, Macroeconomic Policy and Financing for Development Division, ESCAP (escap-mpdd@un.org).\(^1\) ESCAP has a total of 53 member States and 9 associate members. Members of ESCAP that are classified as SIDS are: Fiji, Kiribati, Maldives, Marshall Islands, Micronesia (Federated States of), Nauru, Palau, Papua New Guinea, Samoa, Singapore, Solomon Islands, Timor-Leste, Tonga, Tuvalu and Vanuatu. Associate members of ESCAP that are classified as such States are American Samoa, Cook Islands, French Polynesia, Guam, New Caledonia, Niue and Northern Mariana Islands. For the purposes of this brief, Singapore is not considered to be a small island developing State because of its high level of development and high-income status, and for simplicity of analysis.\(^2\) The limited number of affected in these States may be due to a lack of testing and reporting of possible cases rather than the resilience of these economies.
The immediate impact of the COVID-19 pandemic has already been felt through a sharp decline of international inbound visitors to Asia-Pacific SIDS due to quarantine measures, travel bans and border closures both in tourists source countries and destinations. Many States are allowing only a limited number of flights, while some States, such as Marshall Islands and the Federated States of Micronesia, are delinked from the international air transport system entirely as airlines suspended services. Many cruise lines were forced to temporarily shut down their operations in a bid to reduce the spread of the virus. As of April 2020, all major cruise ship destinations in the Asia-Pacific SIDS, namely Fiji, New Caledonia and Vanuatu, had closed their cruise ports. According to the latest UNWTO estimates, as a result, international tourist arrivals could decline by 60-80% globally in 2020, down from an estimated growth of 3-4% forecast in early January 2020 (UNWTO, 2020). This would translate into a loss of $910 billion to $1.2 trillion in tourism receipts globally, putting an abrupt end to a 10-year period of sustained growth since the 2009 financial crisis (UNWTO, 2020). In comparison, during the 2003 SARS epidemic and the 2009 global financial crisis, tourist arrivals fell only by 0.4% and 4.0%, respectively.

This is because SIDS are highly dependent on tourism, both in terms of GDP and employment (see figure 2). For example, in 2018, tourism earnings exceeded 50% of GDP in Cook Islands, Maldives and Palau and equalled approximately 30% of GDP in Samoa and Vanuatu. Similarly, the number of tourism employees constitutes more than 30% of total employment in Cook Islands, Fiji, Niue, Palau and Vanuatu. While the full scale of the pandemic impact is still largely unknown, the possibility of double-digit contractions in GDP cannot be ruled out for Cook Islands, Fiji, Palau, Samoa and Vanuatu in 2020. Unemployment figures are likely to be staggering, as close to 40% of Vanuatu’s formal workforce is expected to be out of a job, with even greater impacts on the informal sector (Sen and Kenny, 2020).

![Figure 2: Tourism receipts and employment, 2018](image)

*Source: ESCAP, based on tourism receipt data from the SPTO’s Annual Review of Tourist Arrivals in Pacific Island Countries 2018, GDP data from the United Nations National Accounts Main Aggregates Database and the World Bank World Development Indicators databank (accessed on 6 March 2020) and employment data from ESCAP (2020).*  
*Note: Data reported are for 2018 or the latest year available.*
As is often the case with severe economic downturns and natural disasters, by affecting the tourism sector, the COVID-19 pandemic will disproportionately influence the lives and wellbeing of the poorest and the most vulnerable, including workers in the informal sector. Micro, small and medium-sized enterprises (MSMEs), which make up about 80% of the tourism sector globally, are expected to be particularly affected. In Fiji and Vanuatu, many MSMEs depend on the cruise industry as they provide various services, including selling handicrafts and souvenirs, to cruise ships passengers. In Maldives, migrant workers from neighbouring countries that make up 15-25% of the country’s population are especially vulnerable to the COVID-19 pandemic as they live in congested areas and work under conditions in which practicing strict social distancing is difficult.

Moreover, many workers in tourism-related services who are living just above the poverty line are now facing an elevated risk of falling into poverty. For example, in Tonga, where one-third of households rely on earnings from tourism, the poverty rate of those households could increase from 49% prior to the pandemic to two-thirds if faced with an income loss of 50% over a 6-month period (World Bank, 2020). Similarly, in many SIDS, 20-35% of the population lives on incomes above the $3.20-a-day poverty line but below the $5.50 a day (see figure 3).

Figure 3: Share of population living between $3.20 and $5.50 a day, 2015 (2011 PPP)


Note: Data for 2014 were used for Timor-Leste.

Poverty rates are measured using a poverty threshold of $5.50 per person per day in 2011 PPP terms.
To address the impact of the COVID-19 pandemic on the tourism sector of the Asia-Pacific SIDS, both broad mitigation measures to address the consequences of the outbreak and specific policies to support tourism-related activities will be essential. Most of the policy responses by Asia-Pacific SIDS so far have fallen within the former set of measures that intends to slow the pace of the transmission of the virus. However, specific actions, such as targeted fiscal and monetary measures to support affected local businesses, especially tourism-related MSMEs, and local populations employed therein, are also critical in addressing the consequences of the collapse of inflows of inbound visitors.

Most Asia-Pacific SIDS have already introduced countermeasures by, for instance, enforcing travel restrictions and isolating suspected cases. These actions have been needed due to the relatively rapid transmission of the virus globally, as well as the limited capacity of the Asia-Pacific SIDS’ healthcare systems. They are also important considering that, in the case of an outbreak, island States are likely to face a heightened mortality rate due to lower levels of immunity to outside diseases (Horwood and others, 2019). Indeed, there have been several health emergencies, such as an outbreak of measles in Samoa in late 2019 and a dengue fever epidemic in Marshall Islands in 2019-2020. These events had an economic impact on the tourism and broader services sector.

Looking forward, targeted fiscal and monetary measures will be necessary in the short term to support affected local businesses, such as in tourism-related services, particularly local MSMEs providing employment to local populations. Tourism-dependent Asia-Pacific SIDS are likely to need a fiscal stimulus of significantly more than 10% of GDP (Sen and Kenny, 2020). While typical stimulus programmes include direct cash transfers, wage subsidy to businesses and cheap financing to MSMEs, a compensation package for employees in large informal sectors, such as farmers and fishers who provide supplies to the tourism sector, should also be considered (Sen and Kenny, 2020; World Bank, 2020). With the stimulus spend, Governments can ensure the wellbeing of local populations and the survival of local MSMEs and prevent the former from falling into poverty and the latter into disarray.

However, many SIDS Governments do not have the fiscal space to respond to this economic downturn as their budgets are already overstretched or largely in deficit, with limited access to foreign debt markets. While in the Asia-Pacific SIDS, overall debt ratios are lower than in SIDS in the Caribbean and in Africa⁴, these ratios have been on the rise over

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⁴ Outstanding public external debts stood on average at about 40%, 59% and 52% of GNI, respectively, for the Asia-Pacific SIDS, the Caribbean SIDS and the African SIDS.
the last decade, partly reflecting growing external financial flows for infrastructure development, with an increasingly high risk of external debt destress. Adequate concessional assistance from the international community will therefore be essential to support vulnerable States during the COVID-19 pandemic and beyond. Many multilateral development banks and aid agencies already have emergency financing facilities in place and have even been considering additional concessional budget support loans. At the same time, development partners, including bilateral donors, are encouraged to reverse the decline in official development assistance, particularly to least developed countries, and further strengthen the South-South cooperation, while creditors should consider immediate suspension of debt payments from those requesting forbearance (United Nations, 2020).

Finally, despite the short-term disruption of tourism activities due to the COVID-19 pandemic, long-term efforts for the development of the tourism sector should not be undermined. The 2020 edition of the Asia-Pacific Countries with Special Needs Development Report (ESCAP, 2020) calls for a need to take full advantage of SIDS’ blue economy – a concept depicting sustainable use of vast oceanic resources – to foster their development, especially through the tourism sector. Given that the economic and social impact of the COVID-19 pandemic will be hard felt on the people of the Asia-Pacific region, collective actions are particularly desired. In this regard, the Report, while suggesting several long-term policy measures to leverage tourism to promote sustainable development, insists that regional and subregional cooperation is enhanced further to promote a common brand for Asia-Pacific SIDS or the Pacific subregion to raise their global profile. Common branding, such as the Pacific Tourism Organisation (SPTO) “Ours is Yours”, with a clear marketing strategy promoting their unique cultures as a whole, could raise the attractiveness of the Asia-Pacific SIDS as a destination with a variety of attractions, which would be effective in jumpstarting the tourism industry in the post-COVID era. Moreover, closer regional cooperation needs to enhance regional connectivity – the Pacific subregion’s Achilles’ heel – to ensure that tourists reach several destinations in one tour and this benefits from growing flows of tourists are spread broadly among the States.

Conclusion

The limited domestic financial resources, high debt levels and weak healthcare systems constitute a significant challenge, which makes mitigating pandemic consequences in the tourism sector even a more arduous task. Additionally, in Fiji, Solomon Islands, Tonga and Vanuatu, the current pandemic coincided with the severe tropical Cyclone Harold, which caused dozens of deaths and significant damage to buildings, trees and crops, adding pressure to already overstretched budgets of local authorities. Finally, what presents a health crisis in the short term will have far reaching impacts on education, human rights, food security and sustainable development in the long term.

The long-term impact of the pandemic depends on how long the situation persists, how resilient the sector is, and how Governments and the international community respond to the resulting economic downturns. If targeted fiscal and policy measures support affected local businesses and local populations, the long-term global context will still be supportive of the development of tourism in Asia-Pacific SIDS. These States are in a good position to benefit from the increasing demand from the emerging middle class of developing countries in Asia and the ageing society in the developed countries on the Pacific rim (ESCAP, 2020).

Reference


