

## Chapter 5

# The Economic Impacts of COVID-19 on the Tourism Global Value Chain

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### **ABSTRACT**

*The purpose of this chapter is to examine the economic impacts of the COVID-19 pandemic on the tourism global value chain (GVC). Theoretical analysis revealed that being triggered by health factors, the coronavirus pandemic exerted an unprecedented shock on both the supply and demand sides of the tourism sector and the global economy. This resulted in implications that are more severe and less predictable than earlier crises that the world had witnessed. Analysis of the economic impact on various components of the tourism GVC revealed that measures adopted by world governments to protect their citizens resulted in massive damage to tourism related industries and to the global economy. The chapter concludes by predicting that the consequences of the current pandemic will inevitably give rise to new, more innovate tourism models, responding to the changing global economic and tourism landscape and to the change in consumers' characteristics and expectations.*

### **INTRODUCTION**

Most economic forecasts for 2020 projected a year of rising, or at least stable growth. The International Monetary Fund in January predicted that growth would pick up from 2.9 percent in 2019 to 3.3 percent in 2020. By April of the same year, it was evident that the coronavirus is causing the world to plunge in a severe global recession; the IMF slashed its previous economic forecasts, and projected that the global economy is to contract sharply by 3% in 2020 and warned of a crisis 'unlike anything the world

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has seen' (Europost, 2020). The pandemic has imposed excessive high human costs, and the necessary protection measures had severe impacts across all economic sectors. The tourism sector was the most adversely hit. Since tourism is a composite commodity to which many industries contribute, (Tisdell, 2013), assessing the impact of the pandemic on tourism is a complex task. Tourism is a multifaceted phenomenon that can be fully understood only by adopting a multi-disciplinary approach (Candela and Figini, 2012). The sector contains a number of subsectors including hospitality, leisure, entertainment, recreation, aerospace and other activities. These subsectors in turn, include cultural, medical and ecological sectors. All tourism subsectors form a set of interconnected players such as travel and transportation agencies, accommodation entities, restaurants, private tours, public actors and associations that form a multifaceted system. The behavior of the overall tourism structure essentially depends on how its parts interact, exchange information, enable financial flows and formulate strategies.

In a dynamic and rapidly changing world, understanding complex phenomena such as the tourism industry and the systems governing them and attempting to predict their progress, is not a straightforward task. In this light, to assess the full impact of the coronavirus pandemic on tourism, it is essential that authors look at the breakdown of that sector more closely by studying the parts that make up its Global Value Chain (GVC). Hence, the contribution of this chapter lies in its capacity to gauge the economic impacts of the COVID-19 pandemic on the tourism global value chain (the sub-sectoral level), after introducing relevant economic theory related to demand and supply shocks. In general, reports are available by UNWTO, WTCC, and UNCTD identifying the impacts of COVID-19 on the tourism sector as a whole but rarely on its sub-sectors. The chapter is structured as follows, the upcoming section sets the background of the topic, followed by a section on the theoretical context. The fourth section studies the various components of the GVC to examine the impact of the pandemic on its individual elements. The chapter concludes by policy implications that may deal with the consequences of the current pandemic on the tourism industry.

## **BACKGROUND**

Tourism is the largest branch of service trade. Through its value chain, tourism has a significant contribution to the global economy. According to The United Nations World Tourism Organisation (UNWTO), there were 1.4 billion international tourist arrivals in 2018 (up 5% from the same time in 2017), with a total spending of \$1.7 trillion (up 4% from the same period 2017) (UNWTO, 2019). Moreover, the tourism sector accounted for 7% of total world trade in 2019. It is the world's third largest export after fuels and chemicals. This size is attributed to consumers from the emerging economies' middle class, namely China, new businesses, technological advancements and competitive travel costs. The tourism sector also acts as a significant sector of job and wealth creation. It assists in raising standards of living and transforming poor economies. Supporting one in ten jobs, the tourism sector is labour-intensive and demands skills from the lower to the upper spectrum of expertise. Workers in multiple sectors work together to build the tourism industry and participate in the (global) tourism chain, contributing to up to 20% of the world's GDP. The outbreak of the corona virus led to the fall in tourist arrivals, costing the world approximately \$80 billion in export revenue in the first three months of 2020 (UNWTO). Data from UNWTO revealed that most global touristic regions have been severely affected by the pandemic, albeit variations in impacts were observed across different regions with the least being noted in the Middle East and Africa.

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