

# Chapter 7

## Economic Impacts of the Pandemic on the Tourism of the Developing World: The Case of COVID-19

**Ayca Sarialioglu Hayali**

*Karadeniz Technical University, Turkey*

**Cabir Celik**

*Karadeniz Technical University, Turkey*

### **ABSTRACT**

*The COVID-19 pandemic crisis of 2020 with its policy measures and economic impacts has negatively affected the tourism industry, which is regarded as the most negatively affected one due to the nature of the sector, both directly and indirectly. In other words, through its policy measures such as restrictions on travel, it has affected the tourism sector directly, and through its economic impacts such as decreasing GDP per capita and hence total demand, it has influenced the tourism sector indirectly. In this regard, the aim of this study is to empirically investigate the economic impacts of the pandemic on tourism of the developing world for the case of the COVID-19 pandemic crisis of 2020. This is done by a panel data analysis including 38 developing countries for the nine months of 2020, January-September, the ongoing era of pandemic crisis of 2020 considering the available data. The findings support the main hypothesis of the study.*

### **INTRODUCTION**

The COVID-19 Pandemic Crisis of 2020 is defined by United Nations Sustainable Development Group (2020: 1) as a “global health crisis unlike any in the 75-year history of the United Nations” and described as “an exogenous shock to the economy” (World Economic Forum, 2020), which has the potential to affect all economies and all the sectors. This is due to the decreasing of aggregate demand by the shrinking

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of economies that lead to affecting first the service sector such as the “tourism”<sup>1</sup> that has been mostly negatively affected especially by the policies of COVID-19 Pandemic Crisis of 2020 such as restrictions of movement of people, lockdowns, and the closing of the national borders. In this regard, the COVID-19 Pandemic Crisis of 2020 with its policy measures and economic impacts negatively affected the tourism industry, both directly and indirectly. In other words, through its policies it affected the tourism sector directly and through its economic impacts such as leading to decreasing of GDP per capita and hence total demand it influenced the tourism sector indirectly. In this regard, since in the developing world the tourism sector is essential to the economy the negative effects of the COVID-19 Pandemic Crisis have had a serious effect on their economies and welfare. There have been several epidemics affecting global tourism in 2000s, such as the Severe Acute Respiratory Syndrome (SARS) in 2003, Swine Flu in 2009, the Middle East Respiratory Syndrome (MERS) in 2015 and most recently, the Novel Coronavirus (COVID-19). In this respect, the COVID-19 outbreak, which was first seen in Wuhan, China on December 31<sup>st</sup>, 2019 is extremely different from the previous outbreaks in terms of global tourism effects.

The tourism sector has become one of the key drivers of the socio-economic development of the developing world. When today’s tourism is considered, it is noted that due to the high competitiveness because of the availability of many tourism destinations today, modern tourism is highly related with development. Competing with the oil export or food industry within the framework of job creation the tourism sector is one of the main factors of the international trade. In this regard, the fact that it increases employment directly and indirectly makes it so significant for the economies, especially, for the developing ones. Through the indirect way, it has potential to increase employment in several different sectors, such as construction, agriculture, telecommunication *etc.* In this respect, when it is considered that it is the main foreign exchange income for several developing economies its economic value can be more clear (United Nations World Tourism Organization, 2021). Moreover, thanks to the supply of the services satisfying the expectations of tourists in a very competitive environment tourism sector leads to raise the welfare of the societies of the countries by contributing the developments of the cities and the regions (Navickas and Malakauskaite, 2009: 37). Hence, the net effects of the COVID-19 Pandemic Crisis of 2020 on tourism sector in developing world seems the same as negative for the developing world. Moreover, when the developing world, especially the ones that are highly depend on tourism sector as a source of foreign exchange revenue such as the countries like Bahamas and Maldives is considered the picture gets more dramatic in terms of the economic impacts of the COVID-19 Pandemic Crisis. In this regard, it is noted that “More prolonged restrictions on international travel could severely hurt developing economies that are highly reliant on tourism as a source of foreign exchange revenue. In the Bahamas, Cabo Verde, Maldives and Vanuatu, tourism accounts for nearly 20 per cent of GDP and nearly 60 Per cent of their foreign exchange earnings” (United Nations, 2020).

In this regard, the aim of this study is to empirically investigate the economic impacts of the pandemic on tourism of the developing world for the case of the COVID-19 Pandemic Crisis of 2020 on tourism in the developing world. This is done by a panel data analysis including 38 developing countries for the nine months of 2020, January-September, the ongoing era of Pandemic Crisis of 2020 considering the available data. It can be said that the study constitutes one of the early studies that empirically investigate the effects of COVID-19 on the tourism sector, directly and comprehensively, by using monthly data of 2020 which contributes to the originality of the study. In the study the tourism sector, which is analysed along with its significance in the economy, is first presented; then a brief literature review involving the COVID-19 Pandemic Crisis is introduced and then an overview of international tourist arrivals and

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