



Asian tourism: The long road ahead

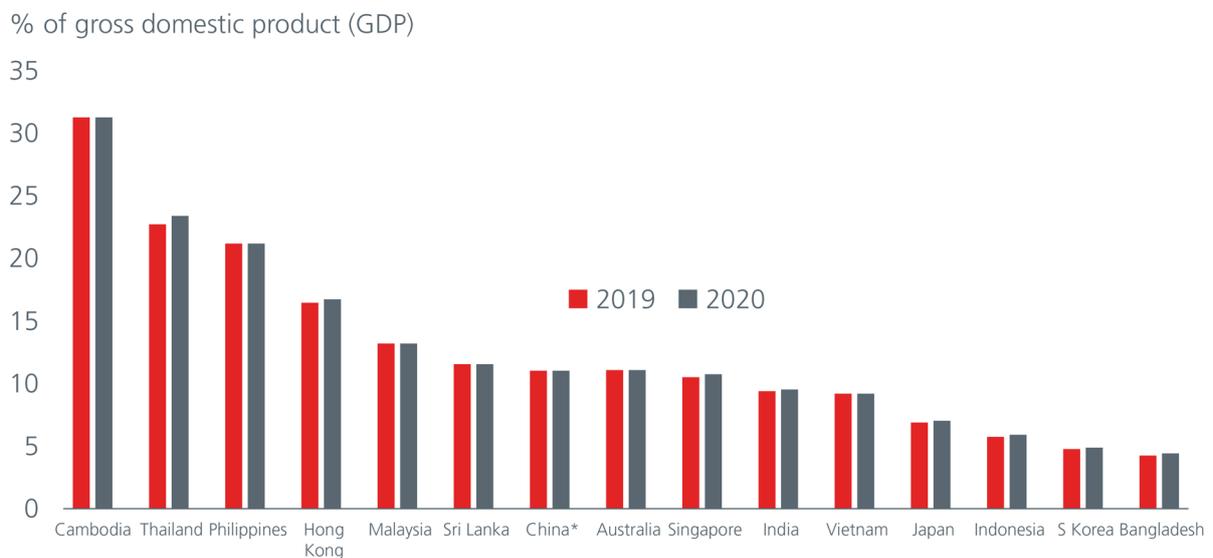


Tourism

Asians account for more than three quarters of the visitors to Asia Pacific. While international travel restrictions remain, domestic tourism is showing signs of recovery while discussions of travel bubbles within the region are taking place. Compared to global peers, Asia’s travel and tourism sector appears better positioned to weather the lingering challenges in a post-Covid world.

Travel and tourism has contributed significantly to employment and growth in many Asian economies. The expanding middle class, quicker visa approvals and improved connectivity led travel and tourism revenues to grow 5.5% to USD2,971 billion in 2019, accounting for 9.8% of the region’s gross domestic product (GDP)¹. In some parts of Asia, such as Cambodia, Thailand and the Philippines, the travel and tourism sector contributes more than 20% of the economy. See Fig. 1.

Fig. 1: Travel and tourism account for large share of Asian economies



Source: The World Bank, citing data from UN World Tourism Organization, data extracted in July 2020. *China, ex Hong Kong. Travel and tourism total contribution to GDP, including direct and indirect contribution.

Source: ¹World Travel & Tourism Council: Travel & Tourism will be critical to Asia Pacific’s economic recovery, 9 April 2020.

According to research by the World Travel & Tourism Council and Oxford Economics, a total of 21.5 million new tourism jobs were created in the region from 2014 to 2019. Within Asia, while China and India had the highest numbers of people employed in the travel and tourism sector in 2019, the sector's share of total employment was highest in the Philippines and Thailand. See Fig. 2.

The importance of the travel and tourism sector to many Asian economies underscores the challenges that the Covid-19 outbreak brings. Travel restrictions caused international tourist arrivals in Asia Pacific to plunge 51% between January and April 2020 compared to the same period in the previous year, the sharpest decline globally. See Fig. 3.

This sharp decline, together with local lockdowns and social distancing measures, puts the 182.2 million tourism-supported jobs in Asia Pacific, or 9.6% of the total number of people employed in the region³, at risk. Recent research by the World Travel & Tourism Council suggests that, in 2020, as

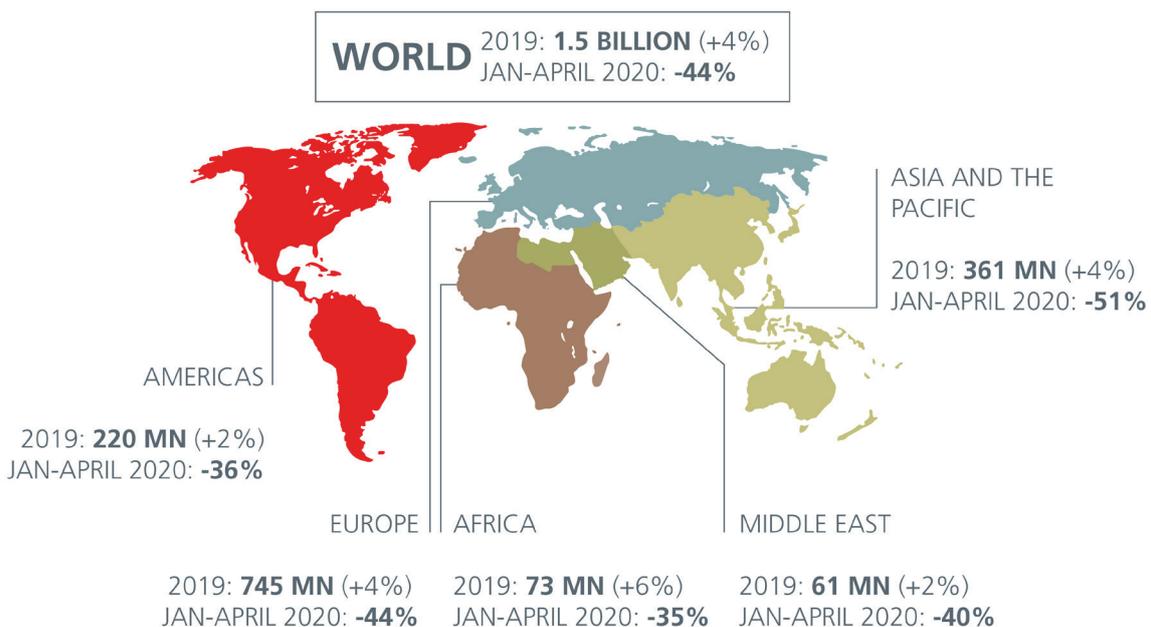
Fig. 2: Countries with the highest employment in travel and tourism²

2019	'000	% employed persons
China	29,089	3.8%
India*	27,404	6.0%
USA	5,905	3.7%
Philippines	5,789	13.4%
Indonesia	4,750	3.7%
Mexico	4,668	8.4%
Germany	3,131	6.9%
Vietnam	2,566	4.7%
Thailand	2,482	6.6%
UK	1,734	5.3%

Source: Statista (employment in travel and tourism, 2019) and Trading Economics (employed persons, 2019), data extracted in July 2020.

a baseline scenario for Asia Pacific, the Covid-19 pandemic may result in a loss of 69.3 million tourism-supported jobs (or USD1,137 billion in GDP).

Fig. 3: International tourist arrivals (January-April 2020)



Source: UN World Tourism Organization, June 2020.

Source: ²Employed persons are the number of people engaged in the economy as paid employees or as self-employed. *India's number is an estimate of total labour force (including unemployed) subtracted by the 7.6% unemployment (2019). ³The World Travel & Tourism Council, April 2020.

GOING LOCAL

With a potential vaccine probably still some time away, and international flights staying suspended, Asian travellers have turned to local destinations to satisfy their pent-up demand for leisure travel.

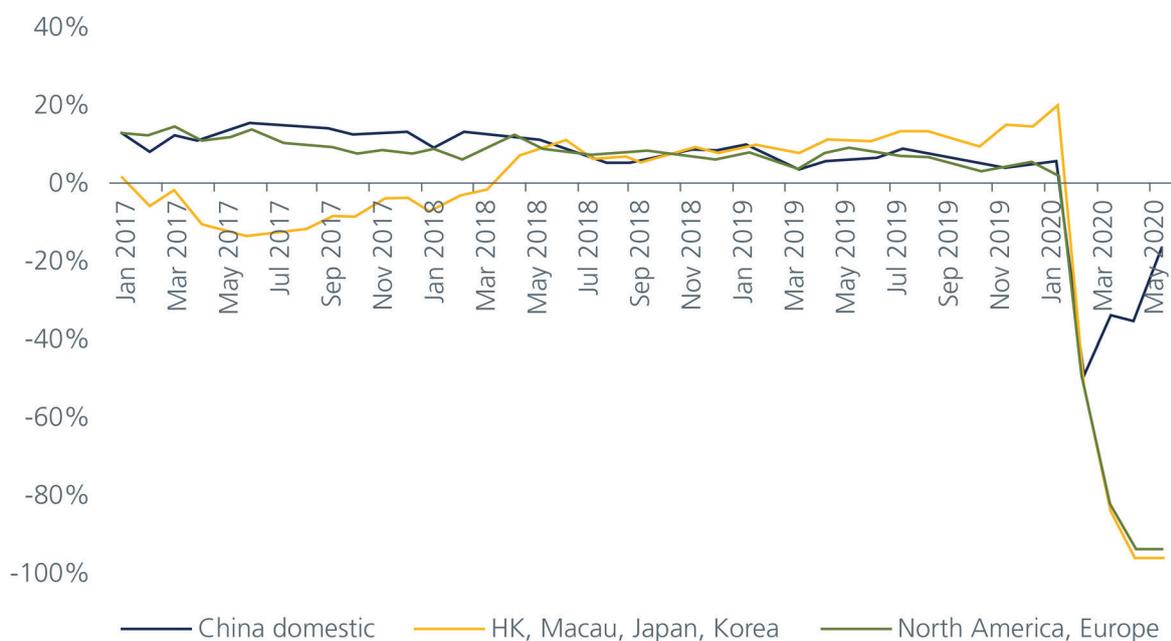
Following the successful containment of the outbreak in China, the government has been actively relaxing lockdown measures. In May 2020, the Shanghai Disneyland theme park reopened to domestic visitors, although with reduced capacity. Global hospitality giant Hilton Worldwide has reopened all its hotels in China while implementing strict health and sanitary measures. Since then, the hotel chain has seen a marked rise in the demand for short-distance tours of cities' near to tourist spots during weekends and holidays. During this year's five-day May Day holiday, official data showed⁴ that China saw a total of 115 million domestic tourists and generated RMB 47.6 billion (USD 6.7 billion) in domestic tourism revenues,

although the numbers are still 50% below last year's levels. As domestic tourism gained traction, in July, the Ministry of Culture and Tourism (MCT) raised the upper limit of visitor traffic at scenic areas from 30% to 50% of full capacity.

For now, Chinese holidaymakers are opting for shorter distance leisure trips by car or train, and forward bookings are being made with a much shorter booking window (one week). Nevertheless, while the upturn in Chinese air travel is lagging road travel, Chinese airlines are still ahead in the recovery compared to their American and European counterparts, as they benefit from the recovery in domestic travel. See Fig. 4.

Despite the slow recovery in travel so far, **Nathan Yu, Eastspring Singapore's China equity portfolio manager**, points out that, "with the coronavirus well under control in China, and the MCT permitting travel agencies and online tourism companies to restart inter-province group tours

Fig. 4: Global air traffic seat capacity growth (YoY %)



Source: Bank of America Global Research, citing Diio, 27 May 2020. P. 6.

Source: ⁴Xinhua News, 8 May 2020, citing an official of the Ministry of Culture and Tourism.

and flights, domestic travel is likely to recover gradually". According to a recent UBS survey⁵, while 90% of the respondents in China's tier-1 and 2 cities had previously cancelled travel plans, 55% said they plan to resume domestic travel. As pent-up demand for leisure travel increases, **Nathan** believes that China's domestic high-end tourism business can be a direct beneficiary. He adds that, once a vaccine is available, there may even be a temporary boom for China's domestic travel industry.

Other Asian countries are also trying to make up for the decline in international visitors. In Thailand, in a move to revive domestic tourism, the government approved three stimulus packages worth THB 22.4 billion (USD 723 million)⁶. The government will subsidise five million nights of hotel accommodation at 40% of normal room rates at tourist destinations. For other services, including catering, subsidies will be capped at THB 600 per room per night⁷.

Bodin Buddhain, TMBAM Eastspring's Investment Strategy Manager, believes that the stimulus packages will greatly support Thai domestic tourism, with registered (mostly 4-6 stars) hotels likely to benefit the most. As domestic tourism continues to recover, occupancy rates are going up at hotels which have re-opened in drive-to destinations such as Hua Hin⁸. **Bodin** also believes that the incentives will help smaller businesses such as car rentals and restaurants, survive the current crisis.

Over in Malaysia, with the outbreak currently under control, inter-state short trips are gaining traction. "Malaysians are very fond of short get-aways to destinations that can be 1-4 hours away just to relax for the weekend or to visit relatives," according to **Lilian See, Eastspring Malaysia's Head of Research**. She added that, in the meantime, online travel booking service providers are more likely to benefit from the pickup in domestic travel. To stay viable, Malaysian airlines will also be offering flexible tickets that allow

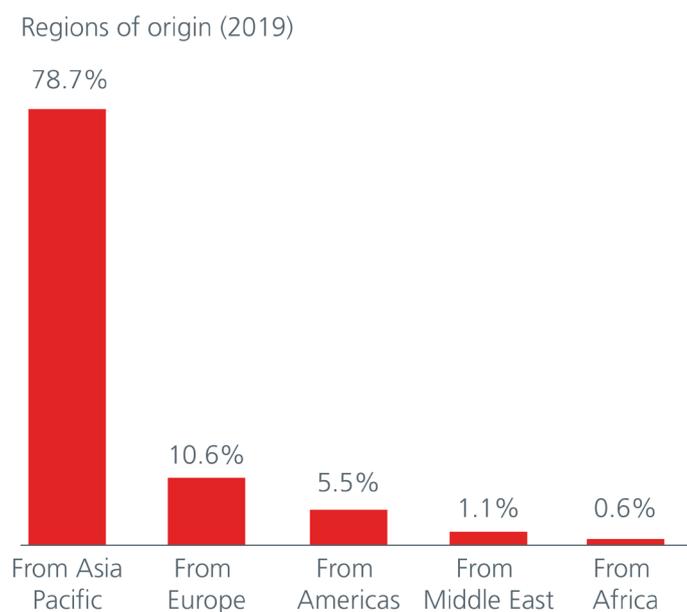
travellers to book now and travel later in order to stay viable. That said, Lilian believes that domestic tourism will continue to improve only if the number of new Covid-19 infections remains low and the recovery to pre-pandemic levels is likely to take at least one to two years.

REGIONAL TOURISM IS THE NEXT STAGE

The next step in aiding the recovery for the travel and tourism sector is to facilitate regional tourism. This will likely have a significant effect given that almost 80% of the tourists to Asia Pacific come from within the region. See Fig. 5. In fact, 90% of Chinese tourists travel within Asia.

As domestic tourism resumed in March, China is now considering forming travel bubbles with Hong Kong, Taiwan and South Korea – neighbouring countries that have successfully contained the outbreak. Within such 'bubbles', visitors will be able to travel freely without undergoing mandatory self-quarantine.

Fig. 5: Share of arrivals to Asia Pacific



Source: United Nation World Tourism Organization, 2019 data extracted in July 2020.

In the lead up to the forming a China-Korea bubble, on 30 June, the Korea Tourism Organisation announced a partnership with Ctrip – China’s online travel giant – to promote and sell Korea-bound tourism products to Chinese tourists on the social media platform WeChat and the Ctrip.com website. These products include luxury hotels and popular tourist destinations such as theme parks and ski resorts.

For Thailand, with China accounting for nearly 30% of its inbound visitor arrivals and tourism revenue, the nation is considering allowing a quarantine-free flow of travellers between Bangkok and certain cities in China. This arrangement will also be extended to Japan, South Korea and Vietnam. Elsewhere in Asia, Singapore indicated in early June that it will establish a ‘fast lane’ with six Chinese provinces and municipalities⁹. Furthermore, the city state plans to implement a reciprocal ‘green lane’ for travel across its border with Malaysia in early August, facilitating essential business and official travel¹⁰.

NO BLUE SKIES YET

While some travel restrictions are easing up, the 14-day mandatory quarantine period imposed by administrations remains in place. At the point of writing, Asian travel bubbles have yet to formalise as authorities need more time to come up with clear agreements¹¹. Before any ‘true’ travel bubble is formed, **Bonnie Chan, Eastspring Singapore’s China equity portfolio manager**, believes that as most Chinese airlines derive majority of their revenues from domestic travel, they are likely to be more resilient than other regional airlines for the rest of the year.

Meanwhile, across the region, although strategically important airlines have received financial support from governments, the less fortunate ones currently face significant obstacles in raising funds as ongoing losses deplete their capital positions. The latter could even end up as acquisition targets for cashed-up airlines looking for opportunities amidst the crisis.

As for other key players in the aviation ecosystem, the fundamental performance of airports will move hand-in-hand with the demand for air travel, while airport operators will recover largely alongside with airlines. Aircraft manufacturers and the broader global supply chain feeding into their operations will be the last stakeholders to regain their pre-Covid footing.

OPPORTUNITIES IN ASIAN TOURISM

Given its sizable contribution to Asia’s employment and economic growth, the travel and tourism sector is key to the region’s post-pandemic recovery. The pick-up in domestic tourism and the creation of regional travel bubbles can aid the sector’s recovery given the historically high percentage of Asian tourists who travel within the region. This puts Asia’s travel and tourism sector in a better position to recover from the adverse impact of the coronavirus outbreak.

Within Asia, travel and tourism businesses with higher exposure to recovering domestic and regional traffic should be more resilient and may even benefit in the short-term by gaining visitors who may have normally opted to travel to international destinations. These businesses include selected travel services and duty-free retailers. With companies facing varying degrees of pressure; selectivity and local expertise remain key to identifying attractive long-term investment opportunities in the region.

In the meantime, efficient health and safety protocols will need to be adopted to provide a safe and seamless experience for travellers. Even with all the aforementioned initiatives, it could take years for travel and tourism in Asia to return to pre-Covid-19 levels, and, even then, we might never travel in the same way again.

This is the last of six articles in our Asian Expert Series which explores the future of Asia post-covid.

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