



Travel & Tourism | Research Brief

Policy responses to COVID-19

Economists

Michael Shoory
Senior Economist

David Goodger
Managing Director, EMEA

Government policies need to balance health risks with re-starting the economy.

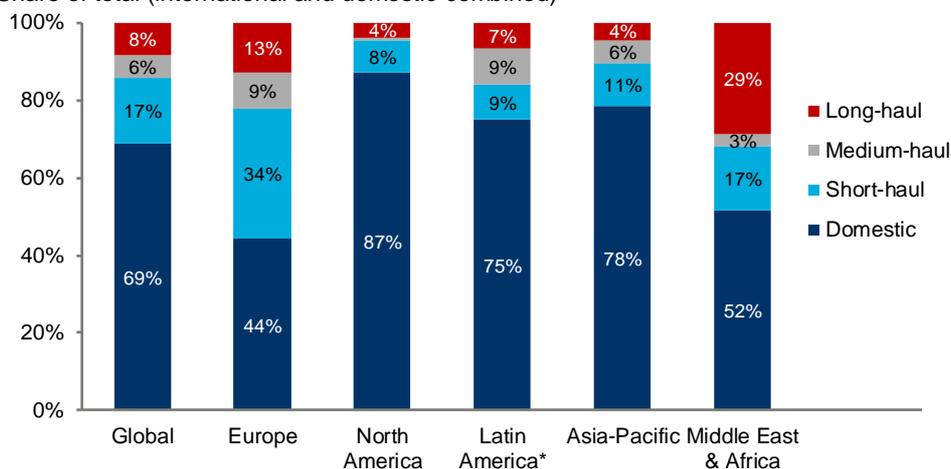
Travel & Tourism recovery will be gradual, beginning with domestic and short-haul travel demand.

Key points

- Governments in almost every country have responded to the COVID-19 outbreak with a series of policy responses to slow the spread of the virus. These include restrictions on international arrivals and internal lockdowns that also limit domestic travel.
- Restrictions have had a significant impact on travel with daily flight volumes in April 80% lower than in January. Global arrivals are forecast to decline significantly for the year as a whole and remain lower than 2019 levels for some time. The broader economic impact from the policies aimed at containing the virus are also severe.
- Economic support and stimulus policies will mitigate some immediate impact from the lockdown measures as well as aiding recovery for a range of sectors (including Travel & Tourism). These policies include employment retention schemes, direct payments to individuals and monetary policy stimulus. Policies will support Travel & Tourism businesses and employees as well as tourism demand.
- There have been a variety of suggestions for policies to support the Travel & Tourism sector specifically. In Europe, these involve coordinated border reopening, support for marketing organisations to 'delay the season' – a focus on boosting Autumn travel to make up for losses in Summer – and offering tax concessions to businesses.
- As the spread of COVID-19 slows, many governments are starting to look at pathways to economic recovery, including a gradual lifting of lockdown restrictions, provided new cases remain low. Domestic travel will resume earlier than international, followed by short-haul travel as some neighbouring countries look to open travel as part of reciprocal 'travel bubbles'. Domestic and short-haul trips accounted for around 85% of global travel in 2019 – a return of this volume would be welcomed by the industry but is not a sustainable long-run policy.

Overnight Visitors in 2019

Share of total (international and domestic combined)



*South America, Central America and Caribbean
Source: Tourism Economics

Contact: dgoodger@oxfordeconomics.com

Background

Governments in almost every country have implemented measures to slow the spread of COVID-19. A key feature has been restrictions on arrivals of non-residents – border closures, effectively – which has had a significant impact on international travel. Most countries have also implemented internal lockdowns, including restrictions on intra- and/or inter-regional movement, affecting domestic travel. These restrictions have led to closures, at least temporarily, of many businesses in the Travel & Tourism sector.

While slowing the spread of the virus, these policies have had a severe economic impact, and the path to recovery will be slow. For instance, in China the economy contracted by 6.8% in Q1 – larger than initially expected, and similarly large impacts are expected elsewhere in Q2. The impact on travel demand has been particularly severe. International travel has almost completely dried up: the [UNWTO report](#) 100% of countries have imposed some form of restrictions, while their latest forecast scenarios point to 58%-78% fall in global arrivals for 2020. Similar large falls are expected by Tourism Economics with alternative forecasts generated for all global destinations indicating that 2019 levels of activity are unlikely to be regained until around 2023. Many events that were expected to deliver large volumes of visitors have been postponed, including the 2020 Tokyo Summer Olympics, the Euro 2020 Football Championships and the Dubai Expo.

The economic impact has necessitated government support for businesses and employees, but as the spread of COVID-19 has slowed, many governments are considering the path to recovery (including easing some restrictions). This article discusses the various policies implemented to a) minimise the spread of the virus, b) mitigate the economic consequences, and c) promote recovery. The trade-offs between health and economic impacts, short-term and long-term consequences, and accounting for regional differences, present significant challenges for policymakers. There has also been substantial disagreement and controversy, as evidenced by protests in some countries (perhaps most notably, in the US). The success of various approaches will be discussed extensively by epidemiologists and economists but is not a focus of this brief.

Minimising the Spread of COVID-19

Measures to reduce the contagion have included restrictions on inbound, outbound and domestic travel, cancelling events, and closing schools and workplaces.

Inbound travel restrictions were implemented in January, with bans on non-resident arrivals firstly from Hubei province, and then for all China; meanwhile, returning residents were required to self-isolate or be quarantined for 14 days in many countries. These measures were soon applied to other affected countries – Japan, South Korea, Iran and Italy. Subsequently, many countries banned all non-resident arrivals and required all returning residents to either self-isolate or quarantine. The US was one of the first to ban non-resident arrivals from all of Europe, while in the EU most countries only permitted entry to EU residents (or their own residents, in some cases), except for essential work or study travel.

Outbound travel was also affected, as many governments advised residents to avoid travel, first to affected countries and subsequently worldwide. This effectively stopped outbound travel as, even if commercial flights were available, travel insurance would generally not cover travel against official advice.

Lockdowns on internal movement and social behaviour are present in some form in most countries. This has had a dramatic effect on **domestic travel**, with individuals in many countries being prohibited from travelling and businesses in the industry closing – at least temporarily – in response

Almost every country in the world has imposed travel restrictions in some form.

Global travel will fall significantly in 2020 with no immediate rebound expected to 2019 levels.

Lockdown measures in 2020 are severely restricting both domestic and international travel.

The severity of restrictions has varied across countries, but does not dictate speed of re-opening the economy.

Limits on travel – at least to some extent – are likely to remain for some time.

The policy response in most countries will support economic growth in recovery, including consumer confidence and travel demand.

China implemented strict measures within Hubei, with residents unable to travel to other regions and some locked in their buildings 24/7. Italy first ‘locked down’ the Lombardy region, shut all non-essential workplaces and shops, and banned residents from venturing more than a few hundred metres from their homes; these measures were subsequently applied elsewhere in the country. Other countries followed, but with differences in implementation and severity. In France, individuals were required to carry a completed form for any trip more than 1km from their home. Lockdowns in Russia are enforced with telecom surveillance and digital permits, while in others the military is in enforcing curfews.

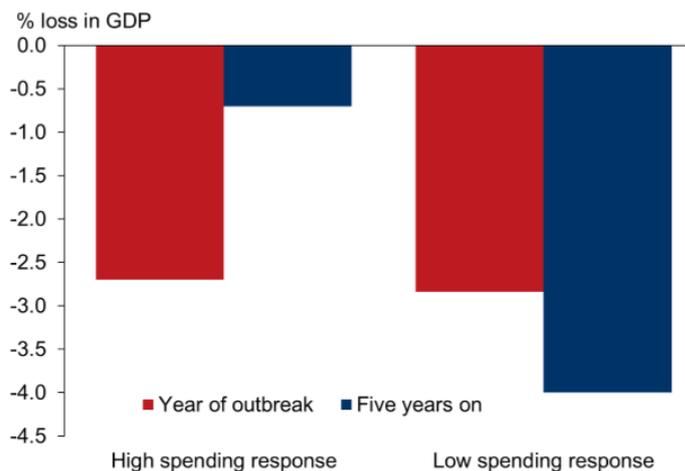
There is not necessarily a clear link between the type of approach and the potential speed of re-opening the economy, though some approaches have generated controversy. Sweden has avoided implementing major restrictions by ‘advising rather than compelling’ residents’ social behaviour, and with many businesses remaining open. The implementation of measures in the US has been somewhat piecemeal and involved significant disagreement between federal, state and local authorities. Lockdown in the UK was slow to be imposed, as part of an initial approach to target achieving ‘herd immunity’ and avoid harsh restrictions, though that was quickly reversed.

However, it is likely that some limits on travel, or mitigation measures, will remain a feature in at least the near-term outlook, and potentially until a vaccine or cure is discovered.

Mitigation of Economic and Tourism Impacts

Many countries have implemented broad economic support and stimulus policies to attempt to offset at least some of the impact from strict lockdown restrictions. In Europe, for instance, these packages have varied between 12% and 60% of GDP (depending on fiscal headroom). Larger spending packages, although taking a greater strain on government finances, would be expected to have a significantly larger economic impact in future years.¹

Effect of policy responses to epidemics/pandemics



Source : Ma, Rogers and Zhou (2020)

Policy support will directly benefit the Travel & Tourism sectors, among others, but will also support incomes and consumer spending. There will be knock-on benefits to consumer confidence which will be crucial for a full recovery in travel demand once restrictions are lifted.

¹ See Ma, Rogers and Zhou (2020), ‘[Global Economic and Financial Effects of 21st Century Pandemics and Epidemics](#)’ and Oxford Economics’ briefing: [After the pandemic – Medium-term growth uncertainties](#).

The details of those packages in Europe and elsewhere has also differed, though there are three broad components:

- Supporting workers indirectly via **employment retention schemes**, where businesses receive payments to cover wages of inactive workers, provided their employment is maintained. The intention is to avoid job losses until the economy recovers and they can return to active work. These policies are particularly important for the survival of some Travel & Tourism businesses given the labour-intensive nature of the sector.
- **Direct payments to individuals** – either as part of welfare payments for displaced workers, or broad one-off payments as part of fiscal stimulus.
- **Central bank stimulus** in the form of interest rate reductions (where possible), bond purchases and/or loan facilities.

In the EU, for instance, the ECB will purchase €750 billion of bonds in total throughout 2020, while the European Commission has prepared a €37 billion package to support businesses. There are also tentative plans for the Commission to raise joint EU debt to aid with the recovery – these ‘Eurobonds’ would effectively be secured by the financial contributions of EU member states. However, the plan is not yet confirmed, and there has been significant disagreement among member throughout the proposal’s development.

Travel & Tourism Specific Support

In addition to benefitting from general economic support policies, there are some policy suggestions geared specifically towards the Travel & Tourism sector. The European Commission has proposed a coordinated lifting of borders to maximise tourism in the traditional peak summer period (though this is subject to the decisions of individual countries). This benefit will be largely for demand from domestic and short-haul markets. This comprises a large proportion of demand and a return to this volume of activity will be welcome in the short-term, but this is not a long-term policy to drive a complete recovery.

Given summer will still be affected to some degree, there are also suggestions for coordinated support for destination marketing organisations and travel businesses to operate in shoulder season and focus on less common activities. This includes a broad ‘postpone the season’ campaign to target more tourism in Autumn to recover some of the losses in H1 and Summer. This would require more flights than usual in Autumn and an extended operating season for national parks, attractions and ferries. Marketing budgets would also need to be shifted towards European source markets, given short-haul travel is likely to recover more quickly than long-haul. Industry members have also suggested postponing or suspending VAT and other tax obligations to assist businesses recover. However, suggestions to date are mostly speculative.

Policies Targeted at Recovery

The path to recovery will vary across countries. There is considerable uncertainty surrounding these paths because the policies implemented by governments are yet to be finalised, could be interrupted by additional outbreaks of the virus, and will need to fit into governments’ existing policy frameworks.

Planning for Gradual Easing of Restrictions

Several countries have announced frameworks for the easing of lockdown and domestic travel restrictions, with criteria that need to be met before re-opening can be progressed. These criteria include an initial reduction in the number of new cases – commonly referred to as a ‘flattening of the curve’ – continued progress in the decline in infection rates, and on individuals obeying social distancing restrictions still in place.

Contact: dgoodger@oxfordeconomics.com

Economic support has taken the form of employment retention schemes, direct payments to individuals and central bank stimulus.

Supporting continued activity in the traditional shoulder season will help to offset some of the losses in summer months.

Avoidance of a second wave of infections is a key policy goal with only gradual easing of restrictions.

Effective testing and tracing programs will inform the timing and strategy of lifting restrictions.

In France, following an initial lifting of restrictions to permit longer travel distances from home, further easing of lockdown measures requires people to be ‘civic, responsible and respectful of the rules’, and the number of cases of COVID-19 to continue to drop. The Italian Government established a taskforce to be responsible for navigating a strategic path out of lockdown. This includes permitting restaurants to reopen for takeaway and delivery (full dine-in service is expected 1 June), and museums and libraries to reopen. In Germany, professional football matches resumed behind closed doors in mid-May. In Denmark and Austria, lockdown restrictions began to be eased in April.

The emphasis on gradually lifting restrictions is designed to avoid a ‘second wave’ of infections and – if such a wave does materialise – the ability to easily re-impose restrictions to limit the severity. Singapore and Japan provide evidence of the need for caution in lifting lockdown measures. Both countries have experienced a second wave of infections after they eased some restrictions, which was only permitted after initial success in containing the virus’ spread; as a result, some lockdown measures have returned.

Testing and Tracing Requirements

Knowledge about the true number and source of cases is a key part of planning a pathway to normalcy. As such, programs that effectively test and trace the spread of the virus are essential to understanding the point at which lockdown restrictions can be lifted. This in turn facilitates a sooner and clearer pathway for economic recovery. Testing and tracing can also help to isolate and quarantine any new outbreaks without another large spike and a return to more serious lockdown measures.

South Korea limited the spread of COVID-19 without requiring the quarantining of entire cities (as was necessary in China) with an extensive programme of testing; those ordered to self-isolate had to download a tracking app. Hong Kong also required use of an app for those in isolation/quarantine, and was similarly successful with containment (despite the initial disadvantage of such a high-density population), thanks to effective testing, tracing and cooperation from residents. The Australian Government has also asked residents to download a tracing app that records all users who come within close proximity of each other, and notifies them if another tests positive for the virus; the health authorities can access the details of anyone who has downloaded the app and come into contact with an infected individual. This is based on technology developed by the Singaporean Government for a similar app. Other countries are also developing tracing apps.

Co-ordinated cross-border testing and tracing activity across countries will help the recovery in international travel. Countries will be able to more freely allow entry to visitors and returning residents with confidence that they will be notified of any contact with the virus in other countries. This will facilitate any necessary future quarantine or temporary resumption of lockdown activities. Guidance from European Commission, and discussion by EU ministers, on how best to lift restrictions highlighted the need for close coordination including the cross-border interoperability of tracing apps.

Domestic and Short-Haul Travel to Precede International

Most countries have specified that domestic tourism will be permitted to restart before international arrivals. This provides opportunities for national and regional governments to actively **promote domestic tourism in substitution for outbound travel** by their residents, which would support their tourism-related businesses (who cannot yet receive international visitors).² Several central European countries have sought to actively encourage domestic rural tourism, rather than popular (and sometimes overcrowded) city destinations. For example, The Czech government is considering offering recreation vouchers to residents to use for domestic vacations, and businesses that support these schemes will be offered tax deductions.

In addition to domestic tourism re-commencing before international, it is also possible that short-haul travel between selected countries will be permitted before a wider reopening of borders. This will likely involve a more rapid recovery in leisure than in business travel, while event related travel, including business events, will likely take longer to return.

The Australian and New Zealand governments are discussing the possibility of opening a 'trans-Tasman travel bubble' in the second half of 2020, to allow travel between the two countries, provided that the spread of COVID-19 is adequately contained. The Baltic countries (Latvia, Lithuania and Estonia) are also implementing their own travel 'bubble', and elsewhere some countries are currently in the process of easing border restrictions with their immediate neighbours (such as Germany and Austria as well as Bulgaria, Greece and Serbia). It is also likely that travel within the Schengen zone for leisure purposes will be permitted in the summer months before non-EU residents are permitted to enter the zone for holidays. EU ministers continue to discuss how best to co-operate to allow some cross-border travel during the peak summer season while avoid renewed outbreaks.

Given that domestic and short-haul travel accounts for around 85% of global trips, a rapid return to a large proportion of this travel – such as via easing restrictions, as mentioned above – would provide significant support to activity in the Travel & Tourism sector. North America and Asia-Pacific have especially large shares tourism accounted for by these sources. However, reliance on short-haul and domestic travel is ultimately not sustainable in the long-run without significant adjustments in the approach and policies of the sector.

² Further analysis of the potential for this substitution, and vulnerability to a recovery in travel more broadly, will be discussed by Tourism Economics in the coming weeks.

Domestic substitution will be a feature of the immediate recovery growth.

Short-haul markets are likely to be a focus for immediate boosts to inbound tourism, including reciprocal 'travel bubble' arrangements.