COVID-19 pandemic, the war in Ukraine and looming risks for tourism’s recovery

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In the claws of the pandemic

For more than 2 years we have been subjected to COVID-19 outbreaks of varying intensities. These shocks, and the resultant containment measures, have severely damaged both societies and economies, including tourism industries. In 2020, global GDP decreased by 3%.

Rough estimates of the total economic costs of the pandemic in 2020 approximate 100% of global GDP in 2019 and encompass the recession costs in 2020, growth losses for the period from 2021 to 2030, the costs of fiscal impulses, changes in government debt and the statistical value of deaths related to COVID-19 as well as losses in education and human capital, which have substantially eroded social resilience (Yeyati and Filippini, 2021).

The economic downturn triggered by COVID-19 has often been compared with the effects of the Global Financial Crisis (GFC) 2008/09, yet such comparisons are flawed as the GFC resulted primarily from a demand shock, whereas the present COVID-19 crisis is more or less a combination of both supply and demand shocks. Delivery chains have been interrupted and millions of people have lost their jobs, at least temporarily, as government measures forced most businesses to close in order to reduce infection risks. The economic downturn, coupled with high unemployment, severe income losses, burning liquidity problems and the mandated closing of shops, hotels, restaurants and the cessation of air or bus transportation have led to a freefall in demand, especially in tourism. These shocks raise important questions about the resilience of current socio-economic systems in general, and particularly in the case of the most affected sub-system: tourism.

Tourism has been hit particularly hard, with international arrivals decreasing by 73% in 2020 (UNWTO, 2022); the main reasons for this development being lockdowns, mobility restrictions and income losses triggered by the pandemic and the enacted containment measures. Data for 2020 show that countries including France, Italy and Spain, which have a relative high tourism share, suffered more substantial GDP losses than countries with a lower dependency on contact-intensive services.

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such as Germany, the Netherlands and Sweden (Figini and Patuelli, 2021; Gunter et al., 2022). On the other hand, analyses show that the share of IT related services (dis-embodied services) in service exports is inversely related to GDP losses, such that countries with high IT shares (and likely low travel shares) can expect lower GDP losses (Smeral, 2022). In other words, the pandemic has demonstrated that economies with a high degree of sectoral diversity suffered less under the COVID-19 crisis than those with a higher degree of specialization in sectors with embodied services.

A study focused on regional resilience within the EC (2021) showed that regions with a low degree of diversification proved the least resilient in terms of the experienced impacts of COVID-19 on the tourist sector, with examples being Adriatic Croatia, North-Eastern Bulgaria and the Italian regions of Liguria, North and South Agean, Crete, the Ionian Islands, Peloponnesse, Andalucia, Valencia, Canary and Balearic Islands, Sardegna, Friuli-Venezia, Lazio, Valle d’Aosta or Tuscany. On the other hand, those regions which proved more resilient tend to feature more diversified economies. Geographically, the distribution of regional fortunes and resilience reflects the (European version of the) classical ‘North-South Divide’.

Despite the strong recovery of the world economy by 6% in 2021, tourism showed only a moderate upturn by 5.8% on a global scale, remaining around 70% below the pre-pandemic level of 2019 (OECD, 2022; UNWTO, 2022). Expectations for the current year, 2022, are also far from overwhelming, with the UNWTO (2022) predicting the growth in international arrivals to be far below that require for a return to 2019 levels.

Although the economy currently shows positive momentum and the level of pent-up demand is high – supported by compelled saving in the lock down periods and increased savings for precautionary reasons (Plzakova and Smeral, 2022) – the demand for travel has recovered much slower than expected. On the demand side, rising prices and transportation costs as well as weak consumer confidence could mean that the pent-up travel demand fails to materialize over the coming months. One manifestation of weak consumer confidence is the persistence of doubts regarding travel and health safety. A high vaccination quota would help to contain dangerous virus mutations and support the recovery of tourism demand, yet while the EU managed to vaccinate a high proportion of the population relatively quickly, it appears difficult to raise the percentage to 85% or 90% because of strong resistance among vaccination-sceptical parts of the population. This leaves some questioning whether it is indeed safe to travel. These dampeners on demand interact with major bottlenecks on the supply side, where limited supplies of labour and air traffic are resulting in flight delays and cancellations in some parts of the world: further negatively impacting international tourism numbers.

The alarming shortage of labour supply in tourism is the result of several factors. Part of the labour supply issue is explained by ever-changing travel restrictions impeding the movement of the workforce. Many workers who left the tourism labour market during the pandemic have not returned, in some cases because they have found jobs with better work conditions and improved job security (both with respect to seasonality and vulnerability to external shocks, such as the pandemic). Last but not least, reduced interest is recognized in educational programmes related to tourism and hospitality, as students are also exercising caution with respect to job security and selecting industries that have demonstrated greater stability in recent times.

The speed of the recovery process will ultimately depend on a broad set of developing circumstances, including regulations and travel restrictions, the evolution of the pandemic and mounting economic challenges. The latter might include massive shifts in consumption patterns, as the excess savings generated in the COVID-19 period might not result in increased real demand in consumer good markets but instead be used up in financing the explosive increases in the costs of energy and daily life conditioned by the war in Ukraine and supply shortages.
Education, human capital and the integration of individuals as members of the local community with a recognized social status are components of social resilience, which can be defined as the ability of groups or communities to cope with external stresses caused by a disaster or any crisis/shock caused by socio-economic, political or environmental changes (Saja et al., 2021). The building of human and social capital has clearly been disrupted by the COVID-19 pandemic. During the COVID-19 pandemic, 100–120 million people lost their jobs in the tourism industries (UNWTO, 2020) and traditional forms of social contact (within families, educational groups or local communities) were limited based on social distancing requirements. National and international travel restrictions have further disrupted the social environment, particularly for families distributed around the globe. Finally, the reduction in tourism implies a loss in one of the long-term positive impacts of tourism: building social resilience and strengthening social values through increased understanding of different cultures, greater tolerance of different races, a stronger sense of solidarity and the promotion of various freedoms. While the impacts of the pandemic are hopefully subsiding, pressing current challenges such as the war in Ukraine are further impacting the development of human and social values – often with negative consequences for social resilience.

The price of war

Hopes of an incremental recovery at the beginning of 2022 were quickly dampened by new uncertainties and risks as Russian invaded the Ukraine. Since February 2022, Europe has again faced a war very closed to the border. The price of the war is already high; we are confronted with a humanitarian crisis including dead soldiers and millions of refugees forced to flee their homes. The invasion has also contributed to an increase in geo-political tensions around the world, and a resurgence of ‘Cold War’ mentalities (at present typified by China’s and the USA’s approach to the Taiwan issue).

Given these multiple factors and uncertainty about the duration of the war, it is very difficult to forecast the extent to which growth rates will fall and inflation rates will rise, but international organisations now assume that global GDP growth will weaken significantly this year at least to 3% (IMF, 2022), a ½ percentage point lower than in the spring forecasts (IMF, 2022; OECD, 2022). Growth in the EU is predicted at 2¼% for 2022 and to fall to 1½% next year, also a deep recession is not unlikely (EC, 2022). The expected 2022 inflation rate in the OECD countries will be around 9%, thereby significantly eroding the real disposable income and the living standards of most households. Inflation of this magnitude has strong distributional effects: while it reduces the burden of both public and private debts, it brings a majority of lower- and middle-income households into critical financial situations. Such conditions imply further threats to notions of solidarity and social resilience.

As Russia and Ukraine are large commodity producers and exporters, the conflict conditioned cutbacks and supply shortages have driven up prices for raw materials, energy and food to record levels. Further supply shortages and disruptions of the global supply chains accrue at the same time due to China’s zero-COVID policy, which additionally fuels inflation and lowers domestic growth, with negative feedbacks on the world economy. The high prices for energy will be partly financed by available savings, but private consumption will also fall. At the end of the day, many households will find that there is nothing left for a vacation or a city trip, especially as travelling (transportation costs, hotels, restaurants, etc.) has also become much more expensive. On the supply side, the ongoing uncertainties reduce business investment, which will dampen the development of future supply.
The looming risks of tourism’s recovery

Tourism forecasts reflecting the widespread economic and social challenges associated with the war and the evolution of the COVID-19 pandemic are rare. According to UNWTO (2022), international global arrivals in 2022 will reach between 55% and 70% of the pre-crisis levels, depending on real income losses, transportation and accommodation costs and COVID-19 related travel restrictions. The failure to reach pre-crisis levels in 2022 is supported by an earlier forecast by Plzakova and Smeral (2022), as well as medium-term predictions that it might take until 2025 to return to the levels of 2019 (Gunter et al., 2022).

While these assessments are clearly not positive, such forecasts are perhaps more realistic in light of the many looming risk factors could dampen economic and tourism development. The main risks are:

1. War and inflation: the conflict between Russia and Ukraine will not end during 2022, instead extending into 2023, with the result that ever more critical links in supply chains will be destroyed and even more severe shortages of important production factors will appear. The upward pressure on prices will continue, leading to further losses in real income, thereby lowering private consumption and travel demand. Most savings, including any excesses accumulated during lockdowns, will be used to balance out the strong price increases and to invest in alternative energy systems. An even longer conflict between Russia and Ukraine could bring many households to the edge of their abilities to finance their daily lives.

2. Gas embargo: the negative supply shock of a possible gas embargo would further worsen the situation, with the result that at least Europe would suffer under a severe recession with high unemployment and income losses. We cannot exclude the possibility that a gas embargo would be accompanied by the rationing of gas supplies with the priority ‘household consumption first’. Tourism would decline strongly: firstly due to the unaffordability of travelling and secondly because of the unattractiveness of frequenting only moderately heated hotel rooms and restaurants (and paying a premium for the privilege). In case of overseas demand, uncertainties related to safety and the energy supply will dampen visits to Europe in general.

3. Monetary policy: it remains uncertain as to how monetary policy will be applied to raise interest rates, tighten money markets, and fight inflation. On the one hand, a restrictive monetary policy is not an appropriate strategy to address exogenously caused inflation. On the other hand, the high inflation rate has understandably prompted trade unions to ask for higher wages, which could initiate a dangerous and self-reinforcing wage-price cycle which necessitates a tight monetary policy response. Balancing responses to tackle these two situations with different causes may be one of the biggest challenges ever to confront monetary policy engineers. Rising inflation presents a trade-off situation in which monetary policy must select between either supporting the recovery of the economy or getting ahead of price pressures by tightening money markets, even if that delays the recovery.

4. Strong decline in China’s economic growth: despite strong public support, the Chinese economy shows their lowest growth prospects of the last 30 years: expected at 3¼% in 2022 and 4½% in 2023 (IMF, 2022). However, because of acute shortages in energy supplies, the worsening crisis in China’s property sector, the ‘zero-COVID policy’, the increasing public interventions in private businesses and very weak investment activities, the decline in growth could even greater than expected. The slowdown in China has global consequences, where lockdowns further disrupt global supply chains and consequent declines in domestic spending reduce demand for goods and services from China’s trade partners.
5. Fragmentation of the world economy: a serious risk in the medium term is that the war in the Ukraine will contribute to a fragmentation of the world economy into different regions. These geopolitical blocs could have distinct technological standards, own payment systems and different reserve currencies (IMF, 2022). A fragmentation of the world economy would cut back trade intensity and diminish the effectiveness of multilateral cooperation to address climate change – further worsening the current food crisis.

6. New variants of the COVID-19 virus: new virus variants, particularly more life-threatening ones, would extend the duration of the pandemic and may necessitate further containment measures. Further restrictions could have a negative impact on the economy in terms of supply chain disruptions and slowing the recovery of demand.

7. Global distribution problems of vaccines: the distribution of vaccines to countries that do not have sufficient supplies has been inefficient and sluggish, while the resistance of vaccine-sceptical parts of populations in more developed countries continues to delay broad vaccine coverage of the global population, leaving open the possibility of new infection waves (Gunter et al., 2022).

**What could we do?**

Setting measures which partly balance out the negative effects of inflation and minimize the real income losses of the population would belong to the priorities. These measures not only support private consumption in general but also exert a positive influence on tourism demand and benefit tourism businesses. In the longer term, the resilience of the regions in general as well as the tourism industries could be bolstered by measures supporting diversification (including the intensified use of technological solutions on all levels). Such measures could be:

- Redistribution of the net tax income (under the consideration of the also higher inflation-related public expenditures) generated by the excess inflation, calculated as the difference between the current inflation rate and the rate of a reference year (e.g. 2019). The redistribution of the excess inflation-related net tax income should be progressive, such lower income households receive more than the others.
- Another way to quickly boost the purchasing power of the population is for governments to balance out the increased costs of critical expense items such as food and energy with transfer payments, also progressively staggered by income brackets.
- Offering interest-free loans or non-refundable subsidies (Assaf and Scuderi, 2020): These can benefit the regions in general and tourism related businesses (e.g., hotels, restaurants and airlines). In a longer term view interest-free loans or non-refundable loans could support to develop the regional diversification (including the leisure supply).
- Actions specific for tourism agencies: these organizations do not typically view ‘disaster management’ or mitigating pandemic effects as one of their responsibilities. Because risk management, including preparedness, response and recovery, are complex undertakings that require continuous collaboration actions and need governance. It is also necessary to integrate tourism into a national disaster management plan.

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