

# International Travel and Tourism as a Key for Economic Recovery

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## Key Messages

- Tourism sector is key driver for the economic recoveries in the services sector in specific and the Malaysian economy as a whole. Reopening the borders for international tourists could significantly become a labour market corrective measure despite the speed of adjustment may take some time to be effective.
- Tourism GDP and employment generation strongly correlated with the international tourist arrival, suggesting the value added and employment expands as the international tourists increase.
- From an economic perspective, reopening international borders for international tourists may be targeted to maximize the full economic potential. Our calculation indicates tourists from America, Asia and Europe have been associated with considerable impacts in stimulating GDP and reducing unemployment rates. However, health factors such as infection and vaccination rates of the country of origin—which are excluded in our analysis—should be equally considered in the decision making.
- Equally important to note that analyses in this policy brief do not factor in supply-side constraints such as labour supply and raw material shortages that may affect the productivity of the tourism sector.

In our recent publication of the *Quarterly Labour Market Perspectives – A Sign of Labour Market Rebound*, we had shown that the services sector, especially the tourism sub-sector is the key driver for economic recovery at sectoral level. The pandemic inflicts a major blow to the tourism sector and leaving behind hard-to-heal wounds on its growth direction. Lifting the domestic and international travel restrictions is expected to boost the tourism sector and subsequently the overall economy.

The tourism sector is a labour-intensive sector, directly employing 3.5 million workers and dominating 23.1% of total employment in the economy (Department of Statistics Malaysia, 2021). Once the sector is recovered, the unemployment rate of the economy is expected to reduce significantly which in turn translated into labour income increases. The increase in the labour income will stimulate demand in the economy and this directly will improve private consumption on the demand-side of GDP.

Many countries are now entering a new phase in fighting the COVID-19 while at the same time managing the re-opening of the tourism economy. On November 11, 2021, Malaysia's National Recovery Council proposed reopening borders to international travellers by January 1, 2022, with the primary aim to accelerate the recovery of the tourism sector. According to a source, the international border closure has resulted in Malaysia losing about RM90 billion (US\$21 billion) in tourism receipts.

## INTRODUCTION

Tourism is one of the key economic sectors to the Malaysian economy and the immediate and immense shock to the tourism sector resulting from the coronavirus (COVID-19) pandemic is affecting the wider economy. The implementation of non-pharmaceutical containment measures by restricting international travels, business operations and people-to-people interactions have brought the tourism sector to a standstill.

From an economic perspective, especially the survival of businesses and livelihood of tourism-related employment, reopening of borders for international visitors are most welcomed. This EU-ERA Policy Brief provides a short note on the importance of reopening the international borders and the extent to which it affects the GDP and unemployment rate.

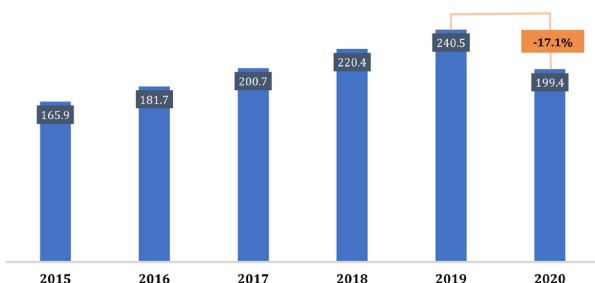
## THE SIGNIFICANCE OF THE TOURISM SECTOR

The tourism sector generates foreign exchange through the export of services, drives regional development, directly supports numerous types of jobs and businesses and underpins many local communities. In 2019, the sector contributes RM102 billion directly to the Malaysian GDP and employs 3.5 million workers.

In addition to the direct contribution, the tourism sector also indirectly generates output, income and employment to other sectors that have strong inter-dependencies with the tourism sector. For example, an increase in hotel bookings means that the demand for agricultural products such as chicken, fish and fruits will increase to support visitor spending. Our calculation using an input-output model indicates that expenditures by international visitors generate about 45% to value added of the tourism sector while the rest of 55% are attributed to other sectors<sup>1</sup>.

The key measure for the growth of the tourism sector is the arrival and movement of tourists and visitors. The non-pharmaceutical containment measure that restricted international travel affects severely the tourism sector. As indicated in Figure 1, the gross value added of the tourism sector contracted by 17.1% from RM240.5 billion in 2019 to RM199.4 billion in 2020. Among the tourism sub-sectors, Accommodation Services; Food and Beverage Serving; Passenger Transport Services; Travel Agencies and Reservation Services; and Cultural, Sports and Recreational Services are the sub-sectors that affected tremendously<sup>2</sup>. Gross value added of these sub-sectors declined above the average of the tourism sector.

**Figure 1. Gross value added of the tourism sector, current prices (RM billion)**



Source: Department of Statistics Malaysia (2021)

<sup>1</sup> Results are generated from an application of a quantity-based input-output model. The model treats the international visitor expenditures which obtained from the Tourism Satellite Account 2020 as exogenous final demand.

<sup>2</sup> There are eight tourism sub-sectors reported in the Tourism Satellite Account which include Accommodation Services; Food and Beverage Serving; Passenger Transport Services; Travel Agencies and Reservation Services; Cultural, Sports and Recreational Services; Retail Sale of Automotive Fuel; Retail Trade; and Country-specific Tourism Characteristic Services. For details, please refer to the latest Tourism Satellite Account 2020 (Department of Statistics Malaysia, 2021).

A similar trend was observed for the employment generation. The capacity of the tourism sector to absorb employment reduced by 2.9% from 3,561 thousand in 2019 to 3,457 thousand in 2020, as shown in Figure 2. The Cultural, Sports and Recreational Services; Travel Agencies and Reservation Services; and Accommodation Services are the most affected sub-sectors with the employment declined by 18.1%, 16.2% and 10.8%, respectively. The relatively lower impact of employment compared to the value added has resulted from the government's active intervention in the market to retain employment such as the wage subsidy program.

**Figure 2. Number of employments in the tourism sector ('000)**



Source: Department of Statistics Malaysia (2021)

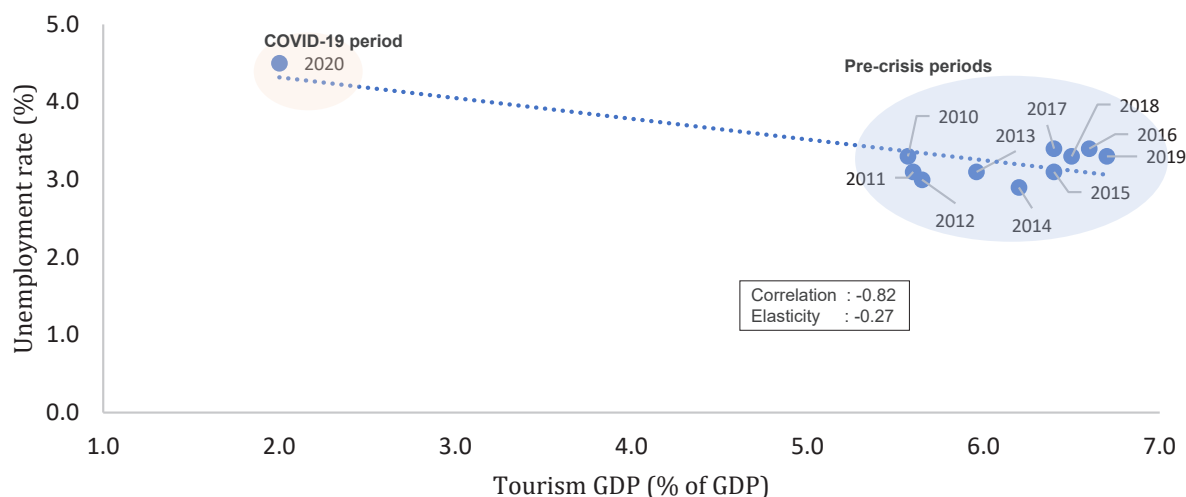
## INTERNATIONAL TOURISTS AND ECONOMIC RECOVERY

According to the Malaysian Aviation Commission (MAVCOM) data, the number of air passenger traffic began to drop in the first quarter of 2020 and remain until the second quarter of 2021. The decline was recorded at more than 90% with a significant reduction in the number of international travellers. Meanwhile, the volume of exports of services, which predominantly contributed by business and personal travel purposes, also declined almost 6 times in 2020 compared to the pre-crisis period.

International travel restrictions to contain infectious virus spread resulted in a massive disruption on the tourism sector. Such movement control order had affected tourism businesses, which are highly dependent on people's physical presence to stay in operation. From an economic-wide perspective, such disruption will also cause a ripple effect to other industries, especially for those sectors supplying or using inputs from the tourism sector. This also holds for the labour market (see Figure 2).

Tourism GDP highly correlates with the unemployment rate. As shown in Figure 3, there is an existence of an inverse relationship among these two indicators, which suggest that an increase in the value added from the tourism sector would benefit the labour market through unemployment reduction. Therefore, inbound travel that induces the tourism sector is a key in stabilising the labour market condition.

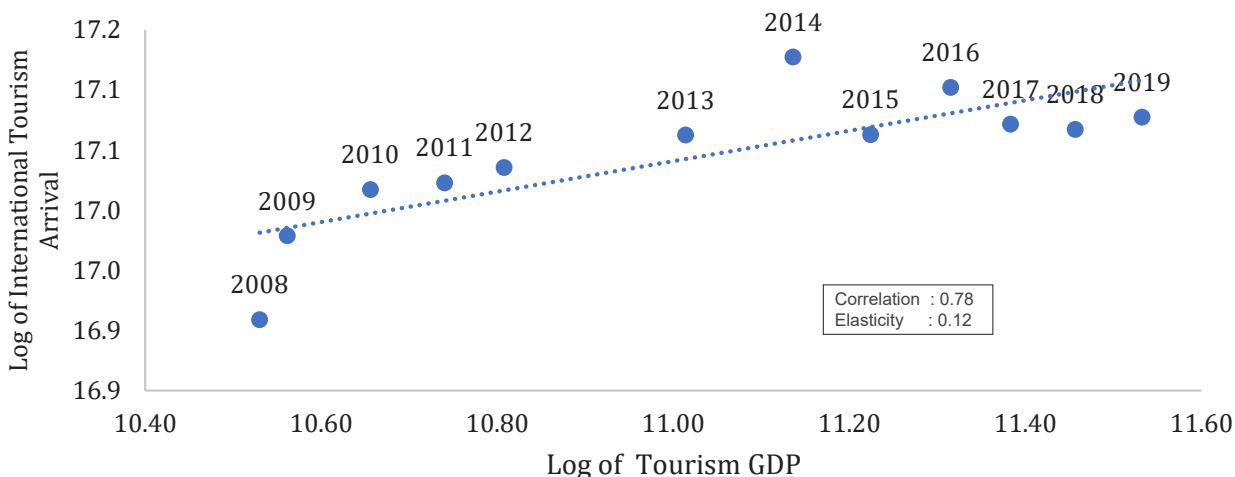
**Figure 3. Correlation between unemployment rate and tourism GDP (2010-2020)**



Source: EU-ERA own illustration based on unemployment rate and tourism GDP data from the Department of Statistics Malaysia (DOSM).

Tourism GDP on the other hand is associated with a positive correlation to the international tourist arrival, suggesting the value added expands as the international tourists increase. Our calculation using a quantity-based input-output model shows that every Ringgit spent by international tourist generates about RM0.83 to the value added.

**Figure 4. Correlation between international tourist arrival and tourism GDP (2008-2019)**



Source: EU-ERA own illustration based on unemployment rate and tourism GDP data from the Department of Statistics Malaysia (DOSM).

## RECOMMENDATIONS

The challenge of reopening the borders to international travellers is hard and difficult. It is unclear when and under what conditions a more extensive reopening of crossings will take place. The situation is still fluid, as many countries try to figure out how to control COVID-19 while reducing the impact of containment measures, particularly on the tourism industry.

We do not want to participate in the debate of standard operating procedures (SOP) for international tourist arrivals. Rather, we attempt to provide policy makers with information on tourists from which countries should be prioritized as far as economics is concerned. For this purpose, we have examined the impacts of international tourist arrival, splitting according to the countries of origin, on GDP and unemployment rate. We have applied time-series econometric models for each tourist arrival continent. The GDP model as follow:

$$Y_t = \alpha_0 + \alpha_1 \text{tourist}_t + \varepsilon_t$$

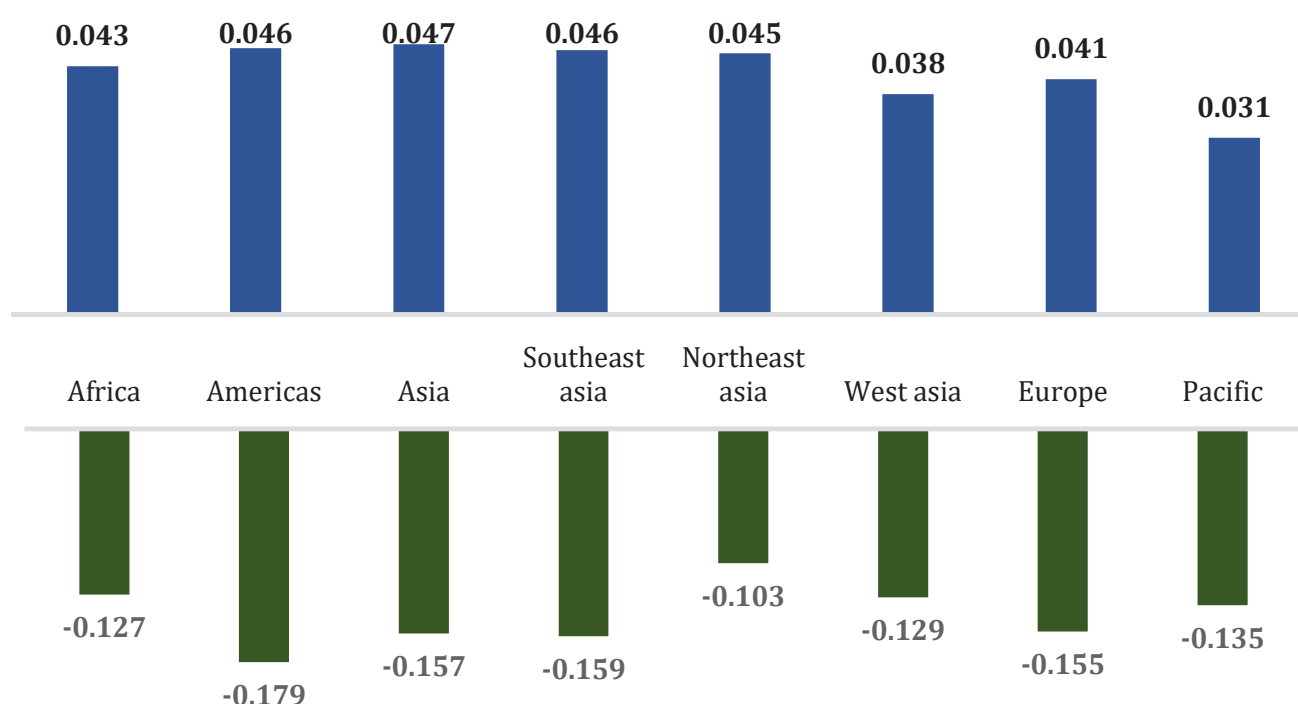
and unemployment rate model as follow:

$$UR_t = \beta_0 + \beta_1 \text{tourist}_t + \varepsilon_t$$

In this econometric specification,  $Y_t$  represents GDP,  $UR_t$  represent unemployment rate while  $\text{tourist}_t$  is the number of tourists arrival based on continent origin and  $\varepsilon_t$  is known as the error term.

Results are summarized in Figure 5 indicates there is a clear target from which continent (Americas, Asia, Africa, Europe and Pacific)<sup>3</sup> should be prioritized to maximize the impacts on GDP and (un)employment. The estimated coefficients for the GDP are less variant compared to the unemployment rate. Altogether, tourists from America, Asia and Europe have been associated with the considerable impacts in increasing GDP and reducing unemployment rates. For example, a 1% increase in international tourist arrival from the Americas continent potentially generates GDP by 0.046% and reduces the unemployment rate by 0.179%. Thus, allowing international travellers from these continents may be prioritised over other continents.

Figure 5. Impacts of international tourist arrival into Malaysia by country of origin



Note:

Note: Based on the econometric models estimation by EU-ERA

<sup>3</sup> Americas = Canada, Brazil and the USA.

Asia = Kazakhstan, Uzbekistan, China, Chinese Taipei, Japan, Korea (ROK), Bangladesh, India, Iran, Nepal, Pakistan, Sri Lanka, Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Myanmar, Philippines, Singapore, Thailand Vietnam, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, Turkey, UAE

Africa = Egypt, Sudan, South Africa, Nigeria

Europe = Poland, Russian Federation, Ukraine, Denmark, Finland, Ireland, Norway, Sweden, UK, Italy, Spain, Austria, Belgium, France, Germany, Netherlands, Switzerland

Pacific = Australia, New Zealand.



As a conclusion to this policy brief, the re-opening of international borders should be a gradual and non-linear process, as far as life and livelihood are concerned. To ensure the lifting travel restrictions are successfully implemented, the following two complementary conditions are necessary. To begin, coordination mechanisms such as cabinet committees and task forces are required to monitor the pandemic's impact on tourism and adapt to a rapidly changing scenario. The second step is to re-establish travellers' confidence and increase demand. The government must take steps to ensure that destination communities are confident that the benefits of having visitors return outweigh any worries about potential health hazards.

## REFERENCES

Department of Statistics Malaysia (2021). *Tourism Satellite Account 2020*. Department of Statistics Malaysia: Putrajaya.

## About EU-ERA Policy Brief

EU-ERA Policy Brief presents analysis and policy recommendations for addressing developmental issues that are directly and indirectly affect the labour market in Malaysia. This policy brief aims to generate a forward-looking discussion among policy makers, researchers and stakeholders that helps to promote an inclusive and sustainable Malaysia.