Trade Risks: Travel Bans

Global Implications of Travel Bans for Growth and Trade

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Global Implications of Travel Bans on Growth and Trade

by Dana M. Peterson and Gurleen K. Chadha

Travel bans were a means of slowing the spread of the COVID-19 virus and its variants from 2020 to 2021. However, the closing of borders worldwide exacted a heavy toll on travel services and the industries that directly and indirectly serve the business travel and tourism sectors, ultimately lowering regional GDP's. According to the World Travel and Tourism Council (WTCC), global spending on travel and tourism nearly halved in 2020. Millions of jobs were also lost in travel, tourism, and adjacent sectors as businesses attempted to cope with the sudden halt in activity.

More than a year after the official start of the global pandemic, international travel bans remain largely in place, with nearly every economy still mandating some form of restriction on foreign travelers. Continued concerns about the spread of COVID-19, emergence of new variants, and challenges to vaccination campaigns—due to logistical challenges or hesitancy—are prompting governments to maintain travel bans that restrict the movement of people across borders.

The forecast for global GDP growth by The Conference Board suggests that travel services, which were gutted by travel bans, may only recover to 50 percent of 2019 levels by the end of 2021. A full recovery of the sector might add 0.7 percentage points to our current 2021 global GDP forecast of 5.3 percent year-on-year to reach 6.0 percent. However, if travel bans persist, the consensus of economists who expect faster growth for the global economic recovery may be too optimistic.

Insights for What's Ahead

The next level of global trade risks includes not only the threat of more tariffs and sanctions but also restrictions on the free movement of goods, services, cash, and people around the world, reflecting in part the ongoing effects of the pandemic. We discussed how the pandemic has increased protectionist sentiments around international trade, including global supply chains, travel, and foreign investments, in the 3Q 2021 *StraightTalk® Powering Growth: Postpandemic Recovery & Risks*. In this piece we dive deeper into travel bans as the latest front for international trade friction and risks to the future of globalization.

Should restrictions on international people flows remain in place, global growth may struggle to achieve prepandemic levels. Global trade in travel services may be depressed, and travel sectors, including airlines, hotels, cruise lines, rental cars, tour and travel agencies, and luxury goods producers might find the economic recovery more protracted than anticipated. Moreover, the roughly 334 million people globally who are dependent upon trade in travel servicese sector may face may additional layoffs and, potentially, permanent job losses as their industries shrink.

- Businesses are opting to cut business travel and may continue to do so—due in part to ongoing concerns about coronavirus infections but also to the potential savings from conducting business virtually. Nonetheless, the persistence of global travel bans may reinforce this trend. Indeed, 63 percent of governments have either total or partial bans on foreign visitors, and it is not clear when these prohibitions will be lifted. Moreover, reduced business travel might spill over into other industries that thrive on in-person connections that drive innovation and/or sales and customer relationships.
- Travel bans on foreign tourists are an even greater risk to economies. Their spending accounts for 87 percent of total global exports of travel services—the services exported from an economy to visiting nonresident travelers. Not only are industries directly involved in tourism negatively affected by travel bans, but so are industries indirectly linked to tourism including entertainment and amusement venues and the industries (e.g., food services) that service them. State and local governments that benefit from tourism will also lose tax revenue.
- Travel ban uncertainty creates different glidepaths to recovery for the travel and tourism services trade, and consequently for global GDP growth as a whole. The path of recovery for travel and tourism activity remains uncertain given the tangle of government restrictions on foreign visitors around the world. Ideally, international people flows would return to prepandemic levels by the end of this year or early next. However, as coronavirus variants spread, such a return to normalcy will be determined by the degree to which travel bans are lifted and people feel comfortable traveling.
- Travel bans may also sour foreign relations between economies that choose to reopen borders quickly and those that do not.

Pandemic-Era Travel Bans Are Pummelling Travel & Tourism

Most economies have some restrictions on international travel due to the pandemic. According to Travelbans.org, which chronicles real-time measures and global travel restrictions taken by governments, only three of 212 economies for which there are data do not have any type of restriction on travel, whether it be on foreigners seeking entry, internal or external tourist activity, or expatriates seeking to return. Specifically, as of late June 2021, 63 percent of economies (134 of 212) either forbade or had restrictions on foreign visitors seeking entry (**Figure 1**). This share of economies represents 79 trillion or 93 percent of 2019 global GDP.

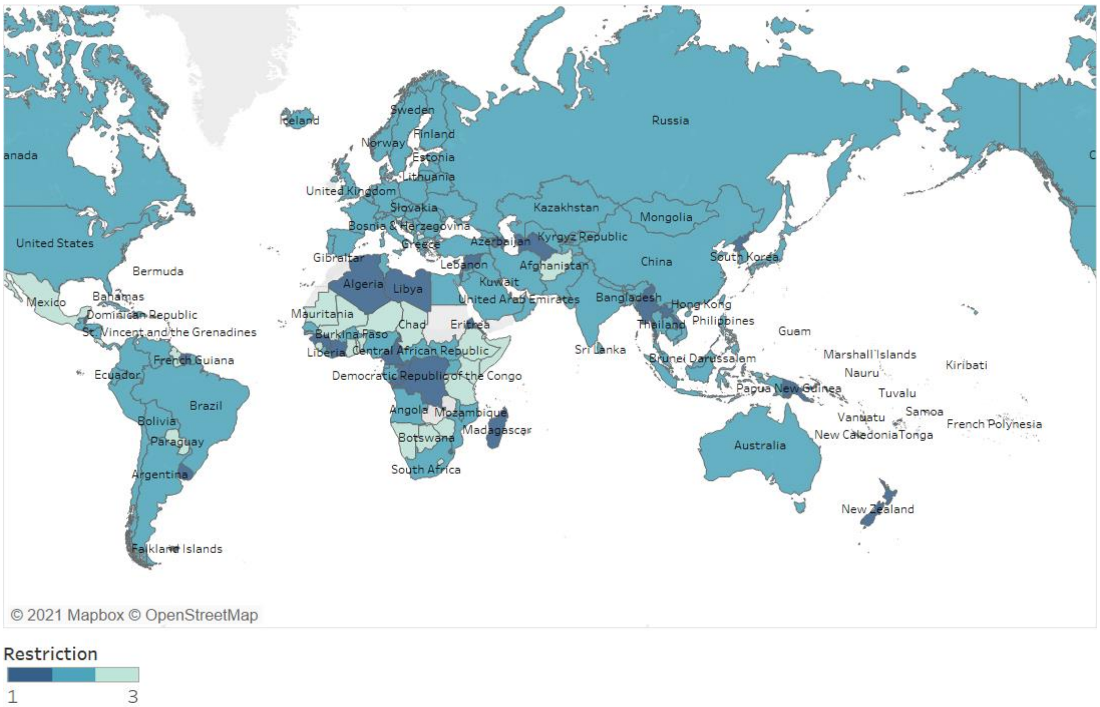
Travel bans do have a large impact given the sizable contribution of travel and tourism to global GDP growth and employment. According to the World Travel and Tourism Council (WTCC), travel in 2019 represented about US$9.2 trillion or 10.4 percent of global GDP, providing 334 million (or 1 in 10) jobs across the globe.[1] Importantly, the WTCC

[1] The total impact on global GDP includes direct, indirect, and induced spending and investment on travel and tourism. See WTTC/Oxford Economics 2021 Travel & Tourism Economic Impact Research Methodology, May 2021.

estimated that spending on travel and tourism (domestic and international) nearly halved to just US$4.7 trillion (5.5 percent of global GDP) in 2020, and the number of jobs shrunk to almost a fifth of previous levels to 272 million.

Figure 1. As of Late June, 63 Percent of Economies Have Travel Restrictions on Foreign Visitors

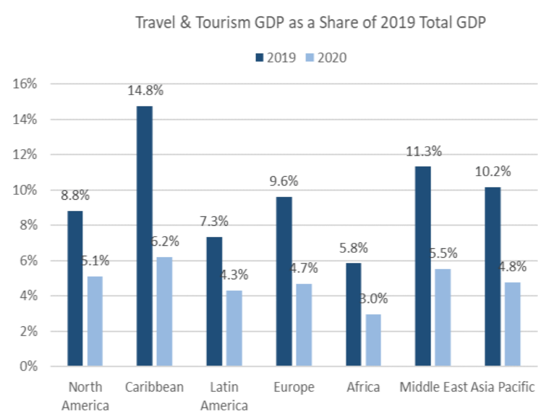
Full ban (navy), partial ban (teal), no ban (light blue)



Sources: Travelbans.org and The Conference Board.

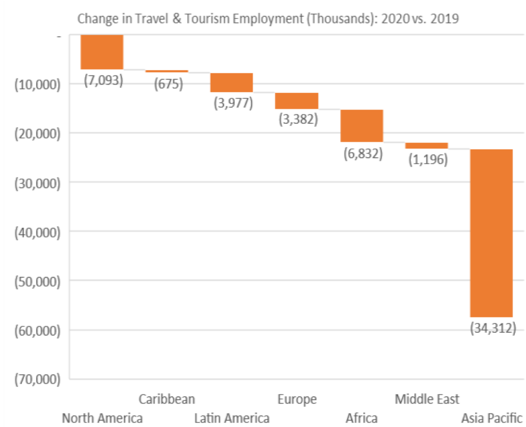
Lockdowns and travel bans weighed on the travel and tourism sectors significantly in Asia and the Caribbean and may continue to do so until the end of the year. The share of domestic and international travel and tourism of GDP contracted in every region compared to 2019 levels. The losses were the most significant in the Caribbean, where the share fell from 15 percent in 2019 to 6.2 percent (**Figure 2**). Declines in shares were also significant in Asia, the Middle East, and Europe. The number of job losses in Asia was significant with an estimated 34 million persons of 186 million, or 18 percent of workers in the sector, losing their jobs (**Figure 3**). Job losses were less significant in other regions, but the shares of job losses within the travel and tourism sector were still outsized. For example, roughly 30 percent of workers in the travel and tourism sector lost their jobs in North America and Africa. Notably, Europe had the smallest share (9 percent) of affected workers, likely due to furlough schemes that retained jobs. Still, with various coronavirus variants gaining traction and mobility restrictions intensifying, especially in Asia (per University of Oxford data), governments may choose to maintain bans on foreign travelers through the end of this year.

Figure 2. Travel and Tourism Shares of Regional GDP Collapsed in 2020



Sources: World Travel and Tourism Council (WTTC) and The Conference Board

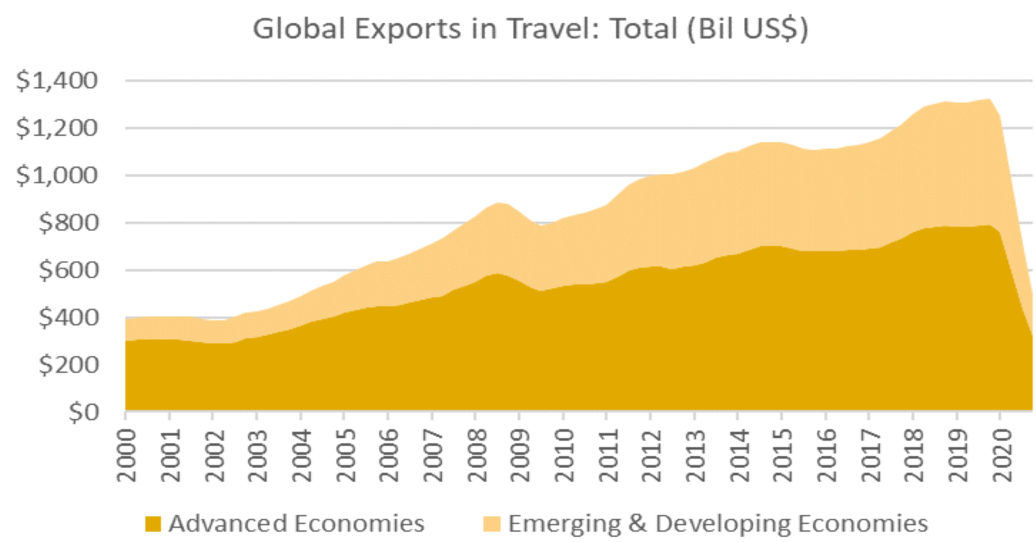
Figure 3. Roughly 60 Million Travel and Tourism Jobs Were Lost in 2020



Sources: World Travel and Tourism Council (WTTC) and The Conference Board

Pandemic-induced travel bans were a major drag on global trade in 2020. Exports trade in travel services tumbled in 2020 as governments placed restrictions on international travel. The total amount of exports in travel services tumbled from $US1.326 trillion dollars in 2019 to just US$496 billion in 2020 (**Figure 4**). The near trillion-dollar loss in travel trade contributed an outsized -1.1 percentage point to the 3.7 percentage point plunge in global GDP growth in 2020.

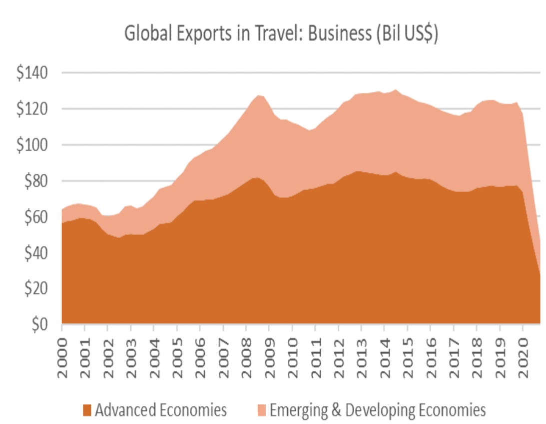
Figure 4. Global Trade in Travel Services Tumbled in 2020 as Governments Implemented Travel Bans to Help Quell the Spread of the COVID-19 Virus



Sources: International Monetary Fund and The Conference Board

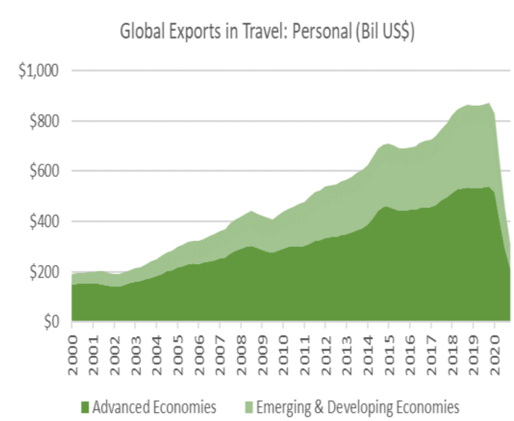
The collapse in travel services exports was a global phenomenon. Both business (**Figure 5**) and personal travel exports (**Figure 6**) fell in 2020 among advanced economies, as well as in emerging and developing economies. Business travel collapsed to levels not seen in decades, from a total global estimate of US$124 billion in 2019 to just US$46 billion in 2020. The decline in personal travel was even larger, falling from US$871 to US$307 billion in 2020.

Figure 5. Business Travel Collapsed to 20-year Lows Amid the COVID-19 Pandemic



Sources: International Monetary Fund and The Conference Board

Figure 6. Personal Travel Also Slowed Dramatically During the Pandemic



Sources: International Monetary Fund and The Conference Board

Perpetual Travel Bans Pose Risk to Global Economy

Small emerging and developing economies have the greatest exposure to protracted travel bans via exports trade in travel services, boding poorly for their recoveries. Many of the economies possessing significant shares of GDP devoted to exports of travel services tend to be in temperate and tropical areas of the world including the Caribbean, Central America, South-Central Europe, South-East Asia, and the South Pacific (**Figure 7**). Economies in the Middle East are also big hubs for travel related to religious tourism. With a few exceptions, most of the economies with outsized shares of travel and tourism service trade tend to be low-to-middle income economies, rendering them especially vulnerable to extended or perpetual bans on travel.

Figure 7. Small Emerging and Developing Economies Have Greatest Exposure to Protracted Travel Bans Via Exports Trade in Travel Services

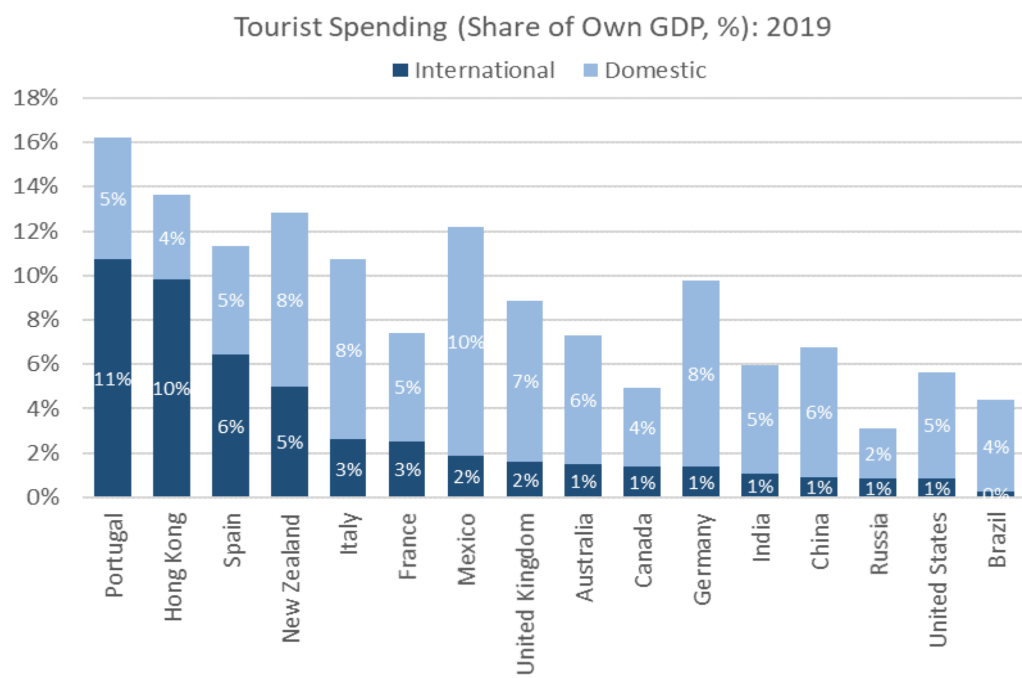
Note: Size of spheres denotes travel services exports share of own country GDP.

Source: International Monetary Fund, World Bank, and The Conference Board

Even some of the world's largest economies have outsized exposure to travel bans. International visitor spending can amount to notable shares of individual economy GDP even for some of the larger, wealthier economies. For example, Portugal (11 percent in 2019) and Hong Kong (10 percent in 2019) both have material shares of their GDP that are reliant upon international travel and tourism, according to the WTTC (**Figure 8**). Spain and New Zealand have shares of international tourism spending exceeding 5 percent of GDP.

Even economies that have limited shares of GDP linked to international tourism, the overall spend on tourism (both international and domestic) may still be outsized, meaning internal restrictions on tourism and mobility can still have a negative impact on economic activity. Germany, Mexico, and Italy all have total tourism spending shares of GDP either at or above 10 percent. These shares of GDP shrunk in 2020 as governments imposed mobility restrictions, signaling a notable threat to global and regional recoveries if travel and tourism spending do not return to prepandemic levels.

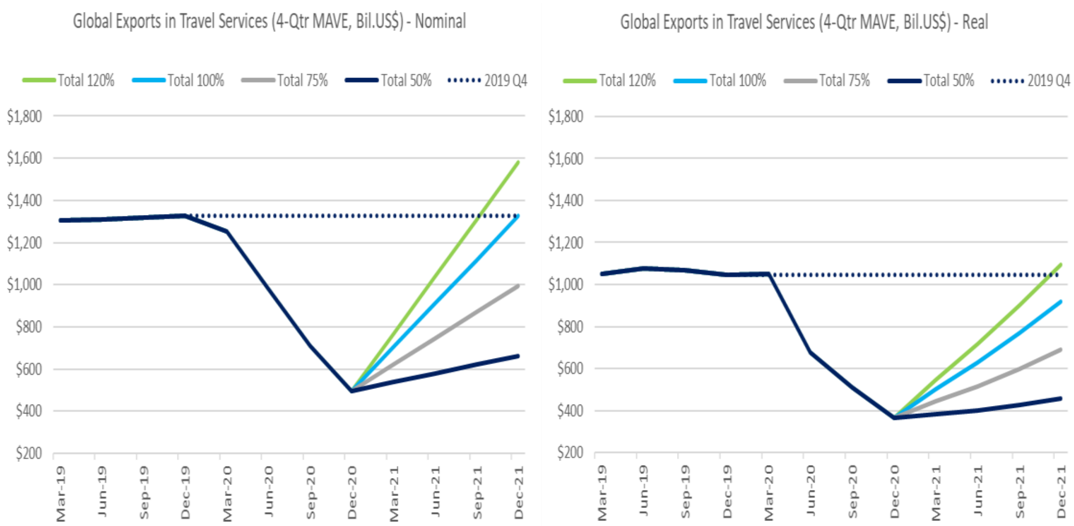
Figure 8. Even Some Large Economies Have Outsized Exposure to Travel Bans



Sources: World Travel and Tourism Council (WTTC) and The Conference Board.

Travel ban uncertainty creates different glidepaths to recovery in travel and tourism services trade, and consequently global GDP growth. Ideally, international people flows would return to prepandemic levels by the end of this year or early next. However, as coronavirus variants spread, such a return to normalcy will be determined by the degree to which travel bans are lifted and people feel comfortable traveling (**Figure 9**). The Conference Board global real GDP forecast of 5.3 percent for 2021 is roughly consistent with a 50 percent recovery in global travel services exports by year end (**Figure 10**).

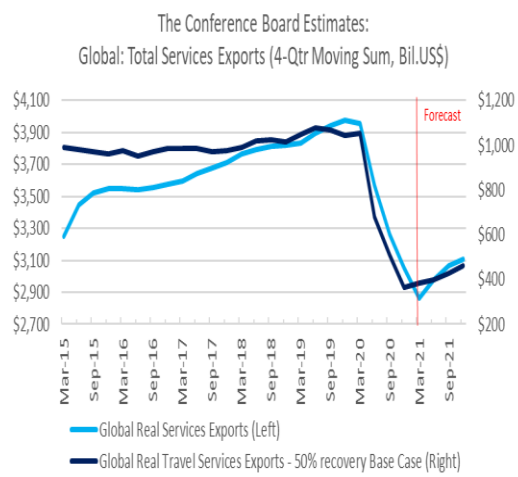
Figure 9. Travel Ban Uncertainty Creates Different Paths to Travel Trade Recovery



Sources: International Monetary Fund, Oxford Economics Global Economic Model, and The Conference Board

A faster return to travel activity presents upside risk to The Conference Board global growth recovery estimates. For real global exports in travel services to return to the prepandemic level of about US$1.1 trillion by year end, nominal trade would need to rise to 120 percent of prepandemic activity (**Figure 11**). This is an upside scenario that might lift our global GDP growth estimate from 5.3 to 6 percent in 2021, which would match the IMF's estimate, as well as the Bloomberg consensus (which ranges from a low of 4.4 percent to a high of 6.7 percent). However, less than a full return to travel activity later in 2021 would result in a miss on global GDP growth expectations.

Figure 10. The Conference Board Estimates of Real Total Services Exports and Real Travel Services Exports



Sources: Oxford Economics Global Economic Model, International Monetary Fund, and estimates by The Conference Board

Figure 11. Effect of Recovery in Nominal Travel Services Exports on 2021 Global Real GDP Growth Projections

Nominal Travel Services Exports Recover To:	Effect on Real Travel Services Exports 2021 estimate (Bil.US$)	Difference from Base Case (Bil.US$)	Effect on Global Real GDP Growth (percentage point)	The Conference Board Forecast Scenarios: Global Real GDP Growth (YoY%)
120% of 2019 level	$ 1,094	$ 635	0.6%	6.0%
100% of 2019 level	$ 919	$ 459	0.5%	5.8%
75% of 2019 level	$ 689	$ 230	0.2%	5.6%
50% of 2019 level*	$ 459	$ -	0.0%	5.3%

* The Conference Board implied base case at 5.3% global real GDP growth

Sources: Oxford Economics Global Economic Model, International Monetary Fund, and estimates by The Conference Board

About the Authors

Dana M. Peterson is the Chief Economist & Center Leader of Economy, Strategy & Finance at The Conference Board. Peterson joins The Conference Board from Citi, where for many years she served as a North America Economist and later as a Global Economist. Her wealth of experience extends to the public sector, having also worked at the Federal Reserve Board in Washington, DC. Peterson's research has been featured by US and international news outlets, both in print and broadcast. Publications and networks include CNBC, FOX Business, Bloomberg, Thomson-Reuters, the *Financial Times*, and the *Wall Street Journal*. She is a NBER board member, First Vice Chair of NYABE, and a member of NABE, NBEIC, and the Council on Foreign Relations. She received an undergraduate degree in economics from Wesleyan University and a master of science degree in economics from the University of Wisconsin-Madison.

Gurleen K. Chadha is a Research Analyst at The Conference Board. Based in New York, she is responsible for closely supporting the US forecast and works with the US Principal Economist. Gurleen is responsible for the quarterly US Consumer Spending Outlook and the monthly production and release of The Conference Board Leading Economic Index® (LEI) for several countries. Gurleen has an extensive educational background in economics and earned her bachelor's and master's degrees in econometrics from the University of Delhi, India. She also has a master's degree in economics from Drexel University, USA.

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