The world economy after the 2008-2009 financial crisis: challenges for the tourism sector

Alex Izurieta
UN/DESA, New York

Drawing from work carried out by the Global Economic Monitoring Unit, Development Policy and Analysis Division, UN/DESA. Usual disclaimers apply
The world economy recovers but not with full strength

- The world economy is emerging from a deep crisis
- The recovery is weak, is loosing strength and there are serious downside risks
- The shock and the recovery are uneven:
  - Developed countries continue to face headwinds
  - Developing countries played a significant role in sustaining demand

Major emerging countries played their part

- A developing-country-led global recovery is not warranted
Growth cycles continue to be synchronized

- Previous recessions in the developed world impacted heavily on other countries
- The relationship is significant but asymmetric
- Main transmission channels are trade and finance

World income and trade are intertwined

- Income and trade in good & services are mutually reinforcing processes
- The growth of income has been accompanied by stronger growth of trade
- Yet, income reversals had sharply amplified effects on trade flows
- Trade shocks spread across all countries

Source: UN/DESA World Forecasting Model

The world economy after the 2008-2009 financial crisis

Alex Izurieta UN/DESA
Trade shocks are larger in developing countries

- Fluctuations of world income have caused shocks of merchandise trade in ALL regions
- Trade shocks, measured as proportion of each region GDP, are greater for developing countries
- Different patterns between regions may be related to degrees of specialization

<table>
<thead>
<tr>
<th>World Income Growth</th>
<th>Trade Shocks OECD</th>
<th>Trade Shocks EU</th>
<th>Trade Shocks Latin America</th>
<th>Trade Shocks West Asia</th>
<th>Trade Shocks East Asia</th>
<th>Trade Shocks Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-07</td>
<td>3.2</td>
<td>0.5</td>
<td>5.8</td>
<td>1.7</td>
<td>4.0</td>
<td>4.7</td>
</tr>
<tr>
<td>2008</td>
<td>1.6</td>
<td>-0.4</td>
<td>6.4</td>
<td>0.9</td>
<td>6.3</td>
<td>1.9</td>
</tr>
<tr>
<td>2009</td>
<td>2.0</td>
<td>-2.7</td>
<td>-10.0</td>
<td>-2.3</td>
<td>-12.0</td>
<td>-2.2</td>
</tr>
<tr>
<td>2010</td>
<td>3.8</td>
<td>2.1</td>
<td>4.5</td>
<td>0.4</td>
<td>7.2</td>
<td>6.6</td>
</tr>
</tbody>
</table>

Shocks are less severe for diversified countries

- Countries which rely excessively on energy or mineral exports tend to suffer more severe shocks when global income fluctuates
- Export diversification helps, but does not make countries immune to changing external conditions

<table>
<thead>
<tr>
<th>Export Specialization</th>
<th>Trade Shocks whole world</th>
<th>ENERGY exports - specialized</th>
<th>MINERAL exports - specialized</th>
<th>AGRICULT exports - specialized</th>
<th>MANUFACT exports - specialized</th>
<th>Export DIVERSIFIED</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-07</td>
<td>1.3</td>
<td>5.8</td>
<td>3.0</td>
<td>1.2</td>
<td>1.0</td>
<td>1.6</td>
</tr>
<tr>
<td>2008</td>
<td>-1.6</td>
<td>10.4</td>
<td>-5.4</td>
<td>-4.4</td>
<td>-0.2</td>
<td>1.4</td>
</tr>
<tr>
<td>2009</td>
<td>-3.3</td>
<td>-16.0</td>
<td>-3.4</td>
<td>-6.6</td>
<td>-2.2</td>
<td>-2.6</td>
</tr>
<tr>
<td>2010</td>
<td>3.5</td>
<td>7.7</td>
<td>10.5</td>
<td>4.1</td>
<td>2.9</td>
<td>3.5</td>
</tr>
</tbody>
</table>
Trade in services is subject to similar shocks

- Measured in growth terms, world trade in services declined nearly as much as the average growth of the pre-crisis.
- Patterns of exports of services tend to resemble those of merchandise shown by diversified economies.
- EIT experience sharper fluctuations, similarly to those of trade in goods.

International tourism follows closely trade patterns

- Monthly growth figures of activity in the (international) tourism sector suggest a strong link with trade flows of goods and services.
- Exports of tourism services are the 4th most important category of trade in goods & services.
- For some developing countries the ‘number one’ export category.
A world economy revival may boost trade and tourism. But risks are many...

- Risks of loss of impetus in the developed world, mix of:
  - high unemployment with relatively permanent character
  - low consumer confidence and ‘deleveraging’ of households
  - low investment appetite (‘wait and see’)
  - fears of financial instability and stagnant credit loans
  - untamed fears of sovereign debt crises
  - premature withdrawal of stimuli or lack of focus on employment

- Developing countries, in addition to demand shocks (above) might:
  - experience financial instability and exchange rate shocks
  - be in the midst of protectionist / currency wars

Three of listed risks are of importance for tourism:

1. Unemployment

ILO estimates 210 million people are unemployed, an increase of more than 30 million since 2007 (3/4 of increase in developed economies).
Three of listed risks are of importance for tourism:

1. Unemployment (cont.)

- Data of employment recovery after crises over the last four decades show that it takes longer to regain peak levels.
- Several studies suggest that this prognosis is accentuated after banking crises.
- Tourism is employment-intensive and thus would have a critical role for a sustained recovery.

![Graph showing months since peak in payroll employment from 1973 to 2001 showing a decline in 2001.]

Three of listed risks are of importance for tourism:

2. Stagnant credit flows

“Is the problem of credit de-leveraging and increased private sector saving due primarily to a wounded financial system, and a decreased supply of loans, or is it primarily due to decreased demand for credit?”

(William White: Getting Tough on Banks May Not Hurt Economy)

Evidence from Surveys of Lending Practices suggests that demand for credit remains sluggish, triggered possibly by low business expectations and consumer confidence.

The tourism sector can adapt more flexibly to different financial schedules than other industries and could contribute to demand more dynamically.
US: FED Survey of Lending Practices, July 2010

Net Percentage of Domestic Respondents Tightening Standards for Commercial and Industrial Loans

Net Percentage of Domestic Respondents Reporting Stronger Demand for Commercial and Industrial Loans

US: FED Survey of Lending Practices, July 2010 (cont.)

Net Percentage of Domestic Respondents Reporting Increased Willingness to Make Consumer Installment Loans

Net Percentage of Domestic Respondents Reporting Stronger Demand for Consumer Loans
Three of listed risks are of importance for tourism:

3. Fiscal contraction

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>-</td>
<td>0.5</td>
<td>0.5</td>
<td>0.5</td>
<td>0.5</td>
<td>0.5</td>
<td>3.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>-</td>
<td>1.6</td>
<td>1.2</td>
<td>1.2</td>
<td>-</td>
<td>-</td>
<td>4.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1.3</td>
<td>2.0</td>
<td>1.2</td>
<td>1.0</td>
<td>0.5</td>
<td>-</td>
<td>6.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Italy</td>
<td>-</td>
<td>0.8</td>
<td>0.8</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Spain</td>
<td>1.9</td>
<td>3.3</td>
<td>1.6</td>
<td>1.4</td>
<td>-</td>
<td>-</td>
<td>8.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Netherlands</td>
<td>-</td>
<td>0.7</td>
<td>0.7</td>
<td>0.7</td>
<td>-</td>
<td>-</td>
<td>2.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Portugal</td>
<td>2.1</td>
<td>2.7</td>
<td>1.0</td>
<td>0.8</td>
<td>-</td>
<td>-</td>
<td>6.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Greece</td>
<td>4.0</td>
<td>3.4</td>
<td>2.5</td>
<td>0.8</td>
<td>-</td>
<td>-</td>
<td>10.7</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Natixis (2010). From economic stimulus packages to fiscal consolidation. What net effect on growth?

• Most countries in the developed world, and many in the developing world, have announced austerity plans
• Plans often consist of cuts of expenditure and support to local government and rises of VA tax. All these are contractionary and would delay recovery
• Such cuts, aside from other targeted measures, affect tourism disproportionally

The tourism sector vis-à-vis global recovery risks

• Three stages of development of the tourism sector:
  • Stage 1: Low to nil capital-output ratio (low investment and great labour mobility)
  • Stage 2: High capital-output ratio (high investment, borrowing and public sector support and significant labour multipliers towards other sectors)
  • Stage 3: Average to low capital-output ratio (grow by economies of scale along other activities)
• These stages mark aggregate phases of development, but there is considerable permeation between them for actors to move across according to changing conditions (finance, government support, etc)
• The sector as a whole has high potential and flexibility for employment creation, but it depends heavily on the strength of aggregate demand.
The challenges for a sustainable recovery of tourism

- The tourism sector has some advantages to position itself against the three main risks enounced above:
  - It can propose itself as an ideal partner for employment promotion policies that ought to be, or should be, a priority of governments concerned with the prospects of a sustained recovery
  - Additionally, it could propose itself as a partner for environment-friendly (public sector driven) plans of strategic development
  - It can adapt investment and development schedules to rely more flexibly on scarce finance and available labour force.
  - On finance, it could take advantage of more relaxed lending practices as they emerge and contribute flexibly to credit demand
  - On employment, it could help improving labour standards as well as contributing to development of new skills by diversifying offers.