Imagining a Post-COVID Tourism Recovery: Regional Overview

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A. Introduction

A year ago, as the novel coronavirus spread, borders closed, and social distancing measures were implemented, those of us who work on the Caribbean Quarterly Bulletin began trying to understand the potential economic and social implications for the Caribbean.[1] Commodity-oriented economies began to suffer from the decline in prices, particularly oil and gas. But the most worrisome sector was tourism, and so the focus was on trying to simulate how tourism-based economies would fare. The basic question was: How bad and for how long?

Now, as the unprecedented shock to tourism persists, the Caribbean faces an equally unprecedented degree of uncertainty about the timing and pace of the recovery. The question becomes: How soon and how fast? A second critical question is: What will the tourism sector look like during the recovery and beyond?

On the positive side, the main source countries for tourism arrivals are advancing rapidly in vaccinating their populations. Their economies are also recovering. Personal savings are up for many families whose jobs were not affected by the crisis. Stimulus measures in the United States are putting money in the pockets of middle-class families. Perceptions of travel are improving, and advanced bookings are increasing. In fact, there may be a combination of pent-up demand and a "champagne effect," as people feel safe to travel again. Potentially, there could be a positive geographic advantage if more adventurous long-haul travelers prefer to travel to countries closer to home. Some Caribbean destinations are quite close to the east coast of the United States. Finally, there could be a shift towards more remote work—even post-COVID-19—with digital nomads choosing attractive Caribbean destinations to live and work online.

On the negative side, there is the risk that vaccination programs could stall in source countries for a variety of reasons. There may be an even stronger geographic bias towards domestic, rather than international, travel, as families catch up with relatives in other parts of their home countries. In general, surveys show that traveler preferences have shifted toward the familiar, predictable, and most trusted. In this pandemic context, it appears that there is no place like home (or near home). If Caribbean vaccination programs lag the source tourism countries' programs, then travelers may avoid those destinations—at least until the vaccination programs reach a critical threshold of the population, although it is too soon to tell. In short, the COVID-19 pandemic might have impacted the tourism product preferences of people in traditional source countries, and it may be difficult to foresee or adjust to those preferences. One thing for sure in the short run is the increased weight that health and safety have taken on in the minds of tourism consumers.

Given these considerations, in the near term, demand factors will be driving the potential recovery. This Regional Overview focuses on five key drivers of that demand:

(1) *The evolution of the pandemic and the vaccine rollout*. Clearly this is a key factor affecting the confidence to travel.

[1] This report is a product of the Caribbean Country Department of the Inter-American Development Bank. The countries covered by this department and in this report are The Bahamas, Barbados, Guyana, Jamaica, Suriname, and Trinidad and Tobago.

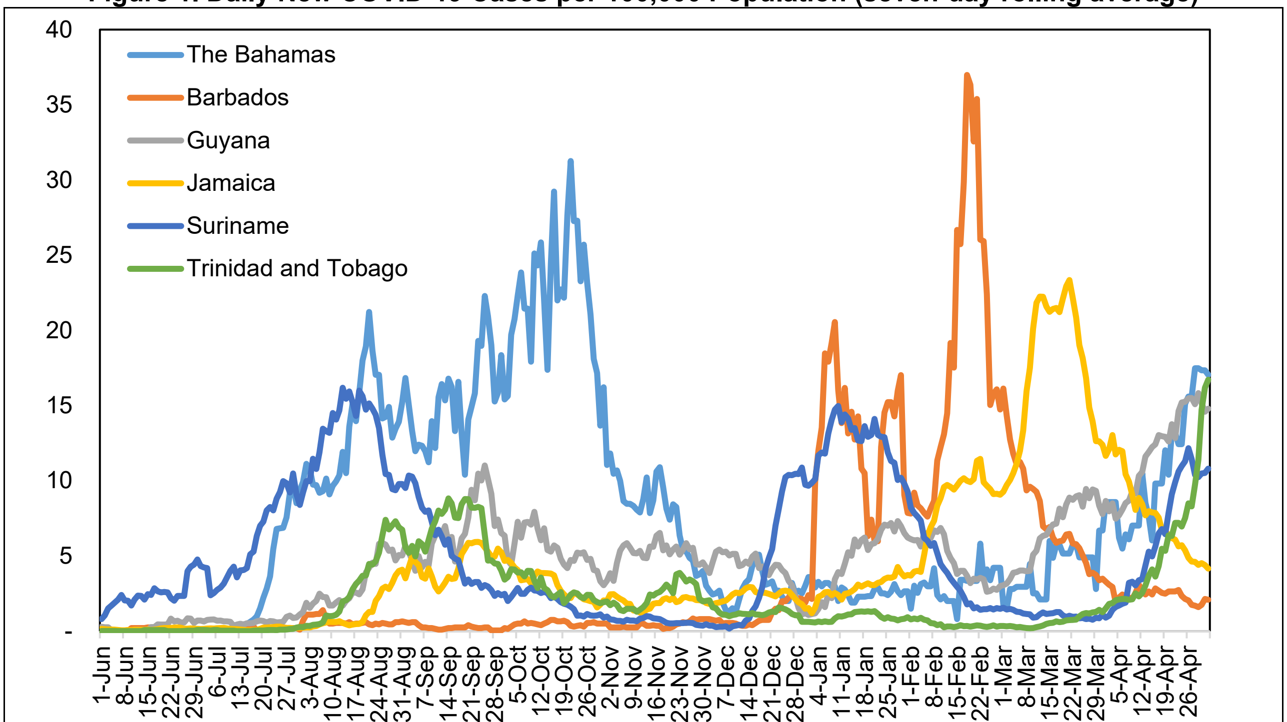
(2) *Domestic tourism in key source markets*. Domestic tourism lurks as a possible substitute for international travel.
(3) *The economic environment in source markets*. Here, economic stimulus, particularly in the United States, might serve to spur the recovery.
(4) *Business tourism versus leisure tourism*. In the past, business tourism recovered more gradually from shocks. The nature of the pandemic and boom in remote work might imply a longer lasting impact on this segment.
(5) *Who are your source markets*? The above four factors interact in different ways in tourism source countries. Business intelligence data and monitoring of conditions in those countries take on an even greater importance than before.

Over the longer term, Caribbean countries can innovate in order to adapt their tourism offerings to changing preferences and potential new dimensions of tourism. Countries can also work to deepen the economic linkages of the sector with the rest of the economy. Promising new product lines include remote work tourism, medical tourism, wellness tourism, cultural tourism, education tourism, retirement tourism, and eco-tourism. Even for the less-tourism-intensive economies (Guyana and Suriname), where outbound tourism is greater than inbound tourism, there is scope for substantial expansion over the medium term. With natural assets as the base for most tourism, environment sustainability will be ever more critical over time.

B. Evolution of the COVID-19 Pandemic

In the first quarter of 2021, while some countries were suffering second, third, or even fourth waves of high COVID-19 infection rates, Barbados suffered its first wave as a result of the pick-up in the tourism sector over the winter season. The government responded by implementing significant lockdown measures and additional health and safety protocols for inbound travelers. In recent weeks, daily infection rates have declined (Figure 1). And while Barbados experienced the most volatile rates for the quarter, vaccination and containment efforts throughout March resulted in a return to single digit daily infection rates per 100,000 population. Jamaica also imposed tight restrictions following a surge in cases in March, and Trinidad and Tobago heightened restrictions in April in response to a surge. New daily case rates were also rising in Suriname and Guyana. At end April, only Jamaica and Barbados had daily case rates in the single digits per 100,000 people (Figure 1).

Figure 1. Daily New COVID-19 Cases per 100,000 Population (seven-day rolling average)



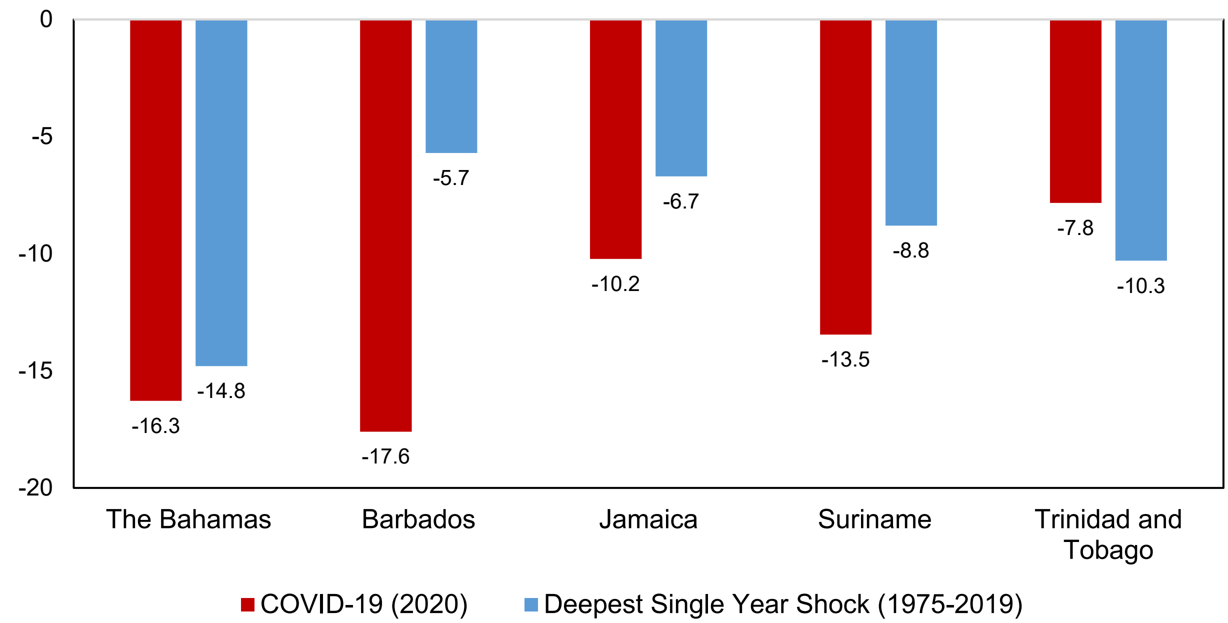
Source: Authors' calculations based on data from the COVID-19 Data Repository (Johns Hopkins University 2021).

C. The Historic Recession in 2020 and Highly Uncertain Prospects for 2021

The COVID-19 pandemic represents a new kind of economic shock for countries in the region that has unique characteristics. While the human toll of the pandemic has been tragically high, its most frightening dimension may be that it has affected key sectors of the region's economies with a speed and persistence that few could have imagined only a year ago. One reflection of this has been the impact on GDP growth for 2020 (Figure 2). As noted in the previous edition of this Quarterly Bulletin, the GDP shock in 2020 represented the largest decline in most countries since 1975.

Guyana is the one exception. The decline in average oil prices during the year did lower the expected value of oil exports and hence the expected GDP growth rate. Still, the economy expanded by 43.5 percent in 2020, while the non-oil economy shrank by 7.3 percent (see the Guyana country section for more details.)

Figure 2. GDP Contraction in 2020 versus the Largest Historical Shock from 1975 to 2019 (percent)



Sources: World Bank (2021b); IMF (2021a).
Note: The year 1975 was chosen as the starting point for the series owing to data availability.

Two Types of Economic Shocks: The COVID-19 Pandemic and Natural Disasters

The COVID-19 pandemic is a global public health event. From an economic perspective, there are both similarities and differences between a pandemic economic shock and the economic impact of a natural disaster. In general, the pandemic has had a more direct effect on the flow of GDP via the reduction of face-to-face service sectors and, most importantly for the Caribbean, the tourism sector. Globally, the loss of human life has also been enormous and tragic, surpassing 3 million people.

Hurricanes and other natural disasters destroy physical and natural capital (e.g., mangroves or forests), and they can take a terrible toll on human capital through injury and the loss of life. For natural disasters, however, the direct impact on the flow of GDP often is smaller than that of the recent pandemic shock. For example, ECLAC and IDB (2020a, 2020b, 2020c) examine the impact on The Bahamas of Hurricanes Dorian, Irma, and Matthew, dividing the costs into three categories: (i) direct physical damage; (ii) revenue and other income losses; and (iii) additional costs (mostly debris removal). In terms of lowering GDP growth, the studies estimate that the effects were 1 percentage point for Dorian, 0.4 of a percentage point for Irma, and 1.1 percentage points for Matthew. Compare that to the strikingly negative GDP growth rates in Figure 2 above. On the other hand, the studies estimate that direct physical damage from the three hurricanes as a share of GDP was 18 percent (Dorian), 0.3 percent (Irma), and 3 percent (Matthew). It can be seen that the direct damage losses to both the public and private sectors can be multiples of the declines in GDP growth in the cases of Hurricanes Dorian (on a very large scale) and Matthew.

That said, there might be potentially large deleterious effects on people and economic balance sheets stemming from both pandemics and natural disasters that are difficult to quantify. Heinen, Khadan and Strobl (2019) document significant effects of hurricanes on inflation across the Caribbean that translate into large declines in monthly welfare. In terms of labor markets, Pecha (2017) shows that the incidence of hurricanes not only pulled people into unemployment but also significantly affected the odds of transitioning from the formal to the informal sector in Jamaica. Regarding human capital accumulation, Beuermann and Pecha (2020) found that hurricanes had long-term effects on the physical development of children of expectant mothers in coastal-rural areas of Jamaica who were pregnant during the storms.

Similarly, studies are under way in many countries on the potential long-term effects of distance learning and psychological stress from social distancing caused by the COVID-19 pandemic. “Long haul” COVID-19 symptoms may also hurt workers’ ability to be productive even after the spread of the disease declines. In addition, there appear to be gender differences in terms of the impact.[2] Finally, other forms of “economic scarring” from the pandemic pose a risk.[3] The sharp economic downturn has forced firms to borrow to meet liquidity needs, and households have fallen behind on rent or mortgage payments. Many of these effects have yet to be quantified, partially due to active measures that have been undertaken by governments, central banks, and financial institutions ranging from direct capital injections for corporates to forbearance on the part of private lenders. These actions have helped stem the tide of bankruptcies and foreclosures that might otherwise have already taken place in the absence of such measures. But this also means that it is difficult to tell just how severe the impact has been for corporate and bank balance sheets thus far. The tourism sector is also susceptible to this form of economic scarring.

On the positive side, firms have been adjusting business processes, and governments have been advancing in digitalization in response to the pandemic. This form of innovation could lead to productivity increases that are sustained into the post-pandemic period.[4]

Key Commodity Prices Strengthen but Remain Volatile

The rise in commodity prices and, in particular, oil and natural gas prices, helps prospects for the commodity-dependent economies (Figure 3). On the other hand, that rise poses risks for the tourism-based economies, especially in terms of the import bill for hydrocarbons, but also potentially through food imports. Both demand and supply factors are uncertain, including the potential supply response from the fracking sector, and upcoming supply negotiations of the OPEC+ group of oil exporters. Price developments should be monitored closely during the year. The price of gold, which is key for Suriname and still important for Guyana, remains strong, but developments in macroeconomic policies in major world economies could have an impact on that price as the global economy evolves. At the end of April, the IMF announced a staff level agreement with government of Suriname for a three-year Extended Fund Facility (EFF). The proposed amount is for approximately US$ 690 million over three years.

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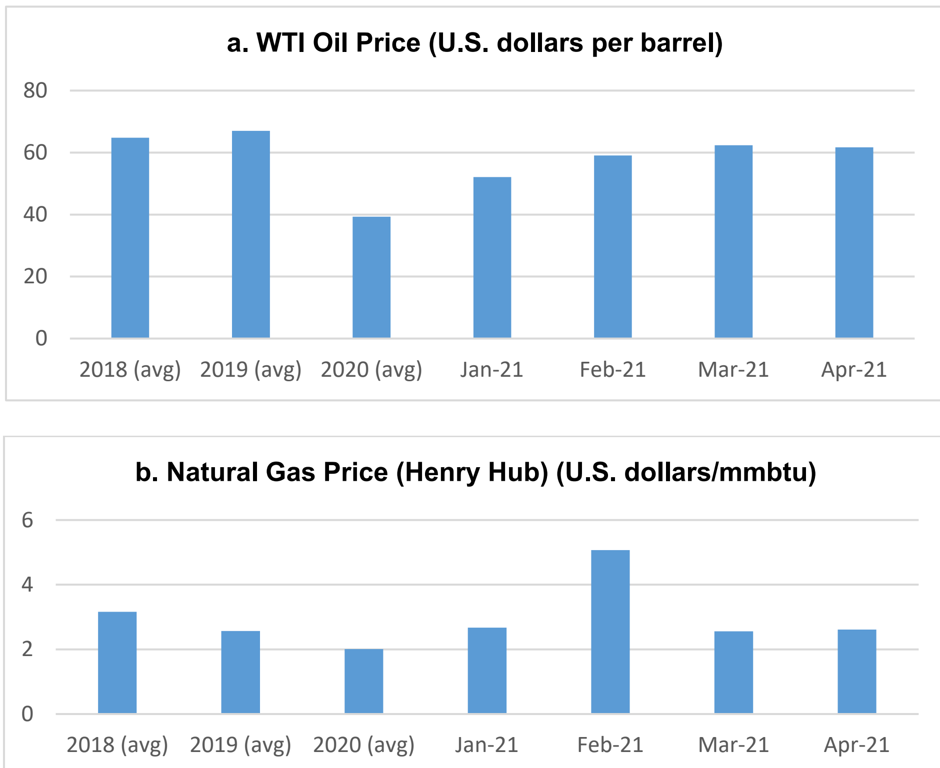
[2] See Giles Alvarez and Khadan (2020) for more details on the gender dimension for the Caribbean.
[3] See the discussion by the International Monetary Fund’s Chief Economist, available at https://www.imf.org/external/pubs/ft/fandd/2021/03/averting-a-great-divergence-gopinath.htm; see also IDB (2021).
[4] See, for example, the feature in The Economist magazine: https://www.economist.com/finance-and-economics/2020/12/08/the-pandemic-could-give-way-to-an-era-of-rapid-productivity-growth

Figure 3. Oil and Natural Gas Prices



Source: World Bank (2021a).

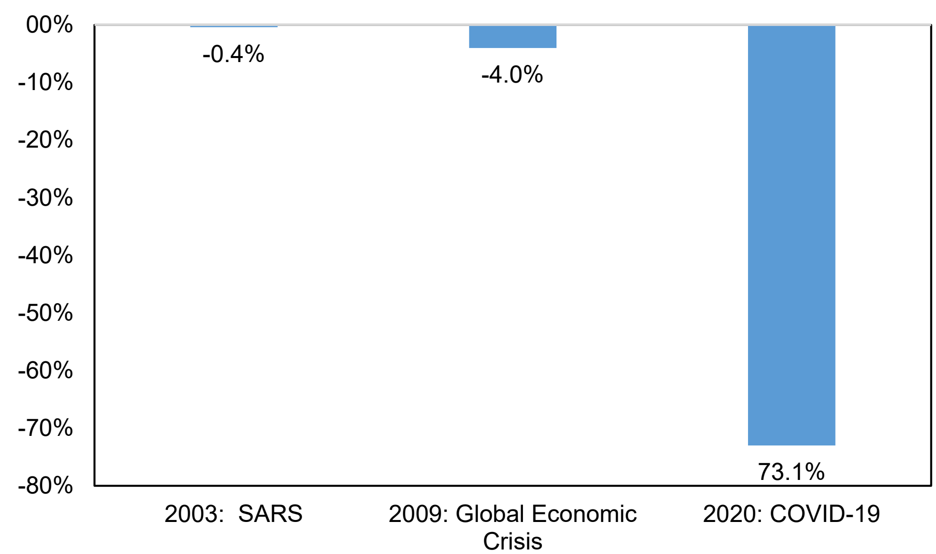
D. The Shock to Tourism Caused by COVID-19 in 2020

As discussed in previous publications (Mooney and Zegarra 2020), COVID-19 represents an extreme outlier in terms of its implications for tourism. According to the United Nations World Tourism Organization (UNWTO), global international tourist arrivals contracted 73.1 percent in 2020 (UNWTO 2021c), compared to only a 4.0 percent decline in 2009 during the global financial crisis and a mere 0.4 percent decline during the 2003 SARS outbreak (Figure 4).[5] Altogether, the tourism sector's contribution to global GDP plummeted to US$4.7 trillion in 2020 (5.5 percent of the global economy) from nearly US$9.2 trillion the previous year (10.4 percent of the global economy) (WTTC 2021a). Moreover, according to UNWTO (2021a), the collapse in international travel represents an estimated loss of US$1.3 trillion in export revenues worldwide—more than 11 times the loss during the 2009 global economic crisis. In terms of employment, the COVID-19 crisis has resulted in a loss of 62 million jobs (WTTC 2021a). Although substantial, the number of jobs lost has been much less than originally projected.[6] According to the World Travel and Tourism Council (WTTC), job

[5] It should be noted that for those developing countries that had SARS infections, there was a strong and statistically significant correlation between infections and the decline in tourism (IMF 2021b).
[6] Several organizations estimated that the crisis put 100 million to120 million direct tourism jobs at risk, and up to 174 million jobs at risk if both direct and indirect effects are considered (UNWTO 2021a; WTTC 2020a).

retention schemes seem to have saved millions of jobs. Given tightening fiscal space and the slow recovery, the threat to the current 272 million travel and tourism jobs remains a concern. An important proportion of the jobs lost were from small and medium-sized enterprises and involved the most vulnerable population groups.

Figure 4. Unprecedented Global Decline in International Tourist Arrivals



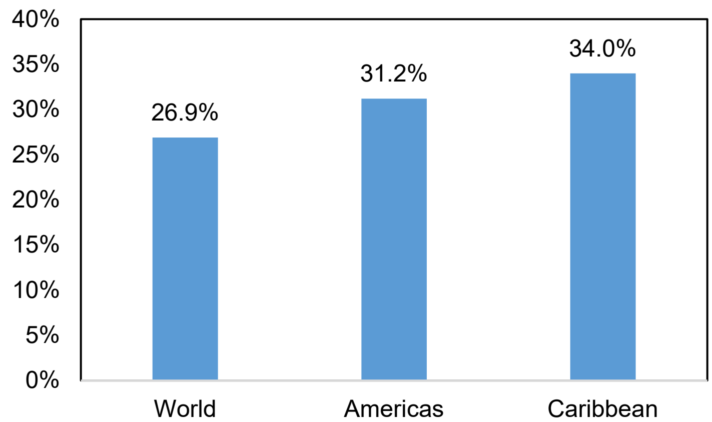
Source: UNWTO (2021c).

As noted in previous editions of this Quarterly Bulletin, The Bahamas, Barbados, and Jamaica are among the 15 most tourism-dependent economies in the world, according to the updated version of the Tourism Dependency Index (See Annex).

Based on a database developed from various national sources, a breakdown is also now available for international arrivals to the three most tourism-dependent economies—The Bahamas, Barbados, and Jamaica (Figure 6). In this context, the first quarter of 2020 saw air and cruise ship arrivals at between 77 and 85 percent of their 2019 levels, followed by a precipitous contraction to near zero arrivals in the second quarter. By the third quarter, arrivals had improved to between 2 and 14 percent of their 2019 same-quarter levels, depending on the country. Overall, 2020 represented a contraction of international visitor arrivals of 76 percent for The Bahamas, 67 percent for Barbados and 69 percent for Jamaica. This is in line with the estimate by the UNWTO (2021b) of a 66 percent contraction of international tourist arrivals for the broader Caribbean region in aggregate (Figure 5, panel a).

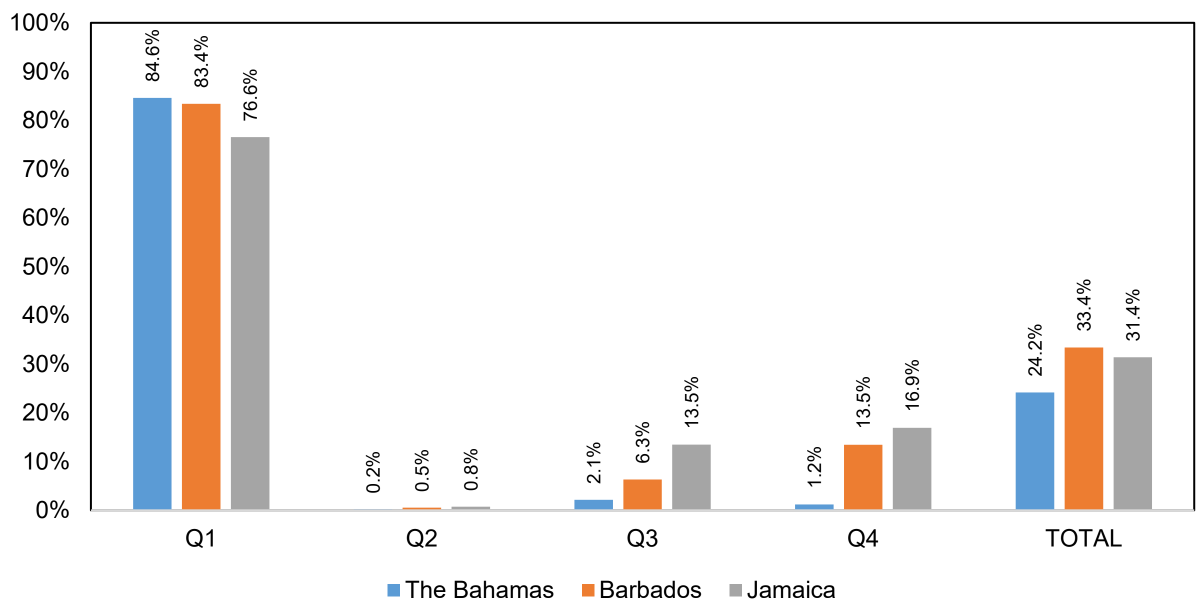
Figure 5. International Visitors and Tourist Arrivals in 2020 versus 2019 (percent)

a. International Tourist Arrivals in 2020 as a Percentage of 2019 Annual Arrivals, by Region



Source: UNWTO (2021c),
Note: "Caribbean" includes the entire Caribbean region rather than just the six countries covered in this report. WTO definition of international tourism arrivals does not include "excursionists," like cruise ship passengers.

b. International Visitor Arrivals in 2020 as a Percentage of Quarterly Arrivals in 2019: The Bahamas, Barbados, and Jamaica



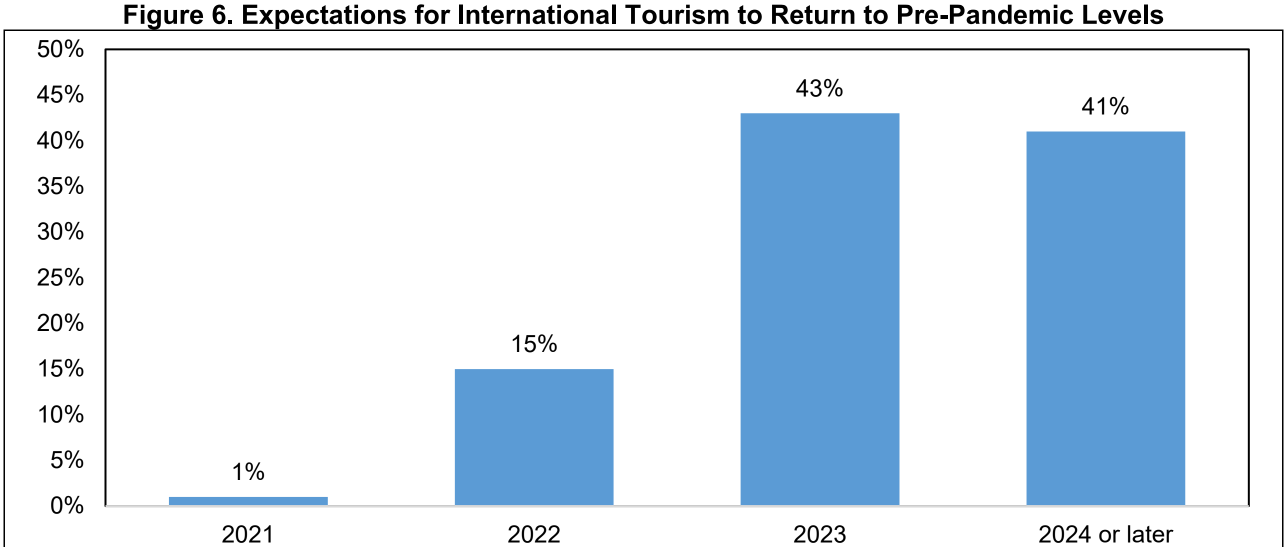
Sources: Authors' calculations based on data from The Bahamas (Tourism Today 2021); Barbados (Central Bank of Barbados 2021); and Jamaica (Jamaica Tourist Board 2021).
Note: These national data sources use their own national classifications. In broad terms, the categories are "stopovers" (persons staying 24 hours or more) or cruise ship arrivals (using the cruise ship for their accommodation). This graph includes both stopover arrivals and cruise ship arrivals in calculating the levels compared to 2019.

E. Imagining a Tourism Recovery

Returning to 2019 annual levels of tourism arrivals and expenditures will be gradual. Data are limited, but tourism remained subdued in the first quarter of 2021 in most destinations, and far below the levels of the first quarter of 2020—the last "near normal" quarter. UNWTO (2021c) reports that international tourist arrivals plunged worldwide by 86.7 percent in January 2021 (-75.7 percent in the Caribbean), amid new outbreaks and tighter travel restrictions. This follows a decline of 85 percent in the last quarter of 2020. Given these new data, UNWTO has updated its forecast for 2021, outlining two scenarios. The first considers a bounce-back in July that would result in a 66 percent increase in international arrivals for 2021 compared to 2020 levels, though arrivals would still be 55 percent below levels recorded in 2019. The second scenario considers a potential rebound in September, which would result in a 22 percent increase in arrivals compared to 2020. In that case, 2021 arrivals would be 67 percent below the levels of 2019.[7]

The International Air Transport Association (IATA) is working with a baseline forecast for 2021 of a 50 percent increase in global demand over 2020.[8] This would result in full-2021 global tourism demand at about 51 percent of 2019 levels (IATA 2021a). In terms of reaching 2019 levels, a recent survey of experts by the UNWTO (2021c) found that 41 percent believe that level will be reached only in 2024 or later (Figure 6). The UNWTO is working with three possible scenarios for a recovery to 2019 levels (Table 1).

Figure 6. Expectations for International Tourism to Return to Pre-Pandemic Levels



Source: UNWTO (2021c).
Note: United Nations World Tourism Organization Survey of Tourism Experts (end-2020).

[7] As stated in the UNTWO Barometer, "The scenarios consider a number of factors such as a gradual improvement of the epidemiological situation, a continued roll-out of the COVID-19 vaccine, a significant improvement in traveler confidence and a major lifting of travel restrictions, in particular in Europe and the Americas" (UNWTO 2021c).

[8] The International Air Transit Association reported in January 2021 that forward bookings were down more than 80 percent year-over-year in February/March.

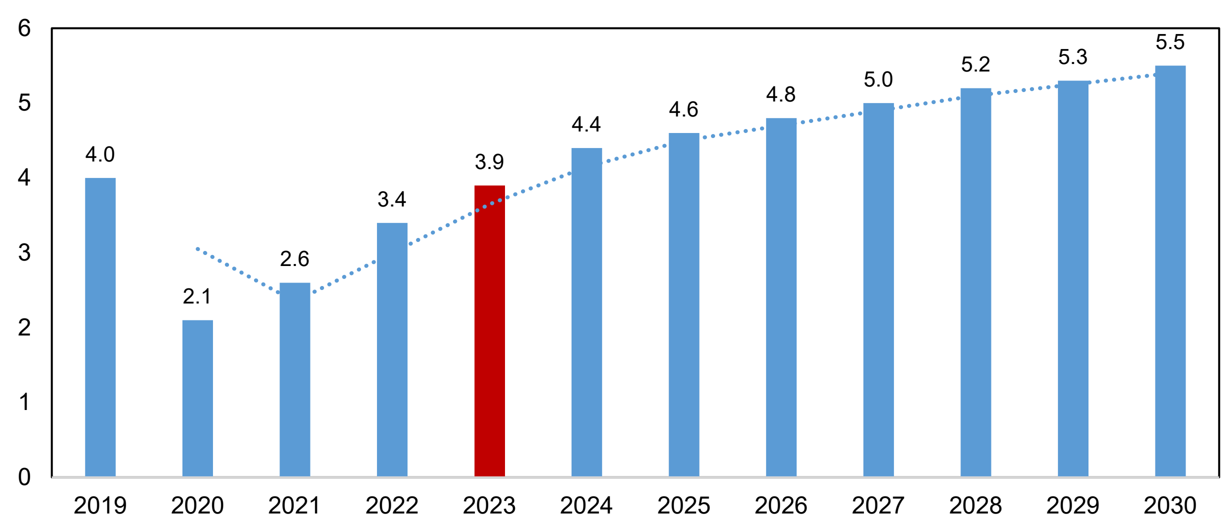
Table 1. United Nations World Tourism Organization Recovery Scenarios for when International Tourist Arrival will Return to 2019 Levels

UNWTO Scenarios [Jan - 21]	**Date**
Scenario 1	Mid - 2022
Scenario 2	Early 2023
Scenario 3	2024

Source: UNWTO (2021c).

Most private sector and international organizations expect a two and a half - to four-year time frame for full recovery to 2019 levels (e.g., UNWTO, International Air Transit Association, International Civil Aviation Organization, Tourism Economics, HVS Hospitality Consulting, STR Data Solutions, Ernst & Young, Deloitte and McKinsey) (Figure 7). That said, there are substantial differences per geographical area, and every expert organization emphasizes the high level of uncertainty and the many factors that could impact the recovery speed. The social psychology of a recovery from a once-in-a-century pandemic is not well understood yet. There could, in fact, be a boom in demand that is not fully reflected in the expert studies.

Figure 7. Projected Recovery of Annual Domestic and Outbound Tourism Revenue for Top 10 Tourism Countries (in trillions of U.S. dollars)



Source: McKinsey (2020).

The evolution of demand for tourism services in key source markets obviously is critical to the prospects for a recovery of tourism in the Caribbean.[9] With respect to source markets, for most countries in the region the United States represents the most important source of tourism demand. The United States accounts

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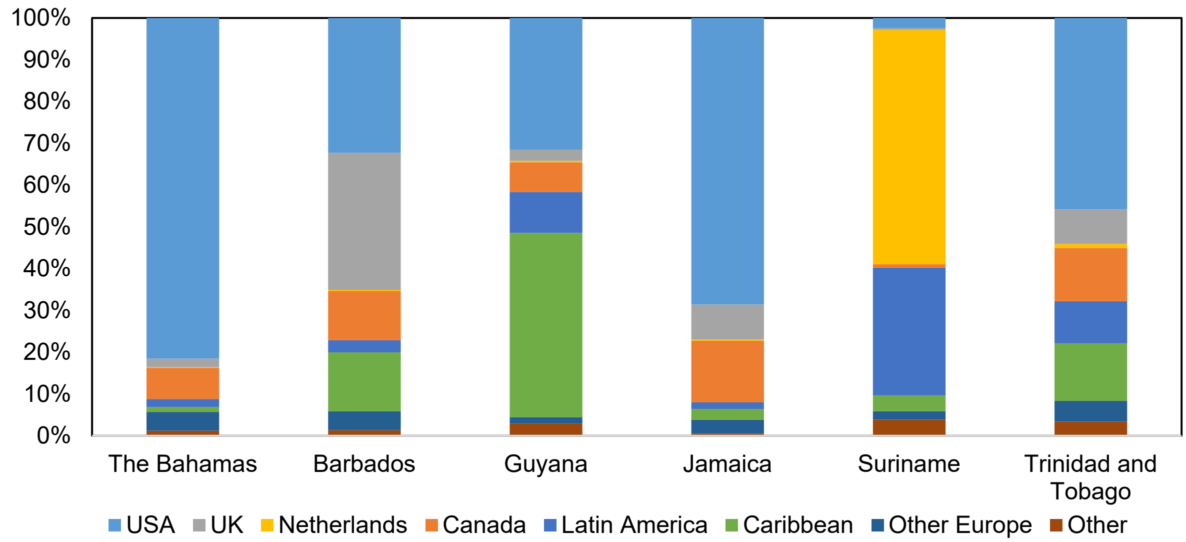
[9] As in the trade literature, a standard gravity model can be used for bilateral tourism flows. It shows that geographic proximity, level of income, and cultural similarities are positively associated with stronger tourism flows (IMF 2021b).

for about 82 percent of all visitors to The Bahamas, 69 percent to Jamaica, and 32 percent to Barbados (Figure 8). The United Kingdom is the most important source of tourism demand for Barbados, representing about 33 percent of all visitors, and is also an important source of visitors to Jamaica and Trinidad and Tobago, where it represents about 8 percent of all arrivals, based on the latest available data. Visitors from Canada represent about 15 percent of arrivals to Jamaica, and around 12 percent to both Barbados and Trinidad and Tobago. In the case of Suriname, about 56 percent of visitors are from the Netherlands.

Figure 8. International Tourist Arrivals by Country/Region in Caribbean Countries, 2019



Source: UNWTO (2021d).
Note: The data for Suriname are for 2017.

The sections below highlight some of the main drivers of the recovery. Other drivers will be the subject of additional upcoming research.

Main Drivers of the Recovery

(1) The Evolution of the Pandemic and the Vaccine Rollout

Among all of the drivers of the recovery, the one that every expert seems to agree on is the evolution of the pandemic and, more precisely, the new COVID-19 variants, the vaccine rollout, and the vaccine's effectiveness on the new variants (UNWTO 2020). Box 1 provides information on progress in vaccinations in both source and destination markets relevant to the Caribbean. Effective and extensive vaccination is the only way to ensure the end of periodic surges in infections and the associated imposition of border restrictions and domestic lockdowns. Achieving "herd immunity" will depend critically on the effective implementation of vaccination programs and the effectiveness of vaccines in controlling new variants (Table 2).

There are multiple open questions that remain: Will vaccination rates continue an upward trend in source markets? Will vaccinations in Caribbean countries keep pace with competing destination markets and will that be a relevant factor for recovery of the tourism sector? Will confidence in traveling automatically be restored for those vaccinated, in particular as it relates to international versus domestic travel? What is the vaccine's effectiveness with new and potential future variants?

Table 2. Herd Immunity Projections by Country/Region Prior to the Emergence of New COVID-19 Variants

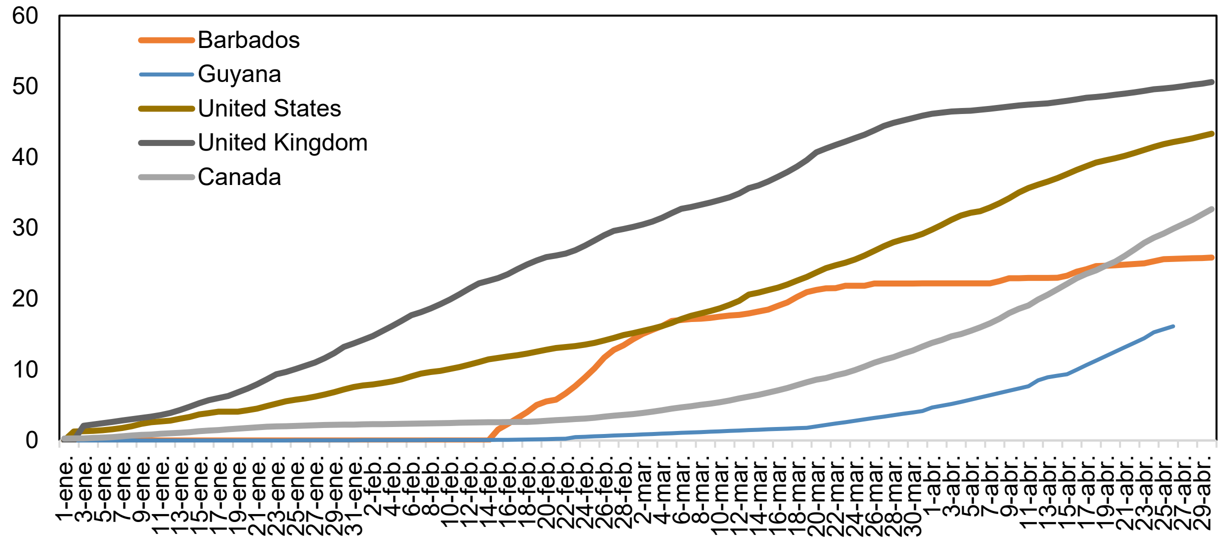
Country/Region	Healthcare Workers and High-risk Population Immunized By:	Estimates of When Herd Immunity Will Be Achieved Based on Current Supply Deals
United States	February 22, 2021	April 24, 2021
United Kingdom	April 9, 2021	July 10, 2021
Canada	April 1, 2021	June 9, 2021
European Union	May 9, 2021	September 2, 2021
Latin America	June 26, 2021	March 26, 2022

Source: IATA (2021b).

Box 1. Vaccine Distribution

In terms of tourism source countries, the United States and United Kingdom are well supplied with vaccines, and distribution is proceeding quickly in these countries relative to many other nations across the world (Hegarty 2021) (Box Figure 1). As of end-April 2021, nearly 51 percent of the population in the United Kingdom and about 43 percent in the United States had received at least one vaccine dose. For Canada, the figure was about 33 percent. Looking forward, the United States government has announced that it expects to have vaccinated most willing adults by the end of summer 2021, and in the United Kingdom authorities expect all adults to be offered a first vaccine dose by the end of July 2021. The U.S. Centers for Disease Controls recently announced that fully vaccinated people may travel and that for domestic travel, neither testing nor quarantines are required, according to the guidelines. For international travel, the guidelines state that even fully vaccinated people must get a negative test result before traveling back to the United States (Washington Post, April 2.)

Box Figure 1. Share of People who received at least one dose of COVID-19 Vaccine



Source: Our World in Data (2021).
Note: Some daily figures are estimates based on incomplete cumulative data.

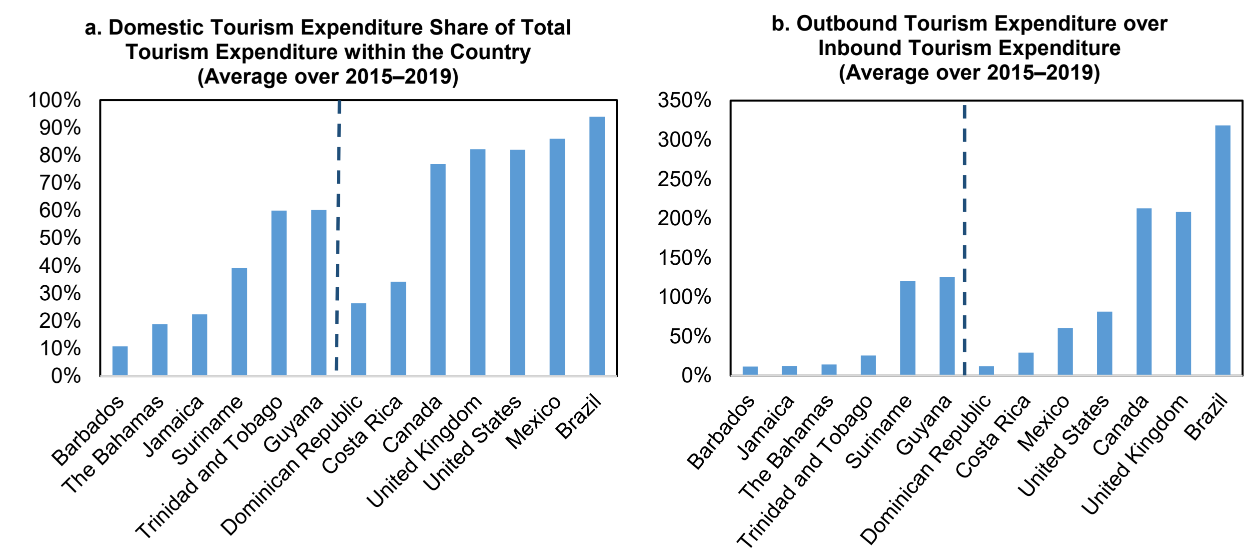
In terms of Caribbean destinations, Barbados is the first of the countries covered in this report to administer vaccinations to a significant share of its population. Guyana had also reached the "double digits" share of the population by end-April. The other four countries have all started, but as of end-April the level of doses administered per 100 population was in the single digits.

(2) Domestic Tourism in Source Countries

The speed of the recovery will depend upon whether travelers from traditional source markets will prefer domestic tourism over international tourism.[10] There may also be some scope for a destination to expand its own domestic tourism or transform part of the country's outbound tourism into domestic tourism. One feature of the Caribbean is that domestic tourism expenditure historically has been a very small share of total tourism spending in the strongest Caribbean tourism economies, and it has been below the worldwide average in the rest of the Caribbean countries (Figure 9, panel a).[11] It is also interesting to note that Suriname and Guyana are effectively "net importers" of tourism services, that is, outbound expenditures are larger than inbound expenditures (Figure 9, panel b).

[10] A domestic tourism trip is defined as one with a main destination within the country of residence of the visitor (United Nations 2010). A domestic visitor is defined as a visitor who travels within his/her country of residence, is a domestic visitor, and whose activities are part of domestic tourism.
[11] Worldwide, domestic tourism accounts for around 70 percent of total tourism spending (WTTC data tool, February 2021).

Figure 9. Domestic Tourism Expenditures and Inbound versus Outbound Tourism Expenditures



Source: WTTC (2021b).

Indeed, in 2020, domestic tourism was much more resilient than international tourism. According to estimates by the WTTC (2020b), domestic tourism expenditure declined globally by 45 percent. This represents a huge decline, but it is substantially less than the decline in international tourism. Tourism experts have been emphasizing since the beginning of the pandemic that domestic tourism might be the major travel trend shift in coming years, particularly in 2021 and 2022. Domestic tourism and travel close to home will considerably expand in relative terms and will increase its contribution and weight in total tourism demand.[12] Travel sentiment analyses performed since March 2020 have identified domestic tourism and traveling close to home as the preferred alternative for most potential and actual travelers.

Traveler preferences have shifted toward the familiar, predictable, and most trusted—in the pandemic context, it turns out that there is no place like home (or near home) (WTTC 2020c). For example, inbound guest arrivals to North America are forecast to remain 53 percent below pre-crisis levels in 2021, while domestic tourist arrivals are expected to be just 7 percent below 2019 levels. Globally, domestic tourism is expected to reach pre-pandemic 2019 levels by mid-2022 (Hegarty 2021), while international tourism is not expected to recover until the second half of 2024.[13] Even more importantly, by 2024 domestic tourism is expected to be around 25 to 30 percent higher than 2019 levels in some markets. This trend is an opportunity for many countries, but it could indeed have a dampening effect for Caribbean destinations going forward, as domestic tourism looms large in the key source markets for the Caribbean.

[12] See UNWTO (2021c) and IATA and Tourism Economics, Air Passenger Forecasts: Looking beyond the current crisis, February 2021, available at: https://register.gotowebinar.com/recording/2028852253660704272].

[13] IATA and Tourism Economics, Air Passenger Forecasts: Looking beyond the current crisis, February 2021, available at: https://register.gotowebinar.com/recording/2028852253660704272.

This discussion leads to an important open question: Will Caribbean destinations be “close enough” that, at least for the United States and Canada, the “stay close to home” preference helps rather than hurts the growth of international arrivals in the next few years? Also, how will airline capacity (available seats, frequency, and type of flight) contribute to this perception and potentially condition demand in the next couple of years?

(3) The Economic Environment

Another key variable that will condition the recovery is the economic environment of the main source markets, namely income growth and the income elasticity of overseas travel demand. Stimulus measures in one key market, the United States, are large enough to generate a public debate among economists on whether the economy will overheat.

In this context, studies show that the leisure market will be driven in particular by high earners. Currently, households with an income of US$100,000 or more represent 24 percent of households in the United States, but they are responsible for 59 percent of total leisure spending on accommodations.[14] In addition, households with an income of less than US$100,000 have been affected much more substantially by the pandemic than those earning US$100,000 or more. Therefore, the relative weight of the latter segment is expected to increase even more in the years to come.

Moreover, several studies and travel sentiment analysis show that the preference for domestic tourism or close-proximity international travel will also be affected by the economic environment of the main source markets of the destination. In simple terms, international travel, particularly long-haul travel, is more expensive. Even with regained confidence as the vaccination rate rises, there might be certain demand segments that restrain themselves from traveling internationally if they are still suffering lingering economic effects of the crisis.

On the other hand, there is a substantial Caribbean diaspora that is a traditional source of tourism demand, and there may be pent-up demand to visit the “mother” country. This represents a potential positive for Caribbean tourism moving forward.

This discussion points to multiple positive and negative elements that could influence the pace and strength of a tourism recovery in the Caribbean. The open question remains: Which factors will be more important in the months and years ahead? More specifically, how is the economic crisis and the economic environment going to evolve in the coming months in the main source markets? How will airline, lodging, and cruise prices affect potential inbound tourism demand? How will inbound tourism price and income elasticities evolve in the years to come?

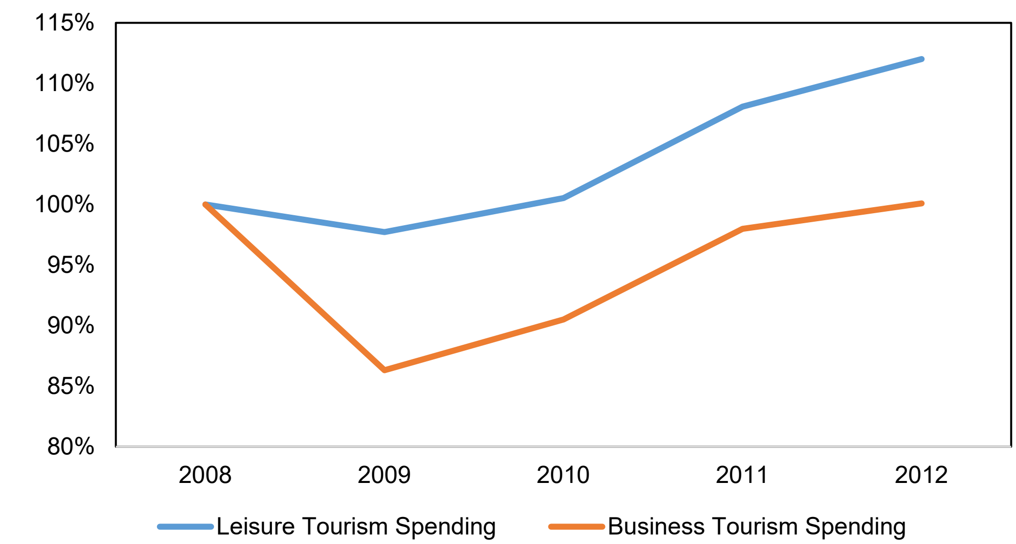
(4) Business Tourism Expenditure versus Leisure Tourism Expenditure

During previous economic downturns, business tourism expenditure was consistently more affected than leisure tourism expenditure, and this crisis is no different (McKinsey 2020). During the 2008–2009 global recession, international business travel from the United States declined by more than 8 percent, compared with a decline of just 2 percent for international leisure travel from the United States. Business tourism GDP

[14] “Planning for the Recovery,” Presentation by Adam Sacks, President of Tourism Economics, at the American Bus Association Meeting, January 28, 2021. Available at: https://www.youtube.com/watch?v=4R5DbdYz2tE.

returned to 2008 levels only by 2012, while leisure tourism GDP had already bounced back by 2010 (Figure 10).

Figure 10. Leisure versus Business Tourism Recovery Following the Global Financial Crisis (percent; 2008 = 100 percent)



Sources: WTTC (2021b); and authors' calculations.

That said, this crisis is different and takes place in conjunction with other driving forces that have accelerated due to the pandemic. First, the order of magnitude of this crisis is not only unparalleled, it is also, most importantly, very different in nature. People have changed their day-to-day routines quite drastically and for prolonged periods of time. Even the most telework-reluctant businesses have been compelled to give telework a chance. Most studies show that telework has worked very well, and that these newly adopted working practices have permitted most companies to considerably reduce their operating costs, including travel cost reductions. In an environment where cost reduction is of a paramount importance, business travel cuts may be maintained, at least in the near future.

Another important difference of this crisis versus previous ones is that tourism crises since 2000 were somewhat contained regionally, whereas COVID-19 has simultaneously affected the entire world (IFC 2020). This global impact enhances the shock and limits the possibility of mitigating the crisis impact by shifting or re-assessing target demand segments and source markets.

Meanwhile, climate change is more evident than ever, and consumers and businesses are becoming more aware of the impact of their activity on climate change and environmental sustainability.[15] In a context in which the pandemic has provided an opportunity to re-evaluate working practices and the management of business relationships, increasing pressure to showcase climate change mitigation and adaptation and other environmentally friendly policies will be an incentive to further limit business travel to that which is

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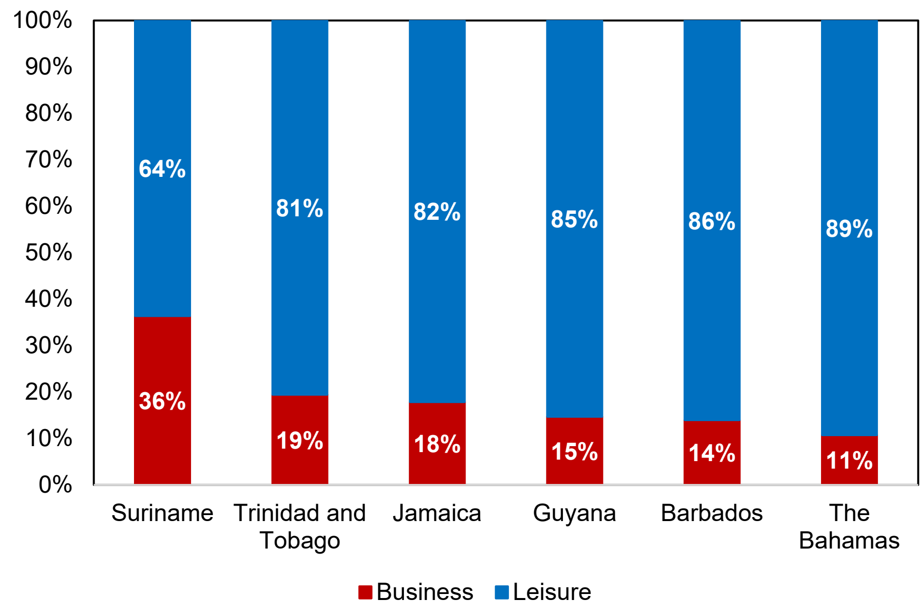
[15] "In a post-pandemic world, what happens to business travel," Economic perspective blog on the Tourism Economics website: https://www.tourismeconomics.com/about/economist-perspectives-2/in-a-post-pandemic-world-what-happens-to-business-travel/.

most strictly necessary. Some business leaders have even argued that business relationships can function perfectly well online and that traveling to maintain face-to-face meetings will most likely be cut by half.

Business travel represents a reasonably important share of total tourism expenditure in the Caribbean, though for most countries in the region the business share is below the worldwide average of 22 percent. The range is quite broad, though, from 11 percent in The Bahamas to 36 percent in Suriname (Figure 11). The simple average across all six countries is 19 percent.

Figure 11. Leisure versus Business Tourism Expenditure, 2019



Source: WTTC (2021b).

It is worth noting that, during the pandemic, a new niche demand segment emerged: the digital nomads. Barbados was the first country in the world to see this new market segment as an opportunity to recover its international tourism demand, and it has implemented its 12-month Welcome Stamp program to facilitate the temporary migration of global workers to telecommute from Barbados.[16] Many other countries around the world have followed suit. In January 2021, Barbados also rolled out a new monitoring app and bracelet called BIMSafe for use by all travelers from high- and medium-risk countries.[17]

Nevertheless, other experts consider that face-to-face contact is still relevant for various reasons, and that business travel will eventually bounce back, recovering not only to 2019 levels but also continue to grow

[16] J. Carrington, "Twelve-Month Barbados Welcome Stamp For Visitors," Government Information Service, July 1, 2020, available at https://gisbarbados.gov.bb/blog/twelve-month-barbados-welcome-stamp-for-visitors/.
[17] See the Ministry of Health and Wellness BIMSafe website at https://bimsafe.gov.bb/.

after that. In any case, there is some consensus that international business travel will take longer to rebound than leisure travel (Table 3).

Table 3. Tourism Economic Recovery Date Forecasts

Travel segment	Recovery by	Order of magnitude
International business	2024	2024 same levels as 2019
International leisure	2024	In 2024, some growth compared to 2019 levels
Domestic Business	2023	In 2023, some growth compared to 2019 levels
Domestic leisure	2022	In 2022, nearly 10% growth compared to 2019 levels

Source: IATA and Tourism Economics, Air Passenger Forecasts: Looking beyond the current crisis, February 2021, available at: https://register.gotowebinar.com/recording/2028852253660704272
Note: Percentages are approximate.

Several important open questions remain: What will be the medium-term impact of the COVID-19 remote work experience, combined with climate concerns, on future levels of business travel? How will the global economic downturn affect business travel and for how long? Which business travel segments will be more affected?

(5) Who Are Your Source Markets?

All of the above drivers converge on the issue of prevailing conditions in key source markets for tourism. The specific variables that are distinct among the different source markets include the vaccine roll-out, economic environment, domestic market size, outbound market size, geographical location, and potential accessibility to the tourism destination.

For example, one key source market for the Caribbean, the United States, might increase its relative weight in global tourism demand in the next two to five years. This stems from the country's current vaccination roll-out pace, its better economic environment in relative terms compared to other countries, and its pre-pandemic outbound market size, which matters for generating economies of scale (e.g., for flight network planning and route maintenance).

Vaccination roll-out stands out as probably the most relevant tourism demand driver in this case. In the January 2021 "Coronavirus Travel Sentiment Index Report" by Destination Analysts, half of the American travelers surveyed said they will continue to avoid travel until vaccines are widely available.

That said, surveys reveal that travel remains on Americans' minds. A survey found that one-third of Americans said they had daydreamed about travel the previous week, and a quarter have talked to friends or family about future travel and have researched travel ideas online (U.S. Travel Association 2021). Moreover, travel sentiment analyses showcase that Americans have positive attitudes towards travelling. Half of American travelers surveyed have expressed that they are excited about travel in the near future and 55 percent say they are in a "ready to travel" state-of-mind.

In addition, the current perception by Americans that travel and leisure activities in general are unsafe is considerably lower than in April 2020: 49 percent of American travelers rate travel and other leisure activities as "somewhat unsafe" or "very unsafe," a considerable improvement from the 70 percent who stated that back in April 2020 (Destination Analysts 2021).

Consumer sentiment surveys also reveal some positive information for Caribbean destinations:

- 60.3 percent of surveyed American travelers said they are "interested" or "very interested" in "enjoying scenic beauty." Among all the activities listed, this was cited as the most popular one.
- The next two most popular activities are "outdoor warm weather activities" (57.5 percent) and "visits to beach destinations and resorts" (55.2 percent).
- The percentage of Americans interested in "visits to foreign countries" has increased considerably since May 2020. In January 2021, 39.5 percent of Americans surveyed said they were interested" or "very Interested" in doing so, up from 30.4 percent back in May 2020.

On the other hand, the surveys reveal an increasing interest in domestic travel, with 54.5 percent of those surveyed wanting to "visit U.S. national parks" (up from 46.7 percent in May 2020) and 54.3 percent wanting to "take road trips." In addition, Americans have extensive possibilities to travel domestically. The U.S. domestic tourism market is extremely well-established. Given all the uncertainties—including lagging consumer confidence and the cost to travel to certain international destinations—Americans might end up overwhelmingly choosing local travel in 2021 again.

As noted in the previous section, the United States, United Kingdom, and Canada are the main source markets for the "big three" Caribbean tourism economies: The Bahamas, Jamaica, and Barbados. While this section has presented some data on the dynamics of travel preferences in the United States, similar factors are likely to be relevant in the other key source markets.

Key open questions remain. How will relevant conditions evolve in source markets in the coming months and years? Will most of the demand contained in 2020 boom once confidence is back? Will consumer preferences change permanently (safety, health concerns, proximity to home, open doors, etc.), or will these changes be temporary?

Other Factors

There are several additional factors that could affect the pace of recovery of the tourism sector. These include the perceived uniqueness of the destination, the type and characteristics of the destination's hospitality ecosystem, the age range and distribution of the destination main market segments, the main distribution channels of the destination, and the perceived health and safety of the destination.

Among those additional factors, accessibility to the destination is going to be key.

Cruising restrictions and U.S. Centers for Disease Controls guidelines for cruise ships operating or seeking to operate in U.S. waters will severely affect the potential recovery in cruise passenger demand.

Moreover, given the losses that airline companies experienced in 2020 (and that are expected to continue experiencing until at least the end of 2021) (IATA 2021c, 2021d), preserving an adequate level of air connectivity is going to be very challenging as limited international demand continues and new demand patterns emerge (such as a strong preference for direct flights). According to the International Civil Aviation Organization (ICAO), international air capacity fell by -75 percent in January 2021 year-over-year. As per ICAO's April 1, 2021 COVID-19 impact analysis on civil aviation, the overall number of seats offered by airlines for 2021 is expected to decrease by between 51 and 62 percent compared to 2019 levels (ICAO 2021). In addition, the IATA recently reported that the number of airport pairs in March 2021 was only 50

percent of the connections existing pre-pandemic in March 2019 (IATA 2021b). The frequency of those services was only 48 percent of pre-pandemic levels.

Restoring air connectivity will therefore be critical to ramping up the tourism sector recovery and, particularly, the overall economic recovery of the tourism-dependent Caribbean countries.

F. Conclusion

The COVID-19 pandemic is still with us and vaccinations are of paramount importance to both preserve lives and establish the basis for a recovery in tourism, and therefore a general economic recovery in tourism-dependent countries. The pandemic also limits the scope in the short run for expanding the substantial potential for tourism in commodity-dependent economies. As noted in the introduction, the Caribbean is faced with an unprecedented challenge and degree of uncertainty in trying to chart the path forward. The elements driving this uncertainty are laid out in the questions raised by the discussion of the main drivers of the recovery in the previous section. IDB tourism sector specialists continue to analyze the prospects, and work is under way to develop on a tourism recovery index.

In summary, it is unlikely that a "V-shaped" recovery will occur. The most likely scenario is a recovery timeframe between 2.5 to 4 years to return to pre-COVID-19 levels of tourism arrivals and expenditures. Volatility in the path to recovery is likely as well. In the meantime, affected firms and workers will need continued support.

These circumstances imply a premium for action in particular areas:

- Safety strategies, with bio-protocols and reopening and closing plans, need to be closely monitored and adjusted to changing circumstances. Communication is key, and cross-country coordination can ensure a common approach and establish a common brand for safe Caribbean destinations.
- In this uncertain environment, market intelligence and holistic tourism intelligence systems are more important than ever. These systems should rely not only on traditional statistics, which remain very relevant and the pillar of most tourism information systems, but also on real-time actual travel bookings and tourism expenditure data. Frequent consumer sentiment surveys also can be a useful guide.
- Another truly essential factor is going to be innovation, ranging from innovations in demand analysis to comprehensive safety and security strategies, product distribution, carrying capacity, supply chain efficiencies, and destination management. Innovation and adoption of communication and information technologies at all levels is no longer something optional that can be postponed. It is an immediate necessity. Adjusting the tourism product to new preferences may be necessary for Caribbean destinations to fully participate in an eventual global tourism recovery. Analysis of this dimension will be the subject of future IDB research.
- Preserving certain levels of accessibility to the destination (particularly via air connectivity) and strategically increasing access to accommodate potential demand growth are going to be very relevant going forward. Analyzing the main market segments of each destination and focusing on prioritizing accessibility for the destination's main target markets, based on thorough market intelligence analyses, could definitely make the difference in terms of recovery.
- The COVID-19 crisis has reminded us of the risk of natural disasters and the role of climate change. Most tourist activity is generated by natural, cultural, and heritage attractions. Their preservation is

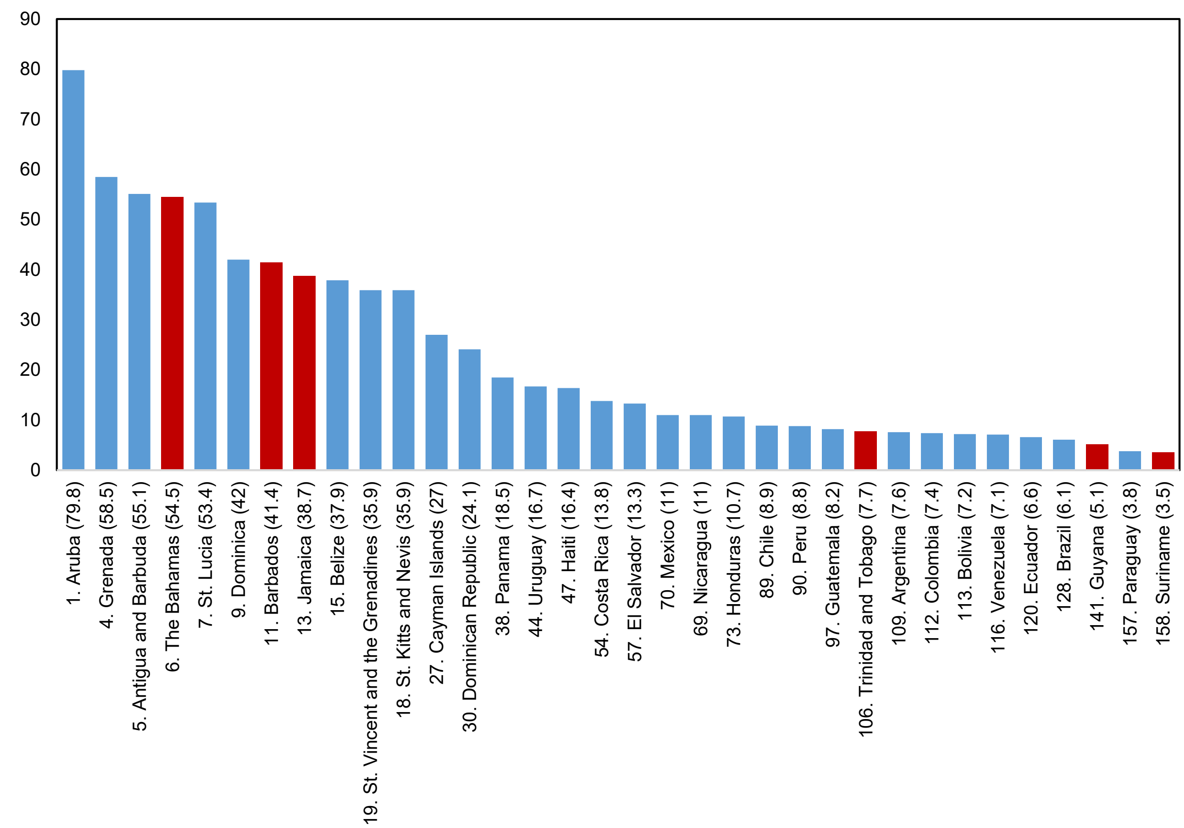
therefore key. Sustainability considerations are decisive for most tourism demand segments. Therefore, in addition to ethical issues, respect for the environment and the preservation and enhancement of natural and cultural tangible and intangible capital should be accepted as an essential element to improve tourism competitiveness.

Over the medium to long term, there are opportunities on the supply side to develop new tourism products and destinations to match evolving global tourism demand. Natural and cultural assets are abundant, and potential growth areas include eco-tourism, cultural tourism, remote work tourism, education tourism, and retirement tourism. The latter could also be complemented by well-being and medical tourism in some countries.

Annex: Updated Tourism Dependency Index

Figure 12. Tourism Dependency Index (2019): Latin America and The Caribbean

(with rank vs. all 166 other countries for which the index was calculated)



Source: Mooney and Zegarra (2020)—updated to latest available data.

Note: The number preceding the country name represents its rank out of 166 countries around the world for which data were available. The index is calculated using five-year averages (2015–2019) for the total contribution of tourism to total export receipts, GDP, and employment for each country. The range is from zero to 100, with 100 representing total dependence on the sector. That figure is in the parentheses following each country name in the figure. The index includes 35 countries in Latin America and the Caribbean for which data were available.

Table 4. Indicators of Tourism Dependence for Latin American and Caribbean Countries

	Tourism Dependency Index, 2019	Average Contribution to Exports, 2015–2019 (percent of exports)	Average Contribution to GDP, 2015–2019 (percent of total GDP)	Average Contribution to Employment, 2015–2019 (percent share of total employment)
Aruba	79.8	88.0	70.9	80.6
Grenada	58.5	87.8	42.8	44.8
Antigua and Barbuda	55.1	42.4	39.4	83.5
The Bahamas	54.5	73.8	40.6	49.0
St. Lucia	53.4	50.7	37.7	71.8
Dominica	42.0	51.0	36.5	38.5
Barbados	41.4	65.3	28.5	30.6
Jamaica	38.7	57.3	28.6	30.2
Belize	37.9	43.7	33.9	36.0
St. Vincent and the Grenadines	35.9	39.8	26.3	41.5
St. Kitts and Nevis	35.9	27.9	25.8	54.0
Cayman Islands	27.0	25.0	24.4	31.5
Dominican Republic	24.1	38.8	16.3	17.2
Panama	18.5	24.5	15.0	16.0
Uruguay	16.7	18.8	15.7	15.5
Haiti	16.4	31.1	9.1	9.2
Costa Rica	13.8	18.9	11.4	11.1
El Salvador	13.3	18.7	10.3	10.9
Mexico	11.0	5.0	15.1	12.9
Nicaragua	11.0	11.8	10.5	10.8
Honduras	10.7	7.4	12.2	12.7
Chile	8.9	4.9	10.1	11.7
Peru	8.8	9.4	9.4	7.7
Guatemala	8.2	11.2	6.4	6.8
Trinidad and Tobago	7.7	5.6	7.7	9.9
Argentina	7.6	6.5	8.9	7.4
Colombia	7.4	12.5	4.6	5.0
Bolivia	7.2	9.3	6.0	6.3
Venezuela	7.1	3.4	8.8	9.2
Ecuador	6.6	10.0	4.9	5.0
Brazil	6.1	2.5	7.8	8.0
Guyana	5.1	4.4	5.3	5.6
Paraguay	3.8	2.8	4.1	4.4
Suriname	3.5	3.7	3.2	3.4

Source: Mooney and Zegarra (2020), updated with latest available data.

Note: The Tourism Dependency Index (TDI) is calculated using five-year averages from 2015 to 2019 for the total contribution of tourism to total export receipts, GDP, and employment for each country. The range is from zero to 100, with 100 representing total dependence. The table presents the TDI scores for 35 countries in Latin America and the Caribbean for which data were available. The color scale represents the relative contribution of the variable when compared to other countries (red = highest / blue = lowest).

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