

## Covid-19 and globalisation: a poverty perspective on tourism and remittances

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### Highlights

- Reduced remittances and a fall in tourism will have large and lasting effects on income and poverty in the Norway's main development cooperation partners.
- The sharp drop in tourism can hit 9 million people directly, and 23 million in a broader perspective in these countries.
- A fall in remittances will have major negative effects and is particularly important for Nepal, Ghana, Myanmar and Uganda.
- Economic measures in OECD countries are aimed at compensating workers and SMEs for losses as a result of the shutdown of their livelihoods and businesses. A similar principle should be applied to short-term emergency aid such that it helps flatten the rise in the number of people falling below the poverty line.

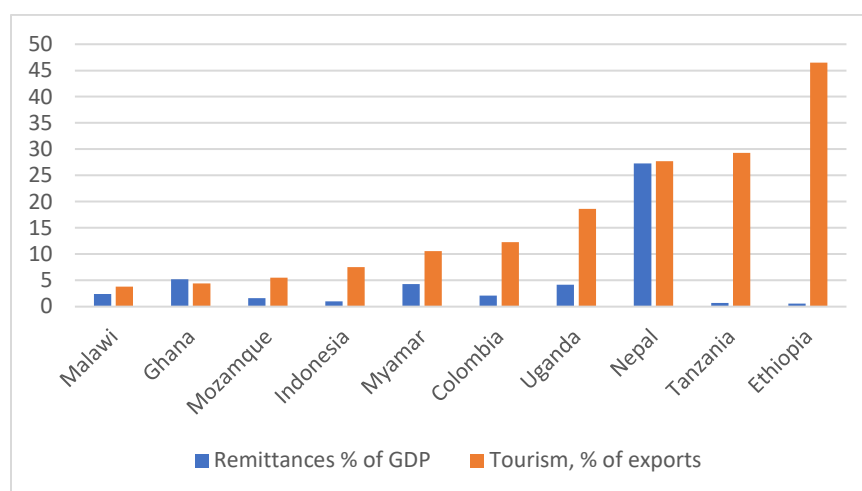
Globalization has helped lift hundreds of millions of people out of poverty. Covid-19 has caused the biggest setbacks for international trade since the Great Depression of the 1930s. The WTO expects a fall in world trade of between 13 and 32 percent in 2020, followed by a moderate increase in 2021. The wide gap between the optimistic and the pessimistic scenario reflects uncertainty about the duration of the pandemic and how long the measures to limit contagion will apply. Hardest hit are activities that involve people crossing borders, primarily tourism, but also remittances from migrants to family in their home country. This note discusses the effect of the Covid-19 crisis on the livelihoods of the poor in Norway's main development cooperation countries.

Figure 1 shows that Nepal is particularly vulnerable, since the country relies on both tourism and remittances. Also in Ghana, Myanmar and Uganda, remittances account for more than four percent of GDP, while tourism is most important for Ethiopia and Tanzania, in addition to Nepal.

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<sup>1</sup> This is an English translation of NUPI Covid-19 Policy Brief 5/2020.

**Figure 1. Remittances from migrant labour (2019) and tourism (2018)**



Source: World Development Indicators

### Tourism and poverty

Hotels, restaurants and other activities related to tourism create jobs, especially for women and young people with low levels of education. In addition, foreign tourists constitute the most important market for many small businesses and informal enterprises in crafts, culture and retail trade. Finally, the tourism industry has ripple effects on agriculture and horticulture. For instance, airlines bringing tourists to Africa transport flowers and tropical fruits in their hulls back to Europe, which has allowed a whole new export industry to thrive, especially in East Africa.

Since March 2020, international tourism has stalled. According to the World Tourism Organization ([UNWTO](#)), 96 percent of all destinations have introduced restrictions. The International Air Transport Organization ([IATA](#)) has a daily updated list of measures showing that most countries have now shut down international flights. Of Norway's development cooperation countries, Colombia, Ghana, Indonesia, Myanmar, Nepal and Uganda have suspended all international air traffic, while Ethiopia and Tanzania do not have restrictions, but require incoming passengers to be quarantined for two weeks. There is no information on Mozambique. These measures have caused air traffic to collapse. The International Organization for Civil Aviation, [ICAO's](#) overview shows that the number of daily departures globally dropped from 31 267 on 24. January to 1 904 on 20. April.

Looking ahead, [IATA](#) believes that traffic will pick up towards the end of the year and reach former highs in 2022. [The OECD](#) estimates the fall in revenues from international tourism in 2020 to 45 percent if travel restrictions are lifted in July and 75 percent if they last until September. However, it is likely that holiday travel abroad is one of the last to be reopened and that tourism is back to near normal only when a vaccine is widely available in 12-18 months at best. In addition, mandatory quarantine both upon entry at the tourist destination and upon return to home country will be a sharp dampener on tourism even if other restrictions are lifted.

**Table 1. Employment in tourism, number of people, 2019**

	Direct		With indirect	
	Number	%	Number	%
Colombia	515 511	2,2	1 294 410	5,6
Ethiopia	895 817	3,3	2 149 530	7,9
Ghana	265 917	1,9	651 070	4,7
Indonesia	4 749 640	3,7	13 408 700	10,4
Malawi	233 230	2,9	536 237	6,6
Mozambique	273 039	2,7	755 506	7,5
Myanmar	627 053	2,7	1 353 630	5,8
Nepal	482 852	2,9	1 075 920	6,7
Tanzania	513 005	3,6	1 544 900	10,8
Uganda	281 588	2,7	710 530	6,9

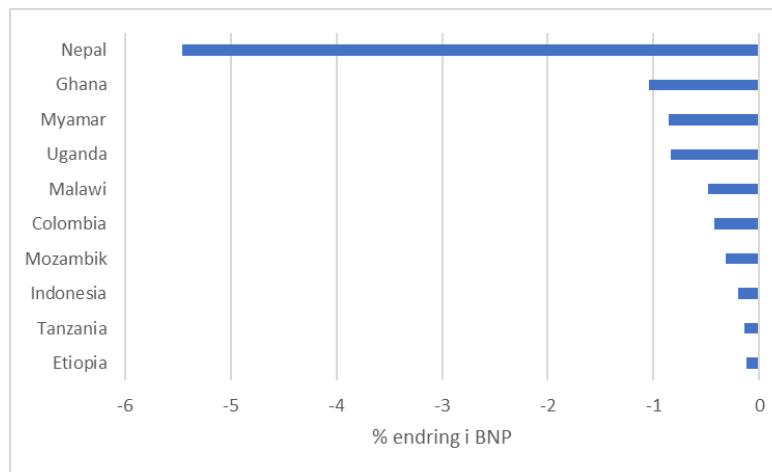
Source: World Travel and Tourism Council

The contribution of mass tourism to poverty reduction and sustainable development in the long run is debated, but there is no doubt that millions of residents of developing countries today have their livelihoods tied to the tourism industry. Table 1 shows direct and indirect employment in tourism in Norway's main development cooperation partners in 2019. We see that the collapse in tourism may affect almost nine million people who are directly employed in the tourism industry, and 23 million if we include those whose market is mainly the tourism industry. Since many of these are close to the poverty line already, a prolonged stop in international tourism can lead to a significant increase in the poverty rate.

### Remittances

Remittances from migrants are three times larger than official development aid. A number of studies find that such transfers go directly to households and are spent on essential goods and services such as food, housing, health and, not least, education. Remittances also serve as an insurance against falling below the poverty line in the event of illness, crop failure or accidents. [The World Bank's](#) recently updated forecasts (from mid-April) estimate a 20 percent drop in remittances to low-and middle-income countries. The setback is due to both migrants losing their jobs and closure of money transfers, especially those based on cash. The loss of jobs for migrants is particularly large in the Middle East after oil prices have more than halved. Combining the World Bank's forecast and the value of remittances relative to GDP reveals a dramatic drop in income in Nepal, but also Ghana and Myanmar are being hit hard.

**Figure 2. Change in remittances, share of GDP, 2020**



Note: calculated by multiplying remittances as a share of GDP (Figure 1) by -0.2.

### What can be done?

Research shows that mass tourism and labour migration do not necessarily reduce poverty in the long run. However, it is clear that the sharp slowdown in these sources of income is now hitting the poor particularly hard. Norway's aid should therefore be aimed at compensating those affected in the short term. However, this short-term adjustment should not necessarily guide long-term development policy.

Since the recession in the world economy is the result of a pandemic and measures to limit it, traditional stimulation measures will have little effect as long as the pandemic lasts. However, it is important that poor households have access to essential goods and services and opportunities to earn income during and after the crisis.

Economic measures in OECD countries have aimed at compensating workers and small businesses for losses as a result of the economic shutdown. A similar principle should be applied to Norway's short-term emergency aid to curtail the rise in the poverty rate. It could include:

- Direct support for households that lose their livelihoods. This can be done through e.g. cash transfers to families, either as budget support for governments with robust systems for implementation, of such schemes or through NGOs with the necessary expertise. This is urgent since the loss of income is already a fact.
- Servicing foreign debt is a priority expense in all countries. In the event of heavy losses in foreign exchange revenues and the depreciating of the national currency, debt servicing becomes a huge burden that can limit the government's ability to support poor families in duress due to the crisis. Norway's adherence to the G20 and the Paris club's moratorium on debt payment is good and could be extended to debt relief in some cases.

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