OVERVIEW

Economic Outlook for Southeast Asia, China and India 2023

REVIVING TOURISM POST-PANDEMIC

2023

OECD DEVELOPMENT CENTRE

Overview

Macroeconomic assessment and economic outlook

Growth in Emerging Asia has shown resilience in the face of global uncertainty. The economies of the region – the ASEAN-10 countries, the People's Republic of China (hereafter "China") and India – have stood up well to the challenges presented by the COVID-19 pandemic, Russia's war of aggression against Ukraine and a global economic slowdown. This is partly due to appropriate monetary and macroeconomic policy responses, sound export performance, and robust domestic demand in some countries. The average GDP growth rate for Emerging Asian countries is expected to increase to 5.3% in 2023 and 5.4% in 2024. ASEAN's average real GDP growth is forecast to reach 4.6% in 2023 and 4.8% in 2024, weaker than in 2022, but showing resilience, based on the projection framework of the OECD Development Centre (Table 1).

Table 1. **Real GDP growth in Southeast Asia, China and India, 2021-24, percentage**

	2021	2022	2023	2024
ASEAN-5				
Indonesia	3.7	5.3	4.7	5.1
Malaysia	3.1	8.7	4.0	4.2
Philippines	5.7	7.6	5.7	6.1
Thailand	1.5	2.6	3.8	3.9
Viet Nam	2.6	8.0	6.4	6.6
Brunei Darussalam and Singapore				
Brunei Darussalam	-1.6	-1.5	3.2	3.2
Singapore	8.9	3.6	2.2	2.5
CLM countries				
Cambodia	3.1	5.1	5.4	5.9
Lao PDR	3.5	3.1	3.5	3.8
Myanmar	-17.9	2.0	2.0	-
China and India				
China	8.1	3.0	5.3	4.9
India	8.7	6.9	5.9	7.1
Average of ASEAN-10	3.2	5.6	4.6	4.8
Average of Emerging Asia	7.3	4.4	5.3	5.4

Note: Data cut-off date is 20 March 2023. Data for India and Myanmar relate to fiscal years. 2024 projection for Myanmar is not available. Projections of regional averages (both ASEAN and Emerging Asia) for 2024 exclude Myanmar. The 2023 and 2024 projections for China, Indonesia and India are based on the OECD Economic Outlook, Interim Report March 2023.

Source: OECD Development Centre.

ASEAN-5

Indonesia's real GDP grew by 5.3% in 2022, boosted by strong domestic consumption, investment and exports. Indonesia's investment will rebound thanks to recent legislation to stimulate it, and construction and mining leading the way. The monetary authority is raising interest rates to counter inflation and prevent capital outflows. The fiscal deficit is expected to be reduced by removing pandemic-related support and adjusting taxes. In **Malaysia**, real GDP grew by 8.7% in 2022, led by domestic consumption and services, but net exports made a negative contribution to growth. In 2023, economic growth is expected to moderate to 4.0% due to the global economic slowdown and tighter monetary policy. Malaysia's trade surplus is expected to increase in 2023, though the services account will be weak. Malaysia will also benefit from increased demand for semiconductors and as a provider of liquefied natural gas. The **Philippines'** real GDP grew by 7.6% in 2022, driven by household spending, despite inflationary pressures and elevated interest rates. Exports may slow in 2023 due to the global economic slowdown, and tighter monetary conditions to cope with high inflationary pressures may pose a challenge for private consumption and investment growth. The Philippines has seen an employment rebound. In **Thailand**, real GDP grew by 2.6% in 2022, supported by private consumption and net exports. In 2023, growth is expected to accelerate to 3.8% due to a further rebound of private consumption and increased tourism, despite the global economic slowdown and weaker demand. The Thai government plans to focus on several industry clusters, such as agriculture and food; bioenergy, biomaterials and biochemicals; medical and wellness; and tourism and the creative sector. **Viet Nam's** economy grew by 8.0% in 2022, surpassing global growth rates, and is expected to continue its strong performance at 6.4% in 2023, boosted by foreign investment in manufacturing, especially in electronics, machinery, and footwear. Viet Nam will also benefit from China's decision to end zero-COVID policy. However, weaker demand may slow investment growth and inflation trends need to be carefully monitored. Winding down COVID-19 pandemic recovery initiatives will improve the fiscal situation.

Brunei Darussalam and Singapore

Brunei Darussalam's economy rebounded with 0.9% growth in Q3 2022, ending seven quarters of negative growth caused by restrictions in response to the COVID-19 pandemic and maintenance on oil and gas facilities. The economy is projected to grow by 3.2% in 2023, aided by investments in the fertiliser industry and higher oil and gas prices due to the war in Ukraine. Brunei Darussalam has expanded its fertiliser, oil and gas, and petrochemicals production capacity aggressively in recent years. In **Singapore**, real GDP growth will moderate to 2.2% in 2023 due to a weak trade sector. Services provided the largest contribution to growth, while high inflation remains a concern. The monetary policy stance remains tight to cope with inflationary pressures. Singapore will maintain a large current account surplus, although a decline in exports is expected in 2023. Singapore's exports of electronics and chemicals should remain relatively robust as they will remain in demand despite the global economic slowdown. Singapore should also benefit from regulatory reforms intended to develop the country as an e-commerce hub for Emerging Asia.

CLM

Cambodia's economy grew by an estimated 5.1% in 2022 and growth is projected to continue at 5.4% in 2023. Manufacturing played a vital role in the recovery, while the tourism sector is expected to boost growth in 2023 due to China's decision to abandon its zero-COVID policy. The recovery of tourism will produce positive spillovers, invigorating the food and hospitality industries as well. Efforts to de-dollarise the economy are ongoing. **Lao PDR's** GDP growth is expected to be at 3.5% in 2023, driven by private consumption and investments in energy and infrastructure. A railway connecting Lao PDR and China will facilitate trade by reducing costs, with trade of agricultural, metal and mineral products benefiting the most. Exports rose in 2022, while import growth weakened. Inflation surged sharply in 2022 due to elevated global commodity prices and the depreciation of the Lao kip, and trends will need to be observed carefully. Debt management and de-dollarisation will be challenges. The political uncertainty in **Myanmar** caused a contraction in real GDP, mainly due to a decline in private consumption. Foreign investment inflows are expected to decrease, with investors focusing on energy and mineral exports. Economic growth is expected to be 2.0% in 2023.

China and India

China's real GDP grew by 3.0% in 2022, driven by investment and exports. Private consumption continued to contribute positively to growth in 2022. China's zero-COVID policy was abandoned, and an increase in COVID-19 cases is projected to suppress economic activity early in 2023. However, this could be followed by rapid increases in both demand and supply due to the resolution of pent-up demand accumulated during the zero-COVID period. The government will continue its focus on the property market to rebuild market confidence. Inflationary pressures were very mild in 2022, though a slight increase is expected in 2023. In **India**, GDP growth for 2023 is projected to be 5.9%, due to weak external demand and high borrowing costs, while inflation will need to be monitored closely. The agricultural sector has seen an increase in yields and a continuation of minimum support prices for various products. India will also benefit from an improved investment climate brought on by a reduction in corporate taxes, and new incentives for tax compliance.

The region exhibits resilience despite volatility and risk in financial markets

In the second half of 2022, Emerging Asian economies faced challenging financial conditions due to aggressive monetary policy tightening by major advanced economies, which caused bond yields to rise and currencies to depreciate. Stock market capitalisation remained robust in 2022.

Overall, banking sector stability remains robust in many Emerging Asian economies, confirmed by high capital adequacy ratios and improved prudential regulations, while the banking sector must be carefully monitored in the current high-inflation, high-interest environment. Although the global banking sector experienced significant turmoil in March 2023 with the failures of Silicon Valley Bank (SVB) and Signature Bank, the banking sector in Emerging Asia remains resilient.

FDI declined in 2022 but there are signs of recovery in 2023

Foreign investment flows in Southeast Asia have been affected by tighter global credit conditions, leading to a deceleration of inflows and, in certain instances, a temporary departure of capital from the region. Data suggest that net other investment and portfolio flows have been more affected than foreign direct investment (FDI) since the beginning of 2022, coinciding with the time when major economies started to raise interest rates. However, there were signs of stabilisation by the third quarter of 2022 in most cases. Emerging Asian economies will remain appealing destinations for foreign direct investment.

Exports supported growth in 2022, but show some signs of weakening

Emerging Asia's recovery from the COVID-19 pandemic was supported by surging exports, particularly in consumer electronics, due to higher demand for stay-at-home goods. However, the war in Ukraine led to higher food and energy prices, causing persistent inflationary pressure. The slowing global economic growth is expected to weaken external demand in 2023.

Nevertheless, continued pent-up regional demand for tourism is expected to partially offset weak exports of goods. The removal of China's zero-COVID policy should boost tourist arrivals in the region, benefiting economies that rely on international tourism revenues.

Employment picks up gradually in the region but is not yet fully recovered

Labour markets in Emerging Asia are recovering from the pandemic, but still face challenges such as supply-side shocks due to the war in Ukraine and inflation. Employment in the region has recovered gradually. The services sector has shown growth in employment, while manufacturing, construction and agriculture have also added jobs.

Challenges to the outlook

Emerging Asian economies still face risks that could negatively affect their growth and stability, such as inflation, the global economic slowdown and supply chain disruptions. Policy makers must address these challenges to promote sustainable and inclusive economic growth in the region.

This section discusses the key challenges to robust growth in the region in 2023-24. They include:

- continuing **inflationary pressures** that will create food security challenges and increase capital flow volatility, combined with interest rate differentials
- **global economic slowdown** in the face of uncertainty and weakened demand for Emerging Asian goods
- **supply-side bottlenecks** that appeared during the pandemic and still linger, as well as new ones caused by global uncertainty
- the need to establish **tourism** as an engine of growth post-pandemic via adaptations and enhanced flexibility.

The current inflationary episode in Emerging Asia

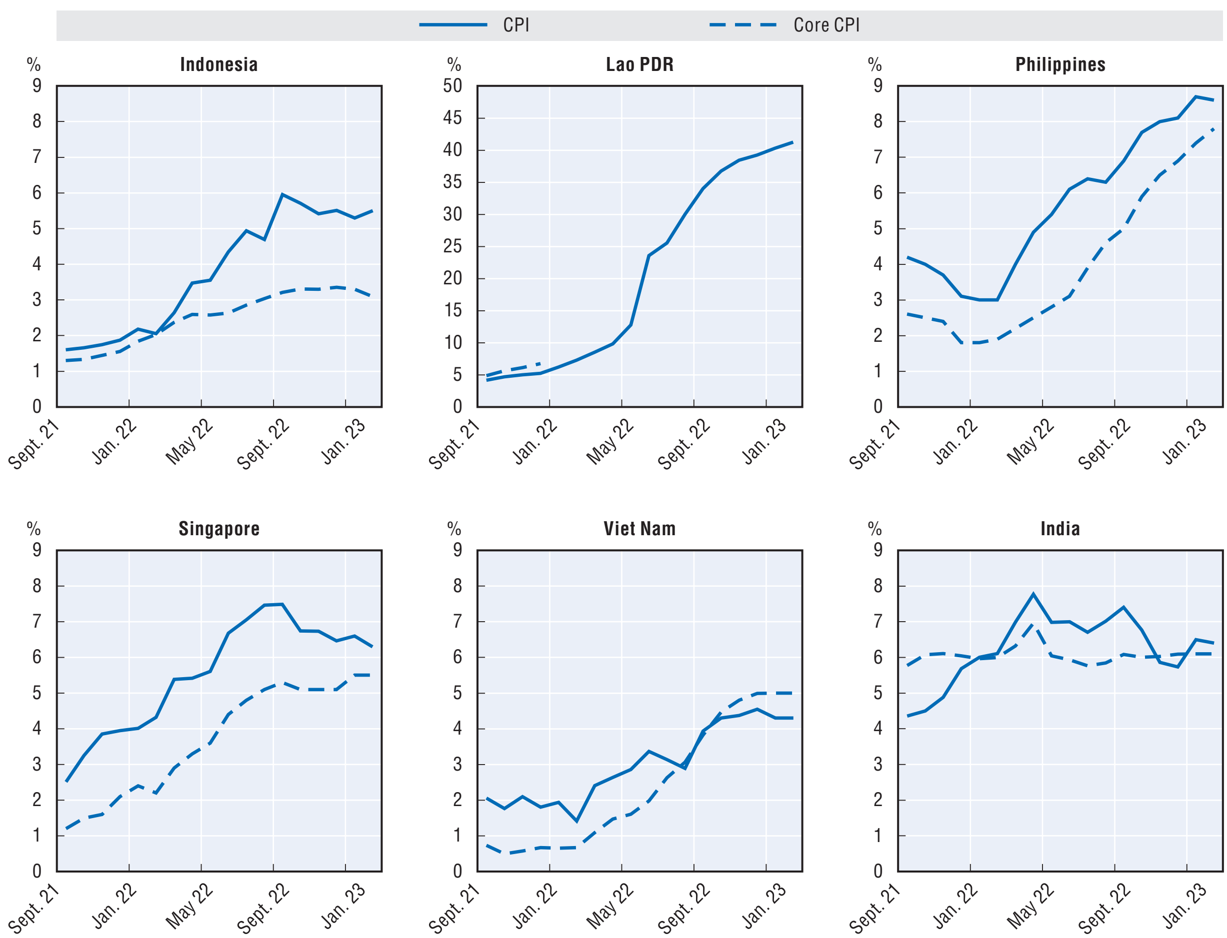
The current inflationary episode in Emerging Asia exhibits several characteristics that differ from previous episodes. These include:

- *the level*: not particularly high by global standards, though showing signs of increasing in some countries
- *the length*: very long and persistent
- *the source of inflationary pressures*: mainly driven by supply-side pressures, in contrast to past episodes when demand-side pressures drove inflation
- *policies to control inflation*: governments are implementing comprehensive policies like subsidies, export restrictions, tax cuts and price controls instead of relying solely on monetary tools
- *inflation expectations*: uncertainty over the duration of this episode could lead to negative perspectives among households
- *currency pressures and pass-through effects*: monetary authorities face the challenge of striking a balance between taming inflation and safeguarding economic recovery
- *secondary effects*: high costs of key inputs, with broad knock-on effects.

Consumer price inflation in Emerging Asia remains low relative to the rest of the world, mainly due to the broad implementation of policy measures such as price controls and tax cuts, but also because of relatively more contained currency depreciation. In most Emerging Asian economies the annual growth of both overall consumer prices and core inflation was lower than the OECD average.

While the contributory factors to the initial inflationary pressure of this current episode are external to Southeast Asian economies, the spike in the price of imported goods has gradually spread to the cost of other goods and services, broadening the scope of inflationary pressures over the economy. Core inflation, which excludes the effects of highly volatile food and energy prices, has started to soar as the uptrend in these categories has passed through to other sectors (Figure 1).

Figure 1. **Consumer Price Index (CPI) and core inflation in selected Emerging Asian countries, September 2021 to February 2023**



Note: As of 20 March 2023.

Source: CEIC and national sources.

StatLink https://stat.link/jqh4fy

Emerging Asia is controlling inflation with measures like subsidies and price controls

One reason inflation is more restrained in Emerging Asia than elsewhere is that governments in the region have implemented policies such as subsidies, export restrictions, tax cuts and price controls to cushion the initial detrimental effects of rising global food and energy prices.

As the escalation of the war in Ukraine in February 2022 aggravated concerns about supply shortages and food security, governments started to use export controls to secure necessary supplies for households. India imposed export bans for wheat and broken rice, and an export cap for sugar, while Indonesia and Malaysia implemented temporary export bans for palm oil and poultry, respectively.

Many countries in Emerging Asia also used price controls to rein in food prices and keep essential goods accessible for low- and middle-income households. Brunei Darussalam has been using price caps on a wide range of foods (rice, sugar, cooking oil and powdered milk) and energy products on a long-term basis. Indonesia, in addition to ongoing price controls for premium and pertalite-grade petrol, implemented temporary price controls on palm oil products, though they have now expired. Malaysia introduced price caps for packaged pure cooking oil, chicken and chicken eggs, while Thailand implemented price controls on a wide range of essential food products, from vegetable oil to canned food, as well as on agricultural inputs such as fertiliser, and will keep the controls in place. India, meanwhile, has introduced price caps for many essential pharmaceutical products.

Most countries in the region have chosen to use subsidies for fuel and food products, as well as cash transfers, to cushion the surge in the cost of living. In Singapore, for example, the government increased the level of cash assistance for people unable to work, and provided support for wage increases for monthly earnings below a given threshold. Taxi main hirers and private-hire car drivers received a one-off cash transfer to lessen the effect of rising oil prices. Indonesia has used cash transfers and the distribution of cooking oil to support households.

At the same time, subsidies and price controls have a long-term negative effect and should thus be targeted and temporary. The ability to use subsidies and transfer payments depends upon the fiscal space of each country, and the impact on fiscal sustainability should be evaluated carefully in each case.

Timely and appropriate communication regarding the path of inflation in the coming months will be important to keep expectations stable and wage bargaining aligned with forward-looking levels of inflation, rather than with the high levels of recent months. Tight labour markets and upward wage pressures pose another risk.

Managing capital flow volatility is key

There have been sharp swings in capital flows in emerging economies since the onset of the COVID-19 pandemic, and volatility has increased since the escalation of war in Ukraine, posing risks to economic activity and financial stability. Nevertheless, the current wave of capital flow volatility has been relatively subdued compared to the situation at the start of the pandemic. Rather than triggering severe financial problems, it has impacted inflation through exchange rates, adding to the negative effects of supply bottlenecks and the war in Ukraine.

The recent episode of capital outflows has been predominantly driven by global factors with differences in magnitude depending on domestic economic and financial conditions in each country. Since the escalation of the war in Ukraine in early 2022, increasing inflationary pressures and accompanying rapid monetary policy tightening by major monetary authorities have raised concerns about the future path of the global economy, thus generating a new wave of flight from risky assets. Monetary authorities in advanced economies are communicating prolonged monetary tightening, determined to rein in inflationary pressures. In this regard, capital flows to emerging economies may continue to require careful observation, and possible outflows pose a risk of currency depreciation and a slowdown in credit growth and economic activity.

The US dollar appreciated against other currencies globally in 2022 in one of the US Federal Reserve's fastest monetary tightening cycles. The ample foreign exchange reserves accumulated in many countries in the region serve as a buffer against capital outflows and depreciation pressures on local currencies are moderating, but the situation warrants careful monitoring.

Effective use of macroprudential policy is needed

The type and extent of vulnerabilities created during capital flows depend on the composition and scale of these flows and the characteristics of each economy, such as financial market development, institutional environment and exchange-rate regime. Capital flows intermediated through the banking sector comprise a substantial portion of the cross-border flows. Such capital flows typically contribute to building up vulnerabilities over periods of high levels of inflows by boosting credit growth along with financial asset prices. Most countries in the region have been progressing through an uptrend of credit, although at different speeds, and have reached total credit levels higher than the nominal income.

The region has seen a post-pandemic spike in credit for households and corporates due to the elevated need for liquidity. In this regard, it is vital to soften the detrimental effects of volatile capital flows on credit growth. Effective use of macroprudential tools in a targeted fashion may be needed to cushion the credit flow in the economy.

Disruption of grain markets by the war in Ukraine puts food security at risk

Grains are an essential part of diets globally, and the supply-side disruptions and consequent sharp price rises threaten food security in many regions. Global grain markets have been extremely volatile since the onset of the pandemic in early 2020, with various supply shocks driving the rise in prices. Prices of all major grains other than rice rose sharply until May 2021, and after a short retreat they shot upwards again with the escalation of the war in Ukraine.

The war in Ukraine has aggravated the already grim outlook in the grain market, creating anxiety over supplies and triggering high volatility. Although overall direct import dependency on Russian and Ukrainian exports is very low in the region, exposure on some items such as wheat and fertilisers is significant for some economies. In particular, as one of the largest importers of wheat globally, Indonesia's wheat import dependency on Ukraine was above 25% in 2021.

Spikes in energy and fertiliser prices, which began in the later stages of the pandemic, have worsened since the war's escalation. The rising cost of natural gas – the key input for ammonia, a base material for nitrogen fertilisers – increased the cost of agricultural inputs, leading to a spike in the cost of agricultural production.

The effects of spiralling food prices and their impact on food security are particularly detrimental for low- and middle-income countries that depend on food imports. The share of food expenditures in total household consumption is generally high in most Emerging Asian countries, exceeding 25% of total expenditures in many countries. The real income of households in these countries has thus deteriorated.

Soaring input prices and the effects of climate change threaten rice market stability

Rice, one of the most important staples in Southeast Asia, plays a vital role as the source of nutrition for the region's increasing population. While the price of rice has remained relatively stable since the pandemic, higher fuel and fertiliser costs in conjunction with adverse weather conditions threaten to disturb long-lasting stability in the rice market.

Droughts and heatwaves due to climate change hamper the yields of rice fields, especially those that lack access to irrigation and depend extensively on rainfall and groundwater. In the event of poor precipitation during the planting season, farmers may be forced to compete for a limited amount of groundwater, which has become less affordable due to soaring diesel costs and currency depreciation.

Given the crucial role of rice as both a food and an export product in Emerging Asia, boosting its production is essential. Efficient use of scarce water resources and improved irrigation systems to alleviate the adverse effects of droughts will be vital for food security. Safeguarding the availability of high-quality seed and ensuring the affordability and optimal usage of fertilisers and pesticides can also boost the supply of rice and mitigate food shortages in the region.

Weakened demand will affect some regional economies

The impact of the slowing global economic growth on Emerging Asia will depend on each country's composition of exported goods and services: economies with a larger export share in total demand should be hit more severely. The degree of openness varies significantly among economies in the region. The composition of exports also matters: Cambodia and Viet Nam, which rely heavily on garment and footwear exports, have been hurt by the global slowdown and inflationary pressures. A further deceleration in sales could lead to unemployment surges in these economies.

Post-pandemic travel and tourism in Emerging Asia: Adaptation, recovery and challenges

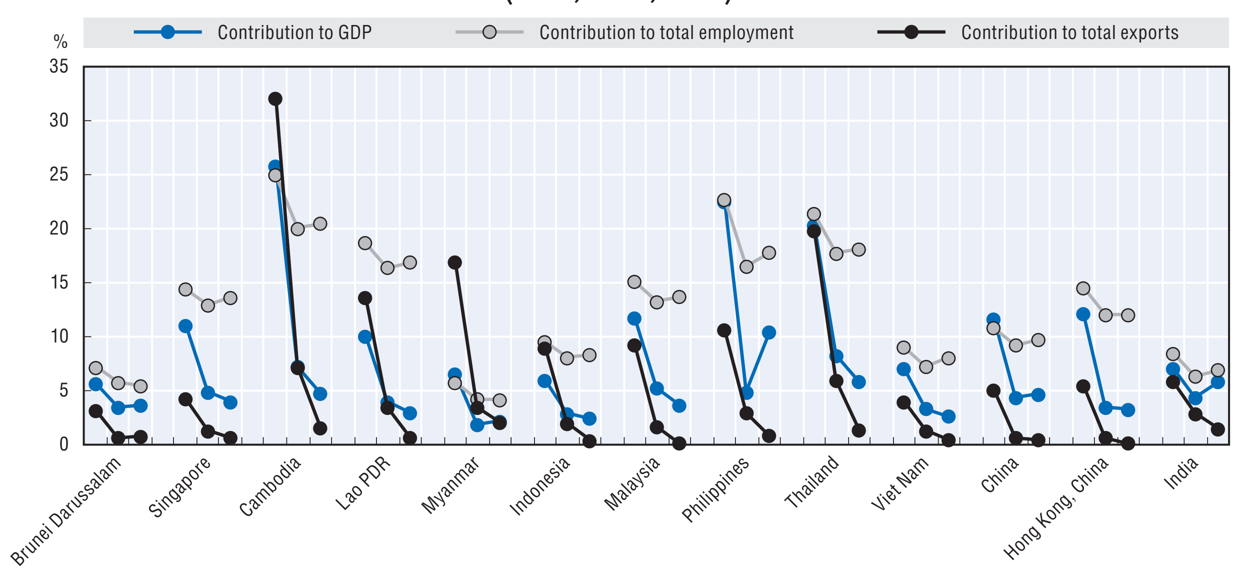
As travel restrictions ease and confidence returns, tourism is recovering in Emerging Asia. However, the pandemic and related restrictions dealt a severe blow to the region's important travel and tourism sectors, and challenges lie ahead. During the pandemic, tourist arrivals decreased significantly, affecting millions of people reliant on tourism revenues. Physical distancing, lockdowns and border restrictions impacted all tourism and hospitality stakeholders.

Contribution of the tourism sector in Emerging Asia

Southeast Asia was a thriving tourism region prior to the pandemic, with 138.7 million international tourist arrivals in 2019. Travel and tourism contributed 11.7% of GDP to the Southeast Asian economy and provided 13.2% of total employment (41.8 million jobs). In addition, China (including Hong Kong and Macau) received 260 million international visitors, while India received 17.9 million. Chinese outbound tourists made 155 million trips in 2019, spending USD 255 billion.

Prior to the COVID-19 pandemic, several Emerging Asian economies were highly dependent on tourism. In 2019, the sector contributed 25.8% of total GDP in Cambodia, 22.5% in the Philippines and 20.3% in Thailand. Contribution to exports from international visitor spending were highest in Cambodia (32.1%), Thailand (19.8%), Myanmar (16.9%) and Lao PDR (13.6%). The tourism industry began to recover in 2021 but has not yet reached pre-pandemic levels, partly due to many travel restrictions in force at that time, including requirements for COVID-19 vaccination (Figure 2).

Figure 2. **Contribution of travel and tourism to Emerging Asian economies (2019, 2020, 2021)**



Note: Contribution includes direct, indirect and induced impacts.

Source: Authors' compilation using data from WTTC (2022), Economic Impact Reports (data bank), https://wttc.org/Research/Economic-Impact.

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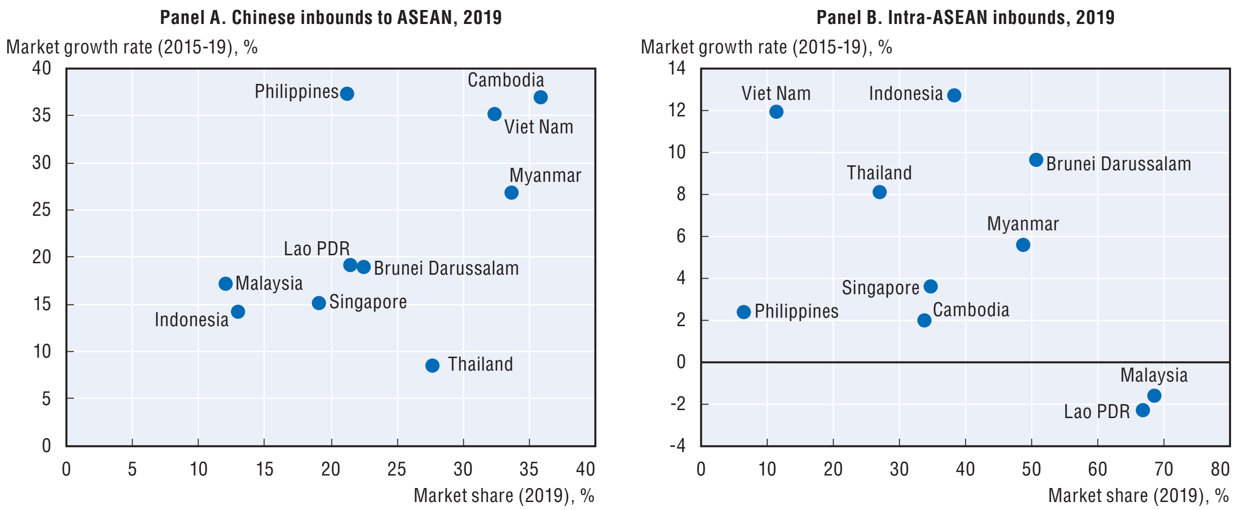
Diversifying and expanding inbound markets

Prior to the pandemic, international tourism accounted for most of the industry's activity in many countries in Emerging Asia, with some countries largely dependent on a few sources of inbound tourists, sometimes even a single source. For instance, in 2019, Chinese tourists accounted for more than a quarter of total international arrivals in Cambodia, Myanmar, Thailand and Viet Nam (Figure 3, Panel A). There, China's zero-COVID policy led to severe consequences.

It is therefore important to diversify the sources of inbound tourists. One way to achieve this is to increase intra-ASEAN tourism. Intra-ASEAN tourism flows are unequal among countries in the region. Lao PDR and Malaysia are particularly dependent on this market, while the Philippines and Viet Nam much less so (Figure 3, Panel B). Intra-ASEAN tourism is dominated by travel between neighbouring countries. Many tourists visiting a neighbouring country do so by land or water. While Thailand and Singapore have good air accessibility, other countries would benefit from improving theirs: Indonesia, the Philippines, and Viet Nam have already begun to do so.

Figure 3. **International inbound tourists to ASEAN**



Source: Authors' calculations based on UNWTO (2021), Compendium of Tourism Statistics, Data 2015–2019.

Another potential source of inbound tourists is India, a market largely untapped despite its size. The top destinations for Indian travellers in the region in 2019 were Thailand, Malaysia, Singapore, Indonesia and China. Significant Indian heritage remains in the culture, traditions, religions and physical sites of those four ASEAN countries – examples are the Little India area of Singapore and the Brickfields area of Kuala Lumpur, Malaysia.

Expatriates form yet another possible source of tourists for the region. The countries of Emerging Asia have large communities of expatriates living and working overseas, with disposable incomes and ties to their home culture. The labour export trend from Indonesia and the Philippines has contributed to the expansion of this niche market. However, these tourists must be offered tailored packages, as their preferences often differ from those of other tourists.

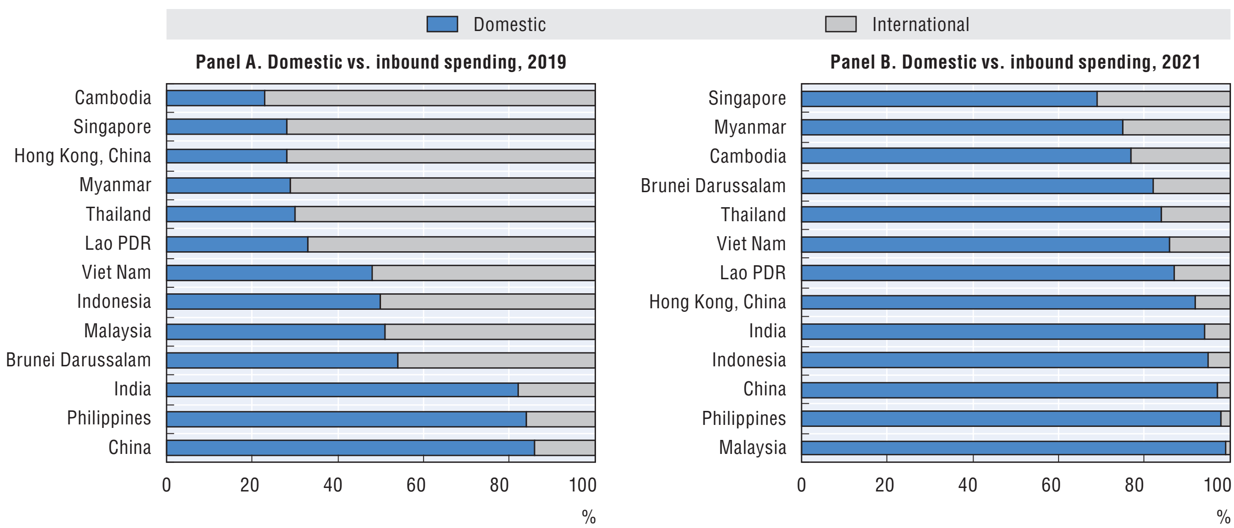
Boosting support for domestic tourism

The world's largest domestic tourism markets are in the demographically largest countries. China, for example, recorded 6 billion domestic trips in 2019, including overnight and same-day visitors, and domestic tourists in China spent USD 841 billion in 2017, overtaking the United States to become the world's most significant domestic travel and tourism market. India, meanwhile, reported more than 2.3 billion domestic trips in 2019. However, domestic tourism also plays a vital role for smaller countries and markets. It can stimulate disadvantaged economies and remote areas, and slowly change the travel patterns that have been dominating tourism.

The World Travel and Tourism Council finds that factors spurring domestic tourism in major economies include a growing or sizeable middle-class population; an increase in spending power among domestic consumers; government initiatives in promoting new locations; and strong or improving transportation infrastructure and economic links between different internal regions.

Within Emerging Asia, domestic spending represented at least 50% of all tourism spending in Indonesia, Malaysia, Brunei Darussalam, India, the Philippines and China in 2019. During the pandemic, the domestic share of tourism spending increased significantly (Figure 4).

Figure 4. **Domestic vs. inbound spending**



Source: Authors' compilation based on WTTC (2022), Economic Impact Reports (data bank), https://wttc.org/research/economic-impact, accessed on 7 October 2022.
StatLink https://stat.link/xe85zc

While international travel restrictions were in effect, many countries pivoted their tourism strategy to enhance the domestic tourism market. For example, hotels in Thailand started to base their marketing on Thai tourist behaviour. Destinations in Viet Nam that had previously been popular among international tourists, such as Hoi An, turned themselves into domestic tourism hotspots by, for example, adding more local dishes to their menus. Tourism authorities launched a programme titled "Vietnamese People Travel in Viet Nam" to stimulate domestic tourism. In Malaysia, AirAsia launched the Unlimited Pass *Cuti-Cuti Malaysia*, priced at MYR 399 (Malaysian ringgit), or about EUR 83, in 2020, allowing members of all Malaysia-based airline programmes unlimited domestic flights. In India, the decade-old "staycation" concept experienced a strong revival, with tourists embracing both budget and luxury accommodations for longer stays close to home.

Although domestic tourism cannot fully replace international tourism, a focus on domestic tourism should continue even after travel restrictions are gone. Such a strategy reduces exposure to external shocks by lowering dependence on international tourists and reduces the carbon footprint of the sector.

Addressing labour market challenges

In the aftermath of the pandemic, the tourism sector in Emerging Asia faces several labour market challenges: supporting small firms, boosting productivity, protecting vulnerable workers and making tourism jobs attractive to address labour shortages. Before the pandemic, travel and tourism supported 41.8 million jobs (13.2% of total jobs) in Southeast Asia, 82.2 million (10.8%) in mainland China and 40.1 million (8.4%) in India.

The sector is characterised by a high share of micro, small and medium-sized enterprises (MSMEs), many of which are owned by individuals or families, as well as a large share of low-skill jobs and labour informality. Informal employment comprises nearly 70% of tourism employment in Myanmar and more than 90% in Cambodia and Lao PDR. The sector also employs vulnerable persons, such as women and youth, at above-average rates. Vulnerable workers were particularly affected by the response to the pandemic and many street vendors were compelled to close. Furthermore, informal and migrant workers are often excluded from social protection programmes.

The tourism sector also faces labour shortages. Workers in the tourism sector tend to work longer hours and earn lower wages than average, without opportunities for upward mobility, which makes the jobs unattractive. This poses a major problem as the tourism sector recovers, especially now that China has reopened its borders.

Addressing these challenges will require supporting MSMEs, especially for the adoption of digital tools; expanding social programmes; and upskilling workers in areas such as training in languages, hospitality and digital skills.

Adapting to new preferences as travel and tourism recover

The COVID-19 pandemic and associated responses have driven changes in tourist preferences. People who lived through lockdowns and those desiring more personal space are increasingly attracted to rural and nature-based tourism destinations. The pandemic also led many people to place more focus on their health and wellness, increasing the demand for these services and willingness to travel for them. Furthermore, tourists now tend to book more short-term travel, and income losses sustained during the pandemic may lead travellers in Emerging Asia to choose less expensive domestic trips in the short term.

Rural and nature-based tourism have gained popularity. Nature-based attraction bookings in China increased by 66.7% in 2020 compared to 2019, and rose by 264% in 2021 compared to 2020, according to a 2021 WTTC report on changing travel preferences, derived from data on the Chinese online travel booking site Ctrip (WTTC, 2021). In March 2021 alone, rural tourism-related bookings on Ctrip increased by more than 300% compared to March 2019. Earlier research by WTTC also signalled an increased desire to explore places closer to home, reconnect with nature and travel “off the beaten path” through outdoor and non-urban activities.

The pandemic and associated responses’ detrimental effect on mental health have led to increased consumer interest in improving and maintaining mental health and overall wellness. A report found that the desire to spend more time and money on self-care, wellness and stress relief will continue to grow (WTTC, 2021). Several countries in Emerging Asia, including China, India, Malaysia and the Philippines, encourage businesses to set up wellness programs.

Towards sustainable tourism

In the wake of the COVID-19 pandemic, the future of tourism in Emerging Asia is moving towards deeper integration into the green and blue economies alongside rapid digitalisation. Sustainable choices refer to those that are mindful of environmental, economic and sociocultural aspects of communities where tourism takes place, so it can remain a durable industry. Sustainable tourism development guidelines and management practices are applicable to all forms of tourism at all types of destinations.

Sustainable tourism involves implementing practices that minimise environmental impact, from carbon footprint mitigation to conservation of natural areas such as forests and oceans. Tourism operations should also promote linkages between tourism and other sectors and seek to minimise economic distortion or disruption.

Prior to the pandemic, popular coastal tourist destinations in Emerging Asia were receiving growing numbers of visitors, whose presence and activities had a negative impact on the local environment and communities. The harm included immense waste generation, the uncontrolled expansion of tourism resorts and infrastructure, and damage to marine ecosystems. Severe problems of overtourism and degradation of the environment led to the temporary closure of some tourist destinations. While these closures allowed the sites to be restored, they came at a steep price, as workers' livelihoods were interrupted.

Visitor management strategies for sustainable and green tourism

Managing visitor flows to tourist sites, and the behaviour of visitors while at the sites, is essential for preserving their quality – not just for environmental reasons, but also for economic purposes. One way to achieve this is by managing demand. Demarketing strategies can help to reduce the number of tourists visiting a site at a given time. If alternatives can be proposed, the benefits of tourism revenues can be distributed more broadly.

Education is also key to preserving tourist sites. Authorities and guides should educate tourists on appropriate and inappropriate behaviour during visits to sites. Persuasion and explanation not only provide understanding but also create social pressure for tourists to behave properly. While formal legislation backed by fines allows for stronger enforcement, it can take time to develop and pass. Educational approaches can provide a stopgap during this process.

Strategies to ensure that a site has the resources to handle tourists sustainably include developing facilities and ensuring that the quality and quantity of infrastructure is aligned with demand. The key considerations for tourism to take place are natural resources and social conditions. A useful tool is *carrying capacity*, which aims to determine the number of visitors a destination can accommodate in a certain period without harming the ecological, economic or sociocultural environment. Another strategy is the use of development-density controls, which are commonly based on the number of accommodation units per unit of land area. "Setbacks", or minimum distances between landscape features, such as between the shore and the start of permitted built infrastructure, play a central role in sustainable landscaping design and preserve fragile shoreline ecosystems.

Sustainable tourism in the blue economy

All Emerging Asian countries except Lao PDR have coastlines, and a significant proportion of these countries' inhabitants live within 60 kilometres of the coast. Coastal and marine tourism have thus been an essential part of regional development. The region's extensive beaches, reefs, biodiversity, affordable prices, developed infrastructure and easy accessibility have attracted an ever-growing number of visitors and facilitated an abundance of economic opportunities. Fisheries, tourism and marine transport are longstanding activities, but in recent years the economic output of these regions has diversified into several newer activities, including offshore renewable energy and aquaculture.

Various forms of tourism that draw on the blue economy and ocean resources can be identified in Emerging Asia. They include "Sun, Sand, Sea" tourism; snorkelling, diving and marine sports; cruise tourism; ecotourism, including tours of local fishing villages; gastronomic tourism, involving the consumption of seafood; and research-related tourism including scientific tourism, academic tourism and volunteer tourism.

As a part of the blue economy, sustainable tourism can help promote conservation and sustainable use of marine environments and species; generate income for local communities; and maintain local cultures, traditions and heritage.

Prior to the COVID-19 pandemic, cruise tourism was among the fastest growing branches of the tourism industry. In Emerging Asia, the main ports for cruise tourism include Ho Chi Minh City (Viet Nam), Port Klang and Penang (Malaysia), Shanghai (China), Phuket (Thailand) and Singapore. While cruise tourism has been criticised for the large amount of waste it produces, it can nevertheless have significant economic development benefits for port cities, especially when passengers become excursionists. A positive experience as an excursionist in a port city may encourage passengers to return to those destinations for longer stays. The industry is also developing many methods of pollution reduction.

Climate change and sustainable tourism

Southeast Asia, China and India are home to 45% of the world's population, and rapid modernisation and economic growth have made the region a significant contributor to climate change. Tourism often develops in areas exposed to the effects of climate change, such as coastal areas, islands, low-lying urban areas and highland regions. The tourism industry contributes approximately 8% of global greenhouse gas emissions.

Temperature plays a significant role in tourism since it is closely correlated with climate comfort and the natural attractiveness of tourist destinations. Recent evidence from Indonesia indicates every 1% increase in average temperature leads to a 1.37% decrease in the number of international visitors. Increasing sea temperatures can lead to the deterioration or closure of blue economy sites and beaches.

Countries in the region have already taken initiatives to address environmental challenges in the tourism sector and shift towards sustainable practices. In Thailand, for instance, low-carbon, organic and sustainable approaches using sustainable food systems and organic farming may be found in several areas, including Phuket-Phang Nga and Pathom Organic Village in Suan Sampran. Further key steps include education, as many stakeholders are unaware of the climate impacts of their activities, and promoting lower-carbon forms of tourism, such as longer stays and domestic tourism.

Community-based approaches in ethnic tourism

Ethnic tourism allows travellers to experience the practices of another culture first hand. In Emerging Asia, ethnic tourism takes place in the highlands of Southeast Asia (Thailand, Lao PDR, Myanmar and Viet Nam) and in southwestern China (Yunnan). It takes the form of trekking tours; one-day excursions to easily reachable minority or indigenous villages; and souvenir sales by members of an ethnic minority at urban markets or beachside tourist destinations. However, ethnic tourism has often grown in an uncontrolled and unplanned manner.

Community-based tourism (CBT) seeks to counter these problems. It involves the local community in planning, development and management. Pro-poor tourism is another form of CBT designed for communities where a large proportion of the population lives in poverty. It can provide an impetus for local development, but unless this form of tourism is implemented properly, locals profit little because outside tour operators collect a large majority of the revenues.

Another issue spawned by increased tourism is the displacement of local communities, abandonment of traditional practices and increased reliance on tourism-related activities, such as selling souvenirs, for livelihoods. While this may deliver short-term gains, dependence on these new activities for livelihoods brings considerable risks given that markets are limited, competitive and seasonal.

Tourism operations should promote linkages between tourism and other sectors and seek to minimise economic distortion or disruption. Linkages and leakages are opposites in the local development of tourism. Leakages represent the amount of revenue that leaves the local economy (especially through payments for imported goods). In contrast, linkages strengthen the relationship between the tourism sector at a particular place and local non-tourism industries such as agriculture, fisheries or crafts.

Tourism in the digital economy

Technology and digitalisation have transformed the way people live, work and travel, and the COVID-19 pandemic accelerated the pace of change. Digitalisation can boost innovation, generate economic and environmental benefits, and increase productivity. However, it can also lead to increasing disparities between tech-driven and financially strong tourism businesses and MSMEs, which may lack access to digital infrastructure. There is also a digital divide between the region's more and less socio-economically developed countries.

Digital tools essential to the tourism industry include digital platforms, e-commerce and contactless payment, social media, automation, smart tourism and virtual travel. However, challenges must be addressed to maximise the potential of digitalisation in the sector. As digital platforms handle most accommodation bookings, smaller independent hotels or resorts that are not registered with these services risk being passed over. Many micro-entrepreneurs lack the skills to use digital platforms and may not understand the benefits. Meanwhile, contactless payments and e-commerce have risen in popularity since the start of the pandemic. Electronic payment applications are in widespread use in Malaysia, Singapore and China, countries with high smartphone penetration rates, as consumers are attracted to the speed, convenience and security they provide. However, it may be difficult or impossible to use these tools when businesses lack the necessary equipment and infrastructure to accept electronic payments.

Social media is an effective way to reach young people if entrepreneurs possess the necessary skills. Tourism organisations can also make use of these tools. For instance, the Mekong Tourism Co-ordination Office initiated a multinational marketing campaign, #MekongMoments, where businesses encouraged customers to share their experiences via social media using the #MekongMoments hashtag. This user-generated content appeared on a companion website with links to the websites of associated businesses.

Businesses are increasingly using automated services and robots to replace humans in carrying out mundane tasks, a trend triggered by high labour costs, a decline of workers willing to take jobs in the labour-intensive hospitality and service industry, and demand for contactless services. China has the world's fastest growing service robot sector, with more than 25% of the international market share. Service robots can perform tasks in restaurants, hotels, airports or shops and can answer simple questions if equipped with artificial intelligence.

Travel restrictions during the pandemic generated demand for non-physical travel experiences through virtual reality or augmented reality. In a virtual reality setting, people can move about as they do in the real world and the computer-generated environment maintains the illusion of being elsewhere. Virtual reality technology thus allows users to experience geographic locations or social settings to which they would normally not have access. Augmented reality is a type of interactive reality-based environment that uses computer-generated display, sound, text and effects to enhance the user's real-world experience. Virtual experiences are used by businesses and destination marketing organisations to promote tourism products and destinations. They can also have educational purposes and offer insights into a place or destination before the actual visit.

Challenges to digitalisation

Leveraging digitalisation requires advanced technology, specialised skills and strong legal and institutional frameworks. These are lacking in many countries in Emerging Asia. The region also suffers from a digital divide in the ability of countries to deal with data and statistics for tourism at a time when data sharing and transparency raise complex legal and technical privacy issues.

Cybersecurity is a concern for both consumers and firms. Hotels are prime targets for cyberattacks because they collect large amounts of personal data, including financial information. Likewise, airlines rely heavily on digital systems, making them another prime target. Governments will need to develop clear cybersecurity regulations, flexible enough to adjust to rapid changes in technology and threats.

ICT readiness and gaps in ICT skills are also of major concern. ICT readiness requires the existence of modern physical infrastructure, for example mobile network coverage and electricity supply. The World Economic Forum measures ICT readiness, with Singapore and China topping the list for the region, at 6.0 and 5.8, respectively, on a scale of 1-7. Malaysia, Thailand and Viet Nam are catching up, scoring above 5.0. Indonesia, the Philippines and India are gaining on them, while Lao PDR, at 3.3, scores below the regional average.

Most education systems in Emerging Asia are not adapting to digital transformation and preparing students for the digital demands of the workplace. The 2019 Asia-Pacific Economic Co-operation (APEC) survey *Closing the Digital Skills Gap*, 75% of respondents – employers, government officials and academics – reported a significant skills mismatch.

Working with big data in tourism requires a range of ICT and non-ICT skills, such as business analysis and project management skills. Market research and digital marketing skills are important domains of expertise. ICT and statistics skills involve knowledge on official tourism statistics, data science, computer programming, database management, big-data analysis, visualisation and machine learning. This is a wide array of necessary skills: in many Emerging Asian countries, fully qualified individuals are scarce. While these skills are gradually being integrated into general and specialised education, it may be some time before economies with less digital development can benefit.

The availability of high-quality data in the tourism sector is another challenge. Although official statistics are reliable and trusted at the national level, aggregating the data to regional and international levels is difficult due to a lack of consistent data frameworks. Each country uses its own definition and methods of data collection, tailored to the unique socio-economic conditions of the country. A common framework and method for harmonising tourism data needs to be agreed upon and promoted.

Current situation and challenges in tourism by country

Brunei Darussalam is gradually building infrastructure to make tourist attractions accessible. Its long-term tourism development plan calls for improving tourism through the diversification of products and service quality. The development of infrastructure is critical. For instance, the recently opened Sultan Omar Ali Saifuddien Bridge, a dual carriageway that is 30 kilometres long, will facilitate nature-based tourism.

Cambodia depends heavily on Singapore and Thailand as regional hubs to bring in tourists. More direct flights to Cambodia would likely attract more tourists from outside Emerging Asia, but it requires better airport infrastructure. The new Siem Reap-Angkor International Airport is expected to open this year. Cambodia must also improve crowd control at its UNESCO World Heritage Sites to protect them from degradation. Easier access to formal training for aspiring chefs with farm backgrounds would create a linkage with hotels, which could offer high-quality farm-to-table dishes.

China's domestic tourism market is robust thanks to a large population and diverse landscapes that provide a vast array of undisturbed environments, but this increases the importance of crowd control and other preservation measures at heritage sites. The development of cities close to these sites may be a boon for tourism, but great care must be taken to ensure that heritage sites are not disturbed. Community-based tourism can be strengthened, but proper training and crowd control are essential to prevent the communities from becoming overwhelmed.

India's approach to tourism is based on *Swadesh Darshan*, or the integrated development of theme-based tourist circuits, and on *Prasad*, which focuses on pilgrimage destinations to provide religious tourist experiences and spiritual wellness. Wildlife tourism is developing but needs better integration of local communities. Human resource development is crucial, as employees who feel they lack opportunities for career advancement are prone to quitting. Safety must also improve, as many tourists fear crime in major centres and as roads to remote nature-based destinations are often treacherous.

Indonesia seeks to diversify tourism through the "10 New Balis" initiative. The programme aims to establish tourist hubs outside Bali, which is prone to overcrowding, and to distribute tourism revenues throughout the country. However, conflicts have developed between local communities and tourism authorities, especially over land rights, highlighting the importance of dialogue and involvement of local communities. Indonesia should also seek to further improve blue economy tourism and maximise the potential of its 17 000 islands. As with some other countries, human capital development and human resources management are key.

Lao PDR has designated tourism as a target sector for development, yet its share of GDP has declined over the past decade. With more than 2 000 historical and cultural sites, the sector is ripe for growth. Challenges include control of waste disposal (especially plastic), integration with international airlines outside Asia and diligent impact studies on the effects of the growing hydroelectric sector on tourism.

Malaysia seeks to become the world leader in Islamic tourism. However, providing parallel tourism services for Muslims and others may be costly for service providers. Businesses in the tourism sector must carefully weigh the provision of such facilities. The country launched "Smart Tourism 4.0" in 2018 to extend digital technology in the tourism space, though efficient network provision remains a challenge. A study found that internet connectivity was weak at most attractions and that tourists felt that too few tourism businesses were making good use of smart tourism technologies. Further investment and government incentives could induce tourism businesses to adopt more technology-based services.

Myanmar's *Tourism Strategic Recovery Roadmap 2021-25* proposes a devolution of tourism planning to regional centres, the enhancement of existing destinations and products, and the development of new ones. Infrastructure development is essential and can open opportunities for community-based tourism, but much of this has been waylaid by the ongoing political uncertainty.

The **Philippines** is endowed with a rich cultural heritage and natural landscapes, from sandy beaches to densely forested mountains. The country is pursuing airport and other infrastructure development to handle tourist influx. Since the top destinations in the Philippines are nature-based, environmental protection through education and enforcement is critical. The Philippines also offers a favourable business environment for tourism development, and entrepreneurs should be given clear opportunities to take advantage of it. Human capital development, including language training, will be helpful.

Singapore has made steady progress in its tourism landscape, building key attractions and refreshing its tourism products every 5-10 years. Singapore's pursuit of "quality tourism", as defined by the Singapore Tourism Board, has three key dimensions: tourism should be an important economic driver, its development should spur innovation and create employment opportunities, and it should nurture public engagement and participation. Singapore is also a top destination globally for meetings, incentives, conferences and exhibitions (MICE) tourism, but there are concerns that there may not be enough accommodation to host the size and quantity of desired MICE events.

Thailand offers diverse tourism products for short, medium or long stays, but much tourism in the country is international, and domestic tourism should be bolstered. The Thai government recently began providing subsidies to residents to stimulate this market. As Thailand becomes increasingly urban, tourism policy must work to protect the environment and residents. Developing the identities of cities by highlighting their history will help to establish them as tourist destinations. Thailand is also a top destination for medical tourism and is working to streamline the visa process to maximise its potential.

Viet Nam is known for its beautiful scenery, including long coastlines and deep forests, and for its diversity of community-based tourism in villages. It also offers cultural and heritage tourism and has great potential as a food tourism destination. Challenges include the need for better infrastructure and better links among tourism stakeholders; increasing participation at the local level; and controlling mass tourism in nature areas.

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Economic Outlook for Southeast Asia, China and India 2023

REVIVING TOURISM POST-PANDEMIC

The *Economic Outlook for Southeast Asia, China and India* is a regular publication on regional economic growth and development in Emerging Asia – Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Viet Nam, as well as China and India. It comprises three parts: a regional economic monitor, special thematic chapters addressing a major issue facing the region, and a series of country notes.

The 2023 edition discusses the region's economic outlook and macroeconomic challenges at a time of great uncertainty and a slowdown of the global economy, in particular owing to inflationary pressures, capital flow volatility and supply-side bottlenecks. The thematic chapters focus on reviving tourism after the pandemic. Tourism was among the sectors most affected by both the COVID-19 pandemic and responses to it. The report highlights the economic impact of tourism in the region and explores how the sector can be reshaped to regain its significant role in Emerging Asia. The interruption of tourism allowed countries in the region to consider reforms in the sector, including diversifying tourism markets and addressing labour market challenges, while catering to the new needs and preferences of the post-pandemic world, prioritising sustainable and environmentally responsible activities, and accelerating digitalisation.

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