Economic Outlook for Southeast Asia, China and India 2023

REVIVING TOURISM POST-PANDEMIC

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Foreword

The *Economic Outlook for Southeast Asia, China and India* is a regular publication on Asia's regional economic growth, development and regional integration processes. It focuses on the economic conditions of the Association of Southeast Asian Nations (ASEAN) member countries (Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Viet Nam) and two other large economies in the region, the People's Republic of China (hereafter "China") and India. The *Outlook* was proposed at a 2008 informal reflection group on Southeast Asia following the 2007 Council Meeting at Ministerial Level (MCM) and approved by ministers and senior officials from ASEAN countries at the 2nd OECD-Southeast Asia Regional Forum in Bangkok in 2009. The *Outlook* was launched as a series in 2010 and the first edition was released in November of that year. It is typically presented at the ASEAN or East Asia Summit.

The Outlook Consultation Group (OCG) was established in 2014, consisting of representatives from OECD Delegations and Emerging Asian countries. The *Outlook* was integrated into the OECD's Southeast Asia Regional Programme (SEARP) at the Steering Group Meeting in Jakarta, Indonesia in March 2015 to offer a horizontal view of activities and provide a backbone for the different streams of the Programme confirmed at the 2015 MCM. *Updates* to the *Outlook* were introduced in 2018 to ensure that data, projections and policy discussions remain relevant.

This edition of the *Outlook* comprises three parts. The first part presents the regional economic monitor, depicting the economic outlook and macroeconomic challenges in the region: Chapter 1 provides a comprehensive review of the outlook and challenges, while Chapter 2 places particular focus on inflation as one of the most pressing challenges. The second part explores reviving tourism in the wake of the COVID-19 pandemic and the challenges the sector faces: Chapter 3 explores the role of the tourism sector in Emerging Asian economies and the challenges it faces in recovery, while Chapter 4 focuses on shaping a resilient recovery that minimises negative impacts on the environment and residents, while maximising the benefits residents receive from it. The final part (Chapter 5) is a series of notes on the state of the tourism sector in each Emerging Asian country, with recommendations for overcoming challenges.

The OECD Development Centre is committed to working alongside governments and other actors in the region to identify key challenges and provide policy recommendations for addressing them. The Centre enjoys the full membership of three Southeast Asian countries, namely Indonesia, Thailand and Viet Nam, as well as China and India. This project has also benefited from the generous support of other Emerging Asian countries. The OECD is committed to supporting Asian countries in their efforts to promote economic and social well-being through rigorous analysis, peer learning and the sharing of best practices.

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The team was led by Kensuke Molnar-Tanaka, Head of the Asia Desk, and this edition of the report was prepared by a core team composed of Kensuke Molnar-Tanaka, Prasiwi Ibrahim, Alexander Hume, David Repeta, Sonja Marki, Serkan Imisiker, Huong Bui, Thirumaran K, Senada Nukic and Alexander Trupp. Overall guidance was provided by Ragnheiður Elín Árnadóttir, Director of the OECD Development Centre and Federico Bonaglia, Deputy Director, provided useful advice. Many thanks go to the Communications Division of the OECD Development Centre, in particular Delphine Grandrieux, Elizabeth Nash, Melodie Descours, Laura Parry-Davies, Irit Perry, Bochra Kriout and Henri-Bernard Solignac-Lecomte for turning the manuscript into a publication.

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Abbreviations and acronyms

ABS Australian Bureau of Statistics
ADB Asian Development Bank
AI Artificial intelligence
APEC Asia-Pacific Economic Cooperation
API Application programming interface
AR Augmented reality
ASEAN Association of Southeast Asian Nations
ASEAN-5 Indonesia, Malaysia, Philippines, Thailand and Viet Nam
ASEAN-10 Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Viet Nam
ASEAN+3 ASEAN-10 countries plus China, Japan and Korea
BIS Bank for International Settlements
BND Brunei dollars
CAB Current account balances
CBOE Chicago Board Options Exchange
CBT Community-based tourism
CLM Cambodia, Lao PDR, Myanmar
CPI Consumer Price Index
ECU Electric vehicle control units
ECC Environmental compliance certificate
ESG Environmental, Social and Governance
FAO Food and Agriculture Organization
FAR Floor area ratio
FDI Foreign Direct Investment
FINMA Swiss Financial Market Supervisory Authority
FFPI FAO Food Price Index
FSR Floor space ratio
G7 Canada, France, Germany, Italy, Japan, the United Kingdom and the United States
GDP Gross Domestic Product
GDS Global distribution systems
GIZ German Agency for International Cooperation
GFC Global Financial Crisis
GMV Gross merchant value
GMTI Global Muslim Travel Index
GPS Global Positioning System
GWI Global Wellness Institute
HHI Herfindahl-Hirschman Index
IATA International Air Transport Association
ICT Information and communication technology
IDR Indonesian rupiah
IFC International Finance Corporation
ILO International Labour Organization
IMF International Monetary Fund

INR Indian rupee
IoT Internet of Things
IT Information technology
ITC Islamic Tourism Centre
JCI Joint Commission International
KHR Cambodian riel
KPI Key performance indicator
LCCs Low-cost carriers
LGU Local government units
LNG Liquified natural gas
LTV Loan-to-value
MAS Monetary Authority of Singapore
MICE Meetings, Incentives, Conferences and Exhibitions
MMK Myanmar kyat
MPD Mobile positioning data
MSMEs Micro, small and medium enterprises
MTCO Mekong Tourism Co-ordination Office
MYR Malaysian ringgit
NERC Nature education research centres
NGO Non-governmental organisation
NPL Non-performing loan
NTZ No-Take Zone
OECD Organisation for Economic Co-operation and Development
OTA Online travel agencies
PBOC People's Bank of China
PCR Polymerase chain reaction
PFES Payment for forest environmental services
PHP Philippine peso
PMI Purchasing Managers' Index
PPP Public-private partnership
PPP Purchasing power parity
PSA Philippine Statistics Authority
RCEP Regional Comprehensive Economic Partnership
RBI Reserve Bank of India
RMB Chinese renminbi
SDGs Sustainable Development Goals
SEA Southeast Asian
STB Singapore Tourism Board
SVB Silicon Valley Bank
SMEs Small and medium-sized enterprises
TAT Tourism Authority of Thailand
THB Thai baht
TRAs Tourist rest areas
TRR Tourism risk resilience
TSA Tourism satellite account
UNCTAD United Nations Conference on Trade and Development

UN	United Nations
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNICEF	United Nations Children's Fund
UNWTO	The World Tourism Organization
USD	US dollars
VAT	Value added tax
VND	Vietnamese dong
VR	Virtual reality
WB	World Bank
WEF	World Economic Forum
WHO	World Health Organization
WRI	World Resources Institute
WTO	World Trade Organization
WTTC	World Travel and Tourism Council

Executive summary

Growth in Emerging Asia shows resilience in 2023, but needs to manage risks

Emerging Asia has shown resilience in the face of global uncertainty, with growth set to rise in 2023. The region's economies – the ten ASEAN countries, China and India – have stood up well to the challenges presented by the COVID-19 pandemic, Russia's invasion of Ukraine and a global economic slowdown. The export sector helped boost the region's economic growth in 2022, though there are some recent signs of slowing down. The banking sector needs to be carefully monitored in the current high-inflation environment, even though it is showing resilience.

Countries in the region will need to manage various risks. They face persistent inflationary pressures, including higher food and energy prices. The combination of inflationary pressures and increasing interest rates in advanced economies have put pressure on capital flows and local currencies in the region. The global economic slowdown is expected to weaken external demand. Food security for specific items could also be a concern, with supply-side bottlenecks causing further difficulties and higher prices for goods and services, which could affect both domestic and external demand.

The pandemic has significantly impacted the service accounts of regional economies, and the sector may not return quickly to pre-pandemic levels. The tourism and transport industries, including airline companies, may struggle to cope with the surging demand for travel, though China's abandonment of zero-COVID policy is a positive element for growth in the region.

Tourism recovery, adaptation and challenges

Prior to the pandemic, Emerging Asia enjoyed a booming travel and tourism industry. In 2019, travel and tourism contributed 11.7% of GDP and 13.2% of employment to the Southeast Asian economy, with jobs for 41.8 million people. Restrictions brought the sectors to a near halt, but when they were lifted, travel and tourism rebounded. However, reviving the tourism sector requires addressing several challenges, including diversifying and expanding inbound markets, boosting domestic tourism and addressing labour market challenges, while also adapting to the new preferences of tourists.

Diversifying the sources of inbound tourists could be done by increasing intra-ASEAN tourism and by targeting largely untapped markets, such as Indian visitors and expatriates. During the pandemic, domestic tourism helped greatly keep the sector alive. Even though cross-border travel restrictions are gone, the demand for local travel and "rediscovery" is growing. Domestic tourism should thus remain a priority, with the added benefits that it reduces both dependency on international arrivals, and the sector's carbon footprint.

Addressing challenges in the tourism labour market is also crucial. The sector is characterised by a large share of micro, small and medium-sized enterprises, and faces challenges such as high degree of informality and vulnerable workers. The sector needs support to acquire, train and maintain a skilled workforce. Solutions include training tourism workers in relevant skills, such as languages, digital skills and hospitality management; support for local MSMEs; empowering local communities to participate; and increasing workforce diversity.

The COVID-19 pandemic and related restrictions have also modified tourist preferences. People who lived through lockdowns and want more personal space are increasingly attracted to nature-based tourism destinations, while many others now place more focus on health and wellness, increasing the demand for these services.

Strengthening sustainable tourism and accelerating digitalisation

Lessons learned from the pandemic are an opportunity to update the tourism and hospitality sectors by adopting more sustainable practices and integrating them more fully within the green and blue economies.

Visitor management strategies can help address overtourism, which damages sites and local environments, and disrupts the lives of residents. Offering alternative niche forms, such as ecotourism, can also help promote more sustainable practices and diversify the sector. Community-based tourism programmes, which allow for upskilling residents and revive local cultures, have also emerged as an alternative to mass tourism. Planning should focus on strengthening linkages, where businesses work together for mutual benefit, while plugging leakages, which occur when revenue is sent outside the community.

The increasing use of digital technology in travel and tourism, spurred by pandemic restrictions and health concerns, also requires the attention of policy makers. The tourism sector has embraced digital tools, such as online booking platforms and e-commerce, as well social media and virtual- or augmented-reality experiences. Challenges for Emerging Asia include the need to improve infrastructure for information and communications technology, cybersecurity, digital skills gaps and a lack of harmonised tourism statistics.

Country-specific tourism challenges in Emerging Asia

The *Outlook* includes a series of notes highlighting the policy challenges facing Emerging Asian countries. These include preserving tourist sites and the environment, developing infrastructure and human capital, and distributing benefits of tourism to local communities. The country notes also explore recent initiatives to develop and promote niche tourism offerings in response to preferences changing during the COVID-19 pandemic, such as ecotourism, community-based tourism, and medical and wellness tourism.

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

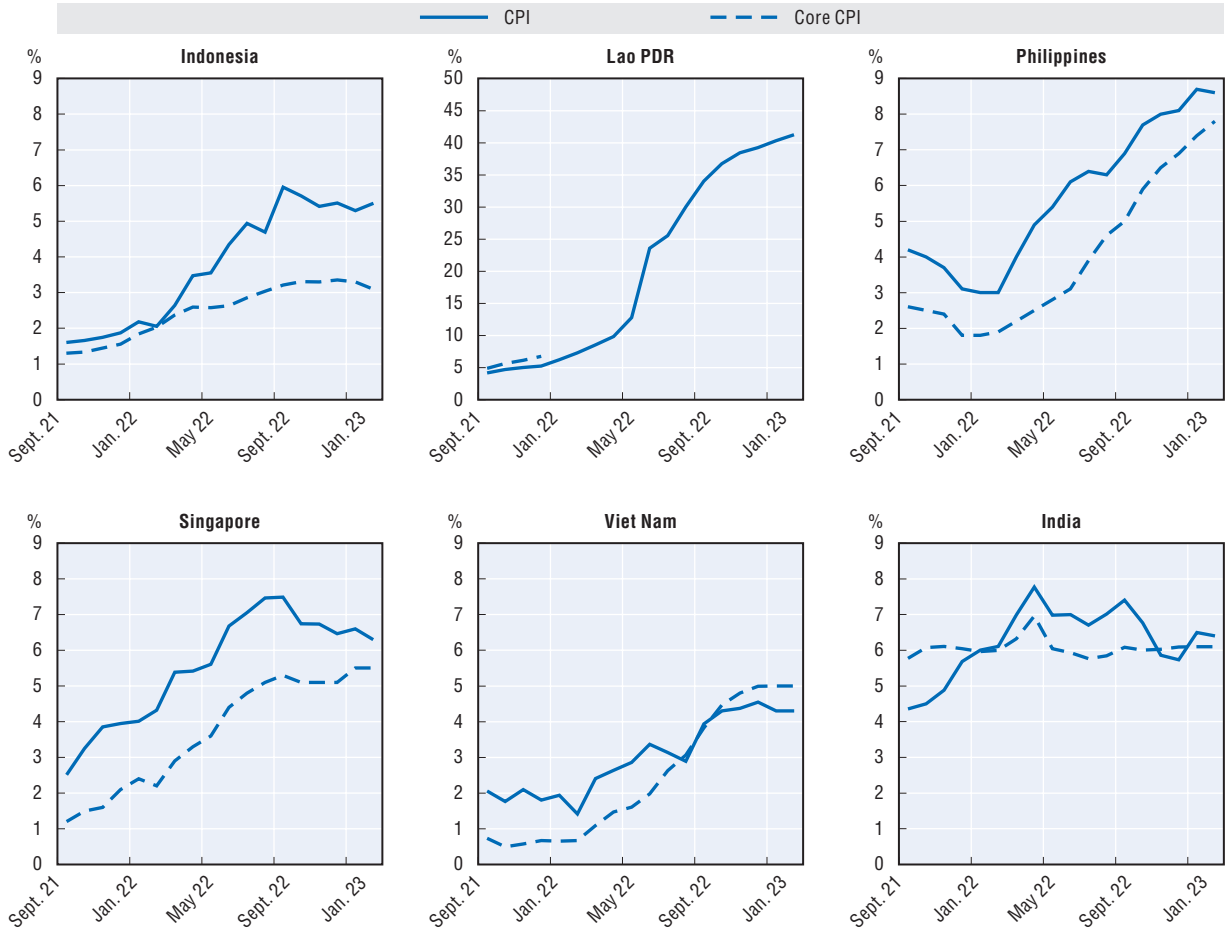
The current inflationary episode in Emerging Asia exhibits several characteristics that differ from previous episodes. These include:

- *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

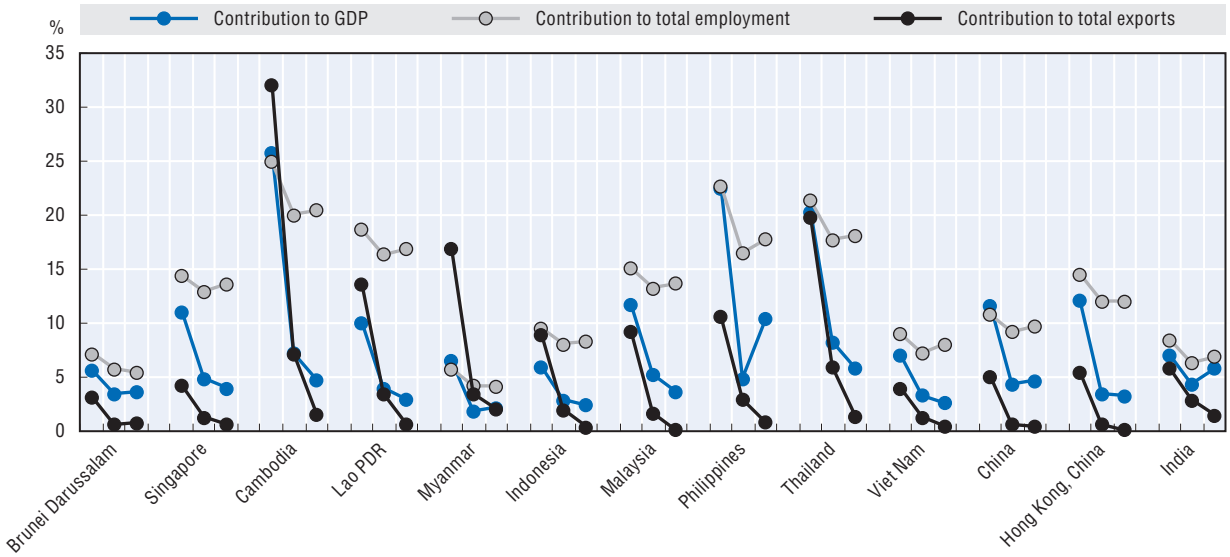
As travel restrictions ease and confidence returns, tourism is recovering in Emerging Asia. However, the pandemic and related restrictions dealt a severe blow to the region's important travel and tourism sectors, and challenges lie ahead. During the pandemic, tourist arrivals decreased significantly, 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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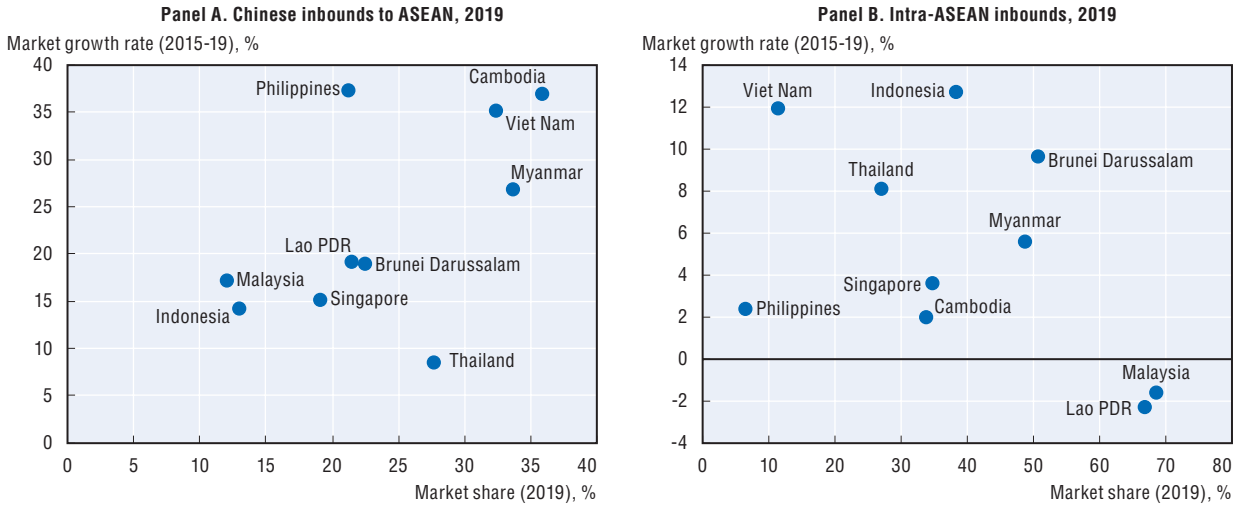
Diversifying and expanding inbound markets

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.

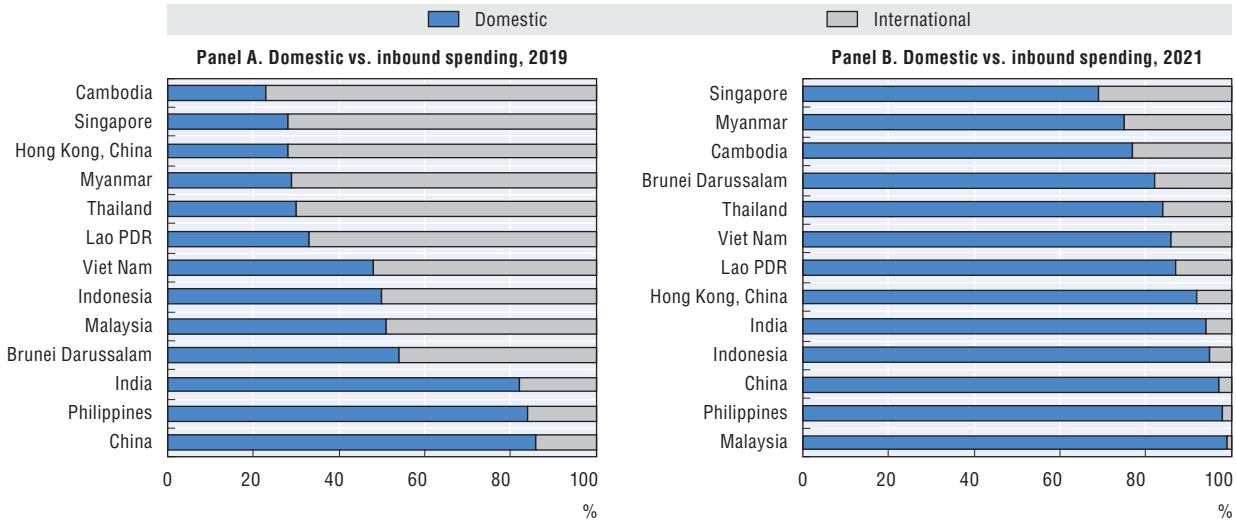
Boosting support for domestic tourism

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/6saqek

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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Chapter 1

Macroeconomic assessment and economic outlook in Emerging Asia

Growth in Emerging Asia is showing resilience in the face of great economic uncertainty. The countries of the region – ASEAN-10 countries, the People's Republic of China (hereafter "China") and India – have stood up well in the face of uncertainties caused by the COVID-19 pandemic, Russia's war of aggression against Ukraine, weaker external demand, and inflationary pressures. The export sector helped boost economic growth and keep up the momentum of the region's economies, though momentum is weakening recently. Inflation combined with interest rate differentials among countries increase the volatility of capital flows and put pressure on currencies in the region. Supply issues threaten food security and make goods and services more expensive, which can weigh on both external and domestic demand. The return of tourists will bolster economies. The reopening of China following its abandonment of zero-COVID policy will serve to counterbalance some of these challenges.

Introduction

Growth in Emerging Asia is showing resilience in the face of global economic uncertainty. The countries of the region – ASEAN-10 countries plus China and India – have stood up well in the face of great uncertainty caused by the COVID-19 pandemic, the war in Ukraine, weaker external demand, and inflationary pressures. The export sector helped boost economic growth and maintain the momentum of the region's economies, though it has weakened recently.

External demand for Emerging Asian goods is expected to weaken due to a global economic slowdown. Persistent inflationary pressures, including higher energy and food prices and high interest rates in advanced economies have put pressure on capital flows and local currencies in the region. Food security for specific items could also be a concern, while ongoing supply-side bottlenecks could continue to cause difficulties and lead to higher prices for goods and services.

The pandemic has also significantly impacted the service accounts of regional economies, and it will take time that the activities of sector return to pre-pandemic levels. The tourism and transport industry may face challenges to find a new strategy to cope with a surge in demand for travel.

This chapter first reviews the main findings concerning the economic outlook for Emerging Asia over the coming year. It then discusses near-term economic trends for the region's 12 countries. Finally, it explores challenges and risks to robust growth in the region.

Overview and main findings

In 2022, Emerging Asia recorded GDP growth of 4.4%. This can be attributed to a combination of factors such as appropriate monetary policy reactions, strong export performance and robust domestic demand. The average GDP growth rate for Emerging Asian countries is expected to increase to 5.3% in 2023 and to 5.4% in 2024, according to the projections of the OECD Development Centre. Growth in Southeast Asian countries is expected to average 4.6% in 2023 and 4.8% in 2024, weaker than in 2022, but showing resilience. Amid slowing global growth, China's abandonment of zero-COVID policy and subsequent border reopening is a positive development for growth in the region (Table 1.1).

The main findings of this year's *Outlook* include the following:

- Growth in Emerging Asian economies have shown resilience amid global economic uncertainty. Most economies in the region will keep their growth momentum in 2023, with growth expected to average 5.3% in Emerging Asia as a whole and 4.6% in Southeast Asia.
- Strong trade and goods exports have supported most Emerging Asian economies in 2022. However, the current economic uncertainties and slowing global growth is expected to weaken external demand. This is expected to be offset to some extent by China's abandonment of zero-COVID policy and reopening of its borders. FDI declined in 2022 but there are signs of recovery in 2023.
- Financial markets exhibit resilience despite volatility and risks. The banking sector needs to be carefully monitored in the current high-inflation environment.
- As for risks to growth, inflationary pressures are a concern for many countries in the region, though the level is moderate compared to the level in OECD countries.

The long inflationary episode has also spurred capital flow volatility in the region. Currency depreciation pressures that began in Q3 2022 have since eased but should be monitored carefully. The effects on fertiliser and food threaten food security, with particular concern caused by the current volatility in grain markets.

- Slowing global growth will weaken demand in Emerging Asia, although there are some positive signs in the global economy.
- Supply-side bottlenecks developed during the COVID-19 pandemic due to restrictions and the war in Ukraine remain. Supplies of semiconductors, electronics, and transportation equipment have been most affected by both waves of bottlenecks.
- Tourism will continue to recover with travel restrictions mostly gone. However, the earlier restrictions thinned the tourism workforce and tourism sector must adapt to various challenges such as diversifying inbound markets, promoting domestic tourism and stabilising labour market. Promoting sustainable tourism and effective use of digital tools is crucial.

Table 1.1. **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

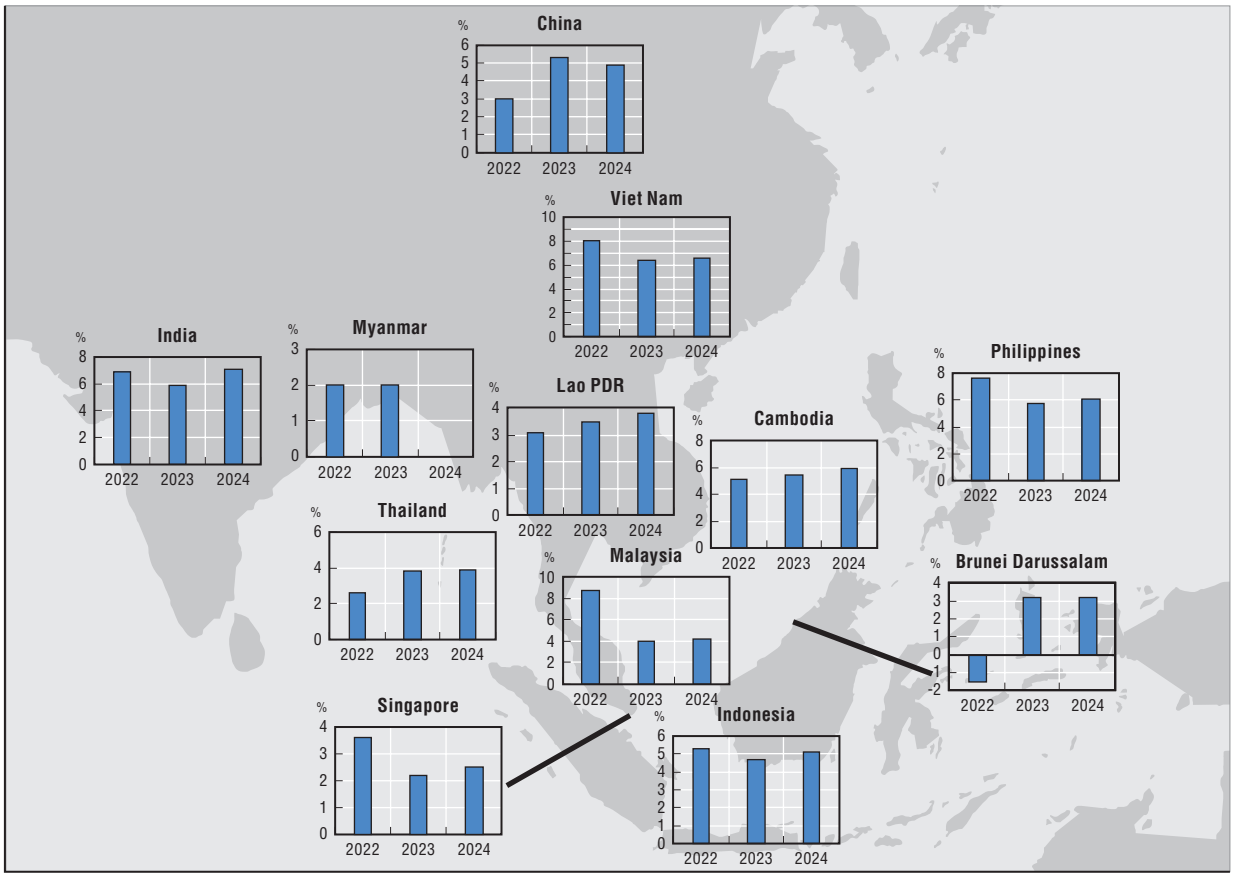
Note: Data cut-off date is 20 March 2023. Data for India and Myanmar relate to fiscal years. 2024 projection for Myanmar is not available. Projections of regional averages (both ASEAN and Emerging Asia) for 2024 exclude Myanmar. The 2023 and 2024 projections for China, Indonesia and India, are based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

Source: OECD Development Centre.

Recent developments and near-term outlook

Despite the current global economic uncertainties and slowing global economic growth, Emerging Asia is expected to experience robust growth in 2023 and 2024. Growth momentum in Southeast Asia in 2023 is expected to be weaker than in 2022, but showing resilience. (Figure 1.1). The ASEAN-5 countries, which includes Indonesia, Malaysia, Philippines, Thailand and Viet Nam, experienced stable GDP growth in the last two quarters of 2022. Brunei Darussalam experienced a contraction in the first half of 2022 but rebounded in the third quarter. Singapore's growth rate moderated in the last quarter of 2022, while China's growth remained largely steady in the last two quarters of 2022. India's growth rate moderated in Q4 2022 after a strong rebound in earlier quarters. All economies experienced a slowdown in the fourth quarter (Table 1.2).

Figure 1.1. **Growth in real GDP in Southeast Asia, China and India: Comparison between growth rates for 2022, 2023 and 2024**



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. 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.

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Table 1.2. **Quarterly real GDP growth in Southeast Asia, China and India, Q1 2021 to Q4 2022**

Year-on-year percentage changes

	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022
ASEAN-5								
Indonesia	-0.7	7.1	3.5	5.0	5.0	5.5	5.7	5.0
Malaysia	-0.5	15.9	-4.5	3.6	5.0	9.0	14.2	7.0
Philippines	-3.8	12.1	7.0	7.8	8.2	7.5	7.6	7.2
Thailand	-2.4	7.8	-0.2	2.0	2.2	2.5	4.6	1.4
Viet Nam	4.7	6.7	-6.0	5.2	5.1	7.8	13.7	6.0
Brunei Darussalam and Singapore								
Brunei Darussalam	-1.3	-1.9	-1.8	-1.4	-4.2	-4.4	0.9	N/A
Singapore	3.9	17.3	8.7	6.6	4.0	4.5	4.0	2.1
China and India								
China	18.7	8.3	5.2	4.3	4.8	0.4	3.9	2.9
India	3.4	21.6	9.1	5.2	4.0	13.2	6.3	4.4

Note: Data as of 20 March 2023. Data for Q4 2022 were unavailable for Brunei Darussalam. Data for India relate to fiscal years ending in March. The measurement method of real GDP growth for Viet Nam was changed as of Q1 2021.

Source: CEIC and national sources.

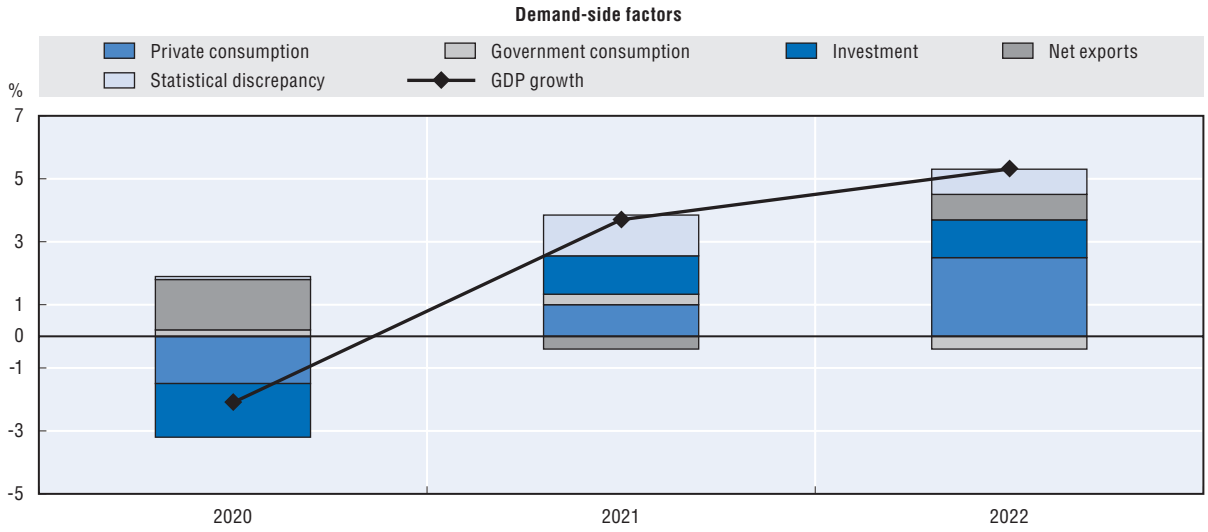
ASEAN-5

Indonesia

Economic activity in Indonesia rebounded in 2022 after a slowdown in 2021. By continuing to implement various reforms, Indonesia could build resilience to economic shocks. Growth in real GDP reached 5.3% in 2022 on an annual basis. The continued recovery from the recession of 2020 was mostly driven by strong domestic consumption, followed by investment and net export growth (Figure 1.2). On the supply side, growth was supported by all sectors, led by industry and followed by strong growth in services, which continued to be supported by further expansion of tourism-related activities. In 2023, Indonesia's real GDP growth will moderate to 4.7% and is projected to reach 5.1% in 2024.

Figure 1.2. **Contribution to GDP growth in Indonesia, 2020-22**

Percentage



Note: Data as of 17 March 2023.

Source: Authors' calculations based on data from CEIC and national sources.

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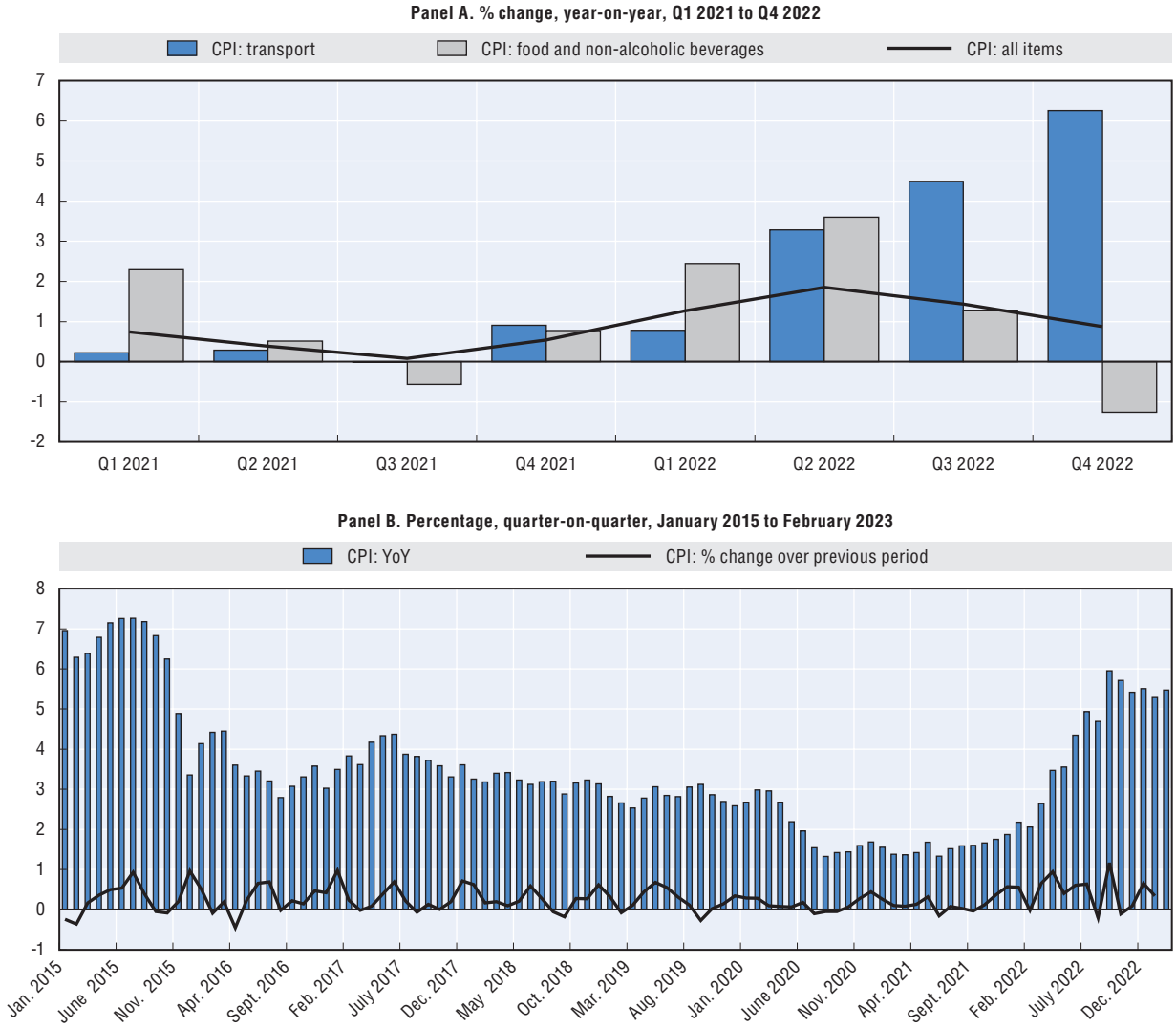
Higher inflation will undermine private consumption growth in Indonesia. Goods exports are projected to remain robust despite the expected global growth slowdown, thanks in part to growth in mining and metal-processing production. At the same time, as a large commodity exporter, Indonesia will benefit from rising commodity prices, to some extent.

The war in Ukraine has provoked a shortage of raw materials, notably coal, and led importing countries to seek alternative sources, resulting in higher demand for Indonesian exports. Indonesia's non-oil and gas exports, which make up more than 80% of its total goods and services exports, grew in 2022. This increase contributed to an overall rise in exports. It is expected that service exports from Indonesia will bounce back in tandem with the recovery of the tourism sector, particularly with the expected rise in tourism demand from China now that its border has reopened. Gross capital formation increased by 5.0% in 2022, driven in

part by FDI. Several policy reforms will assist the expansion of capital-intensive industries such as metals, chemicals, machine components and auto manufacturing.

Higher food and fuel prices in Indonesia in 2022 resulted in an acceleration of inflation (Figure 1.3). The government had previously controlled inflation during the pandemic through extensive automotive fuel subsidies, but these were reduced in September 2022. Transport prices jumped by 16% year-on-year in October 2022, the highest such increase on record, but moderated to 13.6% in February 2023. In February 2023, both headline and core inflation fell slightly to 5.5% and 3.1%, respectively. Inflation will remain relatively high in the near term.

Figure 1.3. **Consumer price inflation for Indonesia**



Note: Latest data as of 17 March 2023.

Source: Data from CEIC.

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In the second half of 2022, Indonesia's central bank embarked on a series of interest rate hikes to combat inflation and stem capital outflows, which resulted mainly from monetary tightening by the US Federal Reserve. Indonesia's central bank has been selling short-term bonds since July 2022 to absorb any excess liquidity in the financial market and support the local currency. It has also been purchasing long-term bonds to sustain low borrowing costs, despite hikes in the main policy rate.

In terms of fiscal situation, there was a deterioration in fiscal balance in 2020, due to fiscal measures related to COVID-19 pandemic but the deficit improved to 4.6% in 2021, and subsequently narrowed in 2022. Income tax adjustments were made at both ends of the scale, with increases in the minimum tax threshold and the tax rate for higher earners. In April 2022, value-added tax (VAT) was increased from 10% to 11% and the corporate tax rate was reduced from 25% to 22%.

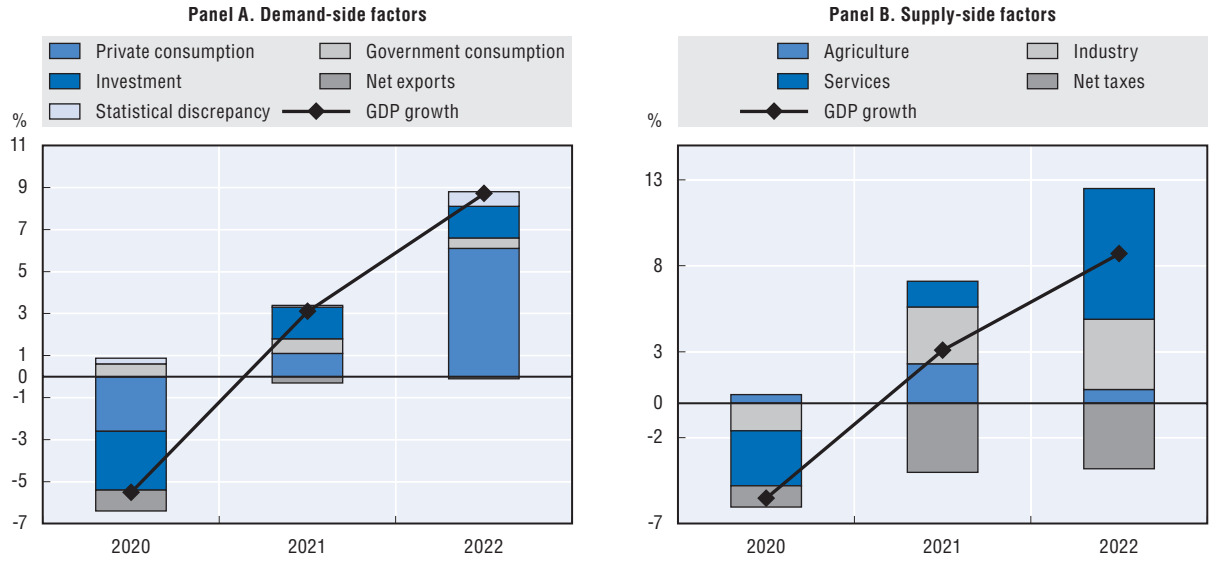
While high inflation and interest rates will weigh on private consumption and investment in 2023, Indonesia's mining sector will continue attracting investment and expanding. Indonesia has given significant attention to disaster resilience in recent years, developing customised response plans for different areas of the country.

Malaysia

Malaysia's real GDP grew by 8.7% in 2022, the strongest growth recorded in the region together with Viet Nam. The economy benefited from a strong increase in domestic consumption (Figure 1.4, Panel A). On the supply side, services contributed the most to economic growth in 2022 (Figure 1.4, Panel B). In 2023 and beyond, the primary driver of Malaysia's economic growth will continue to be private consumption. Given the environment of low consumption taxes, the purchasing power of households will remain relatively strong. However, a high level of household debt is vulnerable to interest rate hikes.

Figure 1.4. **Contribution to GDP growth in Malaysia, 2020-22**

Percentage



Note: Data as of 17 March 2023.

Source: Authors' calculations, based on data from CEIC and national sources.

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Malaysia's real GDP growth is forecast to slow to 4.0% in 2023. Slowing global economic growth will weigh on external demand in 2023. Similarly, local demand will be expected to decline because of monetary policy tightening and lower investment.

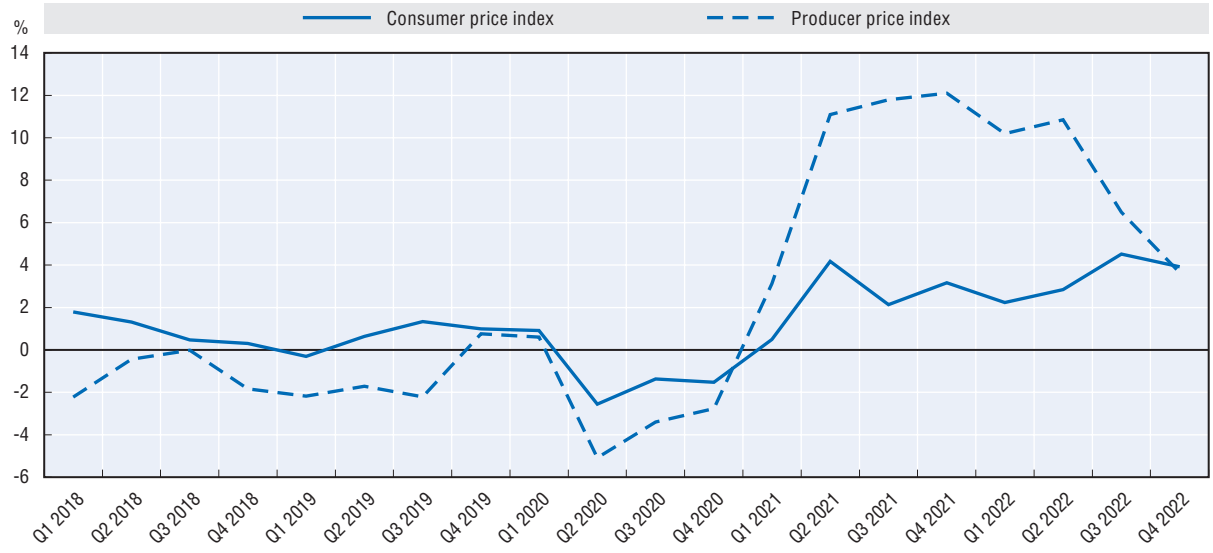
An anticipated return of international visitors to Malaysia in 2023 will boost service-sector activities, especially since China, Malaysia's largest source of tourists, abandoned its zero-COVID policy in December 2022.

Malaysia is expected to benefit from higher demand for components such as semiconductors, although these are produced using imported inputs and any rise in export demand will also increase imports. Malaysia is expected to benefit from increased demand for liquefied natural gas (LNG) in 2023. In 2021, Malaysia was one of the world largest exporters of LNG, and it will remain one of the largest exporters of this commodity as it steps in to replace LNG exports from Russia.

After recording a high of 4.5% in the third quarter of 2022, consumer price inflation fell to 3.9% in the third quarter. Food prices are expected to remain high throughout the year. Although global energy prices will remain high in the near term, they are expected to have a relatively minor impact on Malaysia's consumer price index as the government subsidises fuel and electricity. Producer price inflation also showed some signs of moderation after reaching 3.6% in the last quarter of 2022 (Figure 1.5), from an average of about 10% throughout most of 2021 and 2022, with the highest level of 12.1% recorded in the fourth quarter of 2021.

Figure 1.5. **Consumer price inflation and producer price inflation, Q1 2018 to Q4 2022**

% change, year-on-year



Note: Latest data as of 17 March 2023.

Source: Data from CEIC.

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An interest-rate differential with the United States exerted depreciatory pressures on the Malaysian ringgit. The exchange rate between the ringgit and the US dollar approached a 24-year low in September and October 2022. Central bank interventions in the foreign exchange market provided the necessary support for the local currency.

Although restrictions related to the COVID-19 pandemic were lifted in Malaysia in April 2022, business sentiment was hurt by rising borrowing costs that followed soon after. The monetary policy tightening cycle in 2022 was the fastest on record, exceeding the cumulative increase of 75 basis points in 2010's tightening cycle. The central bank began tightening monetary policy in May 2022 by raising the overnight policy rate 25 basis points to curb inflation and normalise rates after the 2020 recession. The rate stood at 2.75% in March 2023.

Labour markets should remain tight in the short term as the return of the economy to full operation creates demand for workers. The tight labour market has also kept spells of unemployment short.

Digital connectivity is improving and state-level disparities are narrowing. The *Twelfth Malaysia Plan* calls for the implementation of the already developed Pelan Jalinan Digital Negara (JENDELA) plan to expand full 4G coverage to populated areas and Digital Nasional Berhad (DNB), founded to develop 5G networks across Malaysia.

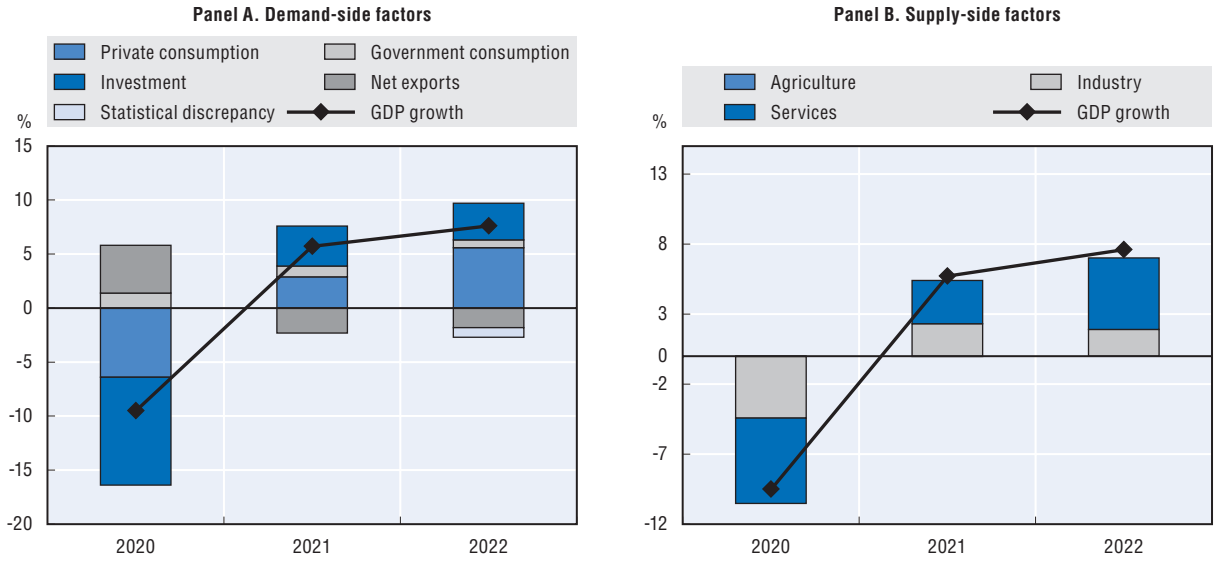
Philippines

Real GDP in 2022 in the Philippines grew by 7.6%. This is especially impressive given the grim outlook for the global economy and the backdrop of rising inflation and interest rates in the second half of 2022.

The main support for economic activity continues to come from growth in household spending amid rising employment. Investment and exports grew amid rising domestic demand (Figure 1.6, Panel A). On the supply side, the services sector made the largest contribution to growth (Figure 1.6, Panel B). However, export growth is expected to perform relatively poorly in 2023 by historical standards given the slowing global economic growth, although an increase in economic activity in China following its reopening of its borders will be beneficial. Weaker domestic demand will reduce import growth in 2023.

Figure 1.6. **Contribution to GDP growth in the Philippines, 2020-22**

Percentage



Note: Data as of 17 March 2023.

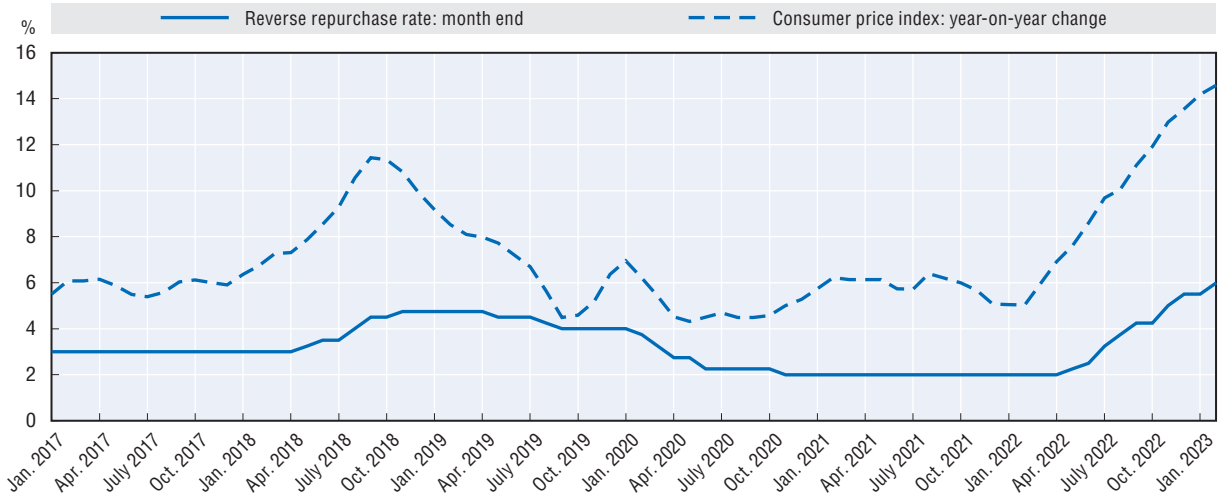
Source: Authors' calculations, based on data from CEIC and national sources.

StatLink https://stat.link/mefui3

In January 2023, the Philippines experienced a further increase in inflation to 8.7%, up from 8.1% year-on-year in December 2022. This marks the highest annual inflation rate since November 2008 (Figure 1.7). The main drivers of this uptick were increases in the index of housing, water, electricity, gas and other fuels, which rose to 8.5% in January 2023 from 7.0% in December 2022, followed by food inflation at the national level, which climbed to 11.2% from 10.6% in the same period. The high food inflation was due to several factors, including increased food input costs, recent typhoons that damaged crops, pressure on local currency and the war in Ukraine. The inflation rate for restaurants and accommodation services, meanwhile, rose to 7.6% in January 2023. Core inflation, which excludes food and energy prices, increased to 7.4% in January 2023, above the central bank's target. In marked contrast, core inflation stood at 1.8% in January 2022.

In February 2023, the central bank increased its benchmark interest rate by 50 basis points to 6.0% to contain inflation (Figure 1.7). This is the highest key rate since August 2008 and the central bank signalled further tightening as well. Tighter monetary conditions will weigh on private consumption and investment growth. The Philippine peso is facing depreciation pressures, weighed down by inflationary pressures and an abnormally large interest rate differential with the United States that is driving severe capital outflows.

Figure 1.7. **Reverse repo rate and consumer price inflation, January 2017 to February 2023**



Note: %, end-period for reverse repo rate and non-seasonally-adjusted % change, year-on-year for consumer price inflation. Latest data as of 17 March 2023.

Source: Data from CEIC.

StatLink https://stat.link/vlx9nc

In 2023, the current-account deficit is expected to shrink, primarily due to a decrease in import demand, leading to a narrower goods trade deficit. With the easing of international travel restrictions in China, services exports are likely to surge in 2023 and 2024. Additionally, steadily rising remittance inflows will enlarge the secondary income account.

A labour market rebound was the major driver behind 2022's economic recovery. In April 2020, unemployment exceeded 17% as many employers fired staff in fear of collapsing demand. The unemployment rate fell steadily as the government gradually lifted restrictions throughout 2022, and now stands at its pre-pandemic level at 5.5%, though underemployment remains highly concerning.

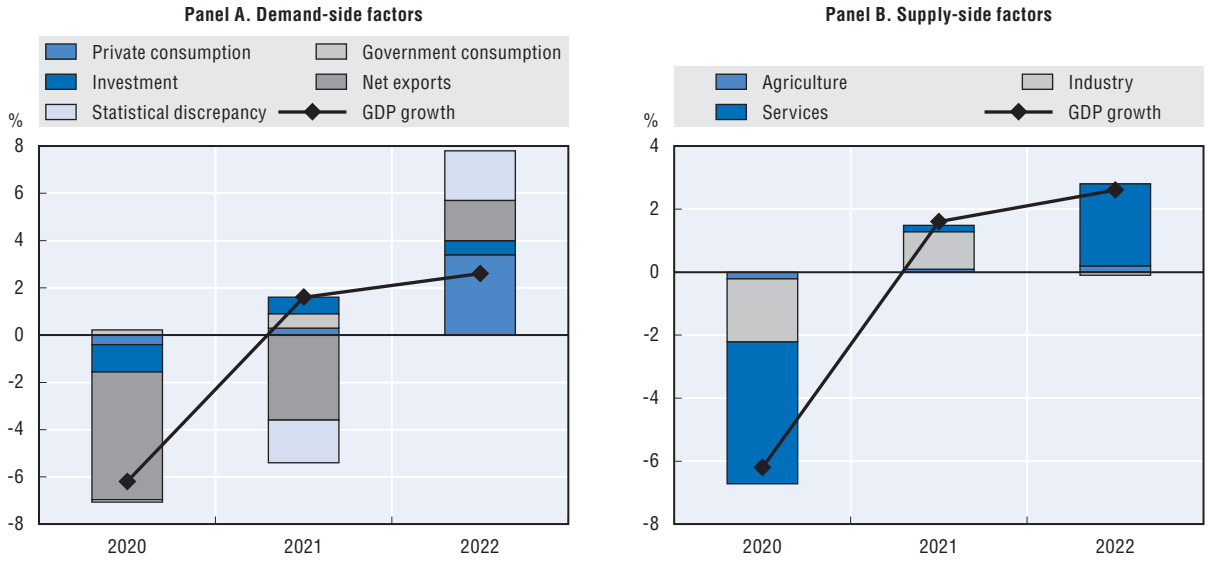
The *Build! Build! Build!* programme comprises more than 100 infrastructure projects in the areas of transport, water access, disaster resilience and health. The Philippines ratified the Regional Comprehensive Economic Partnership (RCEP) in February 2023.

Thailand

Real GDP in Thailand grew by 2.6% in 2022, up from 1.5% in 2021. Output growth for 2022 was mainly driven by private consumption. Net exports made a significantly higher contribution than in 2021, while private investment also made modest positive contributions (Figure 1.8, Panel A). On the supply side, growth was largely supported by the services sector, while industry made marginal contribution to growth in 2022. The contribution of agriculture was modestly positive (Figure 1.8, Panel B).

Figure 1.8. **Contribution to GDP growth in Thailand, 2020-22**

Percentage



Note: The calculations are based on chain linked volume measure series. Data as of 17 March 2023.

Source: Authors' calculations, based on data from CEIC and national sources.

StatLink https://stat.link/f90g56

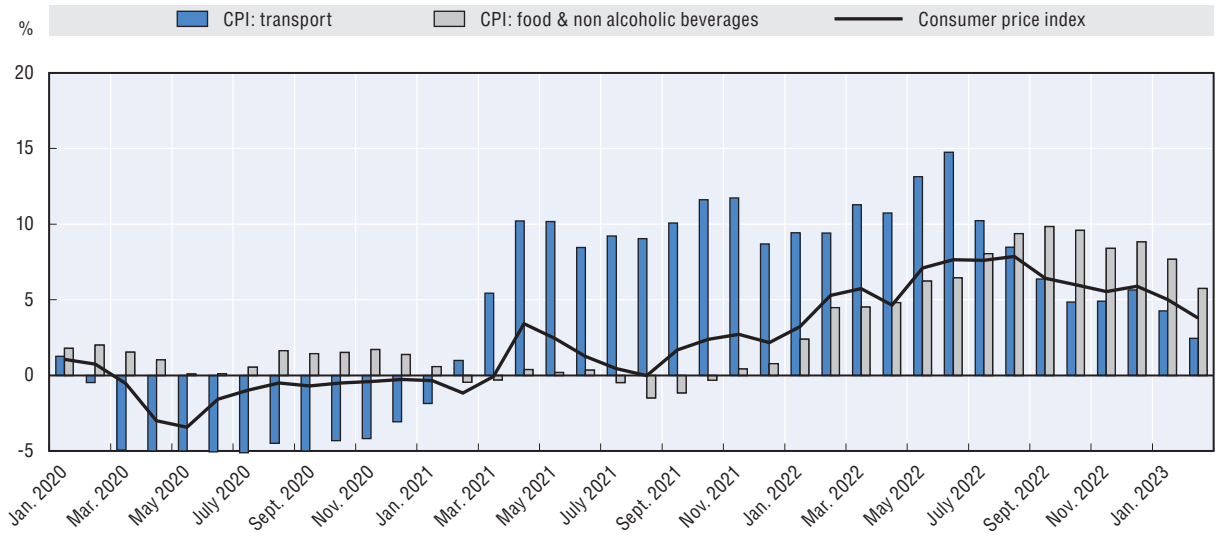
Economic growth is expected to accelerate from 2.6% in 2022 to 3.8% in 2023, mostly supported by rebounding private consumption and an increase in tourism. Foreign tourists are expected to return at a faster pace in 2023 after the full reopening of borders. The Thai government had begun working on policies to attract more high-income, long-stay tourists prior to China's decision to abandon its zero-COVID policy. Weaker demand from major trading partners and effects of the war in Ukraine are likely to slow export growth in 2023.

Foreign investment in Thailand is expected to increase in 2023, but these efforts will be somewhat restrained by ongoing supply-chain disruptions, leading to higher manufacturing and agricultural costs. The risk of disruptions in the supply of integrated circuits would affect Thai automobile exports. Nonetheless, Thailand has a well-diversified export structure, including the electronics, automotive and agricultural sectors, which will provide necessary reinforcements to trade.

Household consumption is expected to increase in 2023. Consumer prices rose by about 6% in 2022, but a slower increase is projected for 2023. Inflation was driven mainly by external factors resulting from the impact of the war in Ukraine and supply-chain disruptions (Figure 1.9).

Figure 1.9. **Consumer price index for food and transport in Thailand, January 2020 to February 2023**

Percentage changes, year-on-year



Note: Latest data as of 17 March 2023.

Source: Data from CEIC.

StatLink https://stat.link/5hsqwc

Subsidies are expected to keep energy prices low in Thailand, but energy prices remain high by historical standards, while food inflation showed slight easing from January 2023. The Thai baht depreciated against the US dollar in Q4 2022 as the interest rate differential between Thailand and the United States widened, though it has been improving recently. As a consequence of inflation, nominal household wages are expected to rise. Household debt is high in Thailand, at more than 80% of GDP as of September 2022. Rates of approval for home loans have risen dramatically since late 2021 as authorities suspended some loan-to-value caps in response to weakness in the housing sector.

Following the COVID-19 pandemic, Thailand has embarked on several reforms. Thailand is focusing on four industry clusters: agriculture and food; bioenergy, biomaterials and biochemicals; medical and wellness; and tourism and the creative sector. In the coming years, the government is expected to direct more of its budget towards these sectors. As the Thai government gradually withdraws pandemic-relief spending and energy subsidies, the fiscal deficit is expected to narrow in 2023.

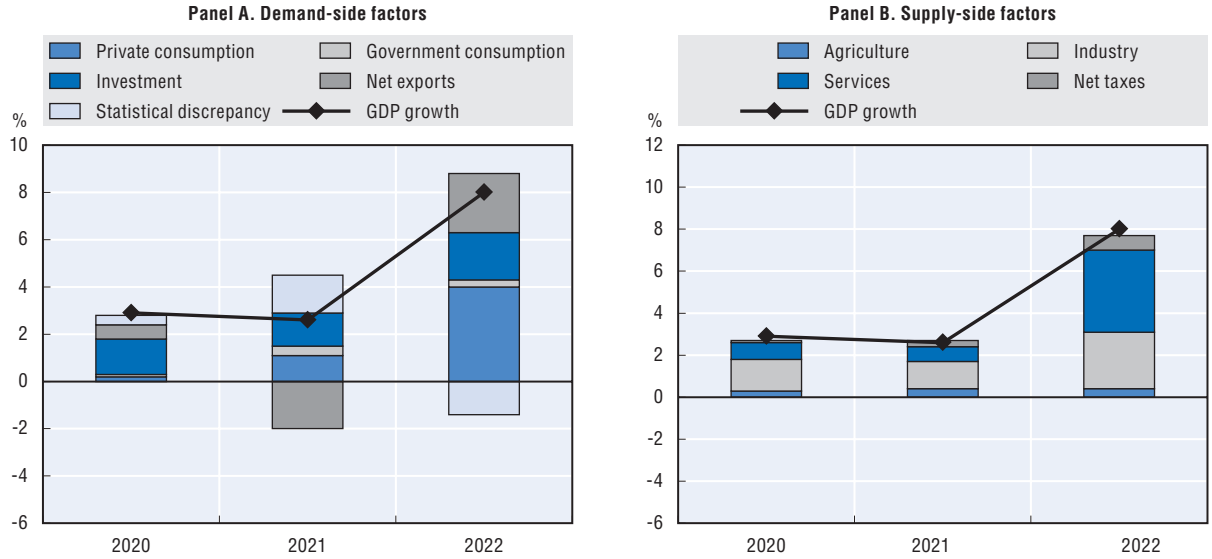
Significant infrastructure development is on the cards for Thailand in the coming years, as the Ministry of Transport has announced 36 planned projects to improve land, sea, and air connectivity at an estimated cost of USD 45 billion. Much of this investment will be in airports to handle increased tourist flows. Thailand has also indicated that their part of a high-speed rail connection with China via Lao PDR should be finished by 2028.

Viet Nam

Viet Nam is one of the fastest growing economies in the region. It outpaced world economic growth in 2022, recording real GDP growth of 8.0%, up from 2.6% in 2021 (Figure 1.10). Viet Nam will continue this strong growth trajectory, with anticipated 6.4% real GDP growth in 2023. The weakening demand from major markets will be a concern but this would be somewhat offset by demand from China given its recent reopening. Furthermore, a trend of foreign firms relocating their manufacturing facilities to Viet Nam – especially in electronics, machinery, and footwear – will support economic activity.

Figure 1.10. **Contribution to GDP growth in Viet Nam, 2020-22**

Percentage



Note: Data on demand- and supply-side factors are unavailable for 2022. Latest data as of 17 March 2023.

Source: Authors' calculations, based on data from CEIC and national sources.

StatLink https://stat.link/43an7t

Investment grew in 2022 on the back of foreign investment in the export-oriented manufacturing sector, a trend that continued from 2021, when investment was a major positive contributor to real GDP growth (Figure 1.10). Investment growth is expected to slow in 2023, however, due to an environment of higher interest rates. Household spending was affected in 2022 by higher prices, especially for food and fuel. Goods exports will be affected in 2023 by weaker external demand from major exporting markets. The services deficit is expected to narrow as tourism recovers, pushing the current account back in 2023. The capital account will strengthen on the back of net inward FDI surpassing net portfolio flows.

Viet Nam, like all other countries in Emerging Asia, saw a rise in consumer price inflation in 2022. The inflation rate in Viet Nam remains high, reaching 4.9% in January 2023, the highest level since 2021. This was due to inflation in housing and construction material, education and food prices. In contrast, transport prices fell by 0.16% in December.

The monetary authority increased its policy rate sharply in September and October 2022, by 100 basis points on both occasions, bringing the rate to 4.5% from a historical low of 2.5% in August 2022.

The fiscal deficit will gradually improve, mainly due to the winding down of the government's pandemic recovery initiative. Also playing a role will be indirect tax revenue from the reintroduction of a higher VAT of 10%, after a temporary reduction to 8% in 2022. Viet Nam will also remove some tax incentives in economic zones, such as partial tax holidays for firms in specific industries.

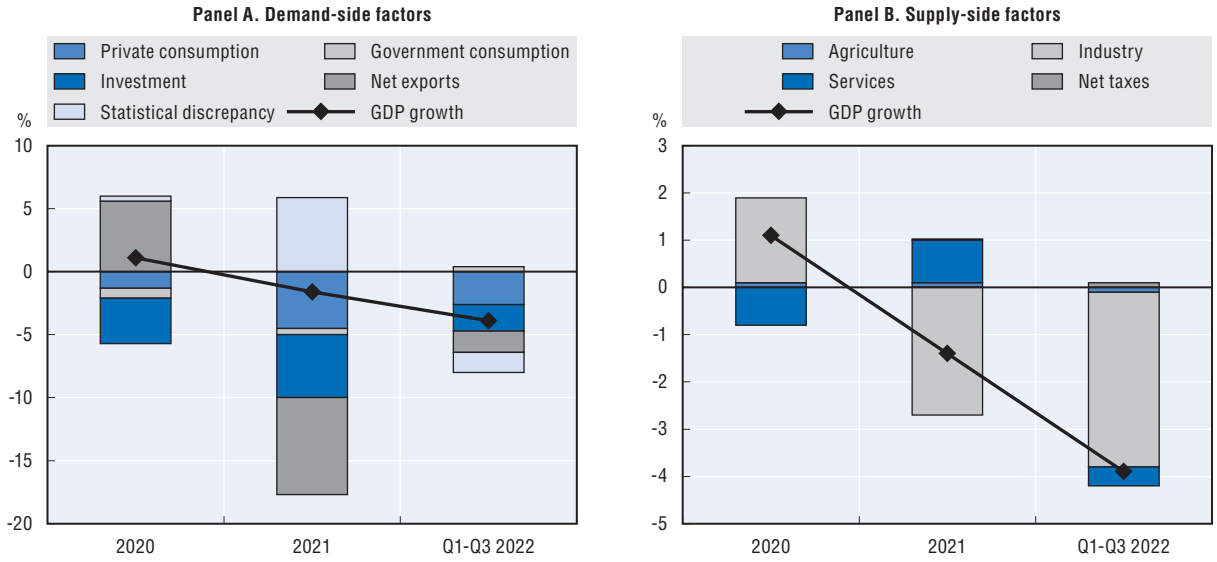
Brunei Darussalam and Singapore

Brunei Darussalam

After experiencing seven consecutive quarters of negative growth since the third quarter of 2020, Brunei Darussalam's GDP rebounded by 0.9% in the third quarter of 2022. The first and second quarters of 2022 recorded a year-on-year decline of 4.2% and 4.4%, respectively (Figure 1.11). The decline was due to maintenance work on oil and gas facilities and the country's response to the COVID-19 pandemic.

Figure 1.11. **Contribution to GDP growth in Brunei Darussalam, 2020-22**

Percentage



Note: Data as of 17 March 2023.

Source: Authors' calculations, based on data from CEIC and national sources.

StatLink https://stat.link/nr0xbh

In 2022, the economy contracted due to stoppages for maintenance work on ageing oil and gas facilities. The downstream petrochemicals sector and the redevelopment of the port at Muara, are expected to support overall output. The lifting of pandemic-related restrictions spurred faster growth in other sectors, especially retail and hospitality. In the food sector, agriculture and fisheries are expected to expand and further support economic activity.

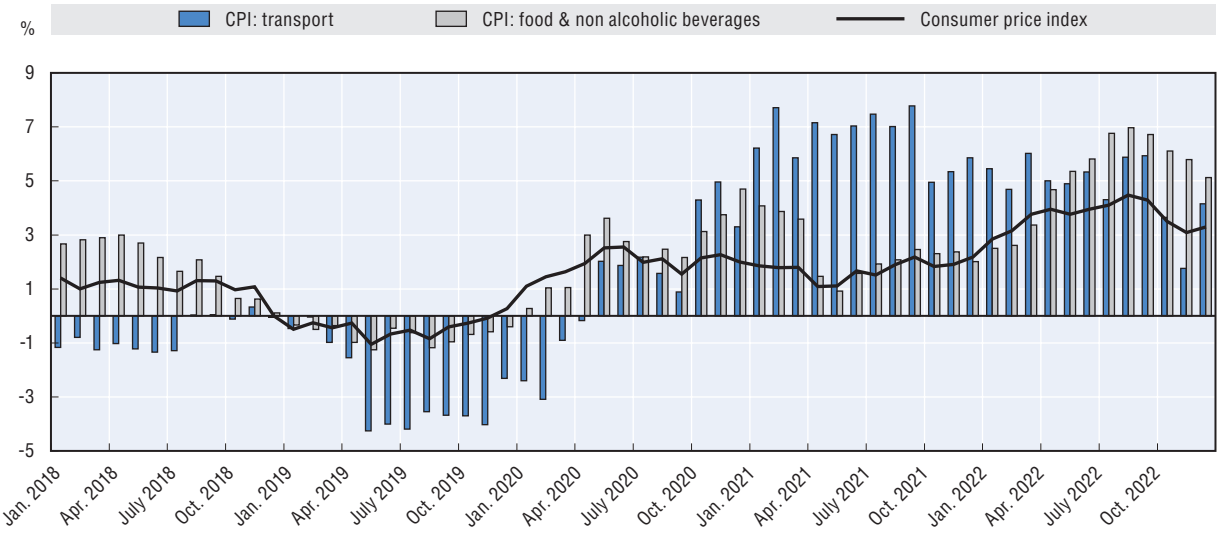
GDP growth of 3.2% is anticipated in 2023. Investment in the fertiliser industry in the first quarter of 2023 will support GDP growth and exports. This comes at an opportune time for Brunei Darussalam given that global fertiliser prices are exceptionally high. The country is also benefiting from surging oil and gas prices resulting from the war in Ukraine, and this

will in turn boost government revenues. The country will also benefit from rising exports of petrochemical products. In line with its historical trend as a significant oil and gas exporter, the government is expected to run a larger current account surplus in 2023. The forecast of a higher surplus reflects higher global oil and gas prices and prospects for higher petrochemical and fertiliser exports.

Inflationary pressures have traditionally been contained by the Brunei dollar's peg to the Singapore dollar, along with an array of fiscal subsidies. Price caps on some essential goods have been in place for a long time (See Chapter 2). Inflation rose to 3.7% in 2022 from 1.7% in 2021, reflecting rising global food and energy prices. The main contributor was food and non-alcoholic beverage prices (Figure 1.12).

Figure 1.12. **Consumer price indices for food and transport in Brunei Darussalam, January 2018 to December 2022**

Percentage changes, year-on-year



Note: Latest data as of 17 March 2023.

Source: Data from CEIC.

StatLink https://stat.link/k1qoye

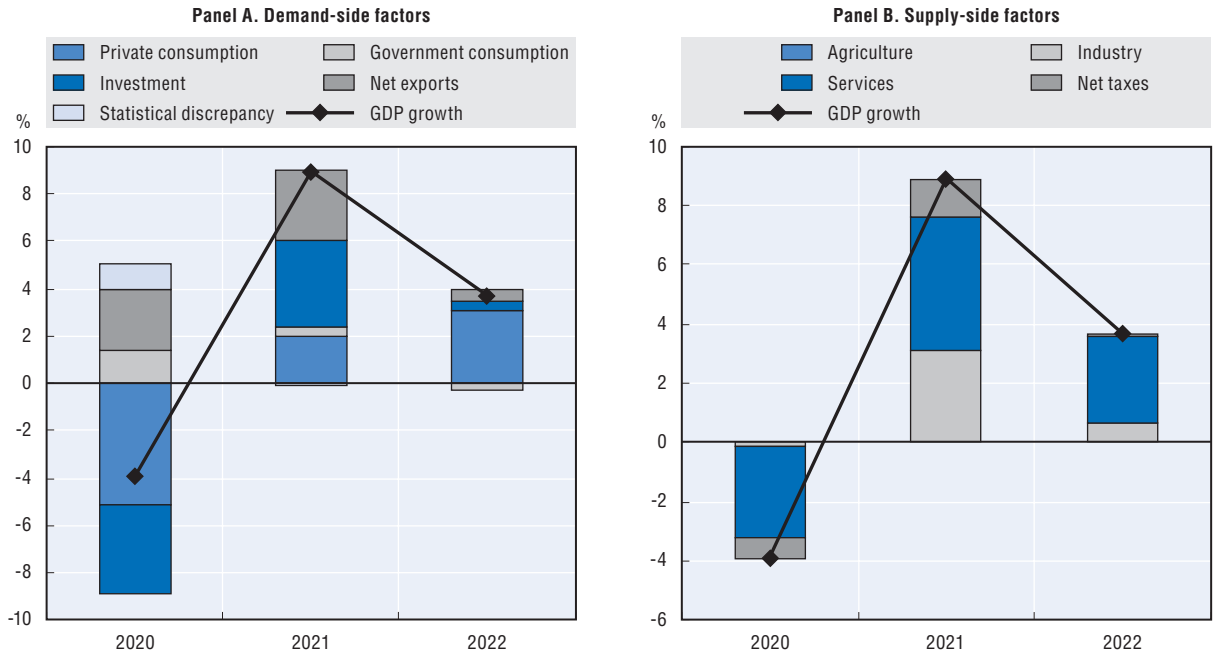
As a country that depends heavily upon imported food, Brunei Darussalam seeks to develop its agriculture and fisheries sectors. Not only will such efforts reduce dependence on imported food, but if high-quality produce is emphasised, there is potential for Brunei Darussalam to become an exporter of these goods.

Singapore

Singapore's real GDP growth moderated in 2022 and is projected to be 2.2% in 2023. Output growth over the year was mainly driven by domestic consumption and net exports, while investment also posted a positive contribution to GDP growth (Figure 1.13, Panel A). On the supply side, services provided the largest contribution to growth, driven by information and communication as well as financial services. The industry sector also posted a solid performance (Figure 1.13, Panel B).

Figure 1.13. **Contribution to GDP growth in Singapore, 2020-22**

Percentage



Note: Data as of 17 March 2023.

Source: Authors' calculations, based on data from CEIC and national sources.

StatLink https://stat.link/e13gtz

Domestic consumption is expected to be weak in 2023 due to higher inflation, a scheduled increase in VAT and lower capital returns, reducing the purchasing power of households. Investment is also expected to wane in 2023 owing to higher borrowing costs and dampened business sentiment.

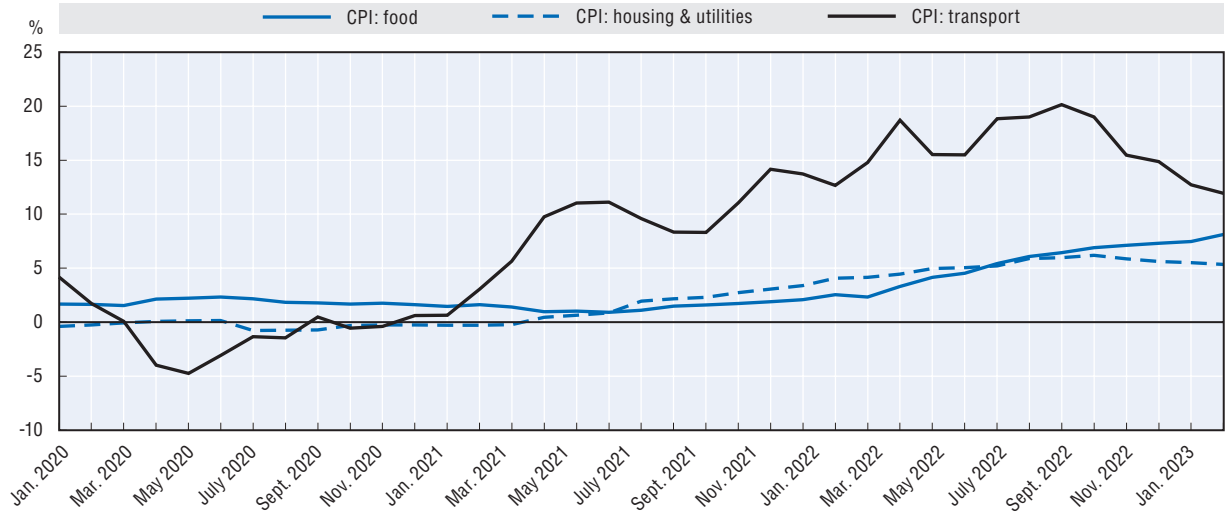
In line with global trends, consumer price inflation in Singapore was high in 2022 in comparison with historical standards, reaching 6.1%. While transport price inflation remains elevated, at 11.9% in January 2023, it has been declining since peaking at 20.2% year-on-year in August 2022. Similarly, housing price inflation eased to 5.4% in January 2023, down from a peak of 6.2% in September 2022. Food inflation remains a concern, as Singapore relies heavily on imported food. Food inflation surged to 8.2% in January 2023 (Figure 1.14).

Like other regional economies, Singapore experienced depreciatory pressures on its local currency. Since Singapore conducts monetary policy by managing the exchange rate, the central bank intervened in the foreign exchange market to manage the pace of nominal depreciation of the Singapore dollar against the US dollar and keep the Singapore dollar exchange rate within the target band. (Figure 1.15). Even so, the central bank is expected to continue its monetary policy tightening.

Singapore's current account surplus decreased in 2022. Looking ahead, Singapore is expected to maintain a large current account surplus in 2023 onwards due to its position as a global trading hub, although a decline in exports is expected due to the global economic slowdown in 2023, with a particular decline in manufactured goods such as electronics and chemicals, moderate growth is expected in the near term. There is a positive outlook for net direct investment inflows due to the optimistic views of foreign investors.

Figure 1.14. **Consumer price indices for food, transport and housing in Singapore, January 2020 to January 2023**

Percentage changes, year-on-year



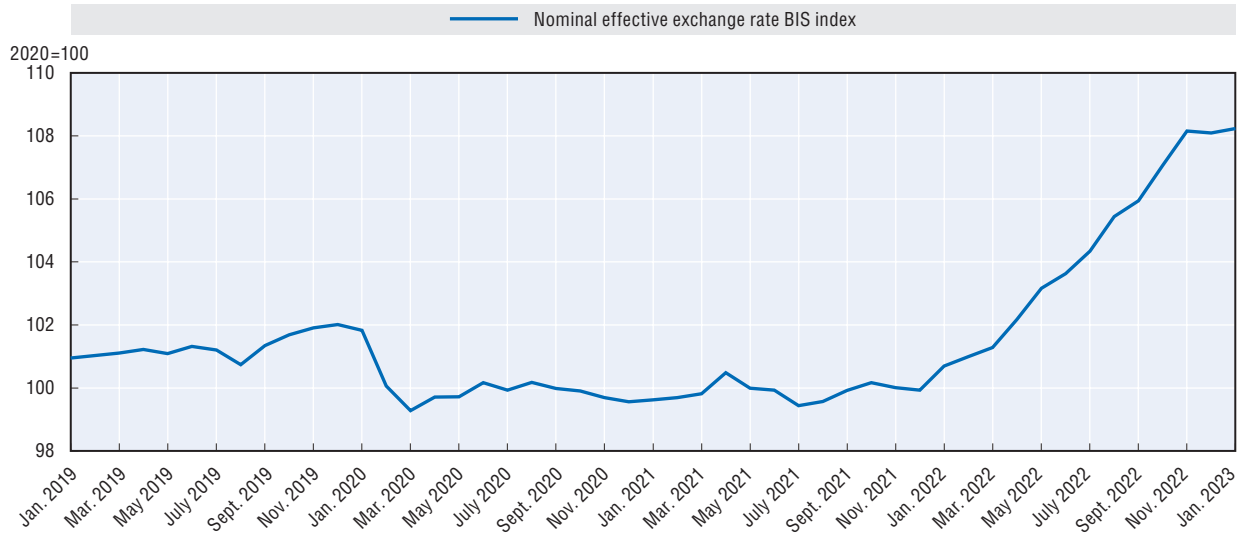
Note: Latest data as of 17 March 2023.

Source: Data from CEIC.

StatLink https://stat.link/mrdq8b

Figure 1.15. **Singapore dollar, nominal effective exchange rate, January 2019 to January 2023**

Index 2020 =100



Note: An increase in the index value indicates appreciation of the Singapore dollar, while a decrease indicates depreciation. Latest data as of 27 February 2023.

Source: Data from CEIC.

StatLink https://stat.link/fkxsa0

The unemployment rate in Singapore is low and stood at 2.0% in December 2022, though some increase might be expected as the government withdraws pandemic-era job support schemes, coupled with the prevailing tighter economic conditions.

Singapore could position itself as an e-commerce hub for the region. Various sectoral authorities are working to boost productivity in Singapore, including through digitalisation. For instance, the Building and Construction Authority has used the longstanding *Productivity Innovation Project*.

Cambodia

Cambodia's economy grew by 5.1% in 2022, up from 3.1% in 2021. Economic growth is expected to continue accelerating, reaching 5.4% in 2023. The economy is recovering from pandemic-related disruptions, with the manufacturing sector playing a key role, though net exports negatively affected real growth in 2021. On the supply side, the industry and agriculture sectors were the primary contributors to growth in 2021, while the services sector had a negative impact. The tourism sector, the main driver of Cambodia's economic expansion prior to the COVID-19 pandemic, is expected to drive growth in 2023. China's decision to abandon its zero-COVID policy will support the recovery of the tourism sector, leading to earlier than expected improvements in employment and income for the transport and hospitality industries as well.

High global prices of food and energy are likely to continue to impede the recovery of both private consumption and investment in Cambodia. Private consumption's contribution to growth is anticipated to decrease in 2023, while the significance of net exports to GDP growth is expected to rise. Slowing growth in the United States, Cambodia's largest export market, is expected to have an impact on the country's exports and GDP growth in 2023, although the expected recovery of the tourism industry is predicted to offset some of this decline by boosting consumption and investment. The government is expected to expanding physical infrastructure and promote inward investments.

Inflation in Cambodia has been rising, reaching 5.3% in 2022. Food prices, which represent the largest share of consumer spending, will likely remain elevated due to the war in Ukraine. The riel is under depreciation pressures against the US dollar, but volatility will be milder, due to actions taken by the monetary authority. The central bank may consider transitioning to a more flexible exchange-rate system in the long term, which would also accelerate de-dollarisation.

Maintaining stable fiscal policy is recommended for the short and medium term. With the lifting of restrictive measures implemented in response to the COVID-19 pandemic, economic recovery should help to improve the fiscal situation. Cambodia enacted a law allowing the country to issue sovereign bonds in 2020, held its first bond auction in 2022, and additional bond issuances are expected in 2023 – important developments in market-based financing.

In the medium term, the government plans to implement various international trade and capital flow liberalisation measures, such as new tax incentives for foreign investors. Service exports are projected to grow in 2023 as the tourism industry recovers. Goods exports are also expected to benefit, as Cambodia is viewed as an attractive environment for labour-intensive manufacturing. The anticipated growth slowdown in advanced economies poses a risk to Cambodia's exports of goods.

Lao PDR

Lao PDR is projected to experience GDP growth of 3.5% in 2023 and 3.8% in 2024, accelerating from 3.1% in 2022. Growth will be driven by private consumption, which accounts

for more than 60% of GDP. Exports rose by 5.5% in 2022, while import growth weakened. A railway connecting Lao PDR and China will facilitate trade by reducing costs for both imports and exports, with trade of agricultural, metal and mineral products receiving the most benefit. Exports of services are weaker, but tourism will receive a boost in 2023.

Investment is expected to increase in 2023, especially for labour-intensive manufacturing. The energy sector and infrastructure development are the main contributors to this growth. Electricity accounts for about 30% of exports and will benefit from the construction of a new hydropower plant. Lao PDR's other main exports are copper, gold, and low-end electronics and parts. However, tighter global monetary conditions and slower growth in external demand will weigh on investment. Weaker global growth and higher borrowing costs will weigh down private investment.

Inflation has surged in Lao PDR due to rising global commodity prices linked to the war in Ukraine and sharp depreciation of the Lao kip (see Chapter 2). Consumer prices increased by 23.0% in 2022, up from an increase of 3.8% in 2021. Inflation is expected to ease to 14.8% in 2023 as energy prices decline slightly. The magnitude of inflation is a direct reflection of Lao PDR's dependence on imported oil and its heavy reliance on foreign sources for many consumables and intermediate inputs. In response to rising energy prices, the government abolished fuel excise taxes for farmers, easing price pressure on food and related products. However, high fertiliser costs continue to elevate the production costs of agricultural goods.

Lao PDR has implemented monetary policy tightening measures since June 2022, but these efforts have had little impact due to rapid depreciation of the local currency and the highly dollarised economy. In 2022, the reserve requirement for the local currency was increased from 3% to 5%, and the base interest rate rose from 3.0% in April 2022 to 6.5% in October 2022, where it remained until February 2023 when it was raised to 7.5%. As of February 2023, the kip has continued to depreciate rapidly.

Myanmar

The ongoing political uncertainty in Myanmar has adversely affected the country's growth outlook. Real GDP contracted sharply after February 2021. A decline in private consumption was the main reason for this development. Industrial production and the services sector suffered most on the supply side, and agriculture also posted negative contributions to growth. Nonetheless, economic growth saw a moderate recovery in 2022, and it is projected to 2.0% in 2023. The clothing manufacturing sector is expected to drive some export growth in 2023.

Fixed investment is projected to increase by 2.1% in Myanmar as construction and manufacturing return to operation. In the current environment of uncertainty, foreign investment inflows will be significantly smaller than they were prior to the coup. Foreign investors are expected to come mainly from the region and to invest predominantly in geopolitically strategic projects such as energy and mineral sectors, while moving investment away from the manufacturing sector.

Although exports are limited by global economic conditions, they will be the main driver of growth in fiscal year 2022-23. Services trade will remain low, however. Little improvement is expected in consumer sentiment as unemployment is rising.

The main drivers of inflation are high global energy and commodity prices, US monetary policy tightening and the sharp depreciation of the Myanmar kyat. Despite its sales of foreign reserves, the central bank has been unable to prevent depreciation, and the stock of foreign reserves has decreased significantly. Policy rates have remained unchanged since May 2020, while banks have been required to convert foreign currencies to the kyat at approved exchange rates.

China and India

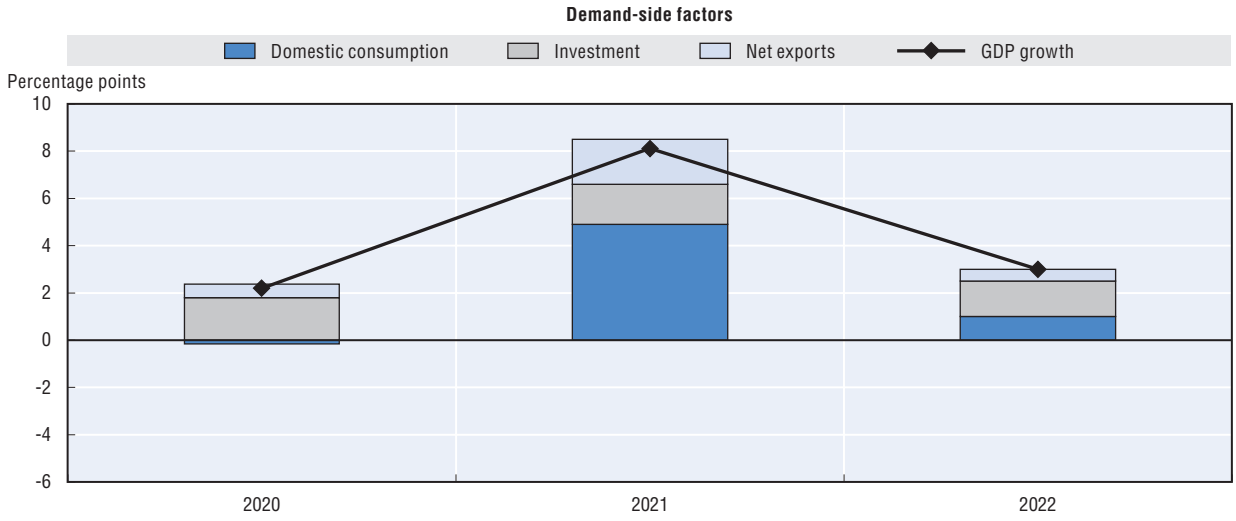
China

Real GDP growth in China for the full year was 3.0% in 2022, below the 8.1% growth of 2021 and target growth for 2022. In the first quarter of 2022, real GDP grew at a strong rate of 4.8% year-on-year. However, the growth contracted sharply to 0.4% in the second quarter, revealing the impact of lockdowns in April and May 2022. The gradual lifting of lockdowns at the end of May resulted in a recovery in the third quarter, with growth at 3.9%. But growth then slowed to 2.9%, with headwinds from the pandemic – a broadening of lockdowns in October and November was followed by a sharp rise in COVID-19 cases and a downturn in real estate, as well as a slowdown in external demand. After ending zero-COVID policy, China is expected to experience a recovery in 2023, with economic growth projected to rise to 5.3%, driven by a rebound in private consumption and investment. At the same time, slowing global economic growth will be a negative factor.

Investment proved to be the main driver of China's growth in 2022, supported by public-sector infrastructure spending (Figure 1.16). Private consumption continued to contribute positively to growth in 2022, although far less so than in 2021. Net exports were also an engine of growth. On the supply side, the manufacturing and services sectors, in particular in-person services, struggled in 2022 due to zero-COVID policy.

Figure 1.16. **Contribution to GDP growth in China, 2020-22**

Percentage



Note: Data as of 17 March 2023.

Source: Authors' calculations, based on data from CEIC and national sources.

StatLink https://stat.link/djoq2u

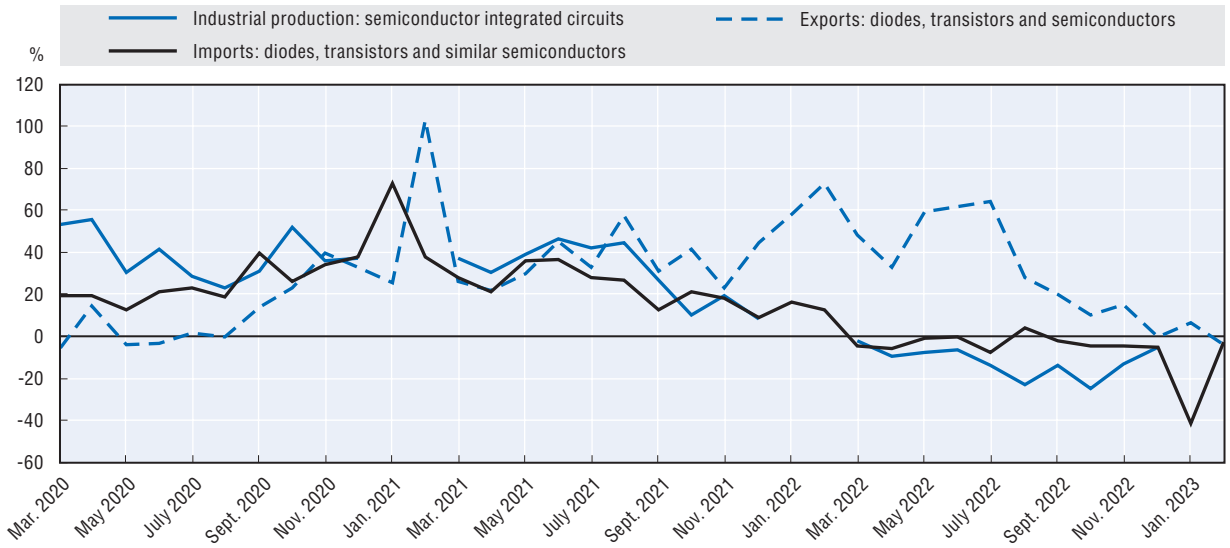
The decision by China to abandon its zero-COVID policy in December 2022 and the reopening of its borders in January 2023 have led lead to a wave of COVID-19 cases in early 2023 that has suppressed economic activity. Nevertheless, overall growth in 2023 is expected to rebound sharply afterwards. China's rapid economic growth could lead to higher demand for goods, services and commodities, especially considering the pent-up demand accumulated during lockdowns. While this growth could provide a significant boost to global economic growth in 2023 and beyond, there will be potential impacts on energy and commodity markets, inflation and interest rates. For regional economies, the overall effect of China's border reopening is positive, and will boost tourism and merchandise trade.

Due to China's zero-COVID policy in place at the time, the country's exports and imports declined in the fourth quarter of 2022, especially in the electronics sector.

China's semiconductor industry has been particularly hard hit by supply-side disruptions related to lockdowns (Figure 1.17). Robust growth, which had continued during the outbreak of the pandemic, turned into contraction in 2022.

Figure 1.17. **China's industrial production and trade in semiconductors and related parts, January 2018 to February 2023**

Percentage changes, year-on-year



Note: Latest data as of 17 March 2023.

Source: Data from CEIC.

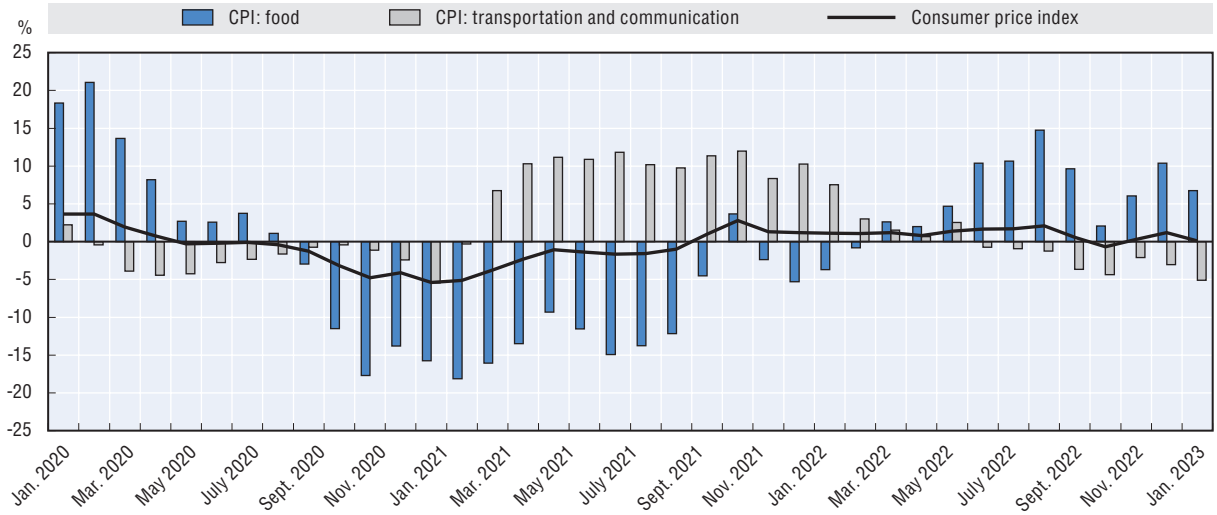
StatLink https://stat.link/rna6gi

Inflation is mostly driven by rising food prices, especially pork and fresh foods, though pork price inflation may have peaked in July 2022 (Figure 1.18). Sufficient grain stocks will keep prices low even as global grain prices soar.

Low inflationary pressures allowed China's monetary policy to remain accommodative throughout 2022 and it will remain so in 2023. The policy rate is projected to remain at 2.75% throughout 2023.

Figure 1.18. **Consumer price indices for food and non-alcoholic beverages and transport, January 2020 to February 2023**

Percentage changes, year-on-year



Note: Latest data as of 17 March 2023.

Source: Data from CEIC.

StatLink https://stat.link/oip9ks

India

India's real GDP growth during 2022 is 6.9%, down from 8.7% in 2021. Major contributors to growth were pent-up demand for consumer goods and government investment, while one of the factors behind the expectation of weaker economic performance in 2023 is high borrowing costs, which limit growth.

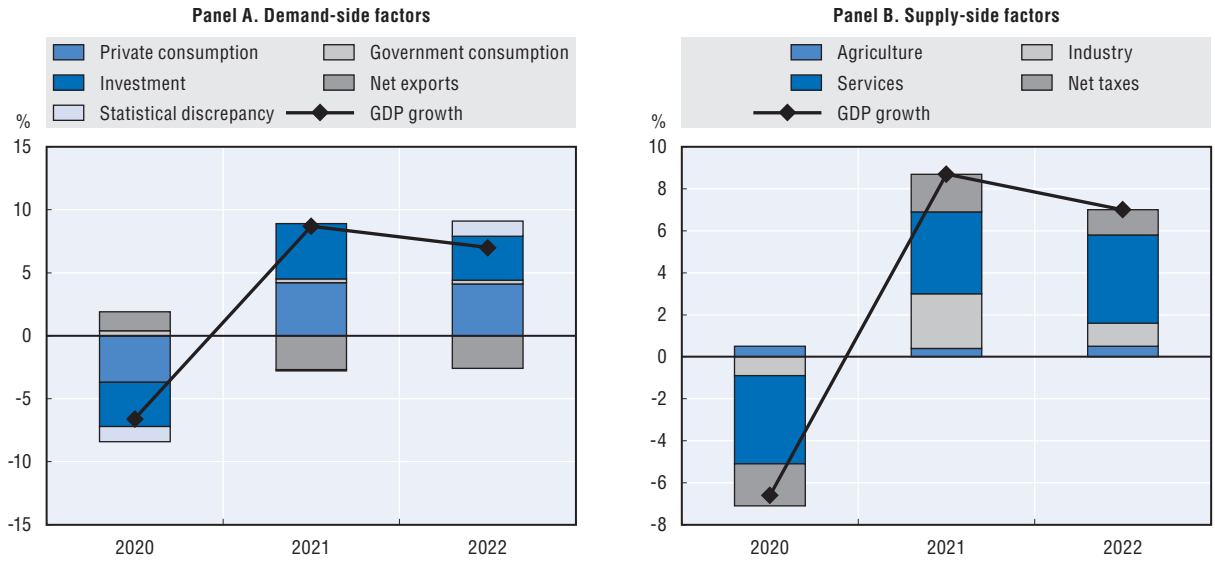
Output rebounded strongly in the beginning of 2022, with a 13.5% growth rate in annual terms. This figure is partly due to the very low base against which it was measured. In the second quarter, India's real GDP growth was 6.3% in annual terms, followed by 4.4% in the third quarter. On the demand side, net exports, investment and private consumption made positive contributions to growth (Figure 1.19, Panel A). On the supply side, services made the largest contribution to output growth (Figure 1.19, Panel B), with a significant contribution coming from the industrial sector as well.

Labour and logistics reforms will further improve India's competitiveness in manufacturing. The government's focus in the coming years will be on developing infrastructure, including building and upgrading ports, roads and railway networks. While major roads and freight corridors are scheduled to be completed in 2023 and 2024, there may be challenges and delays due to land-acquisition reforms that the government has yet to undertake.

India faces the challenge of ensuring a steady supply of human capital to support the expansion of manufacturing. In addition, the benefit of FDI can vary greatly by state, as many regulations and tax laws enacted at the state level can influence the generation of linkages and spillovers. The government has also made strides in the electronics sector as part of its production-linked incentive scheme, with electronics exports reaching USD 16.7 billion from April through December 2022, a 52% year-on-year increase from exports of USD 11 billion in the same period last year.

Figure 1.19. **Contribution to GDP growth in India, 2020-22**

Percentage



Note: Data relate to fiscal years ending in March. The sum of contributions may not necessarily be equal to GDP growth.

Source: Authors' calculations, based on data from CEIC and national sources.

StatLink https://stat.link/nvds7x

However, export growth could be dragged down by slower external demand in 2023, placing pressure on the trade deficit. At the same time, India is expected to maintain services and secondary income accounts in surplus thanks to its information technology (IT) services exports and remittances.

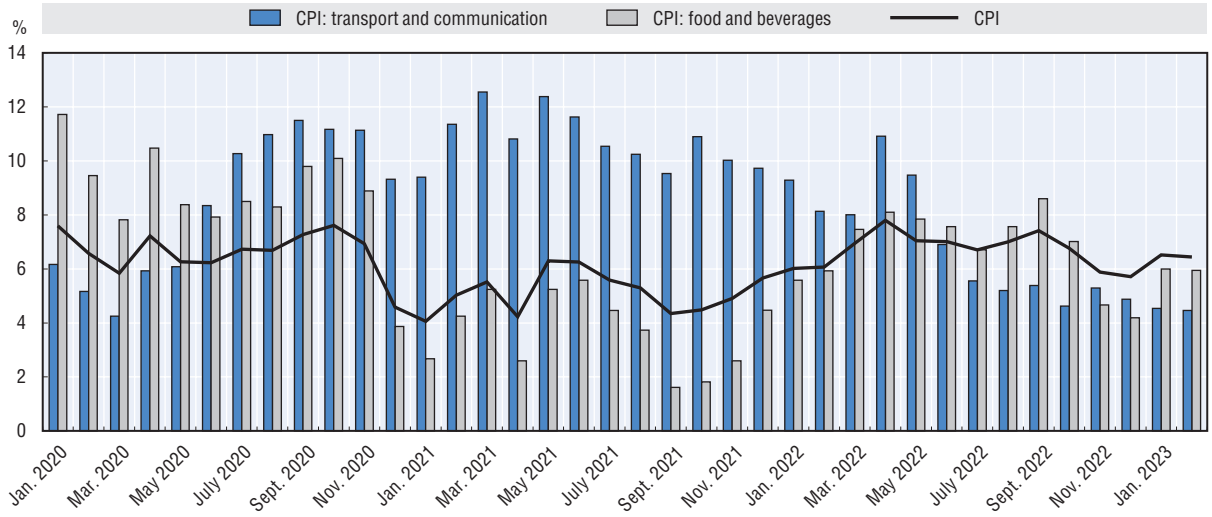
The agricultural sector plays a crucial role in India's economy, providing livelihoods for almost 60% of the population and contributing 20% of GDP in 2022. Recent years have seen an increase in agricultural yields, and the continuation of minimum support prices for various products following the repeal of the Farm Bills has further boosted the sector. In 2022, almost all subsectors of agriculture witnessed value growth, with total food-grain production increasing by 1.6% in volume year-on-year. India also achieved all-time highs (by value) for rice, wheat and other cereals as well as sugar.

Tax reforms, including lower business taxes and incentivised tax reporting and compliance, are expected to enhance business confidence and attract foreign investment. In 2019, the government lowered corporate tax rate from 30% to 22% for eligible businesses. Adoption of the goods and services tax at the national level will also be important. Labour market reforms, another key element of economic performance, were initiated in 2020 with plans to improve labour market flexibility, enhance skills, and focus on worker health and well-being.

Consumer price inflation has gradually decelerated from October 2022 as food prices moderate with a fresh harvest (Figure 1.20). Given the prominence of oil in India's consumer price index, moderation of oil prices in 2023 will assist in cooling down inflation. However, CPI remains high and a pass-through of higher input prices to consumers will continue in 2023, preventing inflation from decelerating significantly.

Figure 1.20. **Consumer price indices for food and transport, January 2020 to February 2023**

Percentage changes, year-on-year



Note: Latest data as of 17 March 2023.

Source: Data from CEIC.

StatLink https://stat.link/go7j34

To combat inflation and stabilise the Indian rupee, the central bank implemented several policy-rate increases in 2022. In May 2022, the policy rate was raised to 4.4%, followed by another increase of 50 basis points in June 2022 to bring the policy rate to 4.9%. In August and September 2022, the policy rate was further raised to 5.4% and 5.9%, respectively. In December the policy rate reached 6.25%, which remained in effect through January 2023, but was further increased to 6.5% in February 2023.

While large banks have seen declines in non-performing loan (NPL) ratios in recent years (even during the first phase of pandemic), NPL ratios at small finance banks ballooned from 1.9% in 2020 to 5.4% in 2021.

The fiscal balance will improve in 2023 due to lower spending on food and fertiliser subsidies. The pace of public capital spending will also slow in 2023. Tax reforms and increasing tax compliance will help the government to achieve further fiscal consolidation.

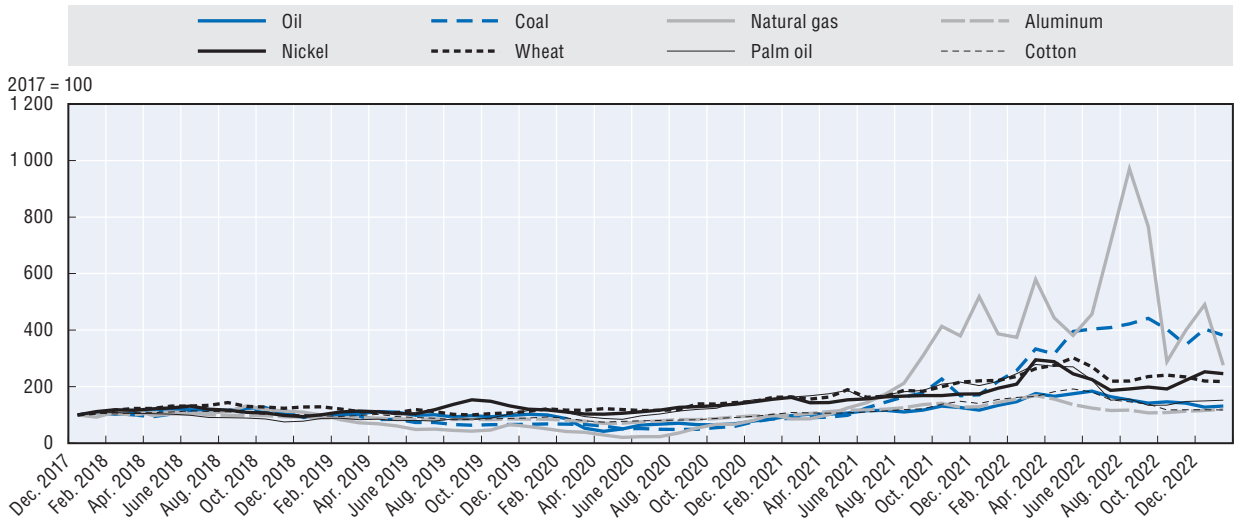
Financial markets exhibit resilience despite volatility and risks

Inflationary pressures have not reached the current level since the oil market disruptions of the 1970s. Since the war in Ukraine in February 2022, global prices of crude oil and natural gas have risen to their highest levels in more than a decade, and the price of coal hit an all-time high in September 2022. Natural gas prices peaked in August 2022, increasing by 56.4% since the escalation of the war in Ukraine (Figure 1.21).

Nevertheless, consumer price inflation in Emerging Asia remains subdued relative to the rest of the world, primarily due to the broad implementation of policy measures such as price controls and tax cuts, but also because of better-contained currency depreciation. In most Emerging Asian countries, the annual growth of both overall consumer prices and core inflation is lower than OECD averages, but consumer price inflation remains persistent (for more details, please see Chapter 2).

Figure 1.21. **Evolution of selected commodity prices, January 2018 to January 2023**

2017 = 100



Note: Latest data as of 17 March 2023. Indices reflect market prices. "Oil" refers to benchmark Brent crude prices. "Natural gas" refers to prices for natural gas traded in the Netherlands. "Coal" refers to prices on Australian export markets.

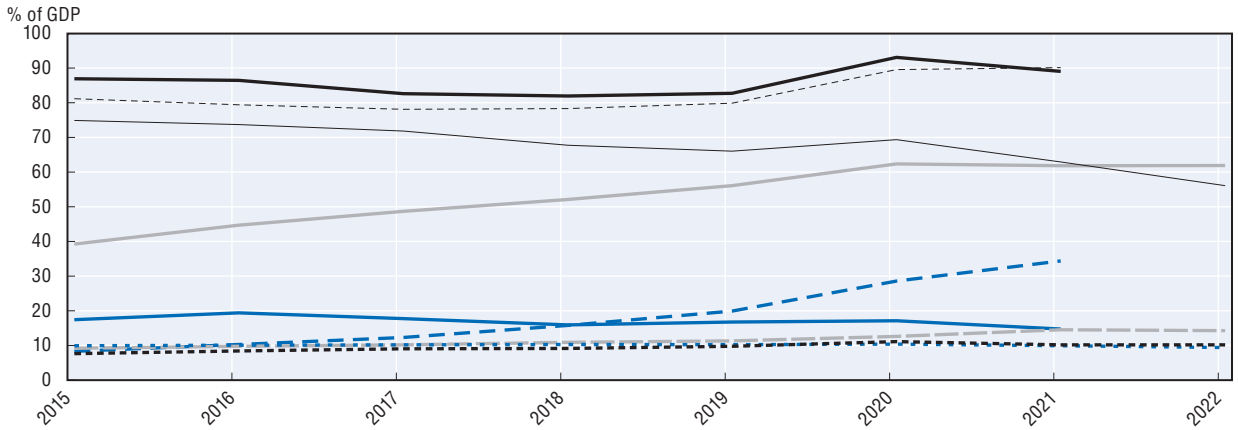
Source: IMF (n.d. b), Primary Commodity Price System database, https://data.imf.org/?sk=471DDDF8-D8A7-499A-81BA-5B332C01F8B9&sId=1547558078595 (accessed multiple times between November 2022 and February 2023).

StatLink https://stat.link/yv8351

The implications of rising interest rates for households and businesses in the more advanced economies of Emerging Asia are particularly important. Rising inflation and interest rates will put additional pressure on leveraged households and businesses. Household debt is particularly high in Malaysia and Thailand, which experienced tighter monetary conditions in 2022 (Figure 1.22).

Figure 1.22. **Household debt, 2015-22**

Percentage of GDP



Note: Latest data as of 17 March 2023.

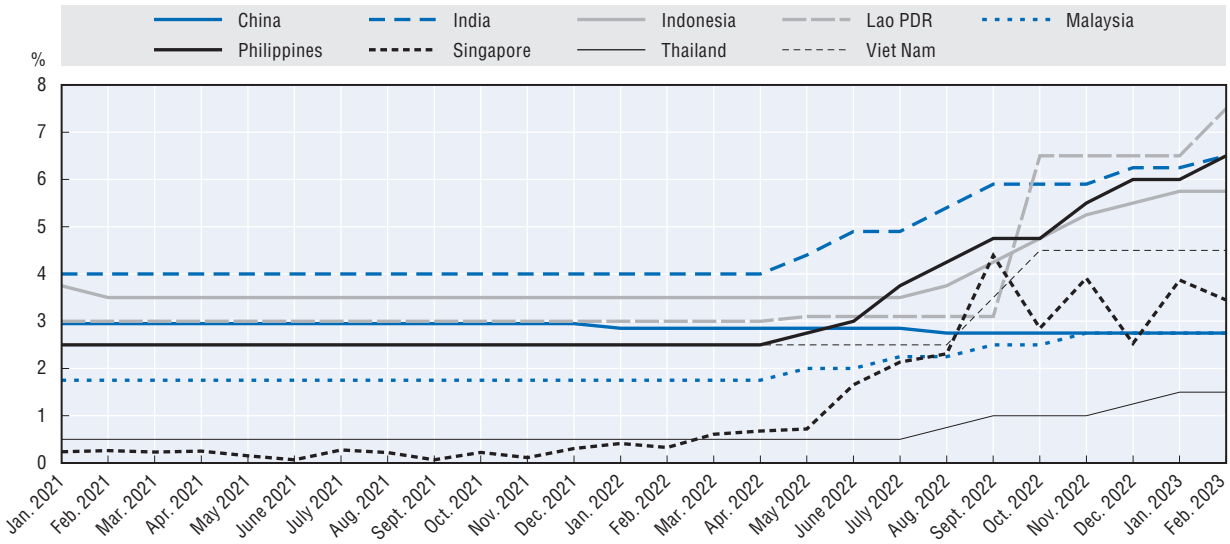
Source: Data from CEIC.

StatLink https://stat.link/z2yimr

Against this background, Emerging Asian economies experienced deterioration of financial conditions and rising bond yields in the second half of 2022, mainly driven by aggressive monetary policy tightening in major advanced economies. Most of the regional central banks pursued tighter monetary policy (Figure 1.23) to combat domestic inflation, relieve depreciation pressures on local currencies (Figure 1.24), and close widening interest rate differentials with the United States.

Figure 1.23. **Policy rates, January 2021-February 2023**

Percentage per annum



Note: Latest data as of 17 March 2023.

Source: Data from CEIC.

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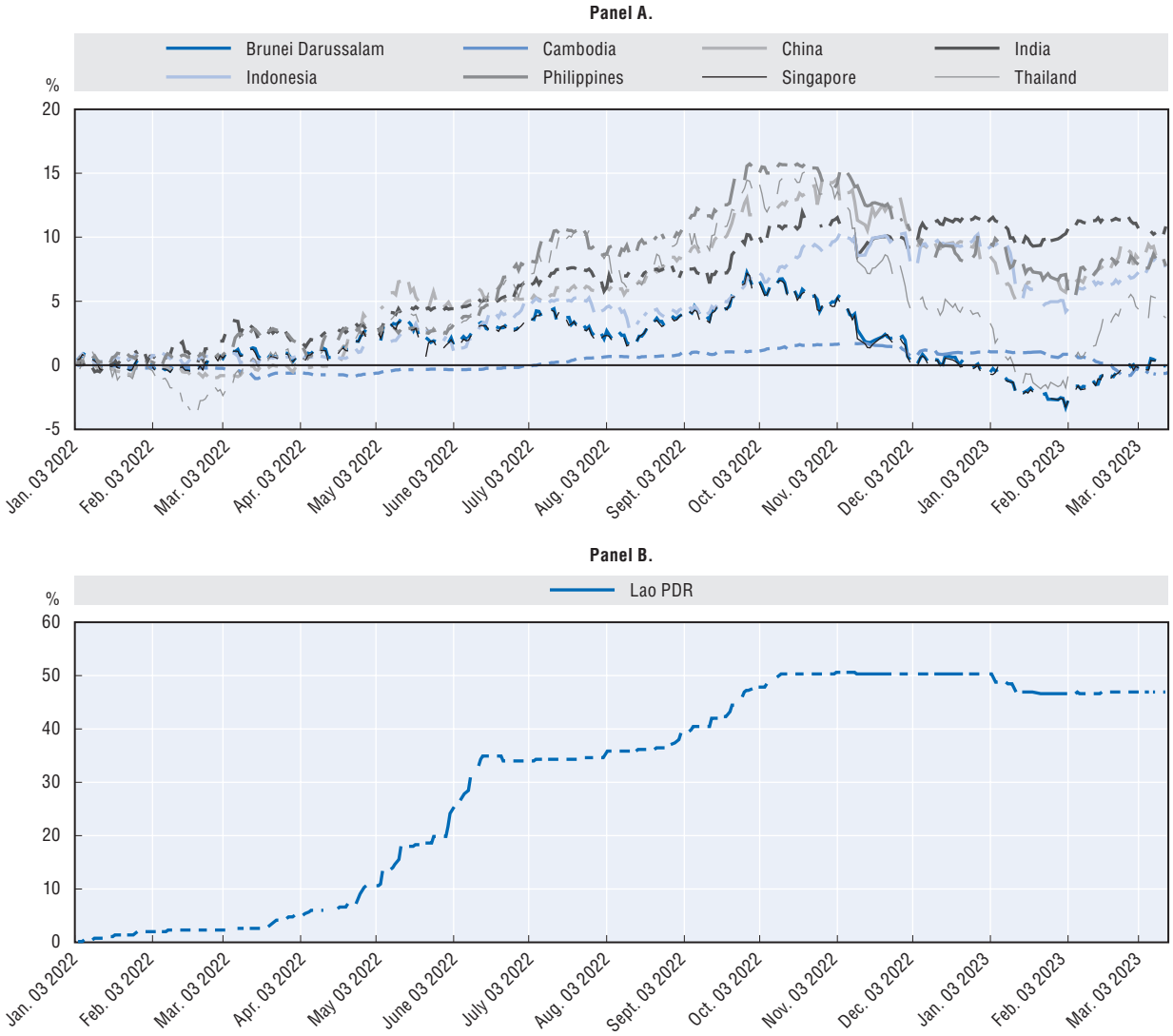
Most of the region's central banks hiked interest rates to address financial and price stability concerns. Government bond yields rose across Emerging Asia during the second half of 2022, owing to higher bond yields in advanced economies and continued monetary tightening in all major economies (ADB, 2022). The US two-year government bond yield rose by 355 basis points from January 2022 to February 2023 following policy rate tightening by the Fed.

The spreads between local bonds and 10-year US Treasuries rose in 2022, reflecting tighter monetary policy in the United States. An exception was Thailand, with a falling yield on its 10-year government bond (Figure 1.25, Panel A). The yield curve narrowed in many regional economies (Figure 1.25, Panel B), due to a combination of rising short-term and long-term yields.

Equity markets in Emerging Asia performed better overall in 2022 than most other equity markets around the world (Figure 1.26). The performance of individual equity markets differed notably, however. India, Indonesia and Thailand emerged as better performers in the region (Figure 1.26). China's underperformance was due to mobility restrictions under its zero-COVID policy, as well as the property crisis. At the beginning of 2023, there were some signs of an upswing in Asian equity markets.

Figure 1.24. **The changes in major Asian currencies against USD, January 2022-March 2023**

Percentage



Note: Latest data as of 17 March 2023.

Source: Data from CEIC.

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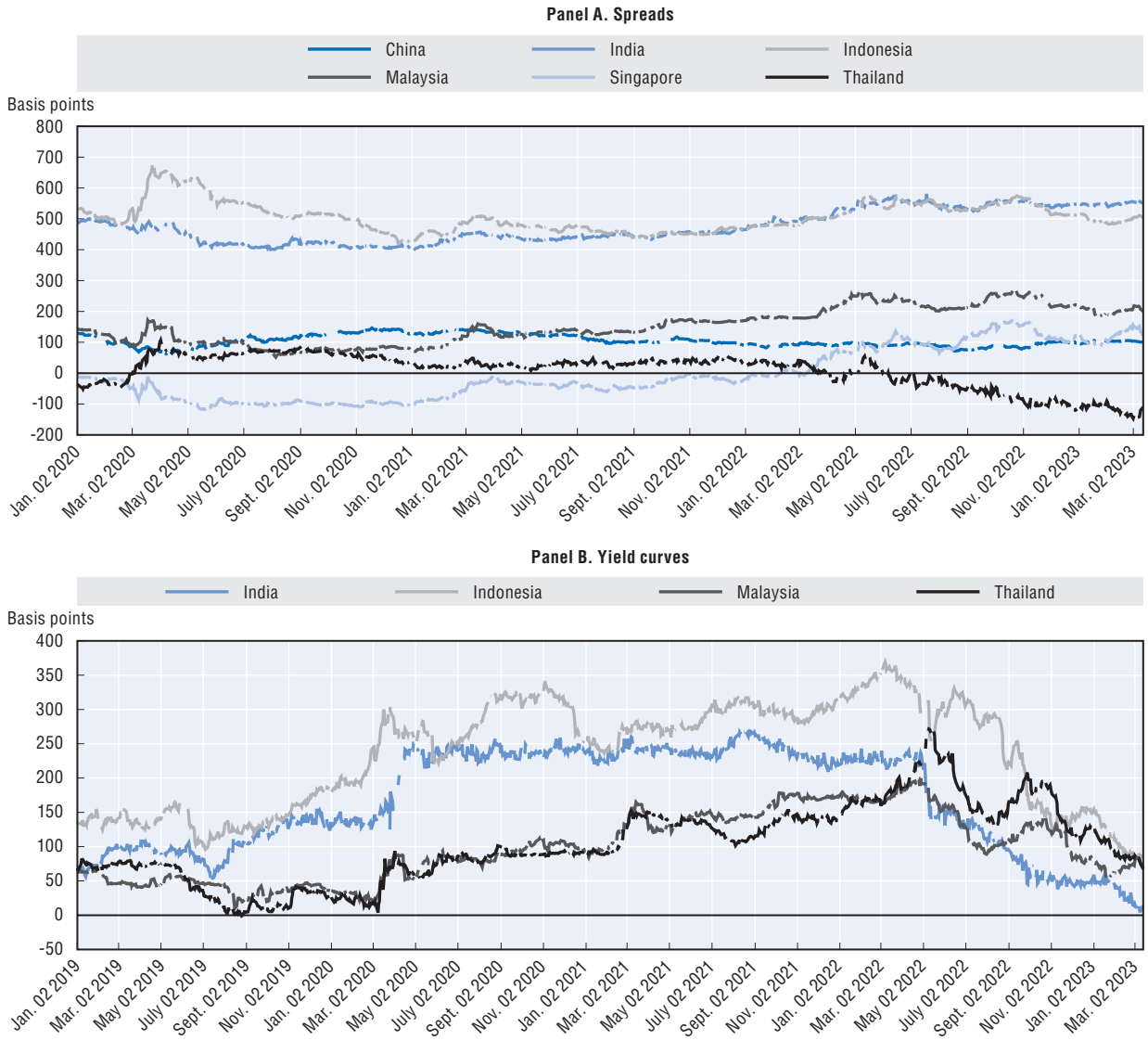
After a sharp decline in the first quarter of 2020 following the onset of the pandemic, stock market capitalisation remained below pre-pandemic levels throughout 2020 and 2021 and hovered above pre-pandemic levels throughout 2022. The largest increase in stock market capitalisation was recorded in India, where it rose by more than 80% from December 2019 to December 2022. Other notable performers over the same period were China and Indonesia, with increases of around 30%, Viet Nam (22.5%) and Thailand (21.2%). Energy, technology, manufacturing and financial stocks performed better over the past year. Market capitalisation is above pre-pandemic levels in Q1 2023 for most stock markets in Emerging Asia (Figure 1.27).

Figure 1.25. **Spreads to 10-year US Treasuries and yield curve of selected ASEAN economies, January 2020 to March 2023**

Basis points



Note: Latest data as of 17 March 2023. The yield curve is computed as the difference between yields on 10-year government bonds and yields on one-year government bonds.

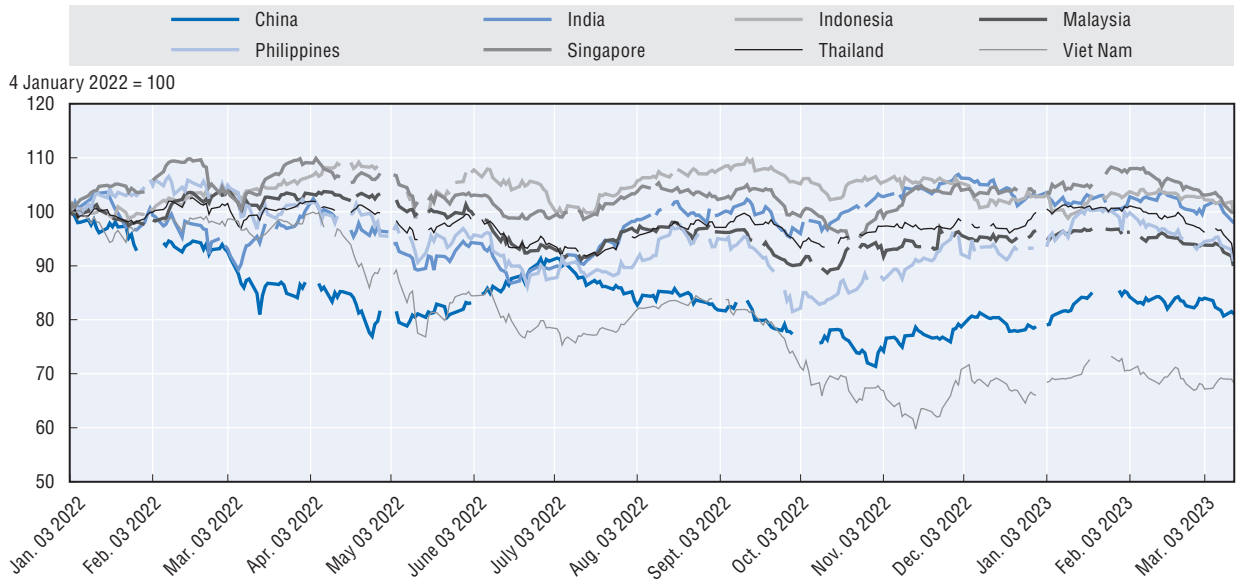
Source: Authors' calculations based on data from CEIC and national sources.

StatLink https://stat.link/xdb31u

During 2022, financial markets experienced a lot of turbulence, but the level of risk was relatively subdued, reflected by the CBOE (Chicago Board Options Exchange) Volatility Index, also known as the VIX (Figure 1.28). At the beginning of 2022, the VIX started to rise steadily from mid-January, reaching its peak at 36.5 in March 2022 due to concerns over inflation, rising interest rates, and geopolitical tensions. From mid-March 2022, the VIX became stable but remained higher than at the beginning of the year, reaching 22.26 on 22 March 2023. Overall, the movement of the VIX indicates that investors were cautious but not overly concerned about market risks.

Figure 1.26. **Major stock market indices of selected Emerging Asian economies, January 2022-March 2023**

4 January 2022 = 100



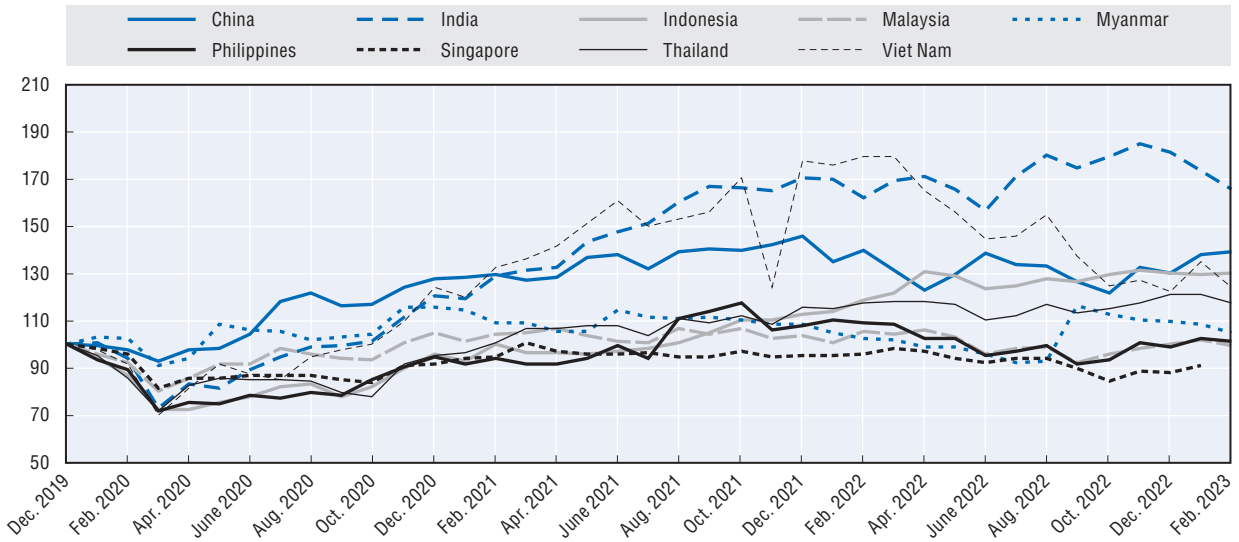
Note: The following stock market indices are captured: Cambodia Securities Exchange Composite Index, Shanghai Shenzhen CSI 300 Index (China), BSE Sensex Index (India), Jakarta Stock Exchange Composite Index (Indonesia), Lao Securities Exchange Composite Index, FTSE Bursa Malaysia KLCI Index, PSEi Index (Philippines), Straits Times Index (Singapore), SET Index (Thailand) and Ho Chi Minh City Stock Exchange Index (Viet Nam). Latest data as of 17 March 2023.

Source: Authors' calculations based on data from CEIC.

StatLink https://stat.link/w1fr49

Figure 1.27. **Market capitalisation of major exchanges in selected Emerging Asian economies, January 2020 to February 2023**

December 2019 = 100



Note: Market capitalisation of the following stock exchanges is depicted: Shanghai Stock Exchange (China), Bombay Stock Exchange (India), Indonesia Stock Exchange, Bursa Malaysia, Yangon Stock Exchange (Myanmar), Philippine Stock Exchange, Singapore Exchange, the Stock Exchange of Thailand, and the Ho Chi Minh City Stock Exchange (Viet Nam). Latest data as of 17 March 2023.

Source: Authors' calculations based on data from CEIC and national sources.

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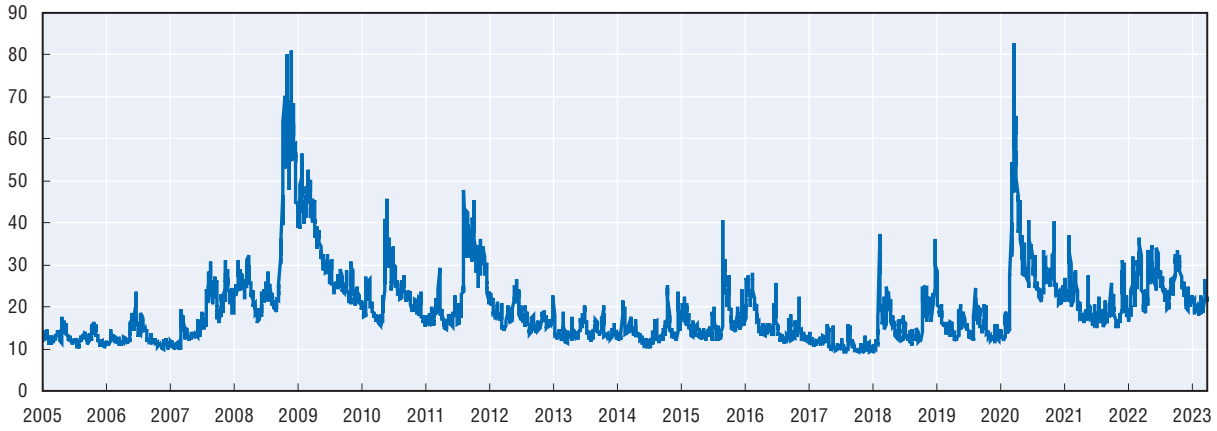
Figure 1.28. **VIX, January 2005 to March 2023**



Notes: Latest data as of 20 March 2023. The index is calculated using the prices of options on the S&P 500 index, and it reflects the market's expectation of volatility over the next 30 days. VIX values can range from 0 to above 100, although the index typically stays within the range of 10 to 30. A value of 20 is generally considered to represent the long-term average level of the VIX. When the VIX is below 20, it is generally interpreted as a signal that the market is relatively calm, and investors are not anticipating large swings in the stock market. Conversely, when the VIX is above 20, it is generally interpreted as a signal that the market is more volatile, and investors are anticipating larger swings in the stock market. The VIX is referred to often as the «fear index,» as it tends to rise when investors are worried about market uncertainty and decline when investors are more confident about the outlook for stocks.

Source: Cboe Global Indices (n.d.), https://www.cboe.com/us/indices/dashboard/vix/ (accessed multiple times between November 2022 and March 2023).

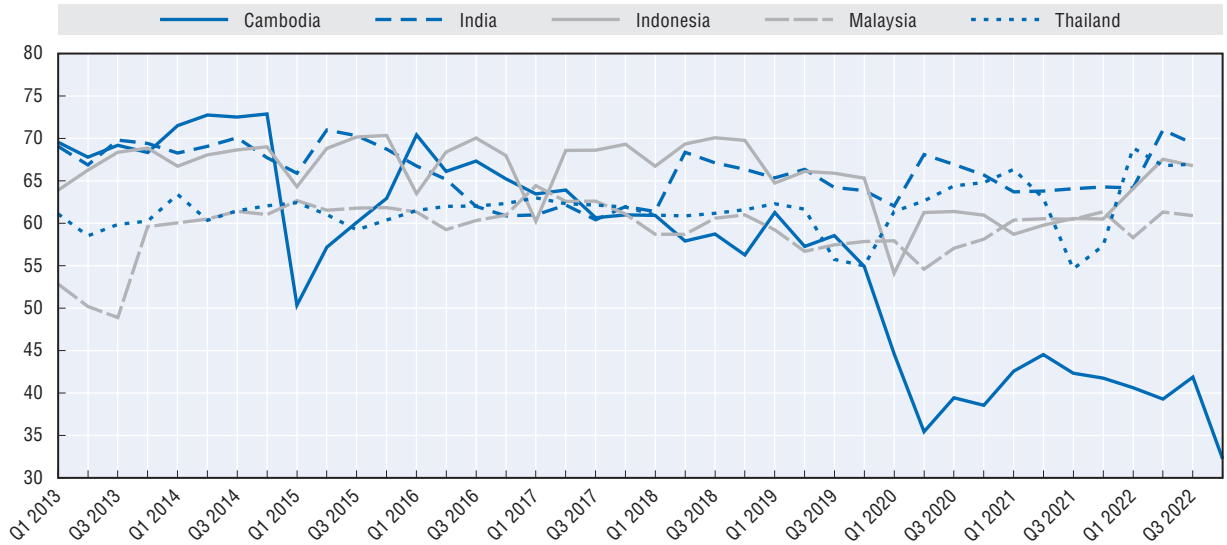
StatLink https://stat.link/vx9jpl

Financial markets still need to be monitored carefully. The collapse of California's Silicon Valley Bank on 10 March 2023 led equity markets across Asia to fall early in the next week, but they have rebounded somewhat since. However, the high-inflation environment could cause some instability in the banking system and fallout from the SVB collapse has already reached other US banks as Silvergate Bank in California and Signature Bank in New York each suffered a similar fate to SVB in the following days.

Banking sector needs careful monitoring despite showing resilience

Banking sector in Emerging Asia will also need to be carefully observed in 2023, even though Emerging Asian banks tend to hold higher loss buffers than banks in advanced Asian economies. While central banks worldwide are raising interest rates to fight inflation, the ratios of interest margin to gross income and non-performing loans (NPL) to total loans have remained relatively stable (Figure 1.29 and Figure 1.30). Overall, banking sector stability remains relatively robust in most Emerging Asian economies. This is confirmed by very high capital adequacy requirements, especially against the backdrop of what appears to be a challenging economic and financial environment. Capital adequacy remained stable at very high levels in most Emerging Asian economies for which data are available. Levels mostly remained above 15%, well above the internationally recommended 8% and national requirements. In 2020, the first year of the COVID-19 pandemic, capital adequacy ratios weakened somewhat but remained higher than the recommended 8%. They subsequently recovered, reaching the highest levels of the past decade. In many countries, the capital adequacy ratios of banks are at the highest level observed since 2012. At the same time, other prudential regulations have improved in the region (OECD, 2021).

Figure 1.29. **Interest margin to gross income, Q1 2013-Q4 2022**



Note: Data as of 17 March 2023. The interest margin to gross income refers to the banking institutions classified as deposit takers.
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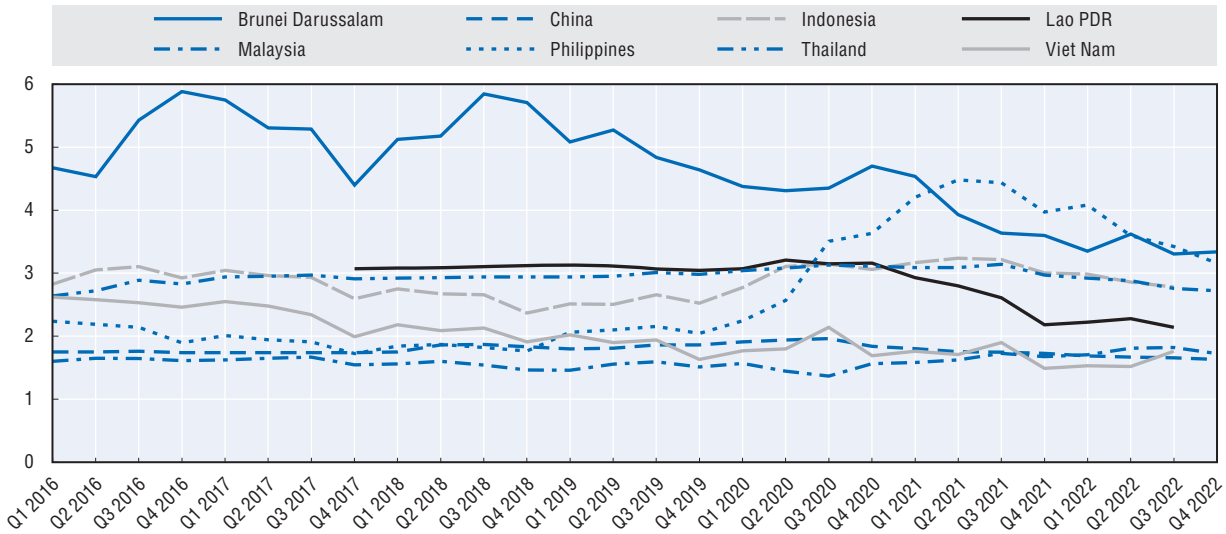
Figure 1.30. **Non-performing loans to total gross loans ratio, Q1 2016-Q4 2022**



Note: Data as of 17 March 2023

Source: CEIC.
StatLink https://stat.link/k94ex6

However, a high-inflation, high-interest environment can be challenging for banks, in terms of stability. The global banking sector experienced significant turmoil in March 2023. Two US banks, Silicon Valley Bank (SVB) and Signature Bank, failed - these events were the second and third largest bank failures in US history. The United States Federal Deposit Insurance Corporation (FDIC) then established bridge banks and promised to make depositors whole, even if their deposits exceeded the FDIC coverage limit of USD 250 000. Silicon Valley

Bank served many start-ups worldwide, and some accounts were unable to access their funds for a short time. Stock markets fell worldwide in response to the collapses, though they have been recovering. Credit Suisse became distressed on 15 March and the bank was sold to UBS on 19 March in a transaction mediated by the Swiss government and Swiss Financial Market Supervisory Authority (FINMA).

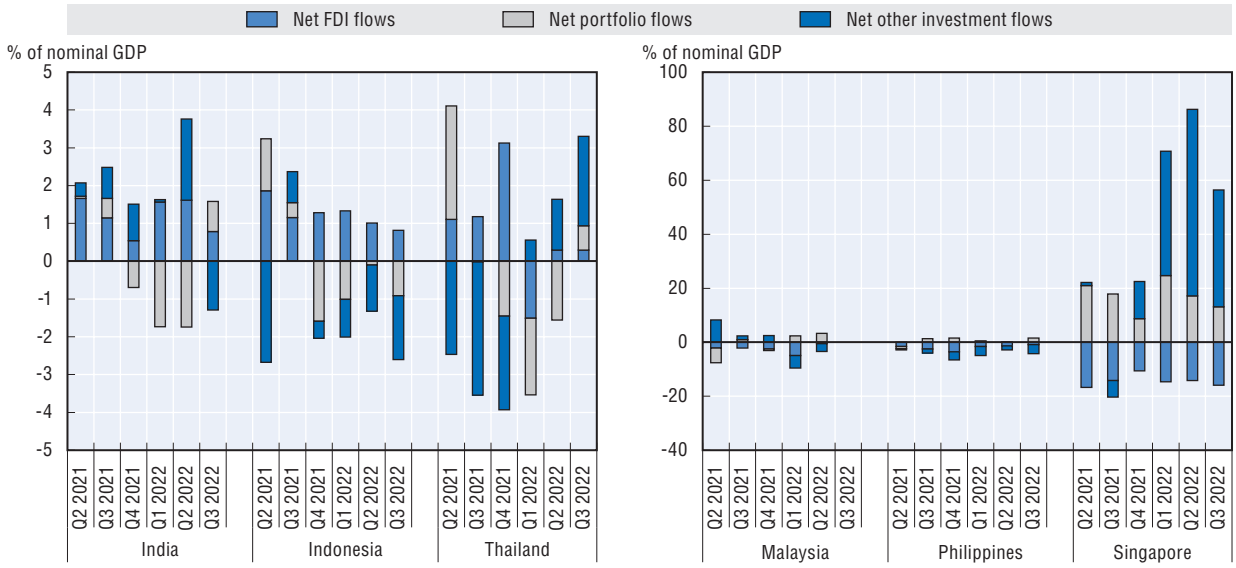
While the risk of contagion occurring immediately is small, policy makers in the region must monitor banking conditions diligently. Monetary authorities are facing the challenge of balancing between control of inflationary pressures and maintaining financial stability.

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

Tighter global credit conditions have affected Emerging Asian economies. Data indicate that net other investment and portfolio flows were more affected than FDI from the beginning of 2022, when the major economies started to hike their interest rates. This is particularly evident in Thailand, Indonesia, Malaysia, the Philippines and India, where net other investment flows turned negative, especially during the first two quarters of 2022. But in most cases there were signs of stabilisation by the third quarter of 2022, pointing to the temporary nature of these capital outflows (Figure 1.31). In contrast, Singapore experienced net FDI outflows that continued even into the third quarter of 2022.

Figure 1.31. **Direct investment, portfolio investment and other investment net flows in selected Emerging Asian economies, Q2 2021 to Q3 2022**

Percentage of GDP



Note: Latest data as of 17 March 2023.

Source: Authors' calculations, based on data from CEIC and national sources.

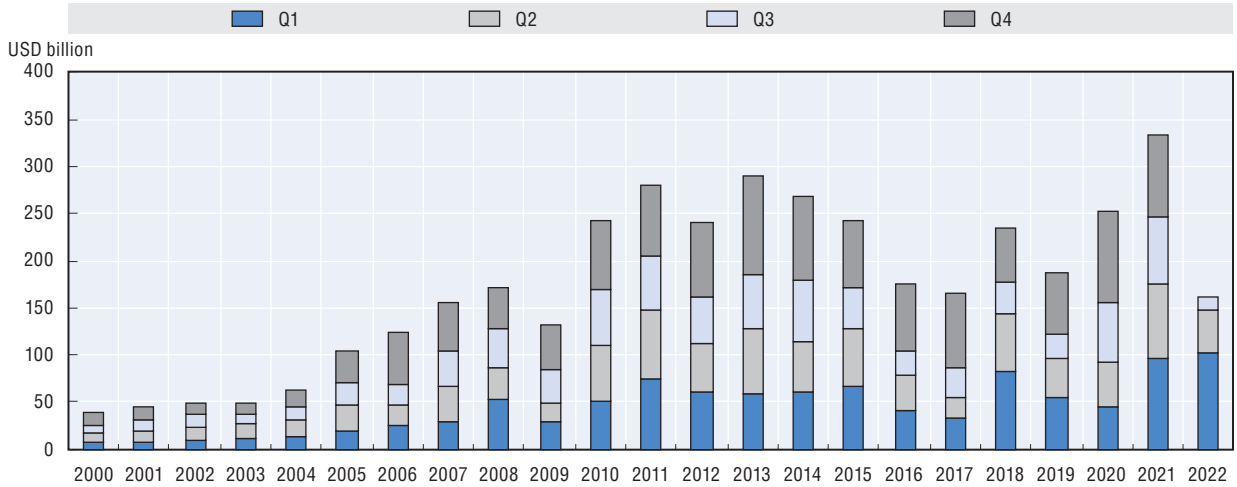
StatLink https://stat.link/gybai3

Emerging Asian economies have been an attractive destination for foreign direct investment. An increase in both inward and outward FDI signals the region's resilience as it continues to attract investment even during economically difficult times with heightened

global and regional pressures, rising inflation, interest rate hikes and the economic implications of the war in Ukraine. Investors are attracted to Southeast Asian countries by the region's competitive wages, improvements in business regulations and infrastructure, and increasing domestic demand due to population expansion and improving economic conditions. In 2022, China experienced its sharpest decline in foreign direct investment in relative terms, from USD 101.9 billion in the first quarter to USD 45.9 billion in the second quarter, a drop of 55% (Figure 1.32). A further decline was registered in the third quarter. The steep decline was due mainly to China's zero-COVID policy, which fed into investors' fear and uncertainty. Despite this large decline, the sheer size of the Chinese economy and the recent reopening of borders will continue to attract foreign investors.

Figure 1.32. **Inward FDI flows into China, Q1 2003 to Q4 2023**

USD billion



Note: Latest data as of 17 March 2023.

Source: Data from CEIC.

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Greenfield foreign investment inflows into the Southeast Asia fell from USD 48 billion to USD 29 billion in the first three quarters of 2022, a decline of 39% year-on-year. The largest declines were in Indonesia and Malaysia, but were also significant in Viet Nam and Thailand. The highest growth rates in relative terms were registered in the Philippines and Cambodia, where investment rose by 53% and 747%, respectively. In absolute terms, Singapore continues to be the region's largest recipient of foreign investment, although investment grew by only 6% year-on-year in 2022 (ESCAP, 2022). Greenfield investment outflows increased marginally in Southeast Asia in 2022, from USD 17 billion to USD 18 billion, a 4% increase over 2021 levels. However, the gross figure masks large diversity in the outflow movements. The largest declines in FDI outflows were recorded in Malaysia (79%) and Thailand (63%), Singapore had the region's largest fall in outflows in absolute terms, from USD 14.5 billion to USD 12.3 billion, a decline of 15%. The declines in outflow from Singapore, Thailand, and Malaysia were offset by large outbound investment recorded by Viet Nam and Indonesia. Investment outflows from Viet Nam increased by 1 265% (USD 4.3 billion) and from Indonesia

by 225% (USD 9.07 billion). The particularly large decline in foreign investment in China was offset by major investments in India. Over 2022, greenfield inward FDI in India grew by 382%, from USD 12 billion to USD 60 billion. This exceptionally large growth was due to the number of investment projects, including investments of USD 19.5 billion to build a semiconductor plant and USD 5 billion to set up a new hydrogen ecosystem.

The general trend over the last decade in the region has been a decline of the primary sector share in inward FDI, a stable share in the manufacturing sector and a growing share in the services sector. This trend was reflected in the manufacturing and services sector in 2022, but investment in the primary sector grew.

The investment trends described above reflect longer-term trends and are not expected to be interrupted by the global economy weakening in 2023. FDI in Emerging Asia is expected to continue rising, especially in Singapore, Malaysia, Thailand, Indonesia and Viet Nam. China's abandonment of zero-COVID policy is a positive element in the region. Multinational enterprises will take advantage of investment incentives in these countries and demand for electric vehicle components and other electronics crucial to developing the digital economy (Box 1.1). However, competition for FDI among regional economies is expected to increase due to the tighter economic conditions and while projections indicate that FDI inflows will increase in 2023, this is expected to take place at a slower pace than in 2022.

Box 1.1. **Electric vehicles and electronics drive FDI in Southeast Asia**

Measures implemented by countries in Southeast Asia to attract foreign direct investment (FDI) include tax incentives, investment promotion policies and infrastructure development programmes (Dugar and Jun, 2022). For example, Viet Nam has implemented a range of incentives to attract FDI, including corporate income tax exemptions, land rent reductions and import duty exemptions for certain projects. Indonesia has simplified regulations and procedures, provided tax incentives and improved infrastructure. Other factors that will help to sustain a robust inflow of investment include regional integration, adjustment or strengthening of supply-chain capacity and regional corporate expansion strategies.

The growth of FDI in Southeast Asia is expected to be fuelled by international interest in electric vehicles, electronics and the digital economy (ADB, 2023). These industries are likely to experience significant advancement, including the emergence of new investor categories, new value-chain segments, capacity expansion and an increase in regional production networks. To position the region as a significant player in the global electric vehicle market, several ASEAN countries are offering incentives. The region has the potential to become a major manufacturing hub by attracting foreign investment in the electric vehicle value chain, which includes nickel mining and smelting, battery production, vehicle manufacturing and related research and development.

A robust local market is fundamental for nurturing a new industry and ASEAN economies have experienced rapid growth over the past decade. Several international firms have relocated from China to ASEAN countries, leading to a rise in purchasing power and an increase in FDI. On the supply side, ASEAN has all the necessary components for intelligent electric vehicle production, including software and AI expertise, batteries, electric vehicle control units (ECUs) and manufacturing capabilities. Singapore has become a hub for software and AI talent thanks to its superior universities and research and development systems. Indonesia and the Philippines, with their vast reserves of nickel and cobalt, are strong competitors in the battery industry (Raharyo, Mertawan and Baskoro, 2022). Malaysia is a leading semiconductor producer in the global supply chain, particularly in the automotive ECU sector.

Box 1.1. **Electric vehicles and electronics drive FDI in Southeast Asia** *(cont.)*

The region's electronics industry has also seen a significant increase in FDI in the wake of global semiconductor shortages and supply-chain disruptions that developed during the pandemic. Multinational enterprises are expanding their operations in ASEAN countries, particularly Malaysia, the Philippines, Singapore, Thailand and Viet Nam. In Viet Nam, for example, Samsung and Intel have made significant investments in manufacturing plants. Samsung invested USD 17.3 billion over a little more than a decade, while Intel invested USD 1.5 billion. From 2010 to 2020, Viet Nam's exports of electronics, computers and components grew at an average annual rate of 28.6%, with double-digit growth even before the US-China trade tensions and COVID-19 lockdowns. As an exporter of electronics, Viet Nam has moved up to the tenth position globally and represents 1.8% of the global value of electronics exports (Leung, 2022). Across ASEAN, investments in electronics and electrical equipment quadrupled in 2021 to USD 32.9 billion, making up 52% of all greenfield investments compared to just 12% in 2020 (ASEAN, 2022).

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

Strong trade and goods exports have supported most Emerging Asian economies amid global uncertainty in 2022, though slowing global growth is expected to weaken these supports in 2023 (Figure 1.33).

As China has reopened its borders, its imports are expected to increase significantly in 2023. Services trade is expected to receive a big boost from China's rebound (see the next section for more details). At the same time, over the last few years, ASEAN economies have made a considerable effort to create an economic environment conducive to business activity. Measures include streamlined tax policies and regulations, improvement in skill and the expansion and upgrade of communication and transport infrastructure. The region also benefited from further trade integration with economies outside the bloc via a new trade agreement, the Regional Comprehensive Economic Partnership (RCEP), effective from January 2022. These developments have allowed for increased diversification of exports, which stabilises export revenue and can promote export growth (Box 1.2).

It is notable that, following the Russian invasion of Ukraine, Emerging Asian economies experienced striking changes in the composition of trade flows even as exports performed strongly throughout 2022. For example, Indonesia, Malaysia and Singapore witnessed a huge surge in demand for manufactured goods, mineral fuel and chemicals (Figure 1.34).

The current account balances (CABs) of Emerging Asian economies as a proportion of GDP have mostly deteriorated after the pandemic (Figure 1.35). Although exports remained strong across most of Emerging Asia, services income accounts continued to suffer from pandemic-related restrictions. This particularly affected countries that are reliant on tourism. On a positive note, the reopening of China and an expected increase in its outbound tourism will generate sufficient recovery in services income accounts to improve CABs in the region overall.

Figure 1.33. **Evolution of exports and imports of goods for selected Emerging Asian economies, December 2019 to February 2023**

December 2019 = 100

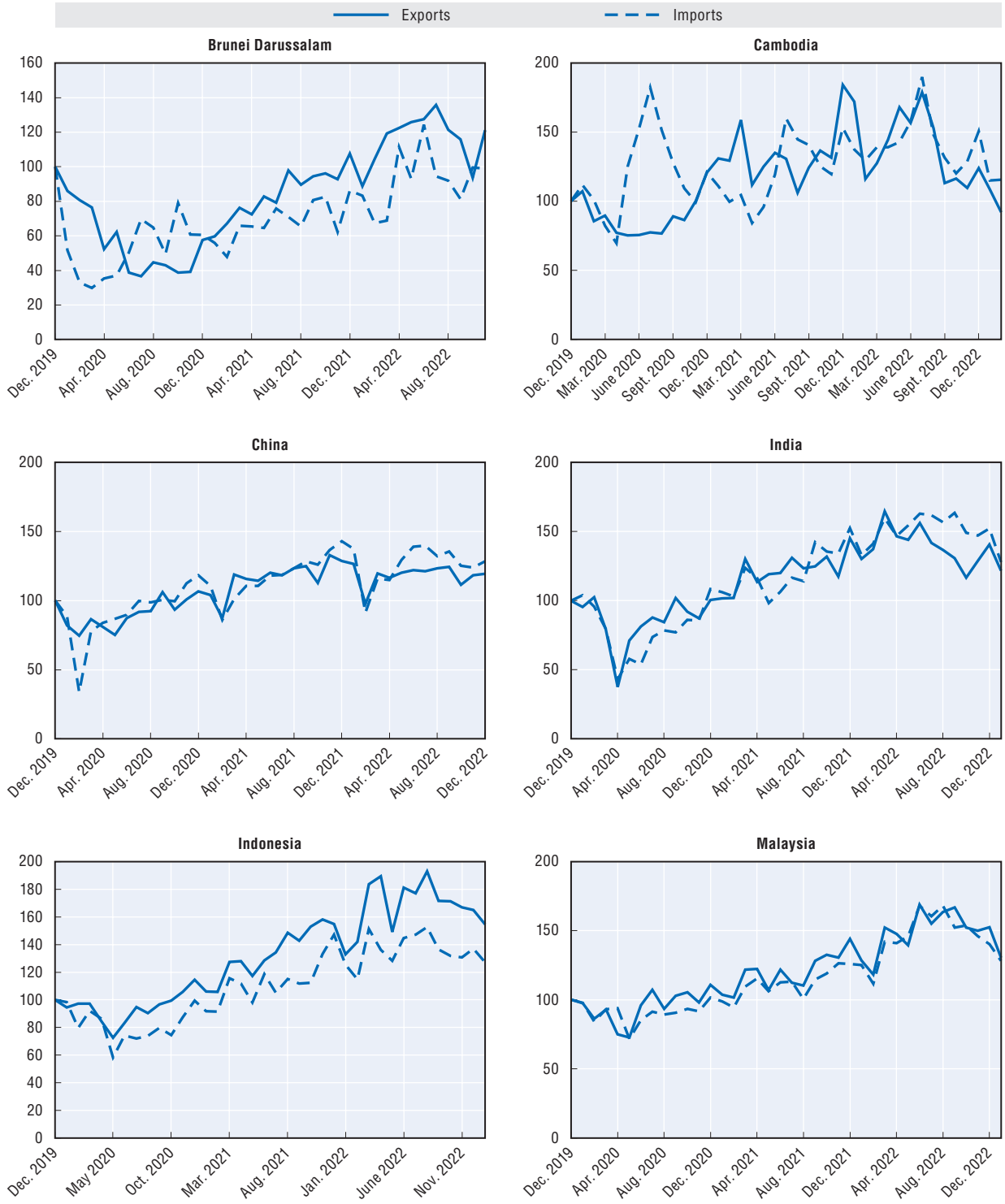
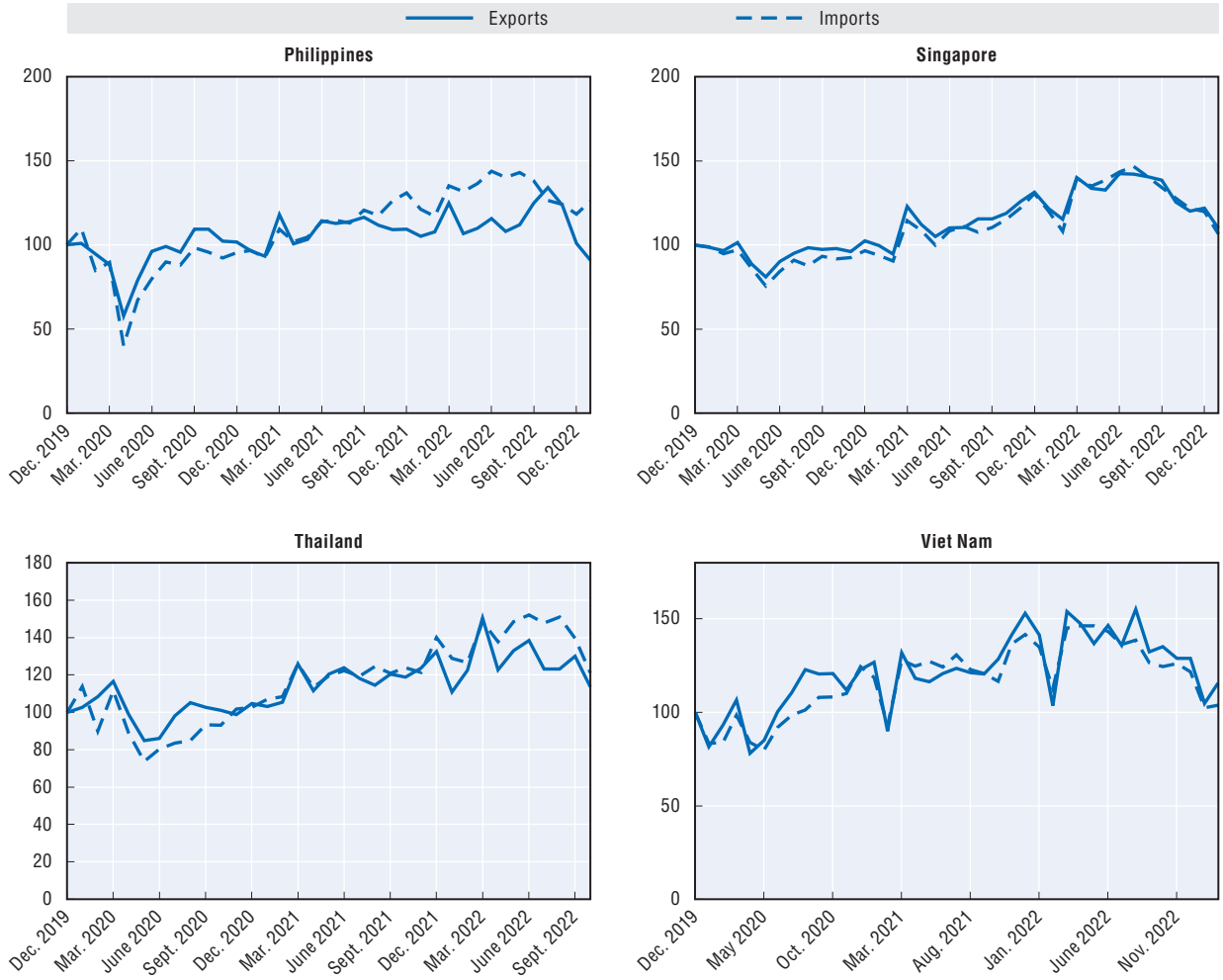


Figure 1.33. **Evolution of exports and imports of goods for selected Emerging Asian economies, December 2019 to February 2023** *(cont.)*

December 2019 = 100



Note: Latest data as of 17 March 2023.

Source: Authors' calculations based on data from CEIC and national sources.

StatLink https://stat.link/73e62b

Box 1.2. **ASEAN's exports show increasing diversification**

Export diversification is good for the region as it helps to stabilise export revenues and leads to higher export growth (Villafuerte et al., 2018; Markakkaran and Sridharan, 2022). Most importantly, it makes exports less susceptible to external shocks (Hong, 2021). An adverse external shock typically leads to losses in export earnings, with the size of the losses depending on the country's export composition and key trading partners. When a country concentrates its exports in only few commodities, especially primary commodities, and has only a few trading partners, it is more vulnerable to economic shocks. Export earnings over 2009-19 were highly volatile for countries with concentrated exports, such as Lao PDR and Myanmar, and less so for countries with higher diversification, such as Viet Nam (Hong, 2021).

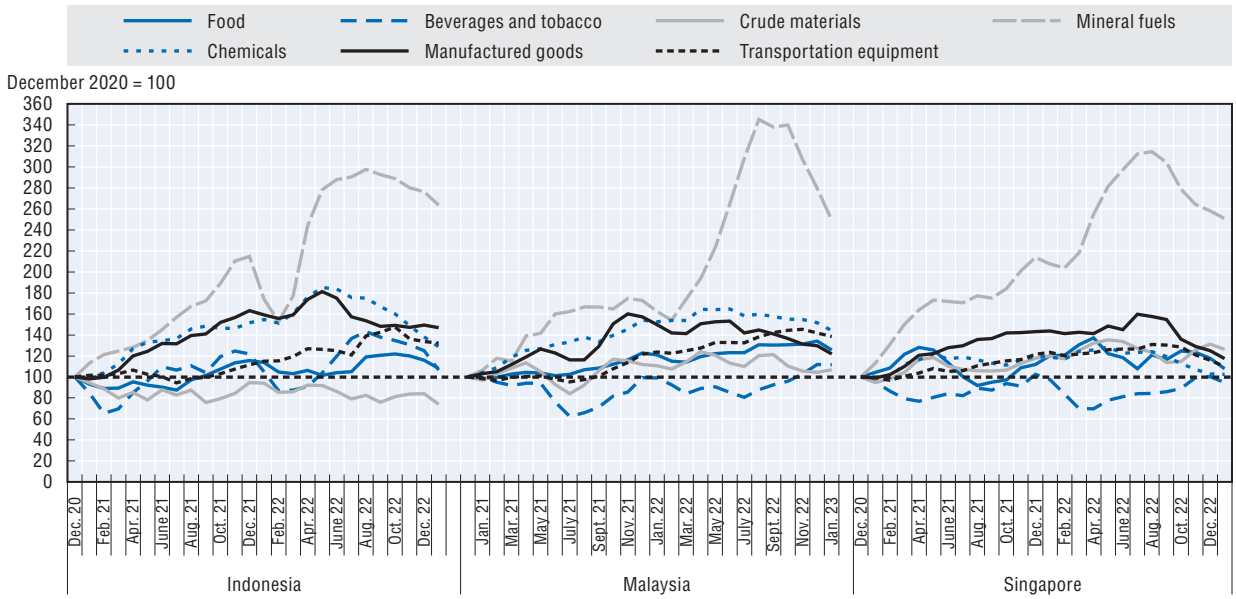
Box 1.2. **ASEAN's exports show increasing diversification** *(cont.)*

The Herfindahl-Hirschman Index (HHI) is commonly used to measure export concentration or diversification. The index ranges from 0 to 1, with higher values indicating higher concentration and lower values indicating greater product diversification. The index shows that diversification of exports is increasing in the region (Villafuerte et al., 2018). Exports from ASEAN economies are highly diversified in both products and trading partners, with an HHI of 0.027 and 0.08, respectively, over the period 1995-2019 (Hong, 2021). The pattern shows that export diversification in ASEAN has been continuous over the last couple of decades (Noureen and Mahmood, 2016; Villafuerte et al. (2018), although the pace varies. Malaysia, Indonesia and Thailand have shown consistently higher degrees of export diversification in products and trading partners since 1995. In contrast, Brunei Darussalam, Cambodia, Lao PDR, Philippines and Viet Nam have only recently started export diversification, with increasing participation in regional value chains (Villafuerte et al., 2018). The changing composition of both gross and value-added exports confirms export diversification, with most economies experiencing shifts in the ranking of top industries and their export share (Villafuerte et al., 2018). In Thailand, for example, machinery and transport equipment represented the top share of exports in 2016, having risen from fourth place in 2000, with electric and electronic products slipping to second. Analysis of the determinants suggests that foreign direct investment, domestic investment, competitiveness, real depreciation of domestic currency, financial sector development and institutional strength are significantly and positively related to export product diversification (Noureen and Mahmood, 2016).

Strengthened inter-regional trade ties and diversification of export products and partners have increased the robustness and resilience of ASEAN's exports and supply chains, even amid all the uncertainties that have characterised the global economy in recent years (Floristella and Chen, 2022).

Figure 1.34. **Exports of goods by selected ASEAN economies, January 2021 to January 2023**

December 2020 = 100, 3-month moving average



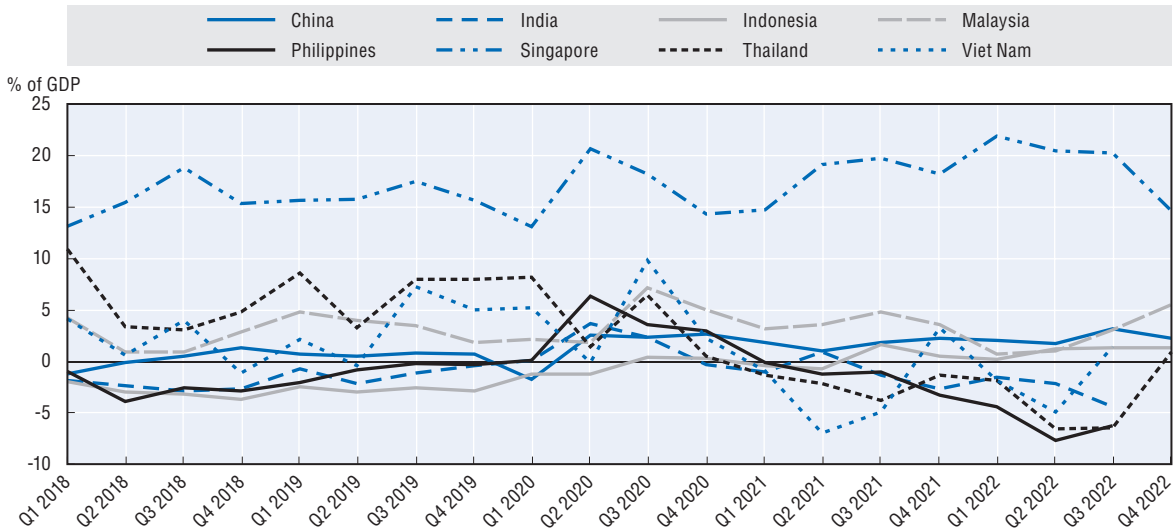
Note: Latest data as of 17 March 2023.

Source: Authors' calculations, based on data from CEIC and national sources.

StatLink https://stat.link/tp4kbf

Figure 1.35. **Current account balances of Southeast Asia, China and India, Q1 2018 to Q4 2022**

Percentage of GDP



Note: Latest data as of 17 March 2023.

Source: Data from CEIC and national sources.

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The current account balances (CABs) of Emerging Asian economies as a proportion of GDP have mostly deteriorated after the pandemic (Figure 1.35). Although exports remained strong across most of Emerging Asia, services income accounts continued to suffer from pandemic-related restrictions. This particularly affected countries that are reliant on tourism. On a positive note, the reopening of China and an expected increase in its outbound tourism will generate sufficient recovery in services income accounts to improve CABs in the region overall.

China ending zero-COVID policy will have a major impact on the region

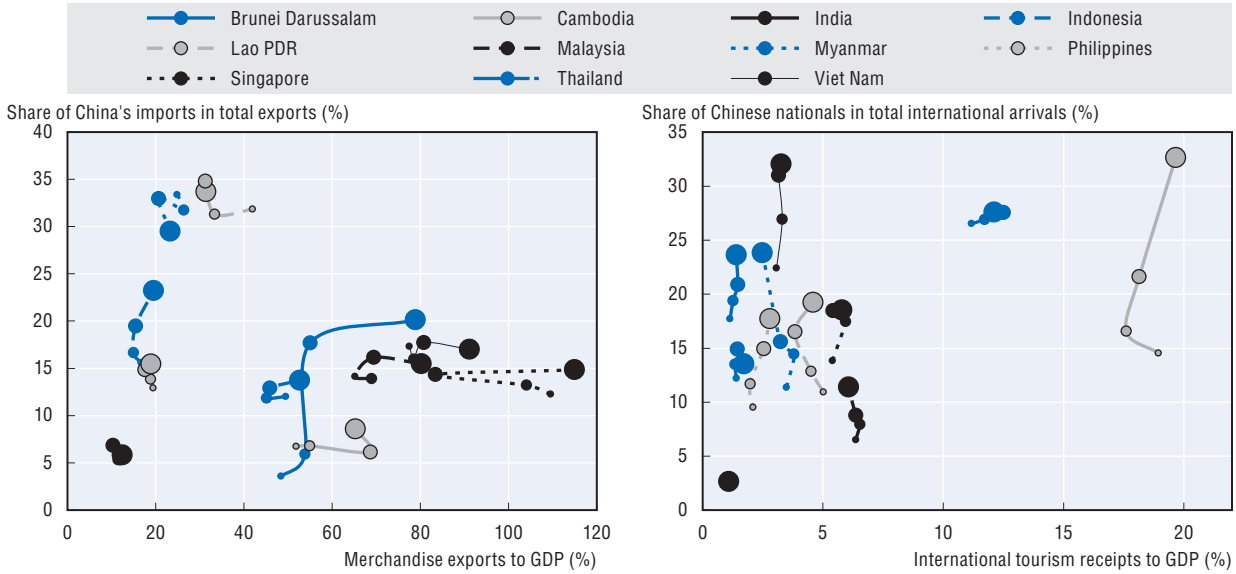
China is a major trading partner for most of Southeast Asia as well as the largest consumer of various commodities globally. Accordingly, its decision to abandon its zero-COVID policy has important ramifications for other economies in the region. Furceri, Jalles and Zdzienicka (2017) show that the economic impact of a slowdown in China on other economies has increased significantly since the beginning of the 2000s, and that a 1% negative shock to China's GDP has a 0.2% spillover effect to other economies, with the effect more pronounced for neighbouring Asian economies.

In terms of trade, Lao PDR and Myanmar have the region's highest export dependence on China, with total merchandise exports between 2018 and 2021 averaging 32.9% and 31.9%, respectively (Figure 1.36). The share of exports from Indonesia and Brunei Darussalam to China has risen steadily over time and stands at 23.2% and 20.1%, respectively, leaving these economies set to benefit from China's reopening.

As for tourism, the removal of China's zero-COVID policy should boost Chinese tourist arrivals in the region. Prior to implementation of the policy, China was the primary source of tourists for many Southeast Asian countries, which suffered a sharp drop in tourism during

the pandemic. According to the World Tourism Organization, international tourist arrivals to Southeast Asia were 85% lower from January through July 2022 than over the same span in 2019, though the figures improved steadily each month.

Figure 1.36. **Dependence of selected Asian countries' merchandise exports (2018-21) and international tourism receipts (2015-18) on China**



Note: Bubble size indicates the year of observation; larger bubbles indicate more recent data.

Source: Authors' calculations based on the data of the IMF, WB and National Sources.

StatLink https://stat.link/6ixbo5

International tourism revenues constitute a significant part of the GDP of Cambodia and Thailand. Accordingly, travel restrictions were especially damaging for these countries and contributed to the worsening of their current account balances. A smooth reopening of Chinese borders will revitalise tourism activity and buttress these economies against the adverse effects of the ongoing global slowdown. In contrast, India stands to benefit somewhat less than Southeast Asian countries due to lower ratios of merchandise exports and tourism receipts to GDP and the lesser role China plays in them.

The reopening of China's borders may bolster outbound capital flows

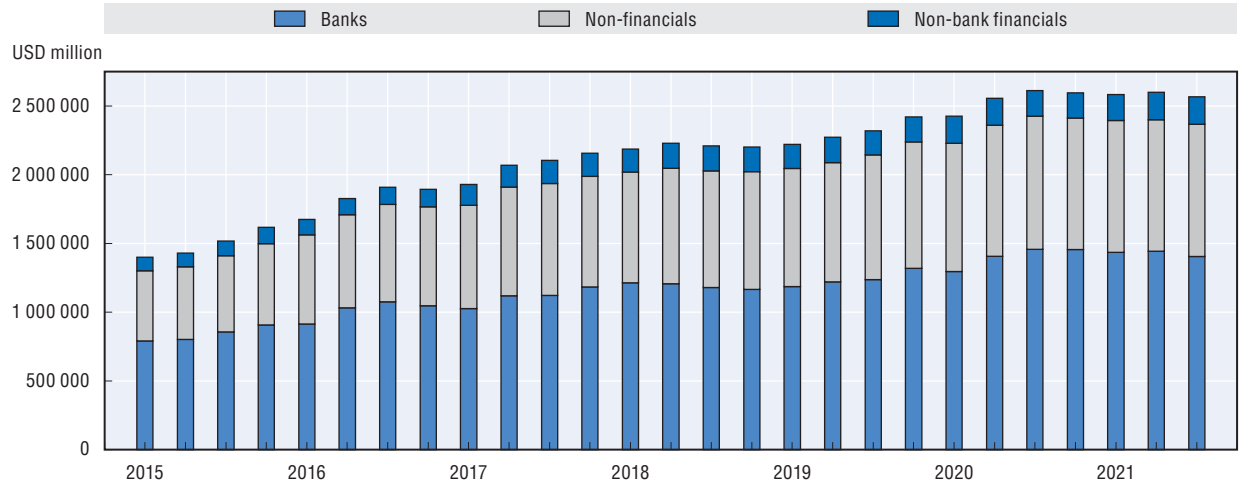
Cross-border banking flows from China have become an important source of funding, especially for developing and emerging economies globally. Between December 2015 and June 2022, international claims of the reporting Chinese banks rose by 83.3%, to USD 2.57 trillion. Most of these funds are borrowed by other financial institutions and intermediated to corporates and households locally (Figure 1.37). Cerutti, Pradhan and Casanova (2021) report that the share of Chinese banks in cross-border borrowing increased in the second quarter of 2021 from less than 32% to about 38% for borrowers from the Asia-Pacific region.

Countries that are more dependent on bank flows and that have a current account deficit should benefit from China's abandonment of its zero-COVID policy. Net capital flows categorised as "other investment flows" (mostly in the form of banking flows) to Cambodia,

Thailand and Viet Nam surged rapidly after the COVID-19 pandemic began, concurrently with net banking outflows from China (Figure 1.38). In the case of Cambodia, its current account deficit-to-GDP ratio reached an unprecedented level of 45.8% at the end of 2021. China's reopening should reverse this trend and stave off the economic risk posed by a high current account deficit and persistent capital outflows.

Figure 1.37. **Outstanding cross-border claims of Chinese banks, 2015-21**

USD million



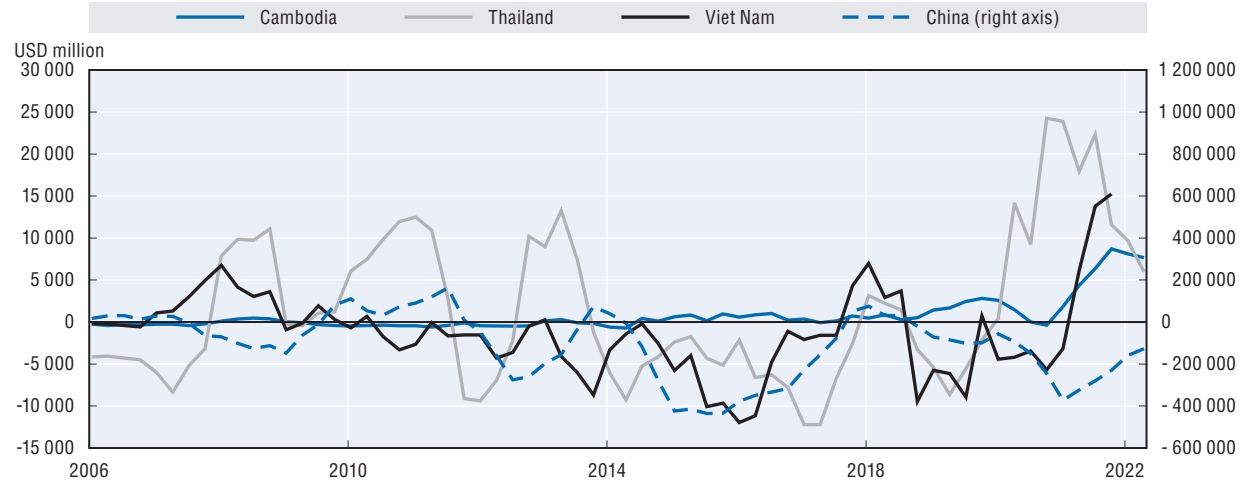
Note: BIS data represents the claims of only the banking offices located in reporting countries and controlled by parents of the specified nationality.

Source: BIS Locational banking statistics (by nationality).

StatLink https://stat.link/4oqk20

Figure 1.38. **Net other investment flows for Cambodia, Thailand, Viet Nam and China**

Rolling 12-month sum, USD million



Note: The data are as of 17 March 2023.

Source: IMF.

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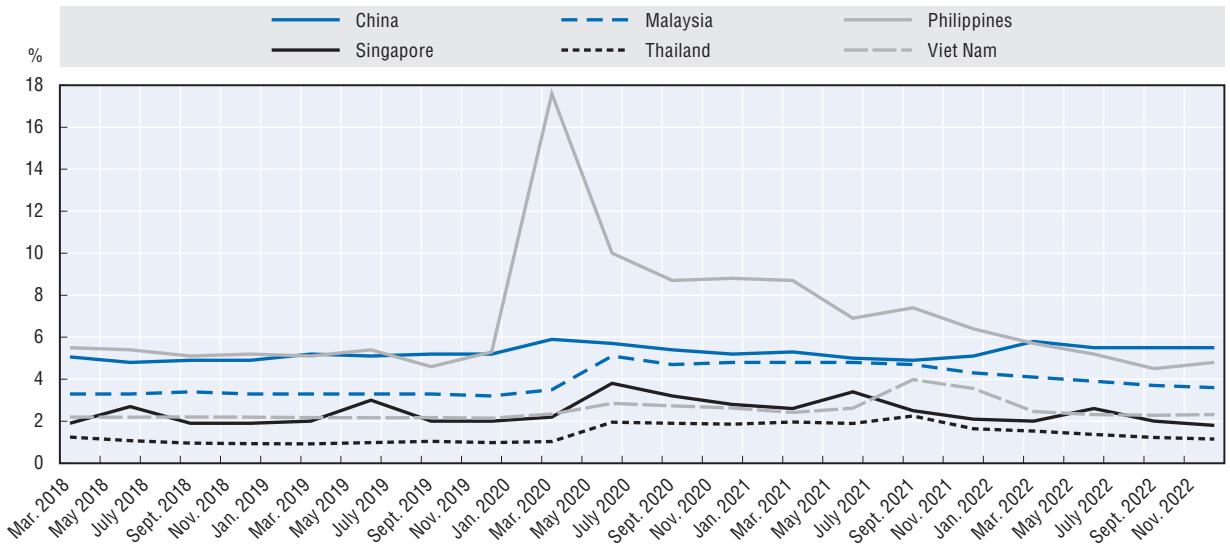
Employment picks up in Emerging Asia, but has not fully recovered

Labour markets in Emerging Asia are recovering from the pandemic, but now face new challenges like supply-side shocks resulting from the war in Ukraine and the ensuing consumer price inflation. The region's labour market is not fully recovered yet.

In 2022, employment in Emerging Asia was 2% above the pre-pandemic level of 2019, recovering from the loss of more than 57 million jobs in 2020 (ILO, 2022a). However, the recovery is still not complete. It is estimated that region lacked 22 million jobs in 2022, a job gap of 1.1% compared to a scenario in which the pandemic had not occurred (ILO, 2022a). Total working hours in the region remained below the pre-pandemic level in 2019, while the regional unemployment rate in 2022 was 5.2%, an increase of 0.5% from 2019. By the end of 2022, all Emerging Asian countries had recouped the employment losses of 2020 and in most cases experienced growth in employment compared to 2019 (Figure 1.39).

Figure 1.39. **Unemployment rate, Q1 2018 to Q4 2022**

Percentage



Note: Latest data as of 17 March 2023.

Source: Data from CEIC.

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The Philippines saw one of the highest increases in unemployment, with a sharp rise to 17.6% in the first quarter of 2020, as many employers fired staff for fear of collapsing demand, though in the third quarter of 2022, the country brought unemployment down to 4.5% below the rate prior to the pandemic. Thailand, Singapore and Viet Nam registered the lowest unemployment rate in the region at 1.2%, 2% and 2.3% in the third quarter of 2022, respectively.

Across the region, the services sector continued to register growth in employment in 2022 owing to the relaxation of pandemic-related restrictions, particularly retail trade, food and beverage services, and information and communication activities. Manufacturing received an influx of foreign investment in several countries, while the construction and agricultural sectors also added a significant number of employees across the region over the course of 2022.

Challenges to robust growth

Emerging Asian economies have shown resilience in the face of the COVID-19 pandemic, geopolitical tensions and global economic uncertainty. However, the region still faces risks that could negatively impact their economic growth and stability, such as inflation, supply-chain disruptions and the global economic slowdown. Policy makers must address these challenges to promote sustainable and inclusive economic growth in the region.

This section will discuss 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 via adaptations and enhanced flexibility.

Inflationary pressures in Emerging Asia[1]

Inflationary pressures are currently a worldwide phenomenon. Inflation has been driven by the response to the COVID-19 pandemic, and the war in Ukraine. The current episode features several unique characteristics for Emerging Asia, such as its origin from the supply side – most prior episodes in the region, including during the Asian Financial Crisis, originated on the demand side – and its effects on both headline and core inflation (for an in-depth discussion of inflation in Emerging Asia, see Chapter 2).

Although inflation is persistent and rising in some countries, it remains lower in Emerging Asia than elsewhere, partly due to policy reactions such as subsidies; cuts to taxes, tariffs and duties; price caps; and export controls. Price controls and export restrictions are the more disruptive manoeuvres. India has placed an export cap on sugar and export bans on wheat and broken rice. Indonesia placed an export ban on palm oil and Malaysia on poultry. They should be used in as narrow a scope and for as short a time as possible.

The current inflationary episode has been exceptionally persistent. As the episode progresses, there is a risk of persistent inflation becoming a permanent feature of some Emerging Asian economies as inflation expectations shift. This is worsened by the broad nature of this episode. While it was initially confined primarily to food and fuel, increases in consumer price subindices are distributed more evenly. This shift may alter inflation expectations, damaging consumer sentiment and encouraging people with access to household credit to advance durable goods purchases while inflation outstrips interest rates (Ehrmann, Pfajfar and Santoro, 2017). There is also the risk of wage-price spirals developing. When nominal salaries must rise sharply to maintain real incomes, this increases the input cost of labour, which is passed through into prices, generating a spiral. This adds some urgency to the need to resolve the episode despite its relatively low magnitude.

This inflationary episode has also spurred capital flow volatility. Outward capital flows drive currency depreciation, which amplifies the effects of inflation. As of August 2022, the

currencies of India, Malaysia, the Philippines and Thailand had depreciated by 7-11% against the US dollar relative to December 2021. The weakening of the currency moderated at the beginning of 2023, though the trend needs to be carefully monitored (A detailed discussion of the mechanisms of exchange rate pass-through can be found in Chapter 2.). A balance must be struck between controlling inflation and allowing economic recovery to flourish. Policy makers must also implement appropriate macroprudential measures to prevent excessive credit growth while not stifling economic recovery. With inflation coming from the supply side, any manoeuvres that restrict supply may have an effect opposite to what was intended. Furthermore, monetary policy transmission is weak in highly dollarised economies, like Cambodia and Lao PDR. Therefore, subsidies for critical goods, such as staple foods, may be a more prudent policy choice, though fiscal space must be monitored carefully. Moreover, the inflationary episode has the potential to cause undesirable secondary effects such as food security concerns and increased capital flow volatility.

The war in Ukraine has pushed up food prices both directly and through increases in the cost of key inputs, though Emerging Asia is primarily affected through the latter channel. The economies most at risk are those where a higher proportion of typical household consumption is allocated to food and those that rely heavily on imported food products. Trade is limited between most Southeast Asian countries and Russia or Ukraine. The share for most is under 2%, and most of those imports originate from Russia. Indonesia and Thailand are more exposed to risk from disruptions of food grain supply than other Emerging Asian economies.

Slowing global economic growth and weaker external demand

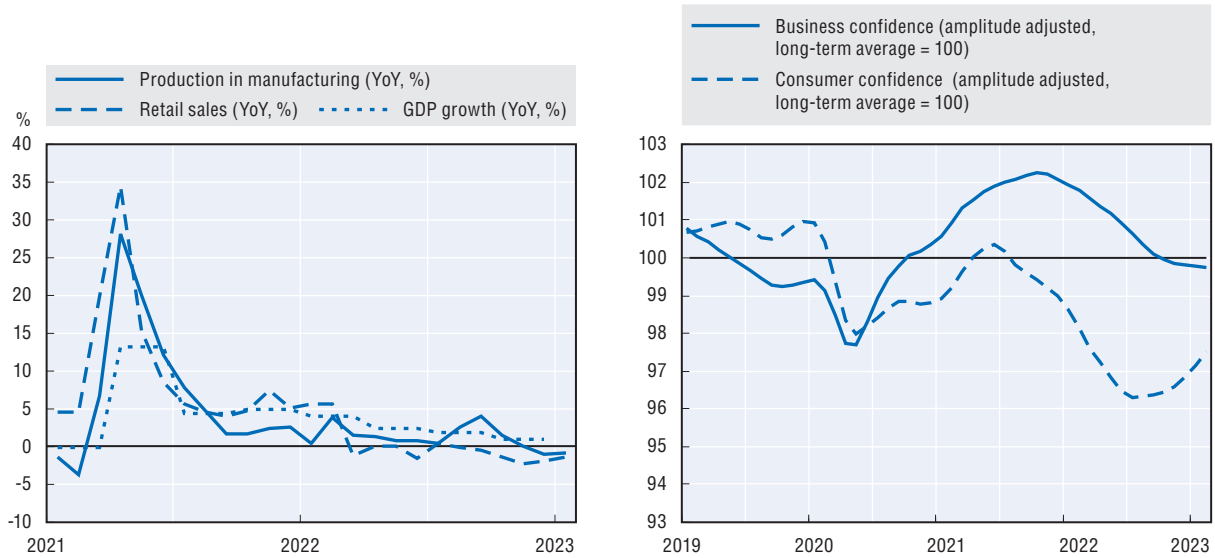
The global economy has decelerated markedly because of interest rate hikes by major central banks and tightening global financial conditions. Faced with the challenge of containing inflationary pressures and avoiding wage-price spirals, central banks may become reluctant to bring down policy rates, keeping them elevated longer than expected.

Against this backdrop, consumer confidence has dropped well below its long-term average, to levels lower than those seen after the onset of the pandemic, and retail sales began falling from the second quarter of 2022 in large economies (Figure 1.40). A corresponding drop in business confidence and output growth ensued.

Global economic growth will remain below its historical trend, though some countries will experience more improvement (OECD, 2023). For the United States, growth is expected to be below potential in both 2023 and 2024, as monetary policy moderates demand pressures. While average annual growth is projected to fall both this year and next, quarter-on-quarter growth rates are expected to bottom out in the latter half of 2023 and improve thereafter. US core inflation is projected to average around 4% in 2023 and 2.5% in 2024, progressing closer to 2% throughout 2024. Even as goods inflation has moderated in 2022, services inflation remains on the rise. However, headline and core inflation are both expected to decline in 2023 and 2024.

The euro area will experience slow growth in 2023, but the benefits of lower energy prices and declining inflation should help growth momentum to gradually improve. In contrast to the United States, core inflation remains persistent in the euro area even as headline inflation falls and is projected to peak in 2023. It is projected to decline in 2024 to below 2022 levels. Similarly, goods inflation has declined, though to a lesser degree than in the United States, but services inflation is still rising.

Figure 1.40. **Economic indicators of G7 countries, 2021-23**



Source: OECD 17 March 2023.
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Japan, which will have no change in policy rates, is projected to grow 1.0-1.5% during 2023 and 2024. While headline inflation and goods inflation are falling in the United States and euro area, inflation will gradually increase in Japan. Headline inflation in Japan is projected to hold steady in 2023 at 2.5% before declining to 1.8% in 2024. Core inflation is projected to grow from 0.3% in 2022 to 1.7% in 2023, before remaining there in 2024.

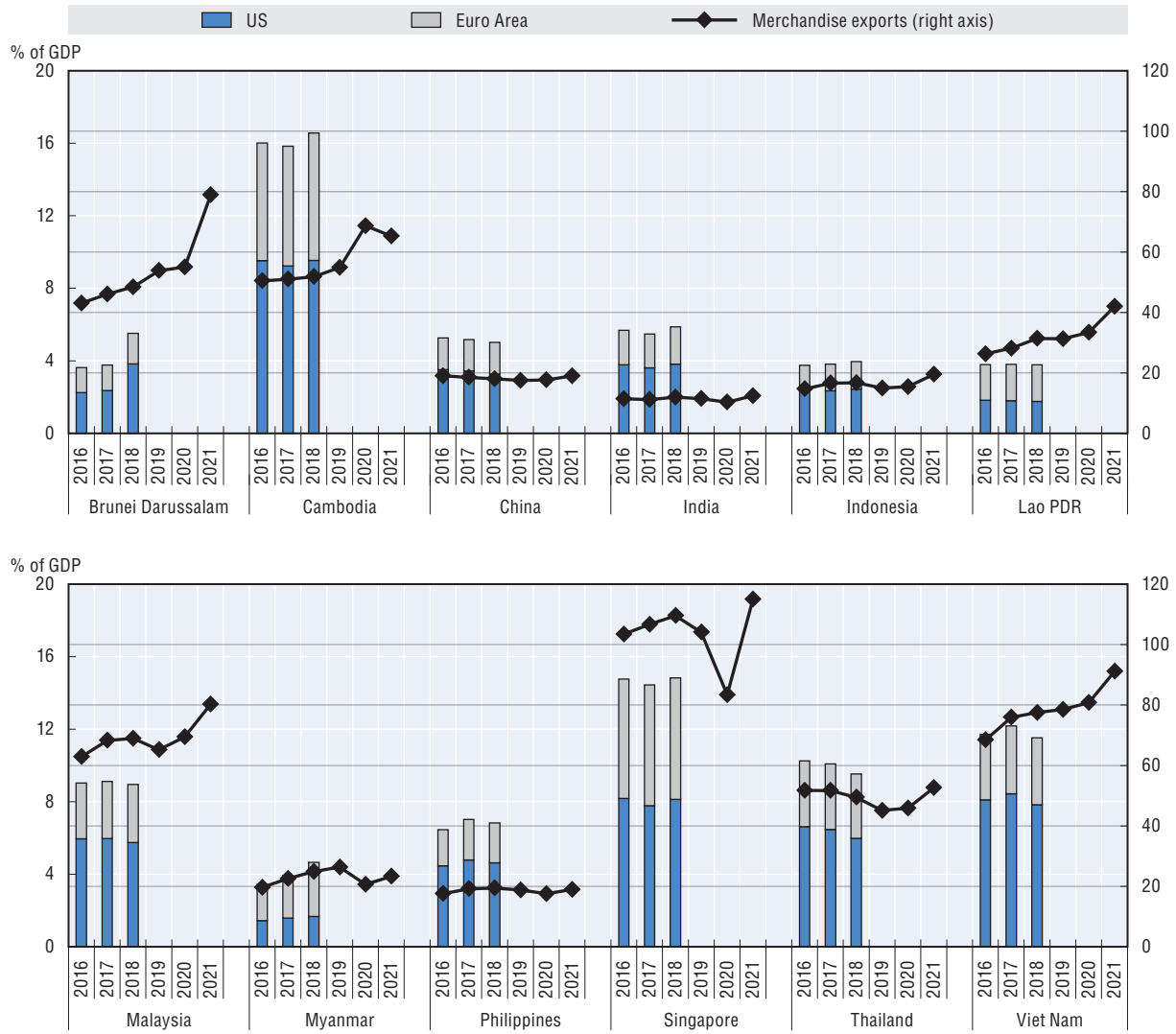
Nevertheless, the downturn in the global economy and associated weaker external demand pose risks for the economies of Emerging Asia, although the impact varies according to the openness of each country. Declining real wages coupled with soaring food and energy prices not only undermine the purchasing power of consumers globally but also induce a reduction in discretionary spending to compensate for the rising cost of essential goods and services. The impact of the global slowdown on countries of the region will thus be uneven and depend on the composition of exported goods and services. The ramifications of weaker global demand are generally felt more severely in economies with a larger export share in total demand, and especially in countries where exports rely heavily on discretionary goods, such as apparel and footwear, along with international tourism activity.

While exposure to the global slowdown varies, exports from the region are softening

The degree of openness varies significantly among the region's economies. In Singapore, Brunei Darussalam, Cambodia, Malaysia, Thailand and Viet Nam, total exports exceed 50% of GDP. This makes these economies more susceptible to the negative effects of lower external demand. Apart from Brunei Darussalam, domestic production in these countries also has larger exposure to final demand from the United States and the euro area for imported goods (Figure 1.41).

The composition of exports in each economy also matters when evaluating the effects of the global slowdown (Figure 1.42 and Figure 1.43). Indonesia stands out as relatively resilient, with a diversified export structure, a relatively low level of export exposure and a noticeable export share of energy and food products.

Figure 1.41. **US and euro area final demand in domestic value added and total merchandise exports**



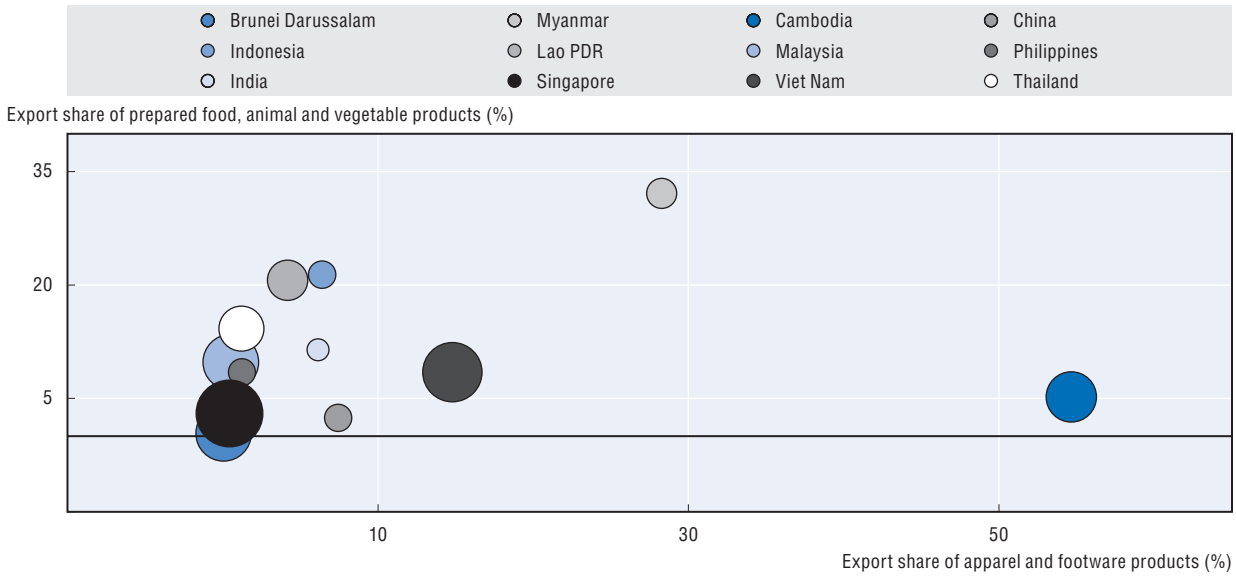
Source: Authors' calculation based on OECD, IMF and WB data.
StatLink https://stat.link/9nk3mi

Cambodia and Viet Nam, two ASEAN economies that are highly reliant on international trade, particularly the export of garments and footwear products, have been hurt by the global slowdown and the burden of inflationary pressures on households (Vu, 2022). Garments, textiles and footwear account for 72% of manufacturing employment in Cambodia and 42% in Viet Nam (ILO, 2022b), while apparel and footwear made up about 65% of Cambodia's merchandise exports in 2021. Major retailers in developed economies piled up huge inventories amid supply-chain problems during the pandemic. Now they are struggling to cut back stocks in the face of a downturn in retail spending, which further deteriorates demand for clothing exports. A further deceleration in sales would substantially increase the unemployment rate in these economies.

Considering Cambodia's high dependence on exports from these sectors, the country's historically wide current account deficit could remain high. Cambodia's current account

balance took a major hit when foreign tourism was prevented during the pandemic. Sustaining a large current account deficit for a long period in the current global financial environment poses a risk of costly macroeconomic adjustment for the country. Integrated circuits, semiconductors and electronic products constitute a large portion of total cross-border sales for China, Malaysia, Philippines, Singapore, Viet Nam and Thailand. They face the risk that the global economic slowdown could cut into demand for items like personal computers and smart phones, creating headwind for regional chip manufacturers. Furthermore, the United States and Europe are investing to boost semiconductor production because of supply-chain disruptions and associated chip shortages, and this creates longer-term headwinds for chipmakers in the region.

Figure 1.42. **Export share of selected categories of products in total exports, 2021**



Note: Bubble size represents total merchandise exports as a share of GDP.

Source: Authors' calculation based on Comtrade and IMF data.

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Ramifications of the slowdown in external demand are starting to be felt in Emerging Asia's monthly export figures. The value of total monthly exports from China, the Philippines, Thailand and Viet Nam declined on a year-on-year basis in December 2022. In contrast, Indonesia's exports continued to grow to the end of 2022, benefiting from higher prices of and robust demand for energy and food.

Revived tourism from China will help offset the global downturn

The adverse effects of the global downturn will also impact tourism revenues in Emerging Asia. International arrivals have been recovering swiftly since the second quarter of 2022, and by the end of the year had reached more than 50% of levels seen in the same months of 2019 for most of the region's economies (Figure 1.44, Panel A). Travel restrictions associated with China's zero-COVID policy restrained the recovery in Southeast Asia compared to popular tourism destinations in other regions and hurt economic growth and capital account balances. The global economic slowdown could hinder the revival of tourism by limiting both the number of arrivals and average spending per visitor.

Figure 1.43. **Heatmap for export share of harmonised international trade categories in total exports, 2021**

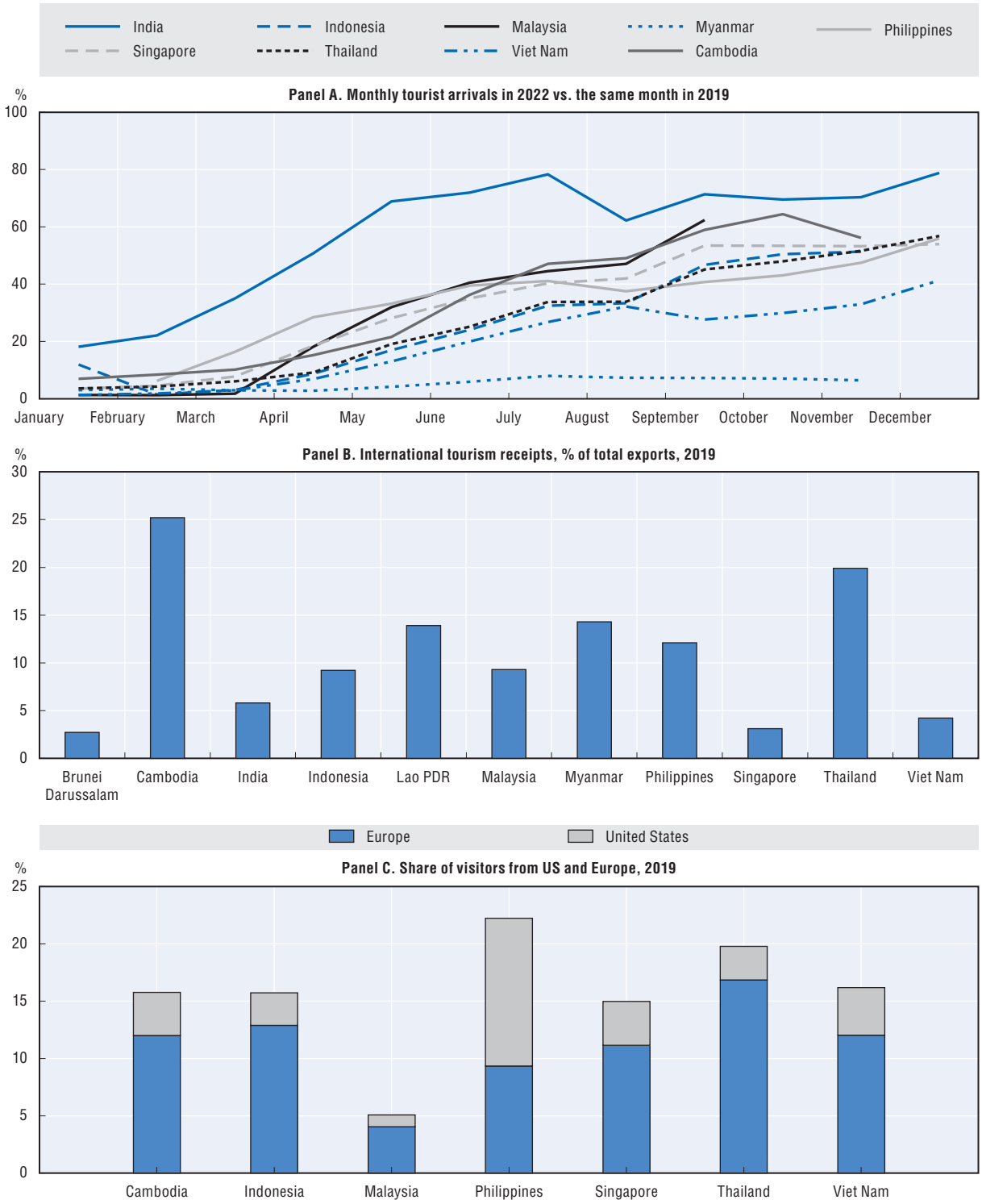
Note: Categories are determined by the HS codes according to the HS Nomenclature 2017 Edition of the World Customs Organisation (https://www.wcoomd.org/en/topics/nomenclature/instrument-and-tools/hs-nomenclature-2017-edition/hs-nomenclature-2017-edition.aspx). Grey is used to indicate higher levels of export share with darker tones highlighting stronger intensity, while blue denotes lower export share levels where darker shades emphasise weaker export exposure.

Source: Authors' calculation based on Comtrade and IMF data.

StatLink https://stat.link/vmcwb7

Figure 1.44. **International tourism flows to Emerging Asia**

Percentage



Note: Panel B: Data for Thailand excludes overseas Thai nationals.

Source: Data from CEIC and World Bank.

StatLink https://stat.link/qj67sv

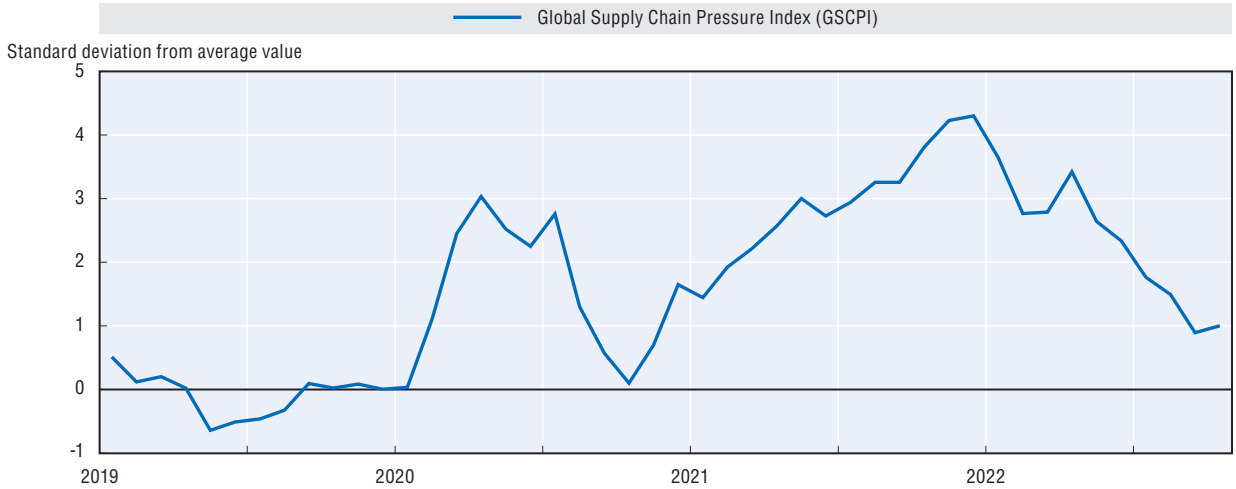
The overall impact of softening demand depends on the reliance of each economy on tourism receipts. In Cambodia and Thailand, where tourism revenues play a prominent role in the economy, the share of international tourism revenues stood at 25.2% and 19.9% of total exports at the end of 2019 (Figure 1.44, Panel B). This makes these economies more vulnerable to the global economic downturn and associated swings in international travel activity. In terms of the composition of visitors, more than 15% of travellers to most Emerging Asian countries originated either from the United States or Europe (Figure 1.44, Panel C). However, a great majority of tourists to Malaysia came from other Asian countries.

Although Southeast Asian economies have different levels of exposure to developments in the global economy, the ramifications of a protracted economic slowdown would be noticeable throughout the region. Cambodia's high reliance on international tourism revenues makes it more vulnerable than other economies to the adverse effects of external shocks. However, a smooth reopening of the Chinese economy would help to offset possible negative effects of the global slowdown.

Supply-chain problems persist in the region

Disruptions in the supply of goods continue to affect economic growth and exacerbate the inflationary pressures around the world. The supply-side bottlenecks were initially propelled by the COVID-19 pandemic response at the start of 2020 and resumed following the escalation of war in Ukraine, The Federal Reserve Bank of New York's Global Supply Chain Pressure Index, which gauges the degree of supply-side difficulties globally, shows that supply constraints remain elevated, at one standard deviation higher than the average and well above the levels seen before the pandemic, although they have receded considerably from the peak in October 2021 (Figure 1.45).

Figure 1.45. **Global Supply Chain Pressure Index (GSCPI), 2019-22**



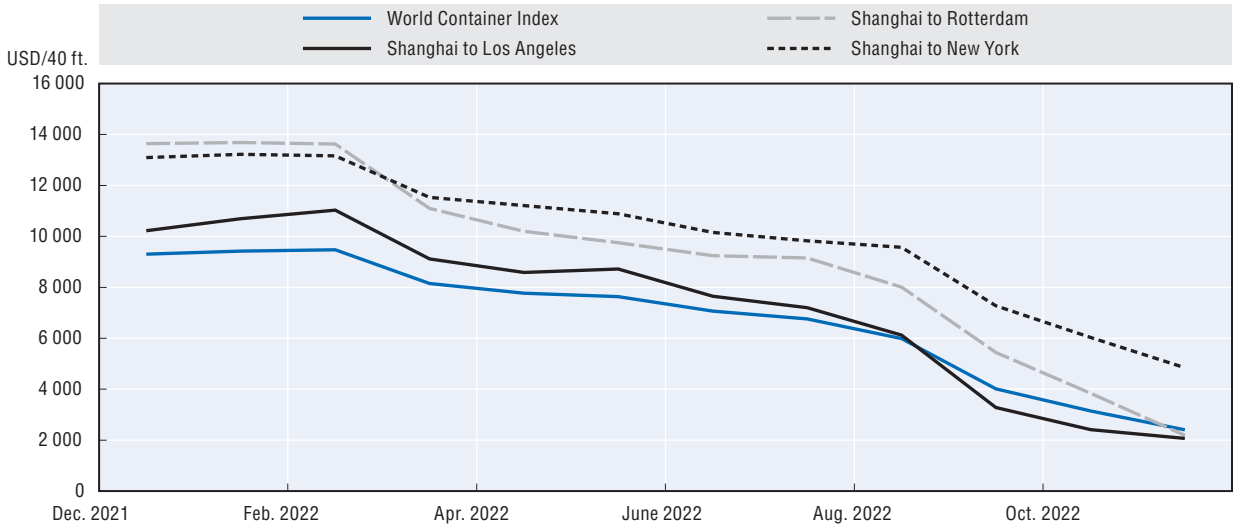
Source: New York FED.
StatLink https://stat.link/7hdpci

Supply-side bottlenecks have arisen from the series of supply and demand shocks linked to the pandemic and the war in Ukraine. The intensity and extent of each shock follows a distinct path.

Port closures stemming from pandemic-related restrictions and accompanying delays in shipments had been a major impediment to the flow of international trade. This contributed to imbalances between supply and demand of goods, as did soaring freight costs. Container freight costs declined significantly in the second half of 2022 because of the improving post-pandemic performance of seaborne trade traffic in many countries and due to softening consumer demand following declines in real wages and tightening monetary conditions. The World Container Index of Drewry Supply Chain Advisors points to a 76.9% annual decrease in the cost of container rates as of 9 December 2022 compared to the same period of the previous year, with the Shanghai-to-Rotterdam and Shanghai-to-Los Angeles routes recording drops of 87.6% and 80.3% in container costs, respectively (Figure 1.46).

Figure 1.46. **Container freight rates**

USD/40 ft.



Source: Drewry Supply Chain Advisors.
StatLink https://stat.link/au1bh2

Labour supply challenges

The pandemic caused major dislocations in the labour market through widescale lay-offs in contact-intensive sectors and depressed mobility due to travel restrictions. Migrant workers were severely affected by lockdowns, and many returned to their home countries in Asia (Baruah, Nair and Chaloff, 2021), while some older employees facing health-related risks chose to retire early. Employee preferences regarding their working environment and conditions also changed during the pandemic, leading to a wave of resignations in many OECD countries (Causa et al., 2022). These factors have jointly contributed to potential labour supply problems in the post-pandemic period.

Shortages in labour supply have also disrupted manufacturing, agriculture, construction and service sectors in the region, curbing economic recovery after the pandemic. For instance, palm oil production stagnated in Malaysia because of insufficient labour supply during the harvest season (Chu, 2022). Lack of experienced workers in tourism and hospitality may also inhibit the recovery of economic activity during the revival of both domestic and international travel.

High inflation is another issue for the labour market, as it leads to a surge in demand for higher salaries by employees facing higher costs of living. According to Mercer's Total Remuneration Survey 2022, projected average wage inflation for 2023 is higher than in 2022 in all surveyed countries in Emerging Asia other than China, and reaches 9.12% and 6.12% in India and Indonesia, respectively. Meanwhile, companies are also raising wages to cope with the shortfall in labour supply, even in countries with historically subdued wage inflation, such as Japan (Kajimoto, 2022).

Repercussions of the war in Ukraine continue to disrupt food and energy markets

The escalation of the war in Ukraine will have modest effects on investment and trade in Emerging Asia because of the region's limited exposure to both Russia and Ukraine. The two countries supplied only 2.6% of all imports to Emerging Asia, while only 1.6% of exports to Russia and Ukraine were from the region. Similarly, Emerging Asia's exposure through investment links is also limited, accounting for 5% of foreign direct investment in Russia. The largest impact for Asian countries will be through energy prices. Russia is the second-largest global exporter of oil, with a market share of 11%, and it is the fourth-largest global exporter of natural gas, with a market share of 9%.

The intensified conflict has also introduced new supply-chain bottlenecks, with interruptions in energy inputs to Europe, sanctions against Russia and logistical issues regarding Russian and Ukrainian exports. Global food and energy prices have seen sharp increases due to these disruptions, which have also affected certain raw materials.

The significant shares of Russia and Ukraine in global production of sunflower seeds, wheat and barley prompted immediate food security concerns and uncertainty regarding supplies of these critical commodities. Countries with higher import dependence on food products are more vulnerable to the negative spillovers of these shocks. Malaysia's dependence on imported cereals averaged 71.5% between 2017 and 2019, while dependence was also high in the Philippines (27.2%) and Indonesia (13.1%), according to FAO statistics (FAOSTAT, n.d.).

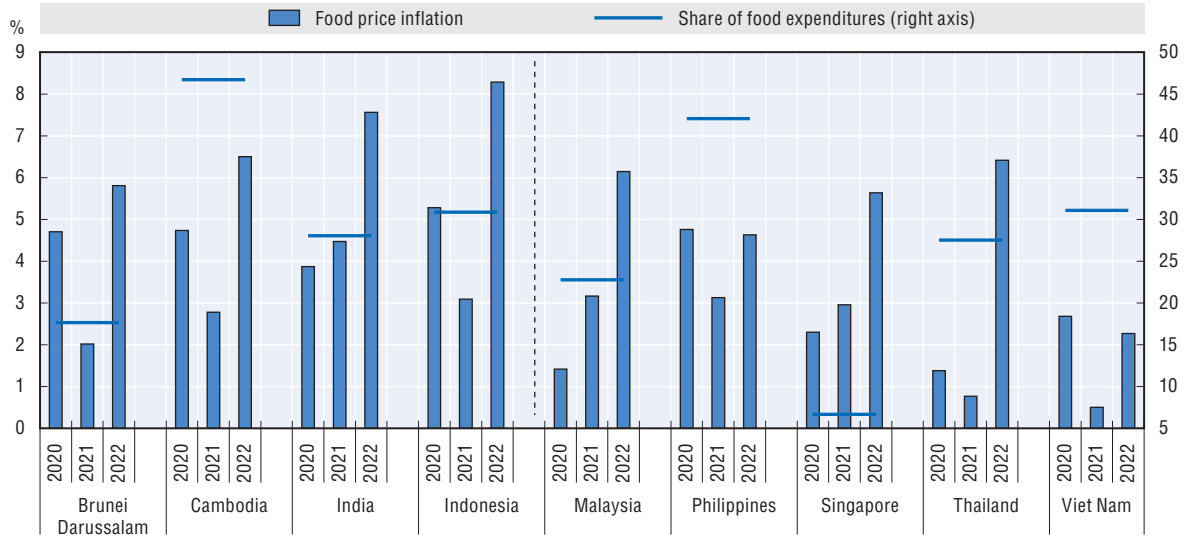
Russia is a prominent supplier of potash, an important input for fertilisers. In 2021, it was the top exporter of nitrogen fertilisers and ranked as the second and third largest exporter of potassium and phosphorous fertilisers, respectively (FAO, 2022). Disruptions due to the war in Ukraine led to an increase in input costs for farmers. Soaring fuel prices added to the logistics costs and to expenditures related to the maintenance of farmland. These factors put inflationary pressures on most agricultural products as well as causing protectionary responses, such as export bans.

Food price inflation rose in all Emerging Asian economies in the first half of 2022 compared to the year-end level of 2021. This severely worsened economic conditions for households, especially in emerging countries, where the share of food expenditures in total household budgets is significantly higher than in more advanced economies (Figure 1.47).

Higher fuel and fertiliser costs in conjunction with droughts and insufficient rainfall threaten to disturb long-lasting stability in the market for rice, a vital source of nutrition in Southeast Asia. Rice farmers may be compelled to rise prices to offset increasing costs (UN, 2022), while an export ban on broken rice imposed by India in September 2022 also poses a risk to the price of rice. These issues are discussed further in Chapter 2.

Figure 1.47. **Share of food expenditures in total expenditures and annual consumer inflation for food products**

Percentage



Note: Share of Food Expenditure in Total Expenditures is calculated from WB's International Comparison Program (ICP) 2017 survey. Food price inflation data are as of June 2022.

Source: FAO and WB.

StatLink https://stat.link/uw4qg7

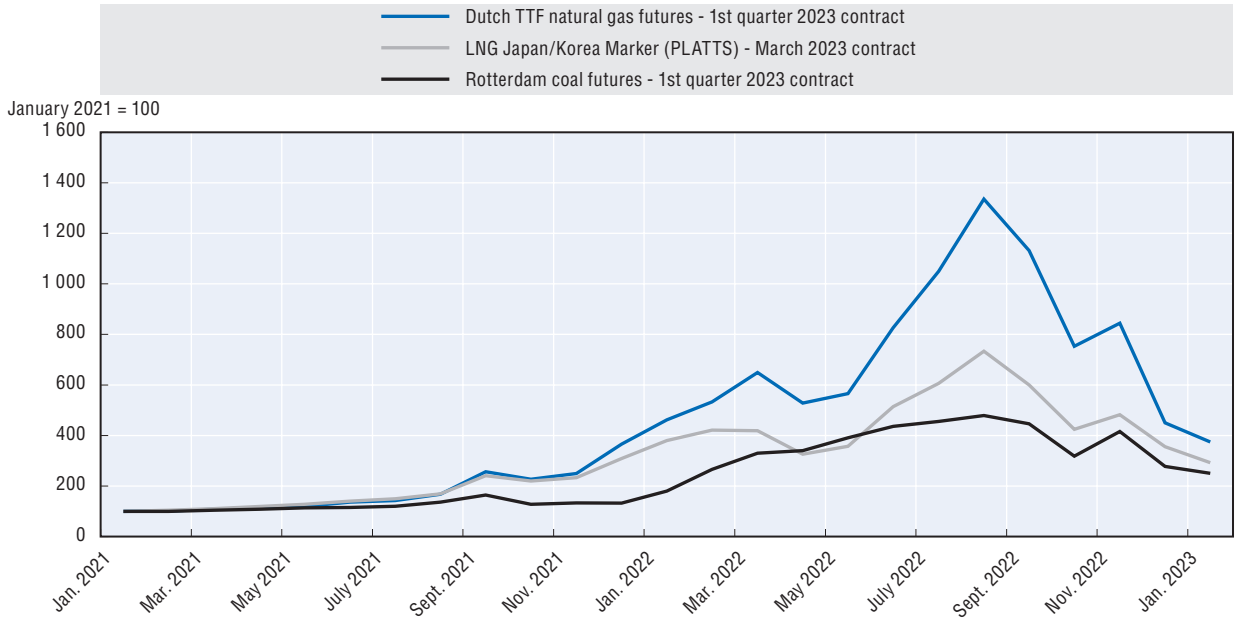
Food prices have been normalising, especially since the Black Sea Grain Initiative between Russia and Ukraine, which allows grain exports from Ukrainian ports. The risk of a prolonged war and further escalation of the conflict creates uncertainty for food prices and has caused governments to take precautionary action to ensure necessary food stocks in the event of disruptions.

Interruptions in the flow of natural gas to Europe and trade restrictions on Russian oil exports due to the war in Ukraine have also created supply-side shocks, paving the way for high volatility in energy markets. The costs of all energy inputs climbed at the escalation of the war, with coal consumption increasing in many regions.

Although crude oil prices eased recently in the global economic slowdown, possible oil supply cuts from Russia, coupled with increasing freight costs for Russian Urals oil, may limit the slide in oil prices. The cost of coal, meanwhile, remains well above the levels seen before the war's escalation (Figure 1.48).

Repercussions of the soaring energy prices are asymmetric, depending on each economy's net importer status. In Emerging Asia, the consequences are different for Indonesia, one of the largest producers of coal globally and a major natural gas provider in the region, than for net energy importing countries like China, India, the Philippines and Thailand. High natural gas and coal prices deteriorate the terms of trade for net energy importers. Thailand and the Philippines, with dependence on imported natural gas and coal, are more vulnerable to higher energy costs (Figure 1.49).

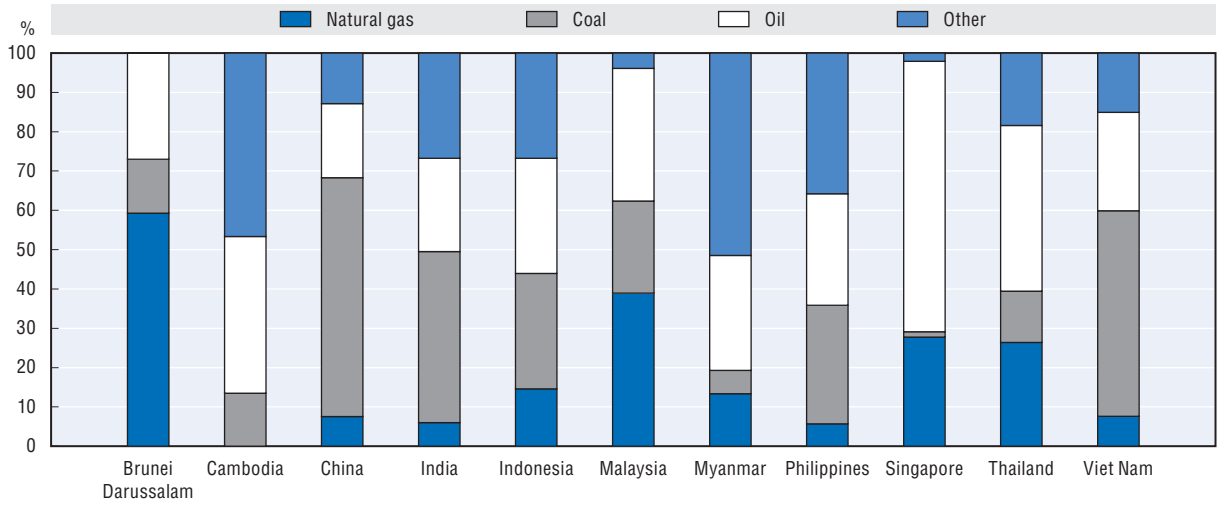
Figure 1.48. **LNG and coal future prices, January 2021-January 2023**



Source: ICE.

StatLink https://stat.link/x0zifj

Figure 1.49. **Total energy supply by source in Emerging Asia, 2020**



Source: IEA.

StatLink https://stat.link/9d0qu7

Restrictive interventions in international trade are on the rise

The rise of geopolitical tensions and bilateral disputes has made international trade more fragmented, with the conditions of trade changing substantially between countries and regions since 2018 and the imposition of measures that impede the free flow of goods and services. Supply-side bottlenecks and shortages of some goods linked to the pandemic and the war in Ukraine have brought the number of restrictive interventions to a level unprecedented since 2009.

Continuation of these restrictive policies in international trade can exacerbate the ongoing supply-chain disruptions while also lowering global productivity.

Bolstering the revival of tourism to drive growth[2]

With the lifting of most border restrictions imposed in response to the COVID-19 pandemic, tourism can revive. However, the tourism sector must still adjust to reach its full potential.

Countries that share borders dominate intra-ASEAN tourist flows, which can lead to large imbalances among Southeast Asian countries. More than 90% of Emerging Asian tourists inbound to Myanmar entered from China in 2019. More than 90% of Emerging Asian tourists inbound to Singapore entered from Malaysia in the same span. A single country accounted for 60-70% of tourists entering Cambodia, Lao PDR, Singapore and Viet Nam from Emerging Asia, with the source country and destination country sharing a land border in each case.

Developing stronger transportation links, especially low-cost airlines, could promote more intra-ASEAN tourism, especially to destinations that receive relatively few international travellers. This would also help certain Southeast Asian countries to diversify their tourist flows to become less reliant on any single country as a major tourist source. Low-cost carriers (LCCs) fly smaller aircraft, requiring less extensive airport infrastructure than full-service airlines. This allows them to offer direct flights to more destinations, including those that may be less popular. Investing in LCCs and the necessary infrastructure could thus be a key to developing a more desirable landscape of tourism demand (see Chapter 3).

The proliferation of border restrictions during the pandemic spurred countries to develop domestic tourism, and this should remain a priority. With programmes already in place, it is important to emphasise domestic tourism and to position it as a regular component of the tourism mix, rather than a short-term fix for border restrictions. Domestic tourism reduces dependency on international tourism, thereby reducing the risks of external shocks, and reduces the sector's carbon footprint by reducing air travel.

The response to the COVID-19 pandemic poses challenges in labour market. Many people left the sector permanently to seek employment, and those who remained risked experiencing skills deterioration. For example, tourism sector employment declined by about 40% in Brunei Darussalam and 30% in the Philippines from Q2 2020 through Q4 2020 relative to the same period in 2019 (ILO, 2022a). Malaysia raised the minimum wage by 25% in May 2022. (see Chapter 3).

At the same time, better formal training is needed to increase labour productivity, especially through language training and ICT use. Another challenge arises from the fact that many tourism businesses are MSMEs and that much labour in the sector is informal. MSMEs can struggle to access credit through traditional channels. These factors, combined with more demanding working conditions and lower wages, have made recruitment difficult.

Recovery in the tourism sector will also depend on adapting to shifting consumer demand for experiences such as local travel and rediscovery, rural and nature-based destinations, and health and wellness tourism. The skilful marketing endeavours to bolster domestic tourism during the pandemic may stimulate consumer demand for rediscovery of local attractions. A marked shift during the pandemic from a desire for things to a desire for

experiences led to a growing demand for tourism that is nature-based or in rural locations. These tourism environments allow for easier physical distancing for those still concerned about COVID-19. Proper crowd management and instruction on appropriate behaviour is required to preserve these tourism sites (see Chapters 3 and 4).

The sector's recovery could also be bolstered by the fact that the COVID-19 pandemic led many consumers to focus on personal health, which could boost interest in health and wellness tourism, a popular luxury segment of the tourism market. Attracting health and wellness tourists, as well as medical tourists, is particularly desirable as they are typically wealthier individuals who have the desire and the means to spend a longer time in a destination than others. However, service providers must be certified to meet hygiene standards as well as standards of competency in the services they are providing. This is a particular concern for authorities, as the niche nature of health and wellness tourism means that it may only take one high-profile failure to tarnish the reputation of this tourism segment for an entire destination or country.

Finally, authorities must work to prevent overtourism. Digital technology can be used to help manage tourism demand for attractions or areas and diversify the recipients of tourism revenues (see Chapter 4). Educating tourists on proper behaviour at attractions and working with local communities can also help to promote respect for local environments while distributing revenues more broadly. Training members of local communities in skills beyond goods sales, such as digital skills and business skills, allows them to diversify their provision of services to tourists while also equipping them with transferable skills that allow them to be less dependent on tourism flows. However, digital infrastructure and skills, and cybersecurity standards need to be improved. For an in-depth discussion of tourism in Emerging Asia, please see Chapters 3 and 4.

Conclusion

The economies of Emerging Asia have displayed resilience in the face of global uncertainty. They are expected to sustain the momentum that began with the easing of the COVID-19 pandemic and associated restrictions, and most are expected to demonstrate improved growth in 2023.

Financial markets exhibit resilience despite volatility and risks. The banking sector needs to be carefully monitored in the current high-inflation environment. The export sector provided vital support in 2021 and 2022, but the negative outlook for global demand is expected to weaken external demand. Tighter global credit conditions have affected Emerging Asian economies, resulting in a slowdown and temporary capital outflows from the region. However, China's abandonment of zero-COVID policy and reopening of its borders will serve to counterbalance many of these challenges and will provide a necessary economic boost for the region. Tourism-oriented economies are expected to especially benefit from the increase of tourists from China. FDI declined in 2022 but there are signs of recovery in 2023.

Emerging Asia's economic outlook for 2023 remains uncertain, as the region faces risks that could negatively impact their economic growth and stability, such as inflation, supply-chain disruptions and the global economic slowdown. Nevertheless, Emerging Asian economies are expected to continue demonstrating robust growth in 2023, with regional growth projected to be 5.3%.

Notes

1. This section is summarising key messages of an in-depth discussion of inflation in Emerging Asia in Chapter 2.
2. This section is summarising key messages of an in-depth discussion of tourism in Emerging Asia in Chapters 3 and 4.

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Chapter 2

Inflation in Emerging Asia: Characteristics, implications for food security, and effects on capital flows

Economies worldwide are facing multifaceted inflationary pressures – supply-side issues followed by a surge in demand for goods, increased freight costs stemming from the COVID-19 pandemic and global uncertainty, and disrupted food and energy markets due to Russia's invasion of Ukraine. This inflationary episode differs from previous episodes in Emerging Asia in various ways. The effects on fertiliser and food threaten food security, with particular concern caused by the current volatility in grain markets. The capital flow volatility and pass-through effects on local currencies are constraining household budgets. The multifaceted nature of this inflationary episode has required a variety of policy responses.

Introduction

Economies worldwide are facing multifaceted inflationary pressures: supply-side issues followed by a surge in demand for goods, increased freight costs stemming from the COVID-19 pandemic and global uncertainty, and disrupted food and energy markets due to Russia's invasion of Ukraine.

Inflationary pressures have not reached their current level since the oil market disruptions of the 1970s. It has led to a sharp increase in consumer prices, with average headline inflation for OECD countries jumping from approximately 1% at the end of 2020 to a peak above 10% in October 2022. The upswing in prices not only ended a persistent downward trend but also initiated a debate regarding a transition to a high-inflation environment where price changes across different sectors become more synchronised, pressuring central banks to tighten monetary policy further (De Fiore, Lombardi and Rees, 2022).

This inflationary episode differs from previous episodes in Emerging Asia in various ways. The effects on fertiliser and food threaten food security, with particular concern caused by the current volatility in grain markets. The capital flow volatility and pass-through effects on local currencies are constraining household budgets. The multifaceted nature of this episode has required a variety of policy responses and a delicate balancing act of taming inflation, supporting local currencies and ensuring that basic needs are met with price-control tools.

This chapter begins by reviewing the characteristics of current inflationary pressures in Emerging Asia, especially those distinct from previous inflationary episodes. It goes on to address the implications for food security and then explores the effects of these pressures on capital flows.

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 it is 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 various, 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 pessimism among households and feed wage-price spirals
- *pressures on currencies and pass-through effects*: monetary authorities in the region 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.

Current levels of inflation in Emerging Asia remain lower than in the rest of the world, partly because the region's economies are deploying various measures to control it: fiscal

measures, subsidies, price caps and export restrictions. This inflationary episode is being driven mainly by supply-side effects. Due to supply bottlenecks caused by exogenous factors such as the war in Ukraine and the scarring effects of the COVID-19 pandemic, this episode risks lasting far longer than others. It can be challenging to form inflation expectations in situations of high uncertainty.

Inflation is lower in Emerging Asia than elsewhere, though it is rising

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 currency depreciation being more contained. In Emerging Asian countries the annual growth of both overall consumer prices and core inflation (which excludes changes in food and energy prices) was lower than the OECD average (Table 2.1 and Box 2.1). However, consumer prices are increasing at a growing rate in some countries in the region.

Table 2.1. **Consumer price inflation and core inflation in the OECD and selected Southeast Asian economies, March 2023**

	Consumer price inflation (%)	Core inflation (%)
OECD average	9.2	7.2
ASEAN-5		
Indonesia	5.5	3.1
Malaysia	3.7	3.9
Philippines	8.6	7.8
Thailand	3.8	1.9
Viet Nam	4.3	4.9
Brunei Darussalam and Singapore		
Brunei Darussalam	1.5	-
Singapore	6.3	5.5
CLM countries		
Cambodia	2.9	2.6
Lao PDR	41.3	-
Myanmar	19.5	-
China and India		
China	1.0	0.6
India	6.4	6.1

Note: Data are the latest as of 29 March. Data for core inflation are unavailable for Brunei Darussalam. Data for core inflation unavailable for Lao PDR after December 2021. As for Myanmar, consumer price inflation data are available until July 2022 and data for core inflation are unavailable after April 2021.

Source: CEIC, OECD, and national sources.

Policies are shifting to combat prolonged high inflation

The risk associated with the duration of the shock is another distinct feature of the present upswing in inflation. Price spirals that began in mid-2021 are being kept alive by the effects of the war in Ukraine, which began in February 2022. This situation may persist in the coming years considering lingering supply bottlenecks, the war, the diffusion of inflationary pressures across sectors and the worsening expectations of households. Policy makers should account for these aspects when implementing monetary and fiscal policy measures to combat inflationary pressures.

Box 2.1. **Inflationary pressures in Lao PDR**

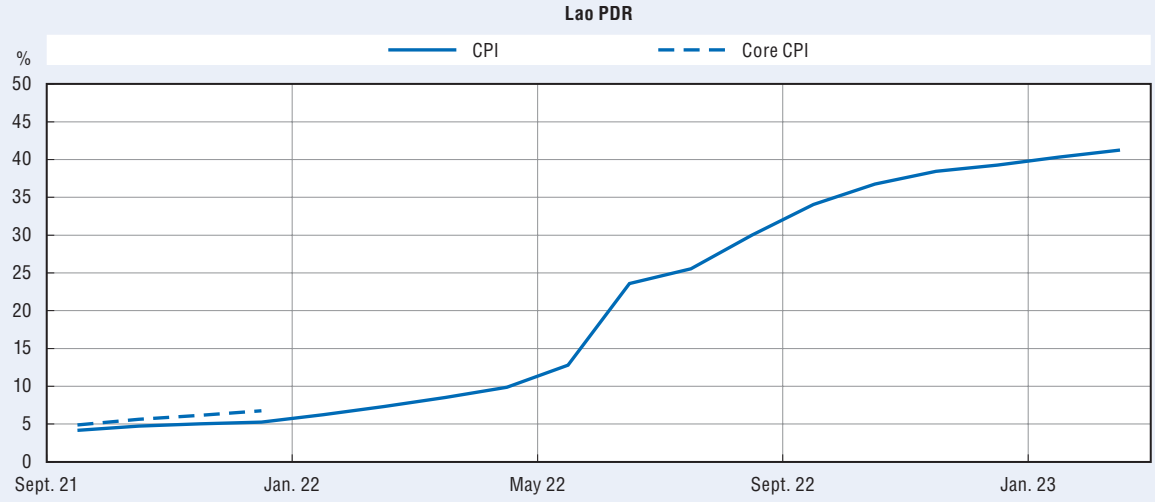
Lao PDR is grappling with soaring inflation and faces major obstacles due to structural issues. With the economy still struggling from the severe impact of the COVID-19 pandemic, inflation began to shoot up in the second quarter of 2022, triggered by rising oil prices and depreciation of the Lao kip. Inflation rates escalated from 12.8% in May to a two-decade high of 39.3% in December, with an average rate of 23% throughout 2022, the highest among ASEAN countries and a significant rise from 3.8% in 2021. In January 2023, inflation continued to increase, with a year-on-year rate of 40.3% (LSB, 2023) (Figure 2.1).

The Lao kip has fallen from around 9 300 to the US dollar in September 2021 to 17 400 to the dollar, leading to a surge in food and fuel prices, which spiked by 45.9% and 50.4% in December 2022, respectively. Inflation has also been driven by a rise in the price of communications and transport of 49.9% year-on-year, causing ripple effects throughout the economy. Costs of medical care and medicine went up by 42.2% (LSB, 2023). The Lao government aims to bring inflation under 9%, while external shocks such as the global increase in energy prices and the war in Ukraine create uncertainties. Decreasing export, tourism and remittance earnings could further devalue the kip, resulting in even higher prices. This would disproportionately affect poor households.

The country's sharp currency depreciation and high inflation have exacerbated existing macroeconomic problems, including mounting debt and a shortage of foreign reserves (Sakudo, 2023). Foreign reserve buffers remain low. To stabilise exchange rates, the Lao government has established a mechanism to channel foreign exchange earnings into formal channels, but regulations, especially the recently amended Law on Foreign Currency Management, must be better enforced to prevent market speculation from affecting the kip's value. In the long term, promoting domestic production is crucial to reducing demand for foreign exchange reserves and achieving economic self-reliance. However, the limited availability of foreign currency and high demand for imports and debt service repayments have created a demand-supply mismatch, leading to significant depreciation pressures, despite debt service deferrals (World Bank, 2022).

Figure 2.1. **Consumer Price Index (CPI) and core inflation in Lao PDR, September 2021 to February 2023**

Percentage



Source: Data from CEIC and national sources.

StatLink https://stat.link/15ycbj

Box 2.1. **Inflationary pressures in Lao PDR** *(cont.)*

The structural issues also need to be addressed. These include a lack of liquidity in the state budget, a high debt-to-GDP ratio, weak government controls on goods and tax collection mechanisms, and a low sovereign credit rating due to increasing debt (Sakudo, 2023).

Subsidies and indirect tax cuts aimed at stabilising fuel and commodity costs could further limit Lao PDR's fiscal space. This could result in decreased public expenditure on vital sectors such as education and health care, along with capital investment and social security.

Given the situation, monetary authorities in most of the advanced economies have switched their response strategy from holding policy rates firm against transitory supply shocks to swift tightening of monetary policy to avert further worsening of inflation expectations, curb wage pressures and maintain as much price stability as possible. Southeast Asian countries are encountering similar inflationary pressures while coping with the repercussions of these policy actions and uncertainities regarding the war in Ukraine.

The current inflationary pressures stem mainly from the supply side

Inflation in many Emerging Asian countries remains persistent despite a retreat in average food and industrial commodity prices from the levels seen at the onset of the war in Ukraine, along with a decline in freight costs from levels seen at the beginning of the COVID-19 pandemic.

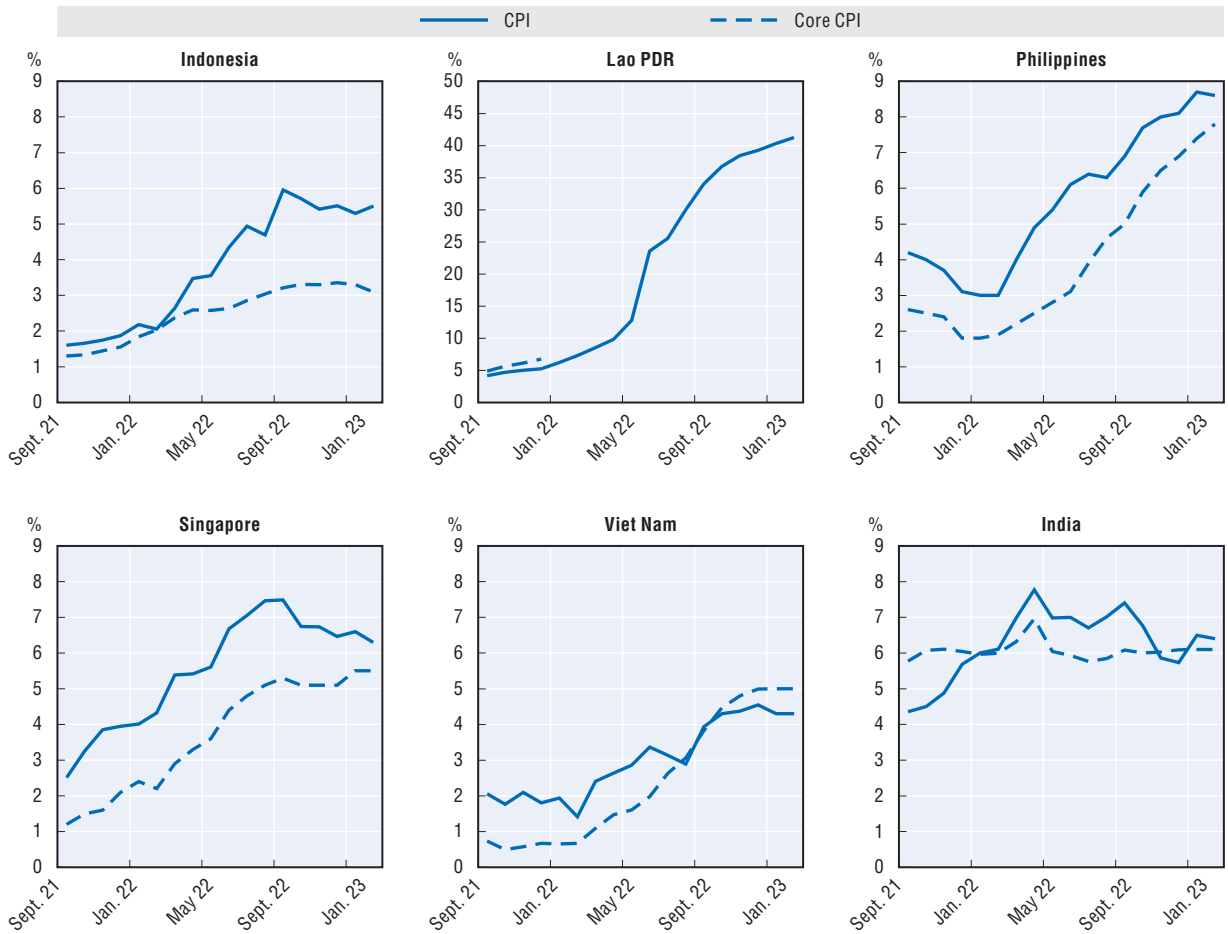
While the contributory factors to the initial inflationary pressure of this current episode are external to Southeast Asian economies, the sharp spike in the price of imported goods has gradually spread to the cost of other goods and services, broadening the scope of inflationary pressures over the economy. Core inflation, which excludes the effects of highly volatile food and energy prices, has started to soar as the rapid uptrend in these categories passes through to other sectors (Figure 2.2).

Transportation prices, highly correlated with energy costs, have rapidly adjusted to the uptick in the oil market. Despite the introduction of various policies to support labour supply for tourism-related services in the aftermath of the pandemic, inflation remains high in hotel and restaurant prices even though restrictions have been lifted. Hence, both headline inflation and its subcategories are well above pre-pandemic levels (Figure 2.3).

A major challenge stems from the possible second-round effects of increasing inflation: rising spirals in wages and inflation expectations. Survey data from February 2023 indicate that inflation expectations in India for the 12 months ahead stood at 10.8%, which is higher than current headline inflation (Reserve Bank of India, 2023). According to the Survey of Professional Forecasters published by the Monetary Authority of Singapore in December 2022, inflation was anticipated to reach around 5% in 2023, higher than inflation expectations in 2022 (MAS, 2022). These figures point to an upward trend in inflation expectations that may pose a risk of feeding into higher inflation in the coming periods.

Figure 2.2. **Consumer Price Index (CPI) and core inflation in selected Asian countries, September 2021 to January 2023**

Percentage



Note: Data are the latest available as of 20 March 2023.

Source: CEIC and national source.

StatLink https://stat.link/0xouyv

High inflation undermines the real income of households, while higher food and energy costs limit consumer budgets for other goods and services, especially for middle- and low-income families. The persistence of this round of inflation and the worsening of inflation expectations have led households to make earlier purchases, especially of durable goods, before prices surge further. For households with access to consumer credit, the fact that prevailing interest rates are lower than expected inflation can strengthen this motivation. The impact of high inflation on demand for goods and services beyond the essential needs of consumers is thus affected by opposing influences, with the effects tilted to the contractionary side for services and non-durable goods.

Figure 2.3. **Consumer price inflation and its subindices in selected Asian countries, December 2019-December 2022**

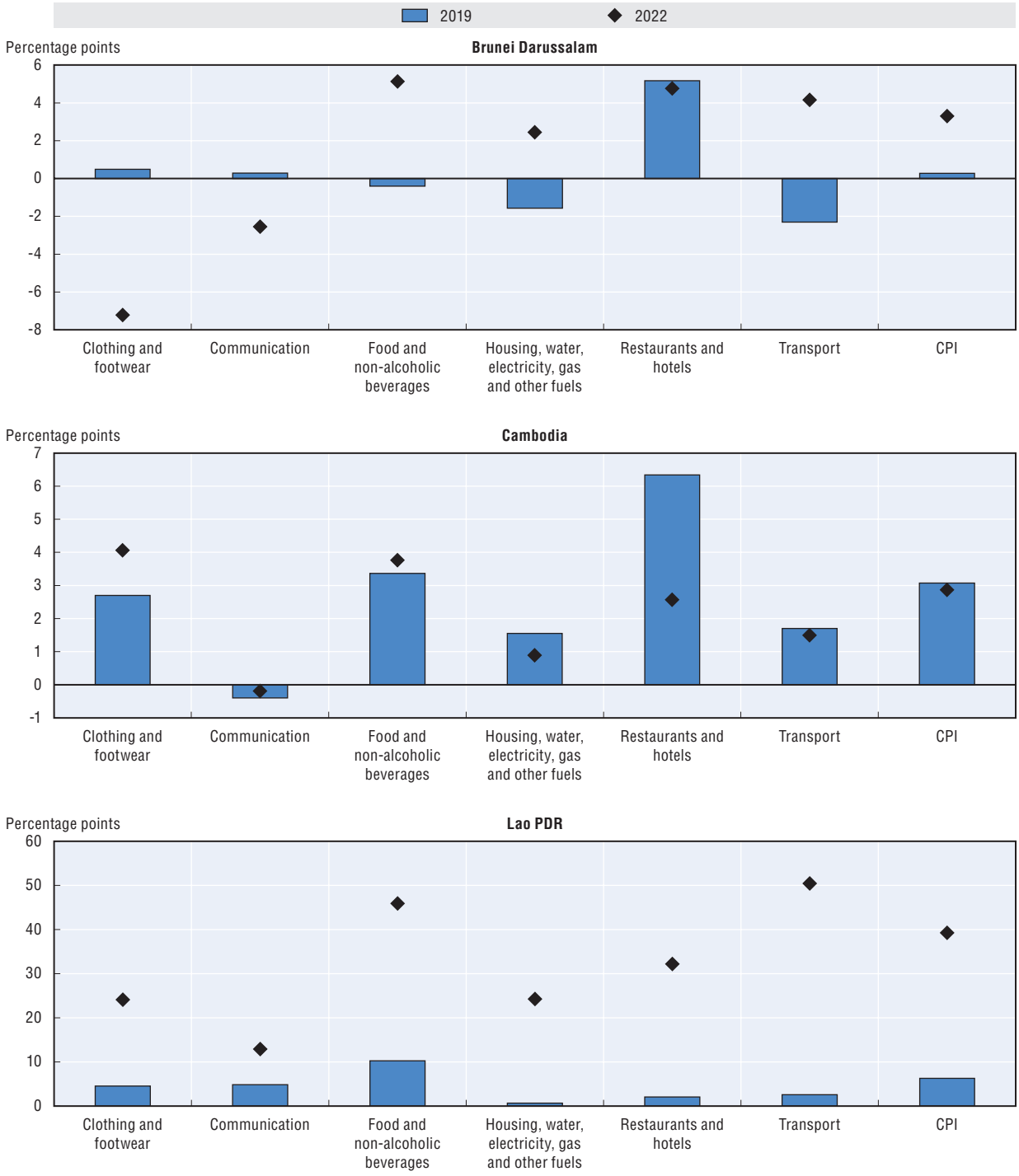
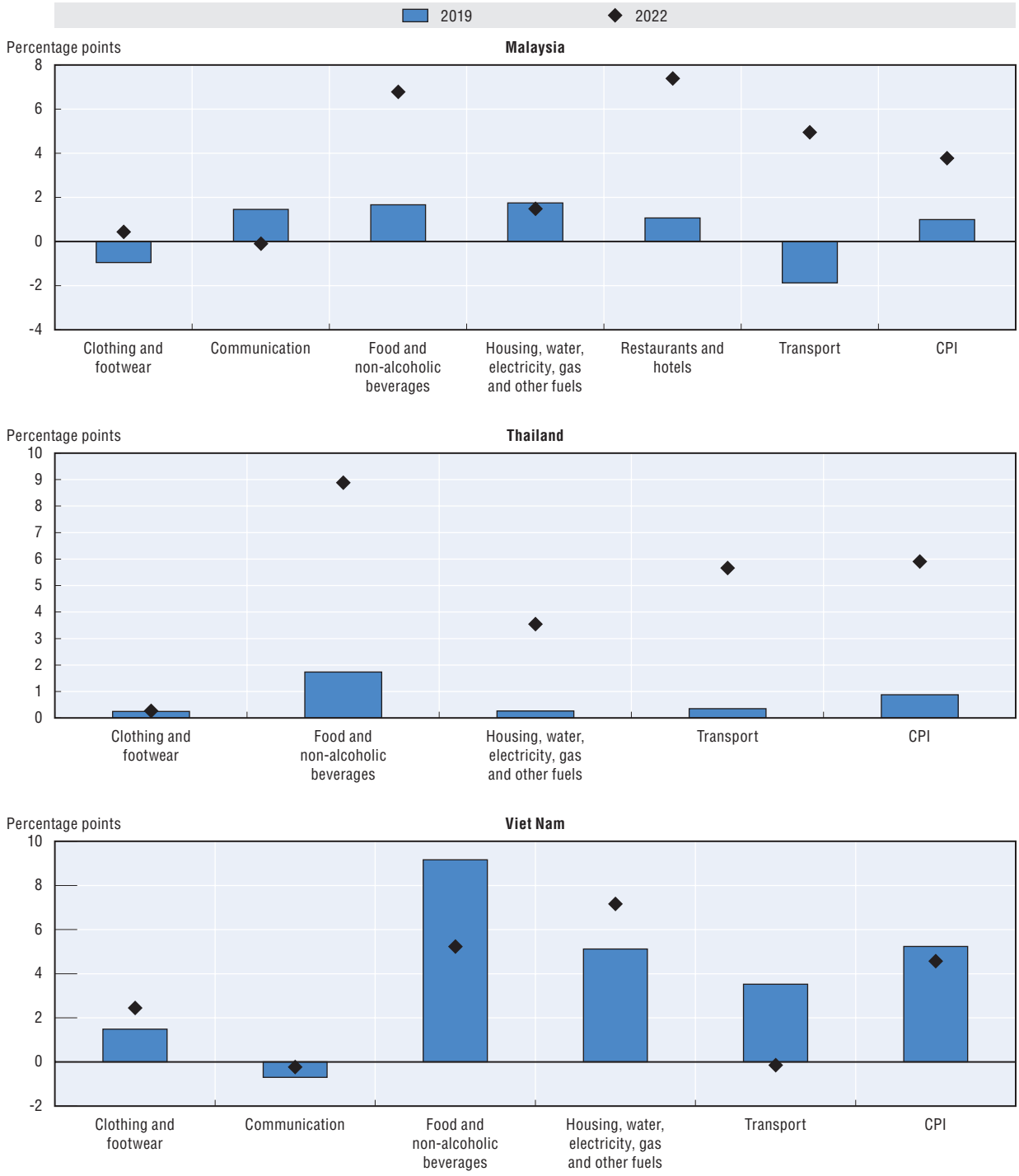


Figure 2.3. **Consumer price inflation and its subindices in selected Asian countries, December 2019-December 2022** *(cont.)*



Source: CPI database of the IMF and national source.
StatLink https://stat.link/7kzsxd

Emerging Asia is tackling inflation with various measures like subsidies and price controls

One reason why 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.

In contrast, most OECD countries have relied heavily upon monetary policy to tackle inflationary pressures, along with tax cuts and subsidies to curb the rapidly rising energy costs of households in Europe. Shocks induced mainly by external factors, such as the war in Ukraine, have caused inflation to surge rapidly, peaking at double-digit levels in the euro area around October 2022. Against this backdrop, most central banks have tightened monetary conditions, causing short-term interest rates to rise substantially from levels set after the pandemic to boost economic recovery.

In an effort to curb elevated levels of inflation unseen in decades, the US Federal Reserve and the Bank of England swiftly raised their policy rates, which stood near zero in February 2022, to 4.625% and 4%, respectively, in only a year. They also started to shrink their balance sheets either by stopping reinvestments or by selling bond holdings – so-called quantitative tightening – to further restrict short-term liquidity conditions. Faced with a sharp rise of energy input costs in the euro area due to the war in Ukraine, the European Central Bank initiated a tightening cycle, raising its deposit facility rate from negative levels, which had persisted until July 2022, to 2.50% by February 2023, with further hikes projected in the months ahead. In an effort to contain inflation expectations, major central banks have been communicating additional rate hikes and the possibility that higher rates may persist longer than previously expected by the financial markets.

In Asia, as concerns regarding supply shortages and food security came to the fore with the onset of the war in Ukraine, 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. Such measures, while insulating domestic households from climbing prices, can provoke other countries to respond with similar measures and further push up international prices, the so-called multiplier effect (Martin and Anderson, 2012; Giordani, Rocha and Ruta, 2016). Moreover, use of temporary trade restrictions can contribute to food price volatility, thus undermining investment decisions and impairing supply in the long run. Appropriate use of these restrictive measures and international co-ordination are thus essential to obtain the desired benefits, in both the short term and the long run.

Price controls are another policy measure being used by many countries in Emerging Asia 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 gasoline price controls for premium and pertalite grades, 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 farm inputs such as fertiliser, and will keep the controls in place until June 2023. India, meanwhile, has introduced price caps for many essential pharmaceutical products.

While curbing inflation, price caps are known to deteriorate price signals, which are essential for the necessary adjustment of supply and demand to external shocks. The price controls allow domestic households to continue consuming as usual even as international prices soar. However, local producers supply less than they would in the absence of controls, which worsens the supply-demand imbalances and inflationary pressures. These policies may also trigger quality issues, as producers may have little choice but to degrade the quality of products to stay profitable. In order to lessen the magnitude and extent of these adverse effects, it is crucial to keep the price caps temporary and only apply them to essential goods.

Most of the 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 who are 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 distribution of cooking oil to support households.

Targeted use of these measures is essential to preserve their efficiency and diminish the cost of maintaining them. However, this depends on the capacity of the government and the country's infrastructure to distribute the assistance to the people who most need this support. When providing targeted support for vulnerable households is difficult, governments may deliver assistance by lessening the cost of services such as health, education and public transportation.

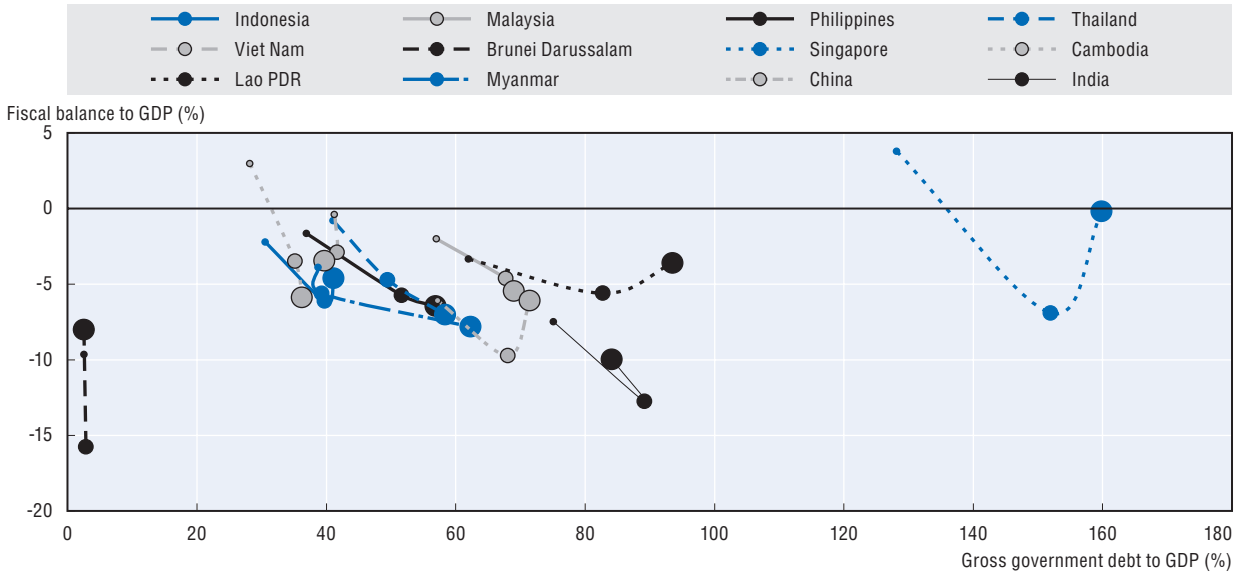
At the same time, subsidies and price controls have a long-term negative effect and should thus be targeted and temporary. Use of subsidies and transfer payments depends upon the fiscal space of each country, and the impact on fiscal sustainability should be evaluated carefully in each case.

Like most other nations, Southeast Asian economies have increased public spending and debt levels to support households against disruptions in economic activity since the onset of the pandemic in early 2020. In Figure 2.4, the U-shaped pattern for many countries indicates that, although public debt has been expanding, governments are striving to tame growing fiscal deficits post-pandemic. The gross government debt-to-GDP ratio dropped marginally for Brunei Darussalam and Viet Nam from 2019-21, whereas it soared for Lao PDR (from 62% to 93.5%), Myanmar (from 38.8% to 62.3%), Philippines (from 37% to 57%) and Singapore (from 128.2% to 159.9%).

Expectations that high inflation will persist can worsen wage-price spirals

Anchoring inflation expectations while avoiding a wage-price spiral is a major challenge for central banks in all economies of the Emerging Asia region. Forming inflation expectations can be difficult in periods of high uncertainty (Box 2.2). Uncertainty can lead to pessimism about future income and major purchases (Ehrmann, Pfajfar and Santoro, 2017) and these attitudes can cause inflation expectations to worsen. Higher food prices may also contribute to pessimism about future inflation among households (Goyal and Parab, 2021). Under inflation targeting, expectations are generally more forward-looking (Levin, Natalucci and Piget, 2004). Sustaining a credible inflation-targeting framework amid elevated levels of inflation can thus play an important role in keeping inflation expectation under control.

Figure 2.4. **Gross government debt-to-GDP and fiscal balance-to-GDP ratios, 2019-21**



Note: Bubble size indicates the year of observation, where the largest bubble represents the latest year (2021) and the smallest represents the most distant year (2019).

Source: Fiscal Monitor database of the IMF and national sources.

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Monetary authorities in the region did not immediately react to import-driven inflationary pressures due to supply-side shocks, but pivoted to a tighter monetary policy stance after realising the persistence of the surge in the cost of key inputs. This is similar to the path taken in many advanced economies. The official views and announcements of central banks are crucial tools for anchoring the inflation expectations of households (Goyal and Parab, 2021). Thus, timely and appropriate communication regarding the path of inflation in the coming months will play an important role to keep expectations muted and wage bargaining aligned with forward-looking levels of inflation rather than the high levels of recent months.

Tight labour markets and upward wage pressures pose another risk. Higher inflation rates may lead to more wage indexation (Holland, 1995), and this could cause inflation to persist in the region. Survey results show growing wage pressures across the board (WTW, 2021 and 2022). Planned salary increases in all surveyed countries are higher than in the previous year, and they are also significantly higher than headline inflation in China, India, Indonesia and Viet Nam (Figure 2.6).

Moreover, declining real wages following high inflation, in tandem with tight labour markets, may lead employees to search for different jobs in order to offset the loss in real income, causing a jump in the quit rate. The resulting competition between employers who want to retain their current employees and prospective employers offering a higher income intensifies wage pressures (Faccini, Melosi and Miles, 2022).

Spiralling inflation expectations and wages can lead to inflation staying at elevated levels for longer than expected, even though the negative effects of supply shocks recede over time. Hence, in order to contain growing inflationary pressures, it will be pivotal to implement necessary policies in a timely manner and sustain the credibility of monetary policy, in tandem with appropriate communication with the public regarding the future path of inflation.

Box 2.2. **Formation of inflation expectations in the face of great uncertainty**

Discussions of inflation expectations are mainly argued using backward- or forward-looking information (Gali and Gertler, 1999). Backward-looking inflation expectations are formed based on past inflation rates and are therefore influenced by historical trends. Forward-looking inflation expectations are based on anticipated future economic conditions and are therefore more closely tied to current economic policies and expectations of future events (Gali, 2015).

The theory of rational expectations suggests that individuals make predictions based on all available information and take into account the expected impact of current and future economic policies. Rational expectations thus incorporate backward- and forward-looking elements. However, there is no consensus on the best framework to describe how inflation expectations are determined (Mankiw and Reis, 2018).

It can be challenging to form inflation expectations in situations of high uncertainty, such as now. When there is a lack of clear information or when unexpected events occur, individuals may rely on heuristics or rules of thumb rather than fully processing all available information. This can lead to inaccurate predictions about inflation. However, the degree to which greater uncertainty affects the accuracy of rational expectations in predicting inflation rates is still being debated. While some argue that rational expectations may be less accurate under conditions of greater uncertainty, others suggest this may be the best available framework for understanding how individuals form their expectations (Kirman, 2021).

Inflation expectations have important implications for economic decisions and outcomes. To maintain price stability, it is essential to anchor inflation expectations, meaning that long-term expectations align with the monetary authority's inflation objective and are not influenced by macroeconomic surprises or short-term inflation expectations. This is especially important in preventing temporary inflation shocks from affecting wage and price formation mechanisms (Bernanke, 2007; Draghi, 2014). However, recent survey evidence indicates that there has been a possible de-anchoring of inflation expectations. Gopinath (2022) suggests that the COVID-19 pandemic and the war in Ukraine may have caused structural changes and that the current phase of exceptionally high inflation carries a considerable threat of de-anchoring inflation expectations. Adrian (2022) notes that, even if such shocks prove temporary, they are already having persistent effects on inflation and will make curbing inflation more difficult "if inflation expectations become de-anchored to the upside".

Surveys of households and businesses show that shorter-run inflation expectations have risen substantially since the start of the pandemic, while the rise in longer-run inflation expectations has been far more modest (Figure 2.5). However, the relatively small rise in longer-run expectations is not evidence that inflation expectations are firmly anchored (Binder, 2022). According to Binder, what matters is not only the level of consumers' inflation expectations but also their uncertainty about future inflation. Uncertainty is increasing even in longer-term forecasts, and stable median longer-run expectations do not necessarily mean that consumers' inflation expectations are firmly anchored.

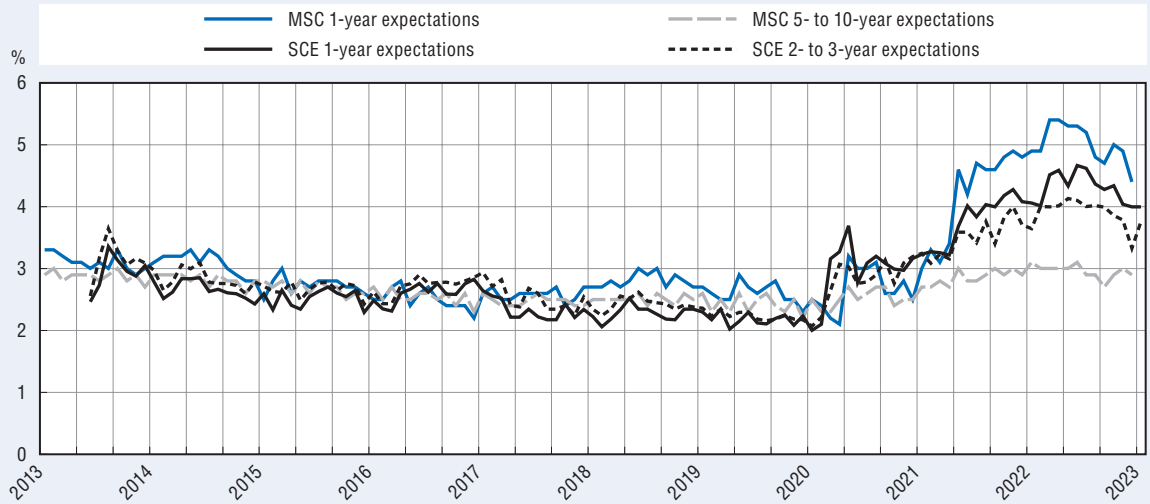
Consumers with well-anchored expectations should report a long-run inflation forecast close to the Fed's target and have significant confidence in their forecast. For example, when consumers report an inflation forecast of 2%, but also believe that there is a high probability of inflation being much higher or much lower, it indicates that they lack confidence in a near-target outcome. In other words, their uncertainty about future inflation suggests that they do not have a strong belief that inflation will actually be at the target rate. It is important to note that high uncertainty about longer-run inflation can make it difficult for households to make sound financial decisions.

Box 2.2. **Formation of inflation expectations in the face of great uncertainty** *(cont.)*

Data gaps in surveys about the inflation expectations of households and firms in Emerging Asia make it difficult to assess anchoring in some countries. Malaysia collects information about expectations at longer horizons, but not many countries in the region proceed in this way. This impedes the ability of policy makers to assess inflation expectations in terms of anchoring and alignment with targets (Weber et al., 2022). Some countries administer surveys once per quarter but hold monetary policy meetings more frequently, which may affect the ability of policy makers and market participants to monitor the evolution of inflation expectations before each decision (IMF, 2022). Combined with the current global uncertainty, this will pose challenges for policy makers in the region.

Figure 2.5. **Inflation expectations, 2013-23**

Percentage



Note: Data accessed 25 February 2023. MSC stands for the University of Michigan Surveys of Consumers and SCE is Federal Reserve Bank of New York Survey of Consumer Expectations. These surveys provide measures of what consumers expect about inflation in the next year and beyond.

Source: University of Michigan, Surveys of Consumers, https://data.sca.isr.umich.edu/data-archive/mine.php and Federal Reserve Bank of New York, Survey of Consumer Expectations.

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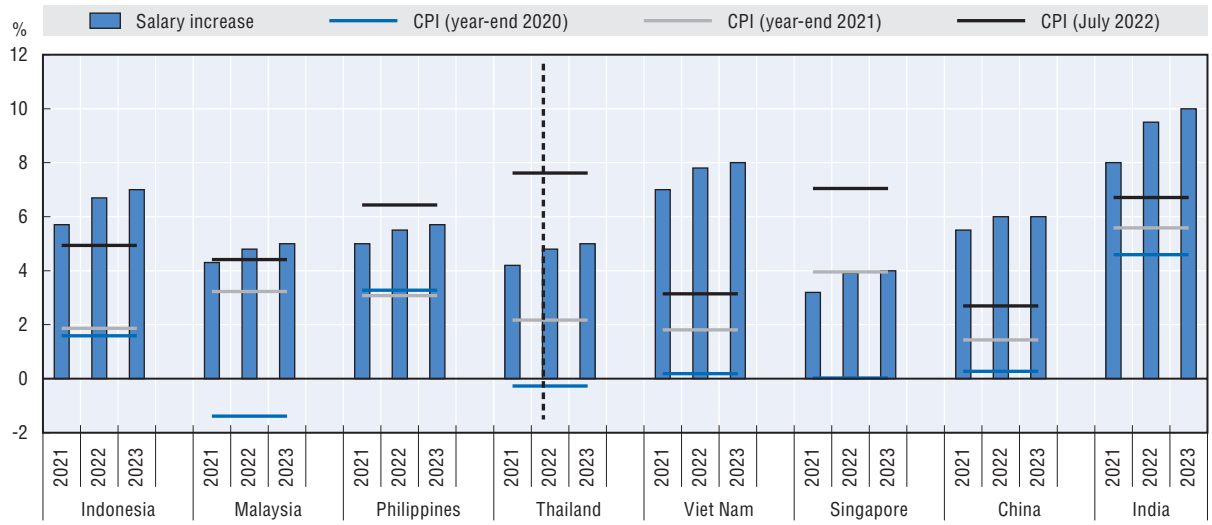
Central banks face balancing act between containing inflation and safeguarding economic recovery

In an effort to rein in inflation, many central banks in advanced economies have been raising policy rates in recent months. Facing broadening inflationary pressures and tighter global financial conditions, central banks in Emerging Asia raised interest rates gradually. A continuation of steady interest-rate hikes is likely to be needed to forestall an upward spiral in inflation expectations and wages, as containing inflation later may require substantially higher rate hikes.

There is ongoing depreciation pressure on local currencies in the region stemming from the rate hikes in major central banks, especially the US Federal Reserve, and heightening interest-rate differentials (Figure 2.7). Depreciation of local currencies against the US dollar translates into a surge in import prices, which ultimately leads to a rise in producer and

consumer prices that could push inflation still higher in the region. The impact of local currency depreciation on commodity prices is generally more pronounced, since local currency pricing, where exporters adjust prices in favour of the importers according to exchange-rate movements, is uncommon for these goods. Thus, currency depreciation against the US dollar exacerbates the inflationary pressures from elevated food and energy imports. However, depreciation pressures that began in Q3 2022 have eased recently, though monetary authorities must continue observing their trend carefully.

Figure 2.6. **Surveyed salary increases and headline inflation, 2021-23**



Note: 2021 and 2022 data show surveyed salary increases; 2023 data show the budgeted overall median rise in wages.

Source: WTW (2021, 2022); national sources.

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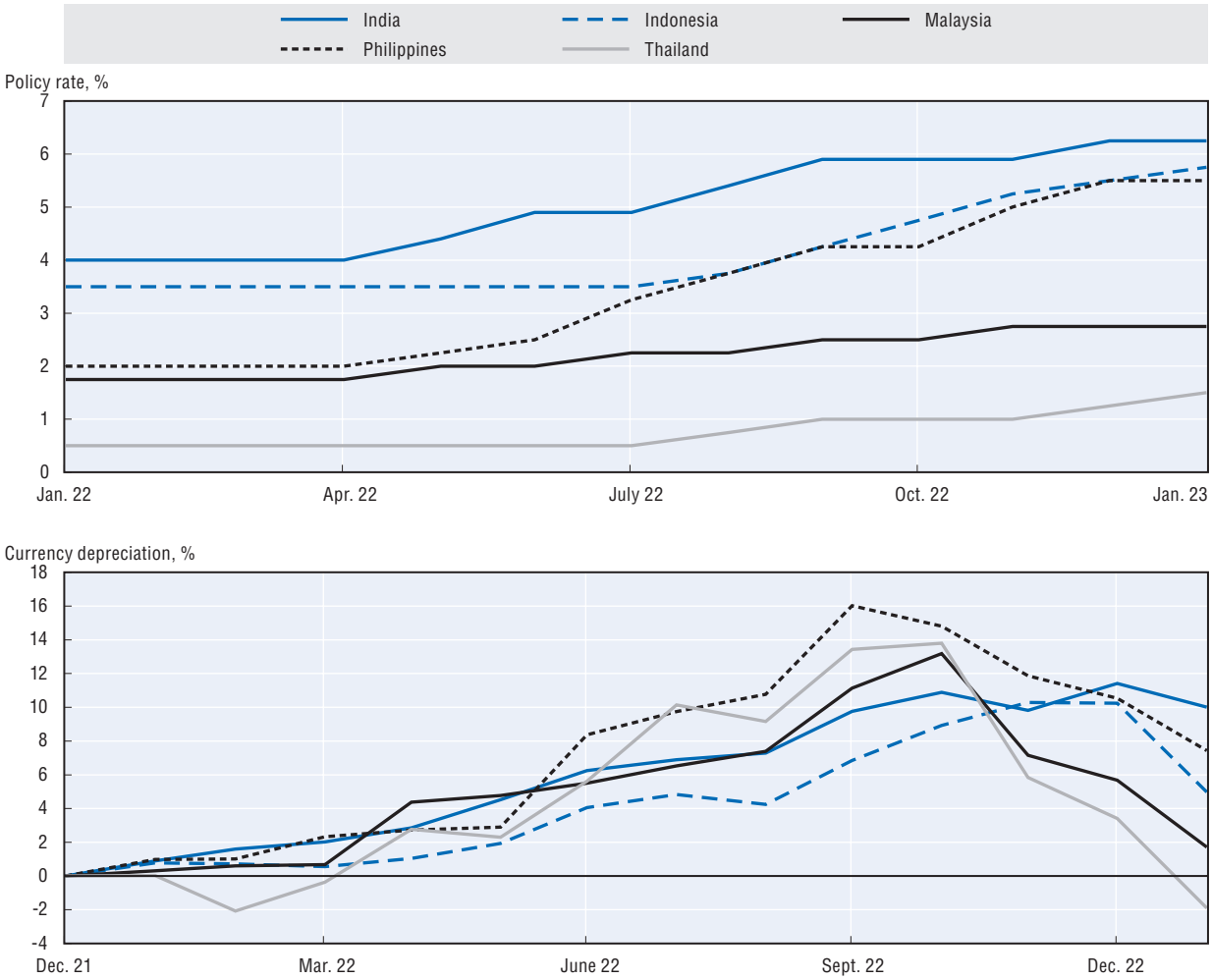
The overall level of exchange rate pass-through depends on several macroeconomic factors and may vary significantly between countries accordingly. The credibility of monetary policy, well-anchored inflation expectations and lower levels of inflation are empirically found to be important factors curbing exchange-rate pass-through to consumer prices (Carrière-Swallow et al., 2021; Choudhri and Hakura, 2006). Moreover, as exchange-rate depreciations and volatility increase, the impact of these movements on consumer prices can also worsen (Jasova, Moessner and Takáts, 2019; Kohlscheen, 2010). Rapid depreciation of the region's currencies against the US dollar, along with elevated volatility, may jeopardise the pricing behaviour of companies, with more frequent price adjustments in proportion to the upswing in input prices.

Central banks in the region need to perform a delicate balancing act between containing inflation expectations and exchange-rate depreciation pressures, on the one hand, while safeguarding the ongoing post-pandemic economic recovery, on the other. Aggressively tightening monetary policy to curb aggregate demand and tame high inflation that is essentially caused mainly by external supply shocks may harm economic growth while having worse than expected results in terms of reining in inflation.

In this regard, it is crucial to use all available policy tools, in addition to interest-rate hikes, to cope with inflation in order to minimise its adverse effects on economic growth. The optimal policy combination should be set taking account of the fiscal space and foreign

reserves of each country, as well as other macroeconomic conditions. For highly dollarised economies such as Cambodia and Lao PDR, fiscal measures like subsidies may bring more effective results than conventional monetary policy as long as the fiscal balance stays in line with a sustainable public debt structure. On the other hand, foreign exchange interventions can contribute to smoothing foreign exchange volatility and currency depreciation, helping to alleviate the pass-through to consumer prices.

Figure 2.7. **Monetary policy rates and currency depreciation against US dollar in selected Asian countries, January 2022-January 2023**



Source: IMF and BIS
StatLink https://stat.link/6kna3w

Against this backdrop, some central banks in the region have already started to pursue foreign exchange interventions in addition to rate hikes. Foreign currency sales by monetary authorities can be used to lessen short-run misalignments of the real value of the local currency, when carried out persistently (Filardo, Gelos and McGregor, 2022). Nonetheless, the depth and extent of the interventions should be aligned with the central bank's current foreign exchange reserves.

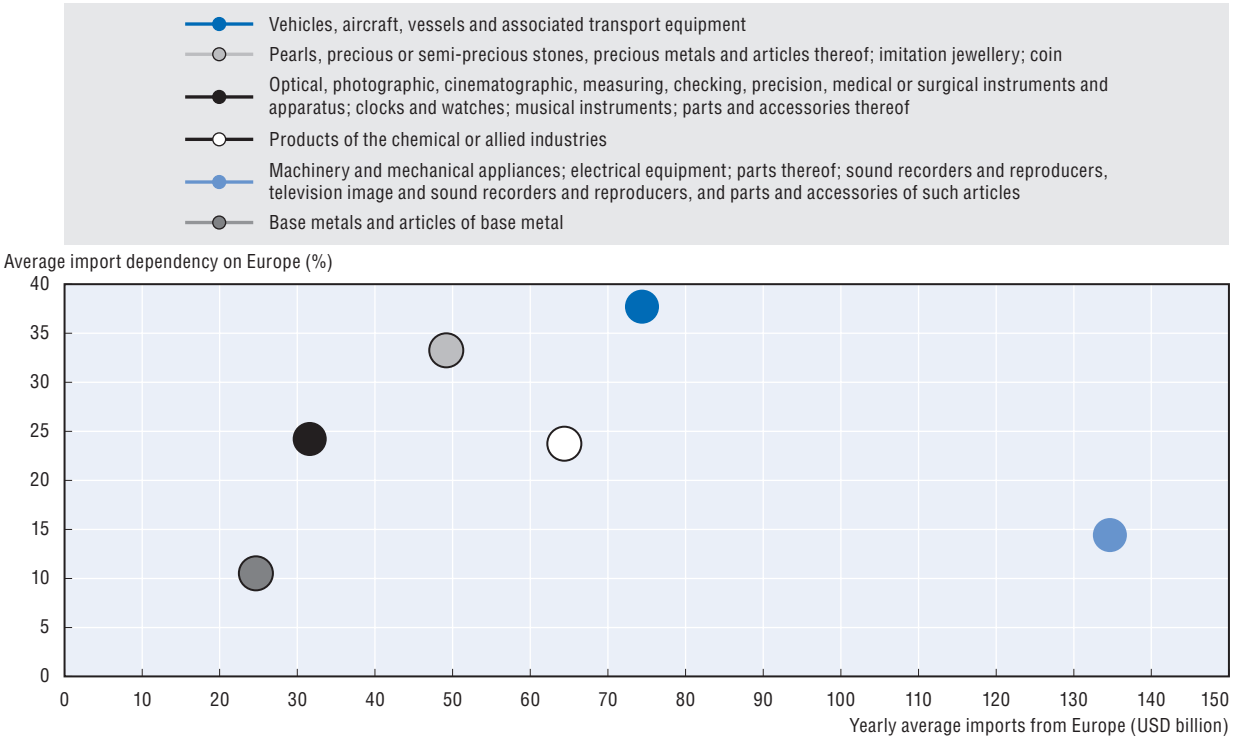
Inflation fuelled by the war in Ukraine may generate secondary effects such as shortages

The war in Ukraine has generated a new wave of inflationary pressures, especially for the agricultural commodities for which Russia and Ukraine were major producers and for energy prices, with supply disruptions and embargoes related to the war causing shortages and creating volatility in international prices. Although food prices have moderated recently due to agreements regarding the flow of wheat exports from Ukraine, caution and a possible diversification of sources for these goods are necessary against the risk of further escalation of the war.

Apart from the direct effect of the war on food and fuel prices, potential secondary effects may lead to shortages in other categories of goods. In particular, in the event of a total disruption of gas flow from Russia to European countries, along with persistent demand for gas, the rationing of gas usage by manufacturing companies may cause temporary shortages of goods imported by other regions from Europe.

Figure 2.8 depicts the share of European imports in the region's imports of selected categories of goods. Imports from European countries of vehicles, along with chemical products, which are generally highly dependent on natural gas as an input, have a 37.7% and 23.7% share in total imports, respectively, and can be affected by possible rationing of energy in the region. Thus, to avert the inflationary effects of potential shortages in these categories, contingency plans to diversify sources for these products will be needed.

Figure 2.8. **Imports from Europe to selected Asian countries and share in total imports by category, 2017-20**



Note: Figure shows only the categories with more than USD 20 billion of average yearly imports from Europe. Importing countries are Brunei Darussalam, Cambodia, China, India, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Viet Nam.

Source: Authors' calculation based on CEPII (n.d.) data.

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Volatility of food prices and food security: Grain markets

This section will discuss the threat posed to food security by inflation, the war in Ukraine and climate change. While these shocks have global implications, developing countries face higher exposure, especially those with pre-existing food security concerns. This analysis focuses on grain markets, as diets in Emerging Asia are typically grain-heavy, especially favouring rice.

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 war in Ukraine. Grains are an essential part of the diet of people globally, and the supply-side disruptions and consequent sharp price rises threaten food security in many regions. Grains are also a key ingredient in animal feeds.

According to the Food and Agriculture Organization (FAO, 2022a), an estimated 29.3% of the world population faced moderate or severe food insecurity in 2021, with almost half of these people living in Asia where the cost of a healthy diet rose 4% in US-dollar terms in 2020, and the share of population that could not afford a daily healthy meal reached 43.5% at the end of 2020. These indicators are likely deteriorate further given the continuing upswing in prices of staple foods stemming from the disruptions caused by the war in Ukraine. The negative impact of the rise in the cost of staple foods will be strongest for low- and middle-income households.

At the same time, domestic and international mobility restrictions linked to the pandemic created labour shortages in rural areas that curbed agricultural production, while the cost of transportation of food products soared due to traffic tie-ups at ports and shortages of truck drivers in many countries. These supply-side disruptions initiated the first wave of the current upswing in grain prices.

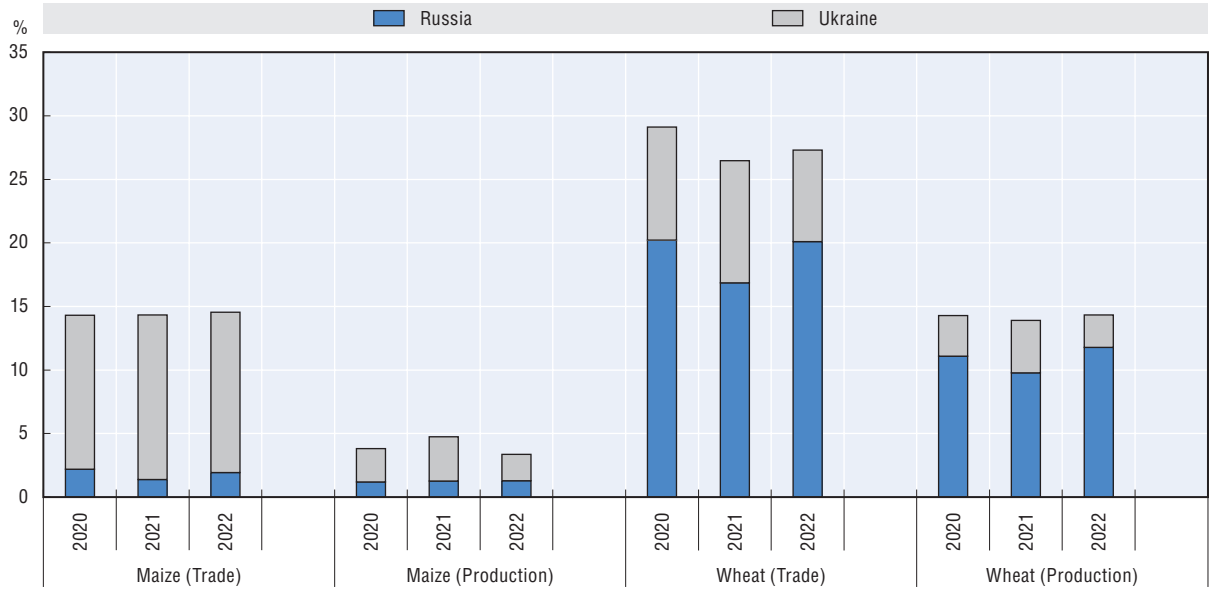
Disruption of grain markets due to the war in Ukraine continues to threaten food security

The war in Ukraine has aggravated the already grim outlook in grain markets, creating great anxiety over supplies and triggering high volatility. Prior to the conflict, Ukraine and Russia together accounted for a significant share of global production of barley (19%), wheat (14%) and maize (4%), and their combined wheat exports accounted for about 30% of the global market (FAO, 2022b) (Figure 2.9). This trade has been seriously disrupted by the war.

Disruptions in the supply of grain and fluctuations in international prices can have important repercussions, especially for countries that are highly dependent on cereal imports, such as Malaysia, which between 2017 and 2019 imported 71.5% of its cereals, the Philippines (27.2%) and Indonesia (13.1%) on average (FAOSTAT, n.d.a). 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 (Figure 2.10). In particular, as one of the largest importers of wheat globally, Indonesia's wheat import dependency on Ukraine was above 25% in 2021. Similarly, 27.9% of China's fertiliser imports were sourced from Russia.

Figure 2.9. **Share of Ukraine and Russia in global trade and production of wheat and maize, 2020-22**

Percentage



Note: 2021 and 2022 values are estimates by FAO-AMIS. Trade shares of Ukraine and Russia represent the percentage of exports from Ukraine and Russia in global exports.

Source: FAO-AMIS (n.d.) database, accessed on 8 January 2023.

StatLink https://stat.link/uo0khi

The war has impaired the farmlands of Ukraine and compelled farmers to abandon cultivated areas, preventing them from harvesting, while port closures hampered the export of agricultural products out of Ukraine. The situation eased with the July 2022 Black Sea Grain Initiative, which allowed the resumption of Ukrainian grain exports via Ukrainian ports on the Black Sea. The agreement, valid for a period of 120 days initially, was extended for another four months in November (Nichols, 2022). However, uncertainty regarding exports from these ports in the coming months will be a lingering problem for the grain markets. These uncertainties regarding the supply of grain have put pressure on governments to support grain inventories and build up stocks for enhancing food security against probable future disruptions, leading to an increase in demand. Russian exports of staple foods have also fluctuated considerably since the escalation of the war.

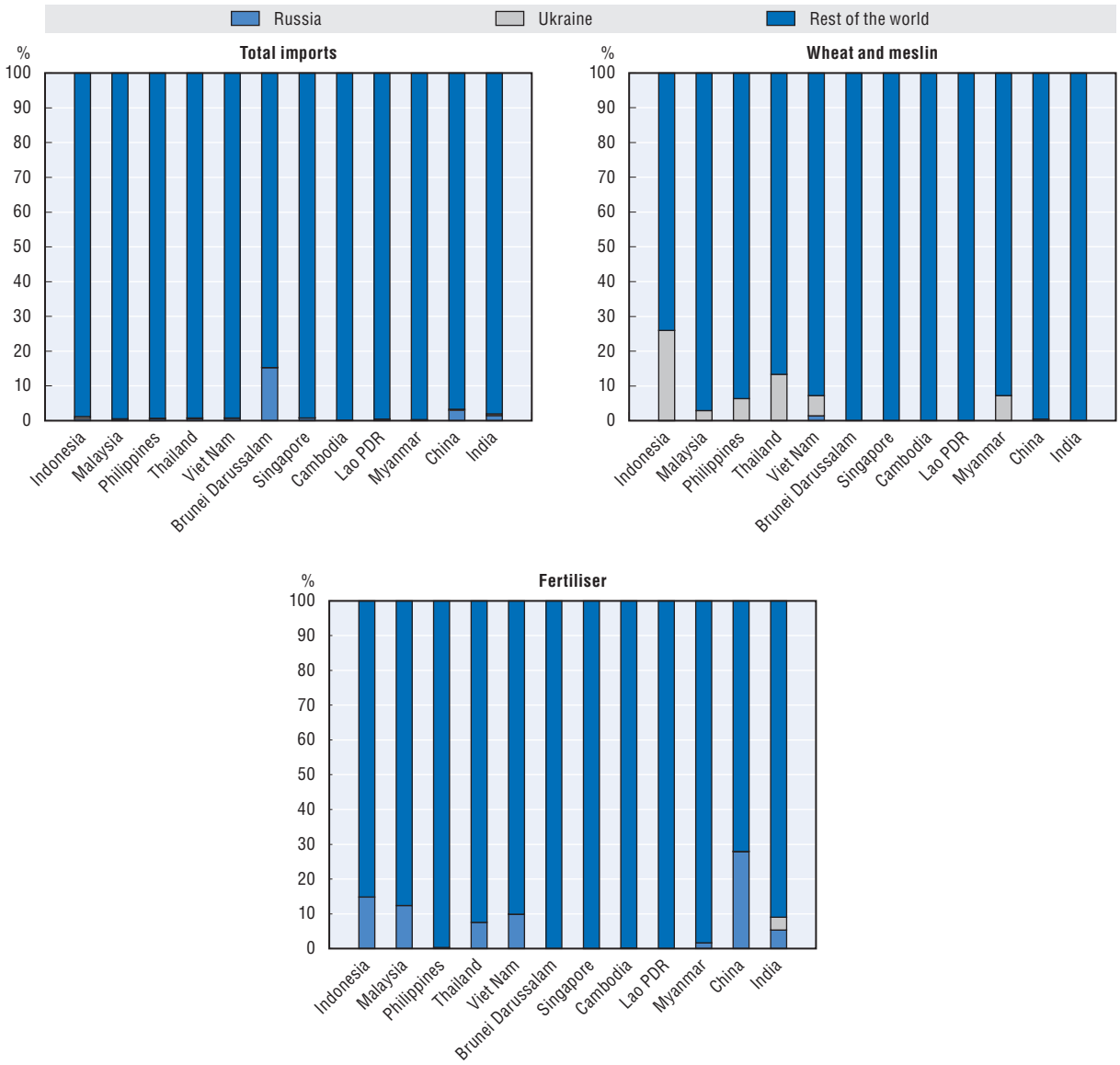
The impact of the war in Ukraine on food is not limited to grain exports. Agricultural input prices have also jumped significantly due to the concerns regarding Russia's oil and fertiliser exports (Figure 2.11).

Russia is the world's top exporter of nitrogen fertilisers and was the second and third largest exporter of potassium and phosphorous fertilisers, respectively, in 2021 (FAO, 2022c). These spikes in energy and fertiliser prices, which began in the later stages of the pandemic, have worsened since the start of the war in Ukraine. The spiralling cost of natural gas – the key input for ammonia, a base material for nitrogen fertiliser – increased the cost of agricultural inputs, leading to a spike in the cost of agricultural production. Sharp increases

in the price of fertilisers are passing through to food prices, straining household budgets (Box 2.3). The FAO Food Price Index (FFPI), a measure of the monthly change in international prices of a basket of food commodities, reached a record level of 140.6 as an annual average in 2022, surpassing the previous peak of 137.4 in 1974.

Figure 2.10. **Import dependency of Southeast Asian economies on Russia and Ukraine, 2021**

Percentage



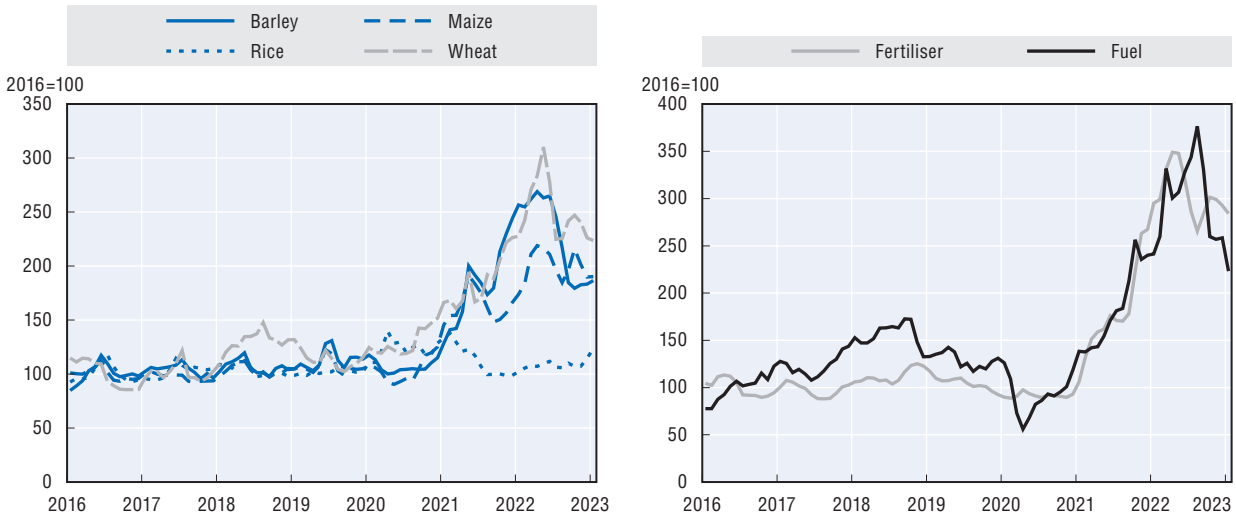
Note: Meslin consists of a mixture of wheat and rye that is sown and harvested together.

Source: Authors' calculation based on UN Comtrade Trade Data, https://comtradeplus.un.org/TradeFlow (accessed on 1 February 2023).

StatLink https://stat.link/0bnewt

Figure 2.11. **Price indices of selected commodities**

2016 = 100



Note: Barley, maize, rice and wheat price indices represent Canadian No.1 Western Barley, US No.2 Yellow maize, 5% broken milled white rice, Thailand nominal price quote and No.1 Hard Red Winter ordinary protein Kansas City wheat US dollar prices per metric tonne, respectively. Fuel index tracks the changes in crude oil, natural gas, coal and propane prices. Fertiliser index includes DAP (diammonium phosphate), potash and urea.

Source: Primary Commodity Prices database of the IMF, https://www.imf.org/en/Research/commodity-prices.

StatLink https://stat.link/31sgwp

Box 2.3. **High fertiliser prices spark concerns over food inflation**

Fertilisers constitute a considerable part of input expenditure for farmers and are key to enhancing the quantity and quality of agricultural output. Keeping fertilisers affordable is thus vital for food security and for curbing food price inflation. However, the cost of mineral fertilisers surged during the COVID-19 pandemic, while supply-chain problems linked to Russia's invasion of Ukraine caused a fresh surge in prices. Trade barriers and sanctions have created anxiety over the flow of fertilisers from Russia, the world's largest fertiliser exporter, and have disrupted exports from Belarus, a key supplier of potassic fertilisers (FAO and WTO, 2022). Despite the recent pullback in natural gas prices and transportation costs, fertiliser prices remain elevated compared to levels seen after the global financial crisis.

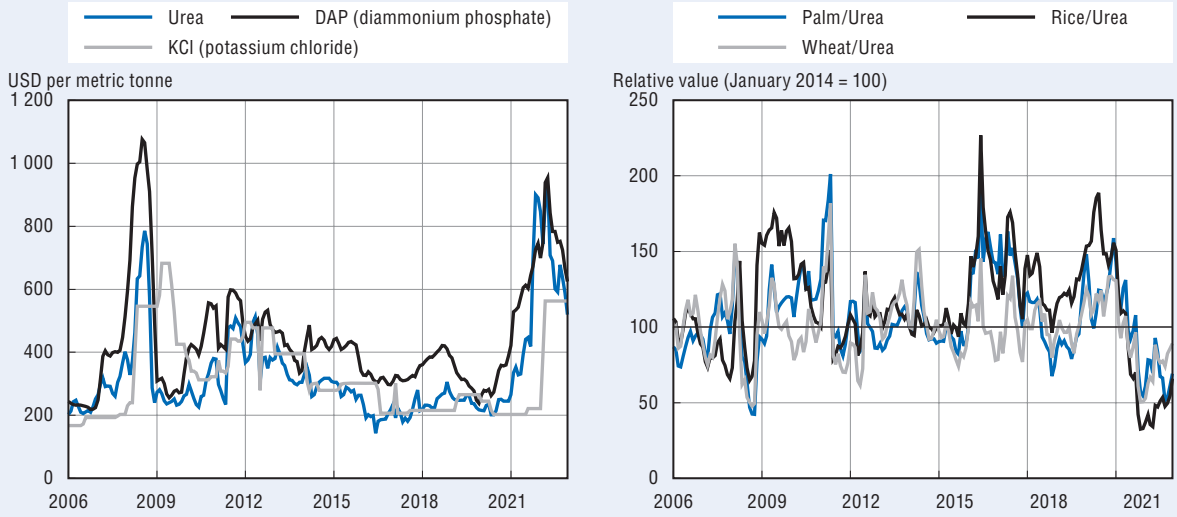
The affordability of fertilisers, measured by the ratio of crop prices to input costs, has declined sharply, bringing down the margins of producers (Figure 2.12). Increases in fertiliser prices particularly affect fertiliser-intensive crops, especially cereals. A case in point involves urea, a common source of nitrogen. The affordability of urea against rice plunged by 57.1% between 2020 and 2022, putting a heavy burden on rice farmers. While the sales price has surged for other cereals, such as wheat and maize, this is not the case for rice.

Against rising prices, farmers have begun reducing fertiliser consumption, with an estimated drop of around 5% in global consumption of fertilisers in 2022 (IFA, 2022). Meantime, trade restrictions on both fertilisers and the raw materials for fertiliser production worsen trade volumes and exacerbate inflationary pressures on food products. In this context, China – the world's largest exporter of phosphate, with about 30% of global trade, has introduced quotas for phosphate exports, which restrains the trade volumes (Chow and Patton, 2022).

Box 2.3. **High fertiliser prices spark concerns over food inflation** *(cont.)*

Figure 2.12. **Fertiliser prices and affordability of urea against rice, wheat and palm oil**

2006-22



Source: Index Mundi.

StatLink https://stat.link/zwyi9n

Elevated fertiliser costs pose a risk of a further rise in headline inflation in the coming months. To prevent spiralling fertiliser costs, it is pivotal to keep the international trade of agricultural products flowing by avoiding new restrictive trade interventions and phasing out the existing ones. Promoting the optimal use of fertilisers by farmers in order to lower consumption without compromising the associated productivity gains can also help to curb soaring food prices.

The effects of spiralling food prices and their impact on food security are particularly detrimental for low- and middle-income countries with a high dependency on imported food products. The share of food expenditures in total household consumption is generally high in Emerging Asia and it exceeds 25% of total expenditures in Cambodia, India, Indonesia, Lao PDR, Myanmar, Philippines, Thailand and Viet Nam (Table 2.2). The real income of households in these countries has thus deteriorated. The share of people facing moderate or severe food insecurity is estimated to be higher than 25% for Cambodia, Lao PDR, Myanmar, Philippines and Thailand. The price of Emata rice, the most popular staple food in Myanmar, rose by 32% between February and December 2022.

The FAO projects that production, stocks and international trade of cereals will fall to their lowest levels since the onset of the pandemic (FAO, 2022d). The world's annual cereal production for 2022 is expected to fall by 2%, mostly due to the reduction in maize and rice yields. The global cereal stock-to-use ratio in 2023 is expected to decline to 29.3%, the lowest level in almost a decade, although this does not pose an immediate threat of a global shortage. These figures, against the backdrop of the growing global and regional population, point to a worsening outlook for food security in 2023.

Table 2.2. **Selected indicators on food security in Southeast Asian economies**

	Share of food expenditures in total expenditures (2017)	Share of population facing moderate or severe food insecurity (2019-21 average, %)
Brunei Darussalam	17.6	-
Cambodia	46.7	51.2*
China	18.6	-
India	28	-
Indonesia	30.9	6.1
Lao PDR	43.9	31.4*
Malaysia	22.8	15.1*
Myanmar	55.6	26*
Philippines	42.1	42.8
Singapore	6.7	5.1*
Thailand	27.5	33*
Viet Nam	31.1	7.7

Note: *Calculated by using estimated values by the FAO.

Source: FAOSTAT and International Comparison Program (ICP) 2017 survey of the WB, https://databank.worldbank.org/source/icp-2017.

Although trade interventions can protect households from the external shocks in the short run, they usually trigger reciprocal actions from other countries and intensify the troubles in international trade (Martin and Anderson, 2012; Giordani, Rocha and Ruta, 2016). They also increase the volatility of food prices, hampering investment decisions and impairing supply in the long run.

The war in Ukraine continues to pose a significant threat to the grain markets and food security for Southeast Asian economies even though the surge in food and agricultural input prices subsided in the second half of 2022, with the agreement on grain exports from Ukrainian ports and the global economic slowdown following monetary tightening in major advanced economies.

In this regard, keeping the international trade of food products flowing smoothly by avoiding restrictive trade interventions is crucial to avoiding further volatility in the international markets. Focusing on ramping up agricultural production by increasing current capacity and enhancing productivity through implementation of best practices, while utilising more drought-resistant varieties, would curb the potential impact of further supply-side shocks.

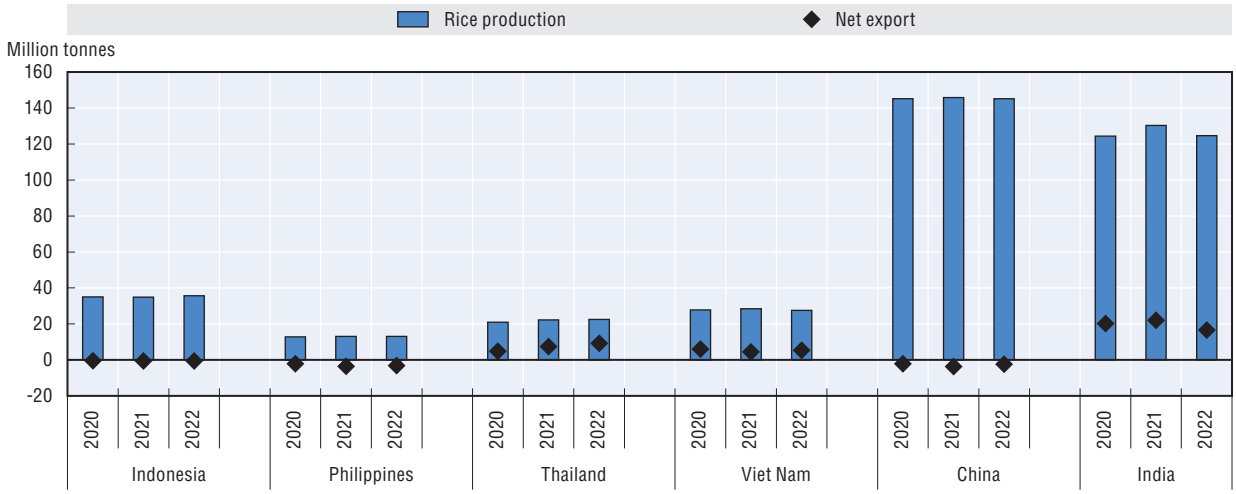
Reducing the loss and waste of food is another way to cope with the devastating effects of the disruptions in food supply. According to the FAO, about a third of all food production is either lost or wasted at some point from harvest to consumption (FAO, 2011). A systematic approach is needed to minimise the loss of food products at every stage of the food supply chain. Better packaging methods and improvements in logistics systems can contribute to mitigating food loss in the pre-consumption stages, which is where about half of all loss of food is estimated to occur (Chauhan et al., 2021).

Rice market stability is threatened by soaring input prices and the effects of climate change

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. China, India and Southeast Asian countries accounted for about 60% of the global production of rice in 2021, and a substantial proportion

of the yield is consumed internally (FAOSTAT, n.d.b). High production levels in Indonesia and China merely satisfy domestic demand, while only India, Thailand and Viet Nam produce enough rice to export it (Figure 2.13).

Figure 2.13. **Rice production and trade, 2020-22**



Note: 2021 and 2022 values are estimates by FAO-AMIS.

Source: FAO-AMIS database (accessed on 8 January 2023).

StatLink https://stat.link/qsawxm

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. Faced with subdued market prices for their crops, rice farmers may be compelled to rise their farm-gate prices to offset increasing costs (UN, 2022).

Moreover, droughts and heatwaves as a result of climate change hamper the yield of rice fields, especially those that lack access to irrigation and depend extensively on rainfall and groundwater. In case 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 in addition to currency depreciation.

To alleviate the domestic pressure of increasing prices, India banned the export of broken rice and imposed export duties on various grades of rice in September 2022 following below-average monsoon rainfall. India's rice exports are expected to decline which could cause its share of global trade in rice to fall from 40% (Jahhav, 2022).

Given the crucial role of rice as both a food and an export product in Emerging Asia, boosting its production is essential on social and economic grounds. Yuan et al. (2022) estimate that Southeast Asian countries exhibit a 48% yield gap compared to the potential yield, assuming that the current harvested area remains unchanged.

The increasing number of adverse weather events and catastrophes, along with persistent increases in fertiliser and energy costs, continue to pose a significant risk for grain production in the region in 2023. Efficient use of scarce water resources and improving irrigation systems to alleviate the adverse effects of droughts will be vital to enhance 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.

Capital flow volatility

This section addresses capital flows, which have become volatile in response to the current inflationary conditions – not only in Emerging Asia but also in advanced economies. It discusses ways to reduce volatility in the face of local currency depreciation, especially through effective monetary and macroprudential policies.

There have been sharp swings in capital flows in emerging economies since the onset of the COVID-19 pandemic, and volatility has rebounded since the outbreak of war in Ukraine in 2022, posing risks to economic activity and financial stability (Figure 2.14). 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, broadly seen in many regions, with differences in magnitude depending on domestic economic and financial conditions in each country.

Broad global shocks drive uncertainty and capital flow volatility

Global risk aversion and interest rates in advanced economies are empirically found to be the most important push factors of capital flows to emerging economies. (For a survey of the literature on drivers of capital flows, see Koepke, 2019). Uncertainties regarding the devastating effects of the pandemic on the global economy triggered a shift of investor preferences to safe and short-term assets in the first half of 2020 that receded gradually until mid-2021. Since the start of the war in Ukraine in early 2022, increasing inflationary pressures and accompanying rapid monetary policy tightening by major central banks have raised concerns regarding the future path of the global economy, thus generating a new wave of flight from risky assets. Unlike the abrupt jump in global risk aversion during the start of the pandemic, the current wave has been more gradual. The uncertainities stemming from the inflation outlook, along with the risk of further escalation of the war in Ukraine, may contribute to an additional upswing in risk aversion. This could generate more capital outflows, especially from emerging economies.

Greater risk aversion in global financial markets puts upward pressure on sovereign bond yields and leads to net portfolio and banking outflows. However, macroeconomic fundamentals matter for cushioning against the negative spillovers of global risk aversion. In this regard, a low current account deficit, along with an adequate level of foreign reserves commensurate with the short-term debt, contribute to the resilience of economies against these shocks (Caballero and Kamber, 2019).

Shifts in the monetary policy of major central banks, especially the US Federal Reserve, are another major external driver of capital flows. The recent episode of policy rate hikes among the major central banks has been implemented in an almost synchronous fashion

(Figure 2.15), which amplifies the repercussions on emerging economies. Moreover, some major central banks either started to shrink their balance sheets – quantitative tightening – or announced that they intended to do so. These policies have substantial adverse effects on capital flows (Fratzscher, Lo Duca and Straub, 2018). The monetary policy shocks amid the previous tapering episode of the US Federal Reserve Board, from May 2013 through June 2014, had a harmful effect on portfolio capital flows to emerging economies and brought down the prices of financial assets in addition to the value of local currencies against the US dollar (Chari, Dilts Stedman and Lundblad, 2021).

Figure 2.14. **Equity and debt capital flows to emerging economies, rolling 4-week sum**

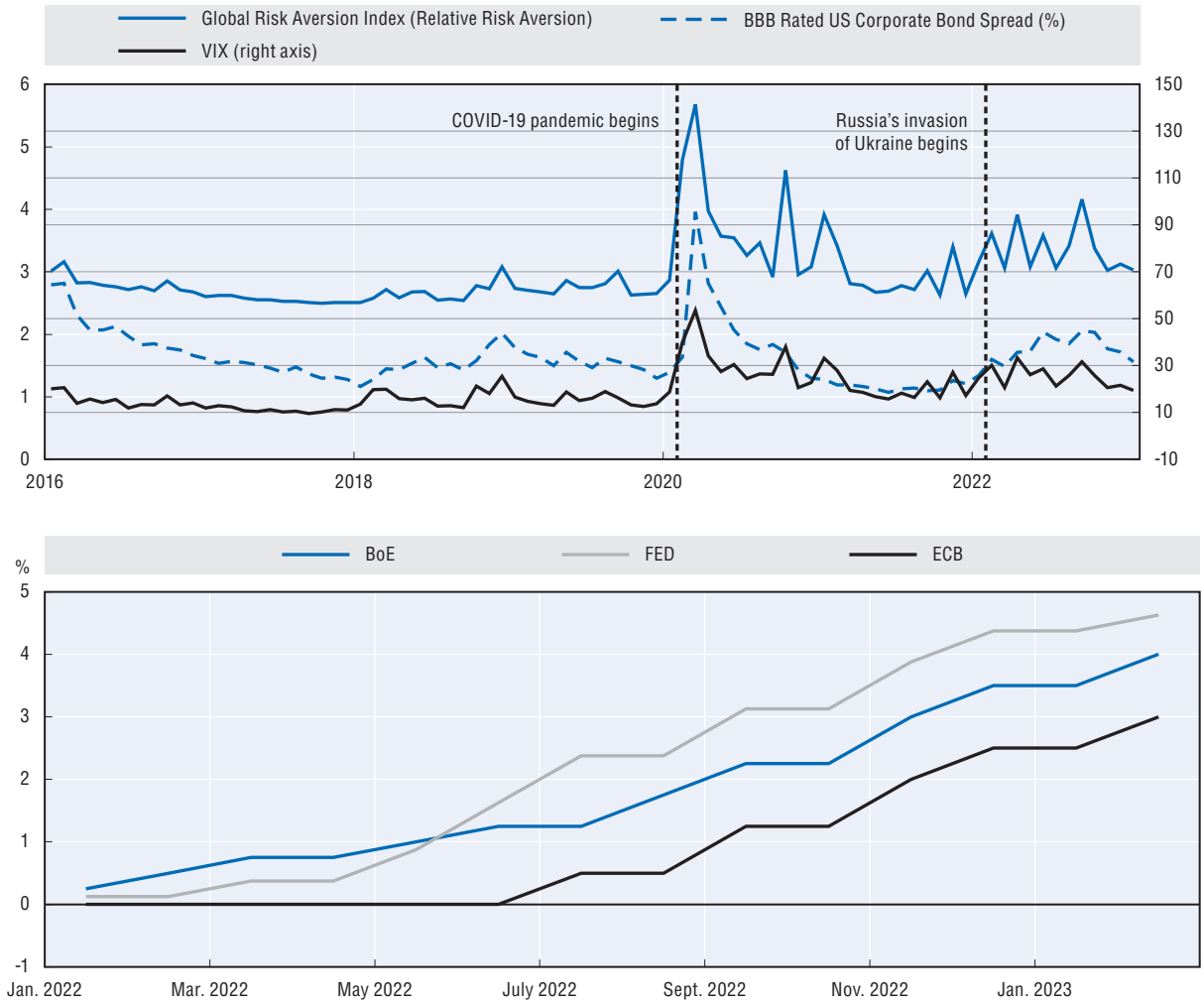
USD billion

Note: Data for emerging economies exclude Türkiye and Mexico. Emerging Asia includes Indonesia, India, Thailand, Philippines, Viet Nam and China for equity flows, and Indonesia, India and Thailand for debt flows.

Source: IIF (n.d).

StatLink https://stat.link/xtpmfs

Figure 2.15. **Global risk aversion index, corporate bond spread, VIX and policy rates of FED, BoE and ECB**



Note: VIX = Cboe volatility index; FED = US Federal Reserve; BoE = Bank of England; ECB = European Central Bank.

Source: Bekaert, Engstrom and Xu (2022); Federal Reserve Bank of St. Louis (FRED); "ICE BofA BBB US Corporate Index Option-Adjusted Spread", retrieved from FRED, BIS.

StatLink https://stat.link/gdne0x

The US Federal Reserve started its current balance-sheet reduction in June 2022 with a monthly cap of USD 47.5 billion worth of assets in its bond portfolio, and increased the cap to USD 95 billion from September. The Bank of England implemented a similar programme and started selling short- and medium-term bonds in its portfolio in November 2022 (Stubbington, 2022).

After the 2007-08 global financial crisis (GFC), and apart from some short recesses, financial markets and the banks faced exceptionally accommodative central bank policies of low interest rates and unprecetended bond purchases. Large-scale asset purchases of major central banks lead to currency appreciation, lower bond yields, higher financial asset prices and capital inflows for emerging economies (Bhattarai, Chatterjee and Park,

2021). Policy normalisation efforts were interrupted with the inception of the pandemic, which paved the way for a new wave of expansionary policies. In the current episode of monetary tightening, major central banks, determined to rein in inflationary pressures, are communicating prolonged monetary tightening until headline inflation together with inflation expectations become aligned with their objectives. In this regard, capital flows to emerging economies may continue to be volatile in the coming months, and possible outflows pose a risk of currency depreciation and a slowdown in credit growth and economic activity.

Smoothing capital flows against currency depreciation pressures

The US dollar appreciated against other currencies globally in 2022 in one of the US Federal Reserve's fastest monetary tightening cycles. Throughout 2022, the currencies of the ASEAN countries mostly performed relatively better than the euro, pound sterling and yen on average (Figure 2.16). The Lao kip is an exception, having lost more than half of its value in the face of global monetary tightening and a low level of foreign exchange reserves in terms of imports. The weakening of the currency moderated following a rate hike by the central bank in October.

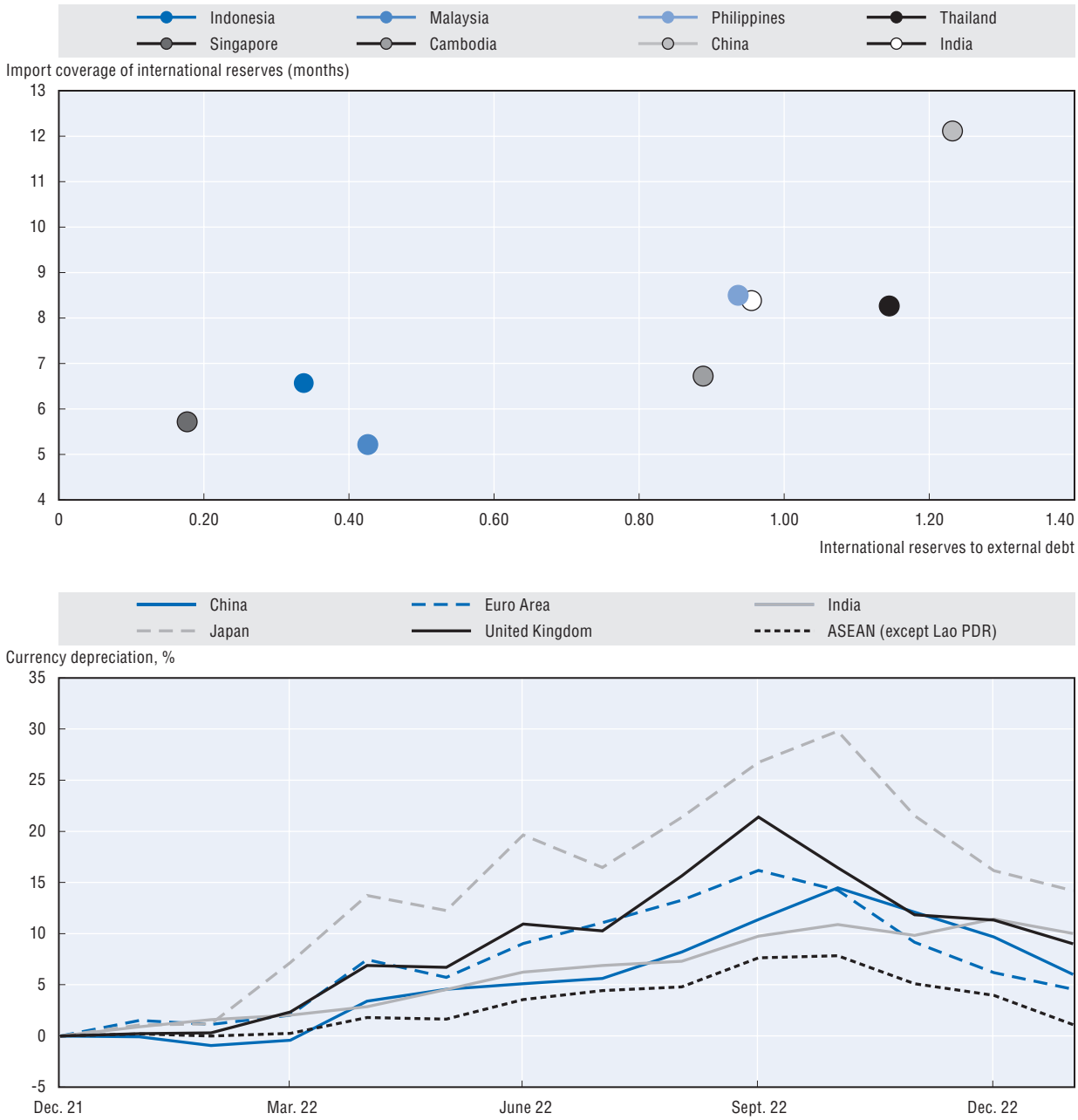
Depreciation pressures on local currencies during capital outflows exacerbate domestic inflation and could result in balance-sheet weakness in the corporate sector, which could hamper financial stability and lead to deleveraging. The foreign exchange reserves of central banks, typically accumulated during ample capital inflows, serve as a buffer against capital outflows in times of global risk aversion and monetary tightening. Central banks can lean against these exchange-rate movements to curb excessive swings in order to limit inflationary effects and preserve financial stability, depending on the level of international reserves. India, Singapore and Thailand have already been reported to be using their reserves to support their currencies (Kajimoto and Kihara, 2022).

Foreign exchange interventions, apart from their direct impact on market prices, also carry an important signalling effect in that the timing and strength of the interventions provide information to the market about the views of the central bank regarding the future path of the exchange rate and its monetary policy stance (Patel and Cavallino, 2019).

Southeast Asian countries accumulated a substantial amount of foreign currency reserves following the Asian Financial Crisis of 1997 and most have sufficient international reserves to cover at least three months of imports. China has the largest coverage, with 12.1 months of imports (Figure 2.16, above). Singapore, Malaysia and Indonesia hold relatively lower levels of reserves relative to their total external debt; however, this ratio improves significantly for Malaysia and Indonesia when only short-term external debt is considered, improving from 0.44 to 1.14 for Malaysia and from 0.34 to 2.78 for Indonesia, respectively.

Given the risk of a protracted tight monetary environment globally consequent to the persistence of inflationary pressures, limited foreign exchange reserves may not be sufficient to carry the full burden of capital outflows and exchange-rate depreciations. In this case, capital flow measures can be used to complement the more conventional tools of interest-rate hikes and foreign exchange interventions.

Figure 2.16. **Reserve adequacy indicators and currency depreciation against US dollar, December 2021 – January 2023**



Note: International reserves include gold reserves. External debt represents the total value of outstanding long- and short-term debt. Reserve adequacy indicators represent the level in June 2022.

Source: Authors' calculation based on IMF, CEIC and national sources.

StatLink https://stat.link/h4951y

The empirical results of capital flow management measures are somewhat mixed in the literature, depending on the type of measures and the conditions during implementation. The effects of measures targeting inflows and outflows can be asymmetric. Gochoco-Bautista, Jongwanich and Lee (2012) find that measures against capital outflows resulted

in more capital outflow for Asian economies, unlike the rest of the world, between 1995 and 2007. Erten, Korinek and Ocampo (2021) emphasise the signalling effect of capital management measures for foreign investors. If interpreted negatively, this signalling effect can produce unexpected consequences that are at odds with the intentions of policy makers. Implementing capital management measures prudently – in combination with other policies to curb excess volatility of capital flows and exchange rates – would thus be a better option for providing a positive signal to investors.

Preserving financial stability through macroprudential policies

Coping with cross-border capital flows is more challenging for emerging economies because of the large size of the flows relative to the absorbing capacity of their financial systems (OECD, 2021; Claessens and Ghosh, 2013). This is the case despite growing initiatives to improve the depth of financial markets. The type and extent of vulnerabilities created during the inflows depend on the composition and scale of these flows, the characteristics of each economy, such as financial market development, institutional environment and exchange-rate regime as well as the implementation of appropriate policies in response to the adoption of technological developments such as crypto assets (Box 2.4).

Box 2.4. **Capital flow management measures and the rise of crypto assets**

The development of blockchain technology and the accompanying rise of crypto assets is gradually changing the way economic transactions are conducted. This has introduced new challenges for governments to preserve the effectiveness of capital flow measures and cope with tax evasion while protecting consumers from potential fraud.

In order to curb both the volume and volatility of inflows and outflows, capital flow measures are typically targeted to restrict conversion between local and foreign currencies, to limit the cross-border transfer of funds and assets, and in some cases to curb the right to hold or trade certain assets depending on the residency of the transacting parties. Proper implementation of these measures requires collaboration among financial intermediaries such as commercial banks, brokerage houses and foreign exchange bureaus, which are responsible for collecting mandatory information regarding the identity of the transacting parties and for enforcing the rules imposed by the public authorities. However, the inherent characteristics of crypto assets limit the ability of regulators to validate the nature of the transactions and the identities of the counterparties. Moreover, intermediaries of crypto transactions are not obliged to comply with standards for implementing regular capital flow measures. In addition, some crypto assets are traded on a peer-to-peer basis in the absence of an intermediary.

Although total market capitalisation of crypto assets constitutes a small share of financial assets globally and fluctuates significantly with volatile prices, it has quintupled since 2020, reaching more than USD 1 trillion at the end of 2022. Crypto assets can be used for various purposes, including but not limited to gathering speculative income, avoiding capital flow measures, evading tax liabilities and transferring remittances. The level of crypto adoption varies considerably across countries and is particularly high in Viet Nam, the Philippines, India, Thailand and China, which were ranked among the highest ten countries for cryptocurrency use between July 2021 and June 2022 (Chainalysis, 2022). A key driver of the high adoption of crypto assets in the region might be that they offer lower costs for

Box 2.4. **Capital flow management measures and the rise of crypto assets** *(cont.)*

remittance payments and faster transaction times than other payment methods. Conversion of domestic fiat currencies to stablecoins – where the value of the asset is generally pegged to hard currencies or commodities – has provided another motive as households in developing and emerging economies seek to shield themselves against declines in purchasing power during times of sharp depreciation, especially when there are strict capital controls (Aramonte, Huang and Schrimpf, 2022).

Von Luckner, Reinhart and Rogoff (2021) emphasise the importance of capital control evasion as a key factor in the expansion of crypto markets. They note the simultaneous rise of Bitcoin market activity and imposition of capital controls in Argentina. Hu, Lee and Putniņš (2021) estimate that about a quarter of Bitcoin trades at Chinese exchanges between 2011 and 2018 were made to circumvent capital controls. In a similar vein, Alnasaa et al. (2022) present cross-country empirical evidence of a negative relationship between capital account openness and the adoption of crypto assets.

Despite some countries' efforts to curb the use of crypto assets by imposing restrictions, the effectiveness of these measures has so far been limited. Moreover, although numerous economies are currently making efforts towards the issuance of a central bank digital currency that could alleviate the negative impacts of crypto assets on the effectiveness of economic policies, the final outcome of these efforts is uncertain. Avoiding the undesirable consequences of the development of crypto assets requires clarification of the legal status of these assets and creation of a regulatory framework that enables the necessary infrastructure to enforce economic policies. In this context, enhancing international co-ordination for developing a regulatory framework for crypto assets will be pivotal to ensuring the consistency of rules across different jurisdictions and preventing potential regulatory arbitrage where crypto service providers divert their operations to countries with more favourable rules.

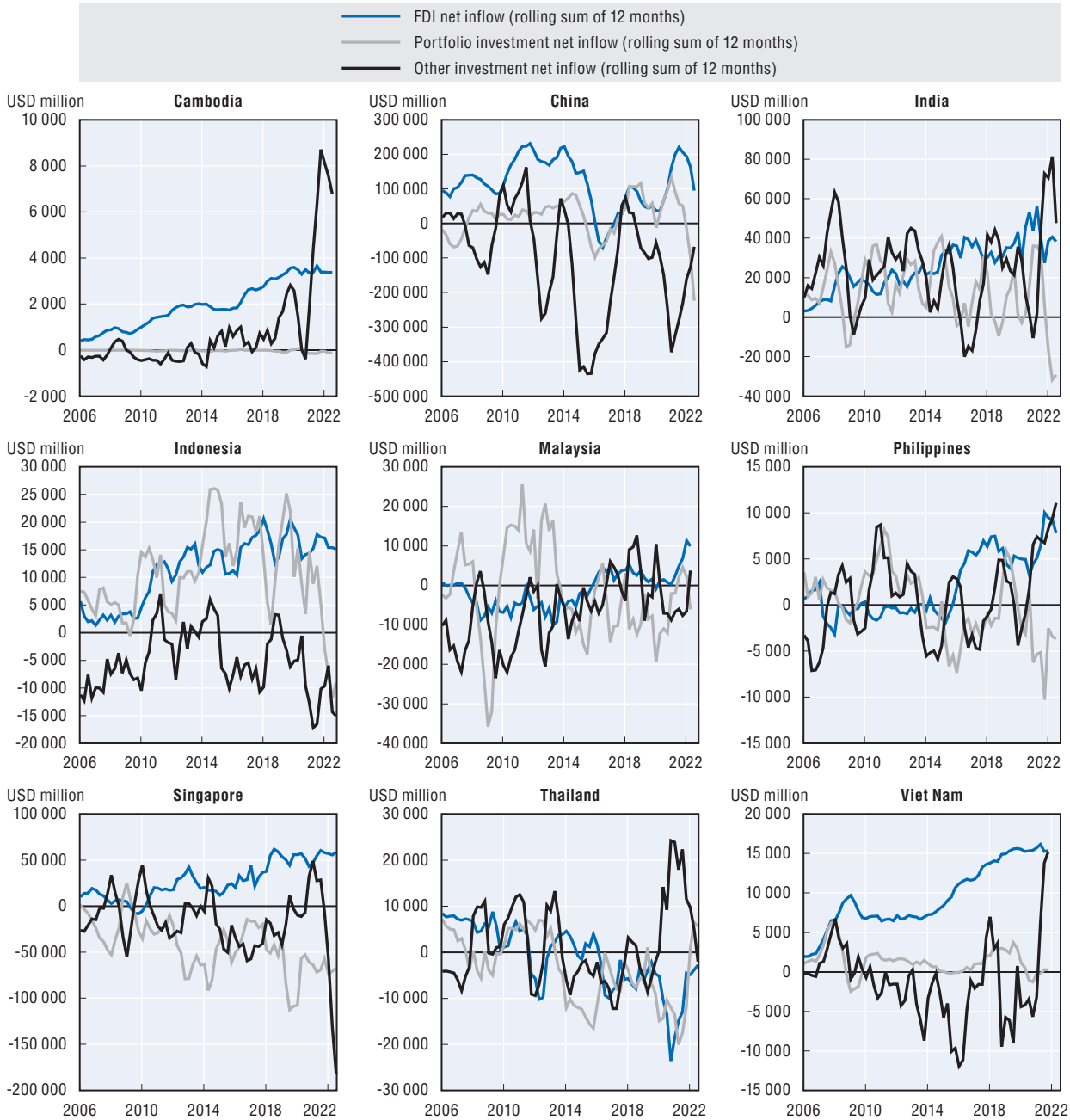
Inflows of net foreign direct investment (FDI), which are typically longer-term flows, have followed a relatively steady path over time (Figure 2.17). Cambodia, China, India, Indonesia and Viet Nam have received positive and progressively increasing net direct investment flows since the GFC. However, in line with empirical evidence, portfolio and banking flows are generally more volatile between 2008 and 2022.

Debt flows, i.e. portfolio debt and banking flows, are more closely associated with global liquidity conditions and external interest-rate movements than FDI and equity flows. They not only exhibit sizable swings but are also identified as short-term flows that are more susceptible to reversals.

Within this category, capital flows intermediated through the banking sector comprise a substantial portion of the cross-border flows. Such capital flows typically contribute to the building up vulnerabilities over the period of high levels of inflows by boosting credit growth along with financial asset prices. Most of the region's countries have been progressing through an uptrend of credit, although at different speeds, and have reached total credit levels higher than the nominal income (Figure 2.18).

Figure 2.17. **Net FDI, portfolio and other investment inflows, rolling 12-month sum**

USD million



Note: "Other investment inflows" are mostly comprised of banking flows according to the BPM6 standards of the IMF.

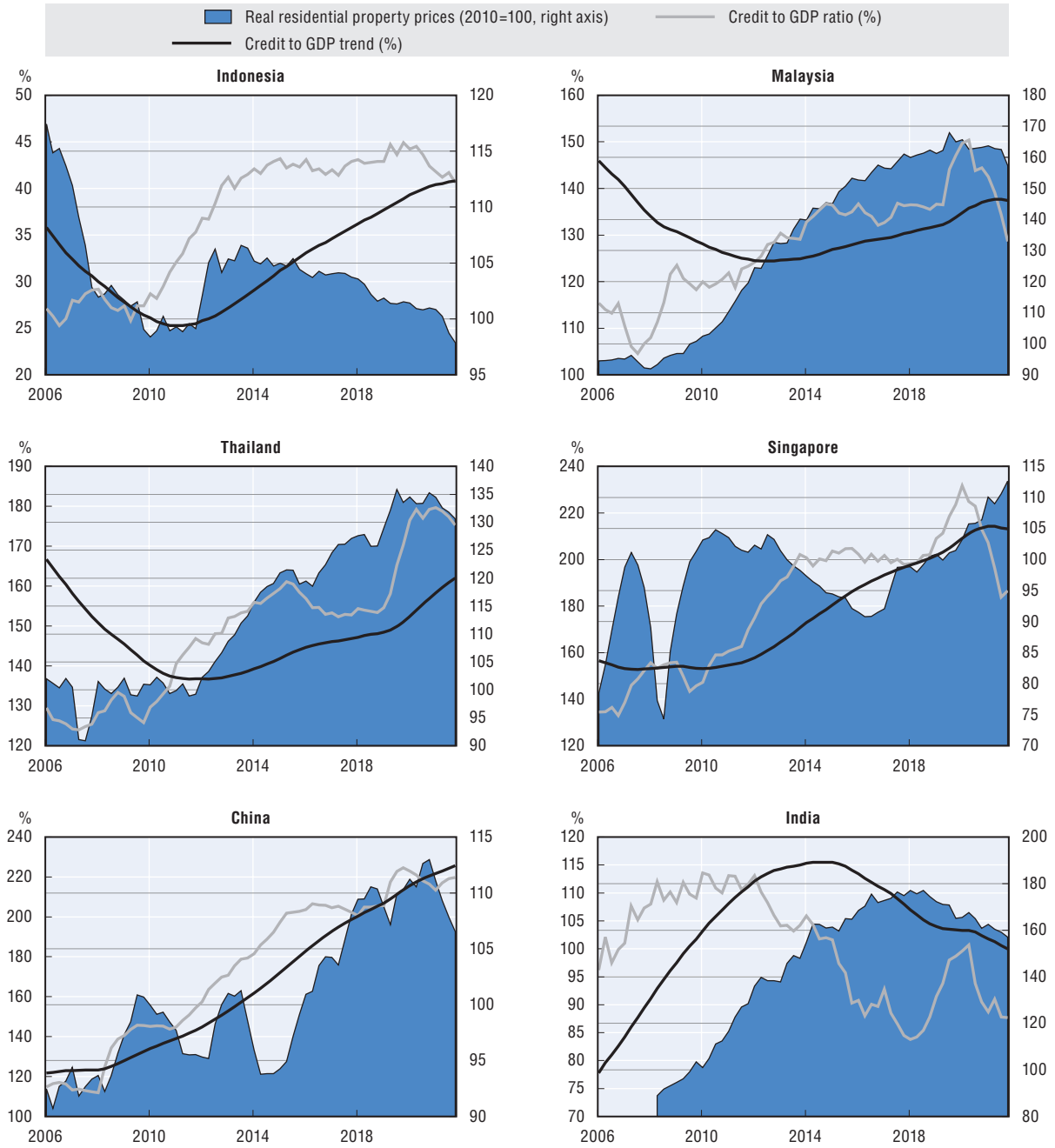
Source: Authors' calculation based on IMF data (Accessed on 27 February 2023).

StatLink https://stat.link/jviot4

Thailand, in particular, has gone through a considerable financial deepening since the GFC and encountered a sharp uplift in credit growth after the pandemic, concurrently with a wave of net cross-border banking inflows. Possible vulnerabilities such as currency

and maturity mismatches in the banking sector – complicated by the weakness in tourism revenues and a surge in prices of residential properties – should be monitored in case of further capital outflows and possible exchange-rate pressures.

Figure 2.18. **Actual and trend credit-to-GDP ratio, real residential property prices**



Source: BIS.

StatLink https://stat.link/59mhu1

There has been a post-pandemic spike in credit for households and corporates in the region 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 if a sharp cutback in credit may disrupt the ongoing economic recovery from the pandemic. Economies have already been undergoing a process of slowdown in credit activity and a drop in credit-to-GDP gaps which is the divergence of the credit-to-GDP ratio from its long-term trend and considered as a guide for setting appropriate prudential policies (Figure 2.18).

Empirical evidence shows that prudential policies in emerging economies are effective both in mitigating the spillover effects of monetary tightening by major central banks and in smoothing out the excesses of financial cycles. Macroprudential tools targeting domestic borrowers assist in curbing excesses in credit growth during financial cycles (Fendoğlu, 2017). Moreover, reserve requirement measures are identified as supporting credit growth during global monetary tightening; this is also valid for loan-to-value (LTV) ratio restrictions on house prices (Coman and Lloyd, 2022). However, supporting slowing credit growth by easing macroprudential tools could be more challenging than avoiding excessive growth in the boom phase of a financial cycle. The existing empirical evidence provides weaker support for the effectiveness of macroprudential policies during the bust periods especially for emerging economies (Cerutti, Claessens and Laeven, 2017).

Countries in the region have implemented various prudential policies over time. Use of countercyclical capital buffers, liquidity ratios and reserve requirements on the banking sector along with LTV ratio limits are among the tools most commonly used to date, where the adoption of macroprudential policies is at a lower level in Cambodia, Lao PDR and Viet Nam (OECD, 2021).

In the event of a worsening in capital outflows, which can translate into a slump in credit growth, recalibration of macroprudential tools in a targeted fashion may be required to cushion the credit flow in the economy and mitigate the harmful effects on consumption and asset prices.

Conclusion

The inflationary episode triggered by the COVID-19 pandemic and the war in Ukraine is one of the broadest ever. It has been among the most severe such episodes for Emerging Asia, a region where inflation is generally lower than in advanced economies. The unique magnitude, scope and duration of this episode threaten to entrench inflation expectations. In designing policies to prevent this, authorities must also work to protect food security and stabilise capital flows. These objectives may conflict occasionally, requring policy makers to pursue a delicate balancing act with ramifications for health of Emerging Asian economies in the short, medium and long term.

A multifaceted inflationary episode demands a multifaceted response. In addition to addressing inflation directly, managing the effects is also key. Food security must be preserved through tools such as precisely targeted price controls; local currencies must be supported with judicious use of foreign reserves; capital flow volatility must be calmed with careful exchange-rate management; and explosive credit growth must be prevented using macroprudential policies that promote caution without unduly stifling investment.

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Chapter 3

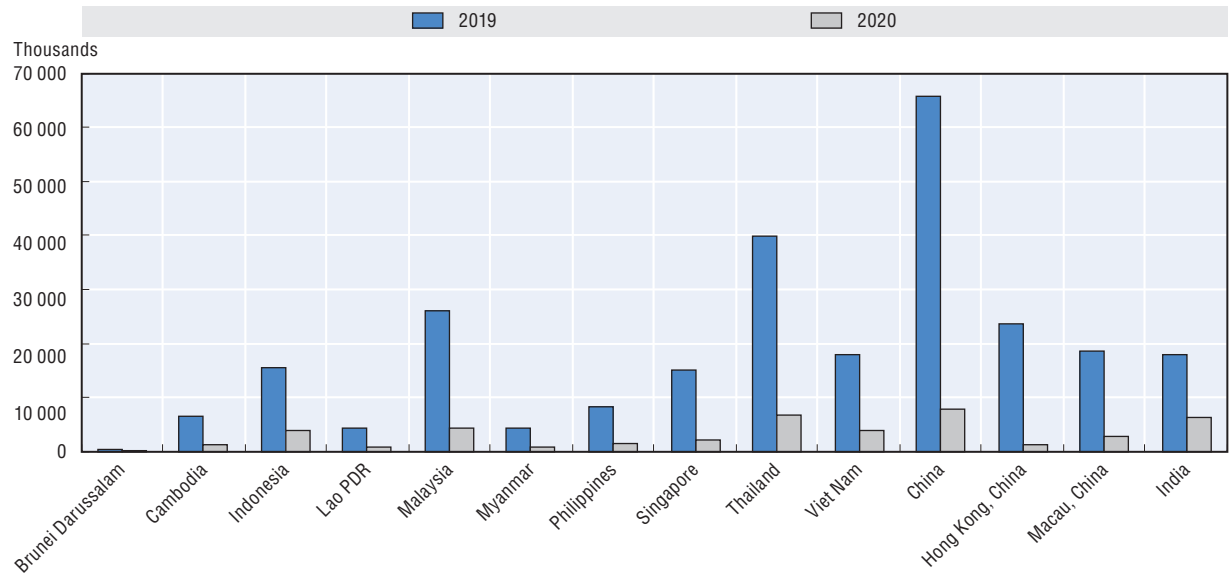
Post-pandemic travel and tourism in Emerging Asia: Adaptation, recovery and challenges

Tourism is a major component of Emerging Asian economies, and the sector is beginning to rebound as the restrictions implemented in response to the COVID-19 pandemic have been lifted. However, the interruption of tourism allowed countries in the region to consider reforms in the sector, including diversifying inbound travel markets, promoting domestic tourism and addressing labour market challenges. Many enterprises, in particular MSMEs, require assistance in digitalising their operations and human capital must improve to enhance productivity. Furthermore, protecting vulnerable workers and making tourism jobs attractive to address labour shortages are essential. There is also a need to adapt to new travel preferences. In addition to local travel and rediscovery, lockdowns and focus on illness prevention reinvigorated desires for nature-based tourism or experiences focused on health and wellness.

Introduction

Tourism is recovering in Emerging Asia as travel restrictions ease and confidence returns, but the pandemic and response dealt a severe blow to the region's important travel and tourism sector, and challenges lie ahead. During the pandemic, tourist arrivals in the region decreased significantly, affecting millions of people reliant on tourism revenues. Physical distancing, lockdowns and border restrictions impacted all travel, tourism and hospitality stakeholders, from street-food vendors and small tour operators to high-end restaurants, international hotel chains and major airlines. As international arrivals plummeted (Figure 3.1), destinations that depend heavily on tourism as an income generator were seriously affected. However, recovery accelerated in 2022, as travel restrictions eased. Globally, destinations welcomed more than twice as many international tourists in the first nine months of 2022 as in the same period of 2021 (UNWTO, 2022a). The Asia-Pacific region recorded even stronger year-on-year growth, as international tourist arrivals more than tripled (up 230% over January-September 2021), but nonetheless remained 83% below 2019 levels, as some destinations, particularly the People's Republic of China (hereafter "China"), remained closed to non-essential travel.

Figure 3.1. **Asian tourism arrivals before and during the COVID-19 pandemic**



Source: Authors' compilation based on UNWTO (2022b), *UNWTO World Tourism Barometer*, Vol. 20/3, May 2022, https://www.e-unwto.org/toc/wtobarometereng/20/3.

StatLink https://stat.link/pfq97o

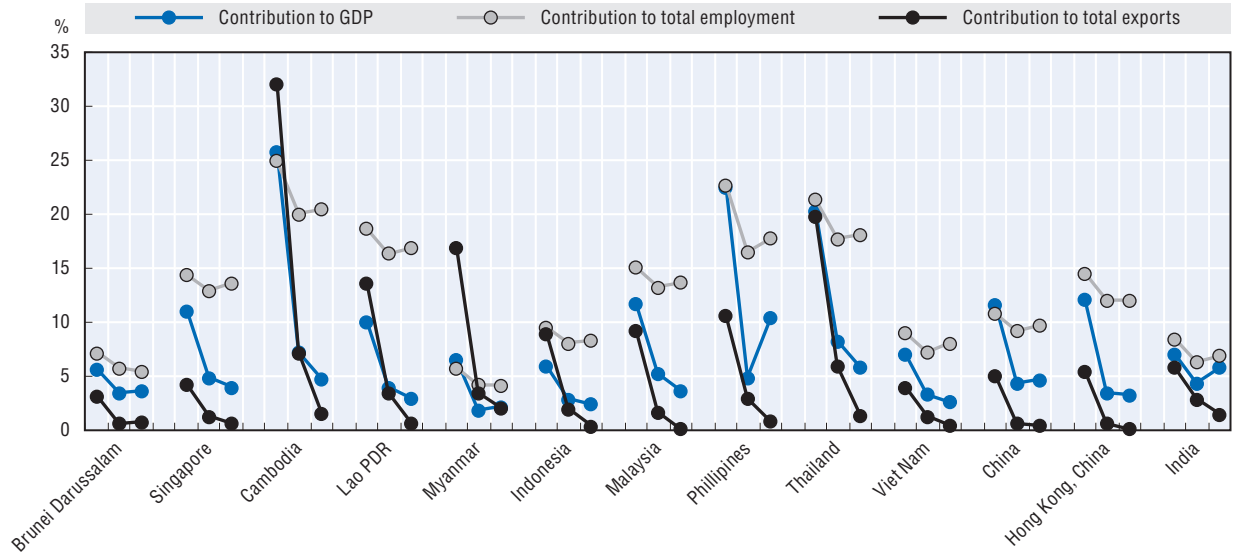
This chapter analyses the impact of the COVID-19 pandemic on the travel and tourism sector in Emerging Asia and examines the challenges and opportunities ahead. The first section presents the contribution of travel and tourism to the region's economies. It reviews the effects of the pandemic on the travel and tourism industry, including the impact of COVID-19 restrictions on employment and the labour market, and considers how to support and diversify both international and domestic travel and tourism. The second section focuses on how the pandemic has changed tourist preferences, with greater interest in local travel, nature destinations and wellness tourism, and considers how Emerging Asia can adapt.

Contributions of the tourism sector in Emerging Asia

Emerging Asia enjoyed a booming travel and tourism industry prior to the COVID-19 pandemic. Southeast Asia had become known as a thriving tourism region, with 138.7 million international tourist arrivals in 2019. Travel and tourism contributed 11.7% to the Southeast Asian economy and employing 41.8 million people, or 13.2% of total employment (WTTC, 2022). 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. They were the most significant tourism spenders, with around one-fifth of international tourist spending, far ahead of the United States and Germany (UNWTO, 2020).

In the lead-up to the pandemic, several Emerging Asian economies were highly dependent on tourism. In 2019, tourism contributed 25.8% of total gross domestic product (GDP) in Cambodia, 22.5% in the Philippines and 20.3% in Thailand. Contributions to exports from international visitor spending were very high in Cambodia (32.1%), Thailand (19.8%), Myanmar (16.9%) and Lao PDR (13.6%) the same year (WTTC, 2022). Although the contribution of tourism to GDP started to rise again in 2021, its contribution to exports continued to decline in most countries. In 2021, industry employment showed recovery in all countries (Figure 3.2).

Figure 3.2. **Travel and tourism contribution to economy, 2019-21**



Note: Contribution includes direct, indirect and induced impacts.

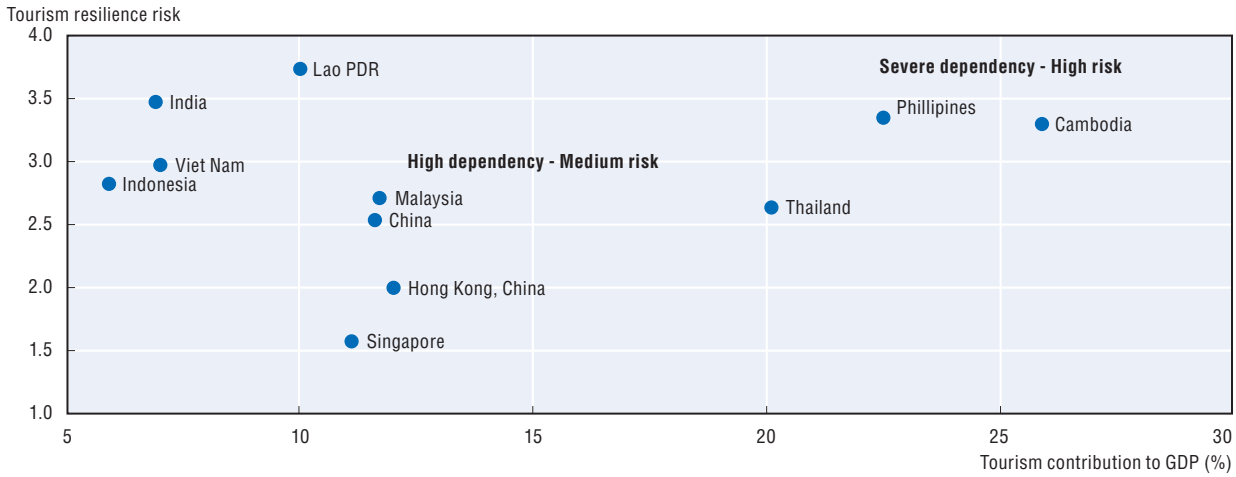
Source: Authors' compilation using data from WTTC (2022), *Economic Impact Reports* (data bank), https://wttc.org/Research/Economic-Impact.

StatLink https://stat.link/kgr19s

Figure 3.3 presents a picture of the resilience of the travel and tourism industry in Emerging Asia, plotting each country's tourism risk resilience (TRR) score against the dependence of its economy on tourism. Cambodia and the Philippines, where tourism accounts for 25.8% and 22.5% of GDP, respectively, are severely dependent on tourism and at high risk, with high TRR scores (3.30 and 3.35). Lao PDR is also severely vulnerable (TRR score

3.74) and increasingly dependent on tourism (10% of GDP), while India is at the borderline between severe and high risk, though less vulnerable with dependency on tourism at a medium level. Hence it is questionable whether these countries have the supply of services and infrastructure needed to handle an increasing volume of international tourist arrivals. Thailand is at the borderline of severe dependency on tourism (20% of GDP), but TRR is at a medium level (2.64), indicating that the country might be able to adjust. Countries with high dependency on tourism but at medium risk are Malaysia and China, while Indonesia and Viet Nam are at medium resilience risk and medium dependency. Hong Kong (China) and Singapore, with relatively developed infrastructure and economies less dependent on tourism, are at lower risk.

Figure 3.3. **Tourism resilience risk, 2019**



Note: Data from Travel and Tourism Development Index 2021 (WEF, 2022) and WTTC (2022) provide input for calculation of Tourism Resilience Risk (TRR) score and scale employed by Word Bank (2020). TRR score was calculated in two steps. In the first step the authors estimated the mean score across eight pillars compiling the Travel and Tourism Development Index 2021 for Emerging Asia (WEF, 2022), namely: business environment; health and hygiene; information and communications technology (ICT) readiness; prioritisation of travel and tourism by the government; international openness; air transport infrastructure; tourism service infrastructure; and socio-economic resilience and conditions. In the second step, the mean score was converted into tourism resilience risk (TRR) score. TRR score was then plotted against the total tourism contribution to GDP (WTTC, 2022) to identify which countries' tourism sectors are most at risk and most likely to need support in response to the COVID-19 crisis. The results are divided into four risk categories by World Bank's TRR scale (2020): severe, high, medium, and low. "Severe risk" countries have the highest GDP dependency on tourism and highest TRR score, while "low risk" countries have low GDP dependency and a low TRR score. Dependency (GDP): Severe: >20%, High: 10-20%, Medium: 5-10%, Low: <5%. Resilience risk: Severe >=3.5, High: 3.0-3.5, Medium: 2.5-3.0, Low: 1-2.5. Myanmar and Brunei Darussalam are not included because the World Economic Forum does not collect data on either country for the index.

Source: Authors' calculations using WTTC (2022), *Economic Impact Reports* (data bank), https://wttc.org/Research/Economic-Impact and WEF (2022), *Travel and Tourism Development Index 2021: Rebuilding for a Sustainable and Resilient Future*, https://www3.weforum.org/docs/WEF_Travel_Tourism_Development_2021.pdf based on method and scale derived from World Bank (2020), *Rebuilding Tourism Competitiveness: Tourism Response, Recovery and Resilience to the COVID-19 Crisis*, World Bank, Washington, DC, https://openknowledge.worldbank.org/handle/10986/34348.

StatLink https://stat.link/kuza35

Travel picked up as restrictions were lifted

In the early phases of the pandemic, more than 90% of all destinations were under full or partial international travel restrictions and various forms of lockdown. Between late 2021 and mid-2022, all Southeast Asian countries and India eased international travel restrictions and opened up for international tourism. Thailand pioneered restoring international tourism

in Southeast Asia in July 2021 by launching the "Phuket Sandbox" plan, which allowed vaccinated foreign tourists to visit Phuket. Thailand later expanded its sandbox programme to include other key destinations. By 1 February 2022 it had resumed quarantine-free entry to all fully vaccinated foreign tourists under the "Test and Go" programme, and it later scrapped pre- and post-departure tests. With regulations and health contexts constantly changing, governments and the tourism industry must communicate clearly to consumers and businesses.

While most countries in Emerging Asia have opened their borders for inbound and outbound travellers and relinquished lockdown policies in 2022, travel to and from China was possible but remained highly limited until the end of the year. The country started to ease its zero-COVID approach in the last quarter of 2022. For most of Emerging Asia, the roll-out of COVID-19 vaccines and the easing of international travel restrictions led to the start of gradual international tourism recovery. Airlines in Southeast Asia started to report more positive results, even though aviation recovery still has a long way to go. For example, the Singapore Airlines group recorded net profit in the second quarter of 2022 (Singapore Airlines, 2022), although passenger traffic at Changi Singapore Airport was still at 50% of pre-pandemic levels (Ministry of Transport Singapore, 2022). By June 2022, international travel bookings to Indonesia had reached 84% of 2019 levels, while bookings to the Philippines had reached 50% of pre-pandemic levels (IATA, 2022).

Despite diverse levels of socio-economic development, all Emerging Asian countries have embraced tourism as a vehicle for income generation, job creation and overall national economic development. International borders were open as of late 2022 in most countries in the region, with countries aiming to re-attract international visitors. From 15 March 2023, China fully opened its borders for international tourism, permitting all types of visas to be issued. China is the last Emerging Asian country to do so.

Box 3.1. **Depreciating currencies and inbound tourism**

The recent depreciation trend in Emerging Asia can place major pressure on import prices, but it can also benefit exports, including tourism. Holders of foreign currencies such as the US dollar or the euro will find tourism to be less expensive. This increases demand for tourism and consequently boosts tourism revenues.

Purna, Munandar and Bija (2021) use data from Indonesia, Malaysia and Thailand from 1995 to 2016 to show that "the exchange rate has significant positive effect on foreign tourist flow". The study also finds that an increased consumer price index (CPI) has a negative and significant effect on the flow of foreign tourists. Total trade (the sum of exports and imports as a percentage of GDP) and several other development indicators may have effects of different significance and sign depending on model specification. The exchange rate findings echo those of Agiomirgianakis, Serenis and Tsounis (2014) on inbound tourist flows for Turkey.

Making the analysis from the perspective of the outbound tourist, Webber (2001), finds that exchange rate volatility has a significant effect on where Australian tourists decide to travel, especially for ASEAN countries (Malaysia, Singapore, the Philippines and Thailand). Webber finds that excessive exchange rate volatility can lead to the cancellation of up to 40% of planned travel to a particular country as the effects are interpreted

Box 3.1. **Depreciating currencies and inbound tourism** *(cont.)*

as price changes. However, the effect is less pronounced for travel to the United Kingdom or the United States. Travellers tend to view Asia, Europe, and the United States as blocs for price comparisons in travel.

Sharma and Pal (2020) find that exchange rate volatility has a net negative effect on tourism inflows to India, robust to a variety of measures. These effects are more pronounced in the long run than in the short run, suggesting that policy decisions that affect exchange rates have a stronger effect than market-driven movements. As such, policy makers should consider the effects on tourism when managing exchange rates for other purposes such as promoting goods exports.

All four of these studies also highlight the importance of exchange-rate stability. Increased volatility in exchange rates will be interpreted as a source of risk by consumers and will therefore reduce inbound tourist flows.

Source: Agiomirgianakis, Serenis and Tsounis (2014), https://dx.doi.org/10.11130/jei.2014.29.4.700; Purna, Munandar and Bija (2021), https://doi.org/10.15294/jejak.v14i2.30417; Sharma and Pal (2020), https://doi.org/10.1177/0047287519878516; Webber (2001), https://journals.sagepub.com/doi/pdf/10.1177/004728750103900406.

Diversifying and expanding international inbound markets

Prior to the pandemic, international tourism accounted for much of the industry's activity in Emerging Asia. In 2019, international arrivals accounted for 80% of tourism spending in Cambodia, more than 60% in Thailand and 60% in Myanmar. Intra-ASEAN travel had expanded thanks to a visa exemption for ASEAN citizens traveling within the region (Connell, 2018). This boosted low-cost airlines (Duval and Weaver, 2017) and spurred tourism infrastructure improvements (Box 3.2). Intra-ASEAN tourism flow is unequal among countries, however, with Malaysia and Lao PDR depending primarily on this market. In contrast, the market share of ASEAN tourists to Viet Nam and the Philippines is relatively small (Figure 3.4A). From outside the region, Southeast Asia, which earlier hosted primarily European tourists, began being more dominated by tourists from East Asia, particularly China, as well as a growing number from South Korea and Japan (Hall and Page, 2017). In 2019, Chinese tourists accounted for more than a quarter of total international arrivals in Cambodia, Myanmar, Thailand and Viet Nam (Figure 3.4, Panel B). The structural imbalance of international inbounds weakened the resilience of Southeast Asian tourist destinations, particularly when China implemented its zero-COVID policy.

Intra-ASEAN tourism is dominated by travel between neighbouring countries. Malaysia generates the largest number of travellers to Singapore, Indonesia, Thailand and Brunei Darussalam, thanks to border-sharing among these countries. Similarly, tourists from Lao PDR, Cambodia and Myanmar account for significant traffic to Thailand (Figure 3.5).

Most travellers to Malaysia arrive by land, and accessibility to Lao PDR, Myanmar and Brunei Darussalam is also primarily by land. Thailand and Singapore have the best air accessibility, while Viet Nam, the Philippines and Indonesia have recently increased their air transport capacity. Maritime Southeast Asian countries like Singapore, Indonesia and Malaysia have an increasing number of international arrivals by water (Figure 3.6).

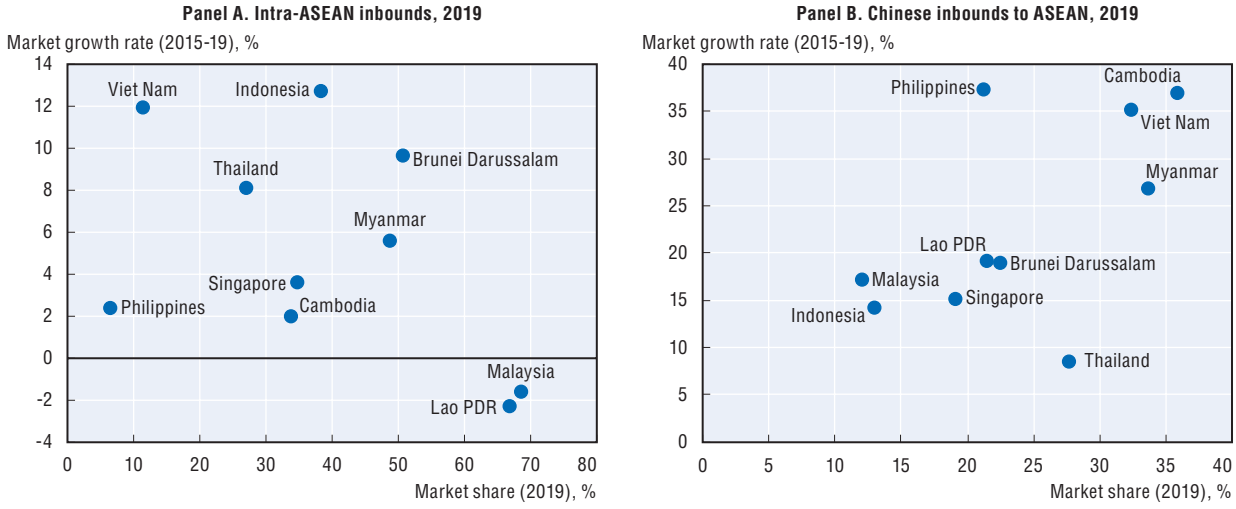
Box 3.2. **Low-cost carriers present opportunities in the tourism sector**

Low-cost airlines, also known as low-cost carriers or LCCs, can grow into an essential component of Emerging Asia's transportation and tourism sectors. LCCs generally offer short or medium-haul flights at lower prices than major carriers, with the discounts coming at the expense of amenities such as free checked baggage, seat selection, seat class or meals. LCCs are thus better suited for shorter flights or for passengers going on trips of shorter duration where less luggage is needed. Tourism, particularly intra-ASEAN tourism, represents an air-travel market segment where LCCs could shine. Since LCCs typically use smaller aircraft, the airport infrastructure needed to accommodate them is not as extensive as for major carriers. This could open opportunities for airport development near tourist destinations, with LCCs able to offer direct flights. In contrast, plans offered by major carriers often feature a journey in multiple stages that transit through a major centre. Provision of direct flights by LCCs to tourist destinations that are less in demand could also be a useful strategy for combatting overtourism in the most popular areas.

It is important for LCCs to develop brand loyalty, as it is easier for airlines to retain existing customers than to recruit new ones. Shen and Yahya (2021) explore components of perceived airline quality and find that both higher service quality and lower prices have positive impacts on customer satisfaction, which in turn promotes loyalty. Balancing the importance of price and quality is challenging because consumers are far more price sensitive in the LCC market than when using traditional airlines, but superior service and amenities may cost more. Shen and Yahya (2021) show that "airline tangibles", "empathy", "airline image" and lower prices have positive relationships with customer satisfaction, which in turn has a positive relationship with loyalty. "Airline tangibles" are the facilities and equipment inside the aircraft, such as the seats, toilets and entertainment options. "Empathy" refers to an airline's willingness to provide individualised care and attention to passengers, with the behaviour of the cabin crew towards passengers as the key determinant. As for "airline image", perceptions are often shaped by the direct interactions of customers with an airline, and maintaining consistent standards is key. Terminal tangibles and service are less important, yet infrastructure decisions should take account of how these attributes can feed into the attributes previously listed. While this strand of literature is limited, the results here are similar to those found by Suki (2014).

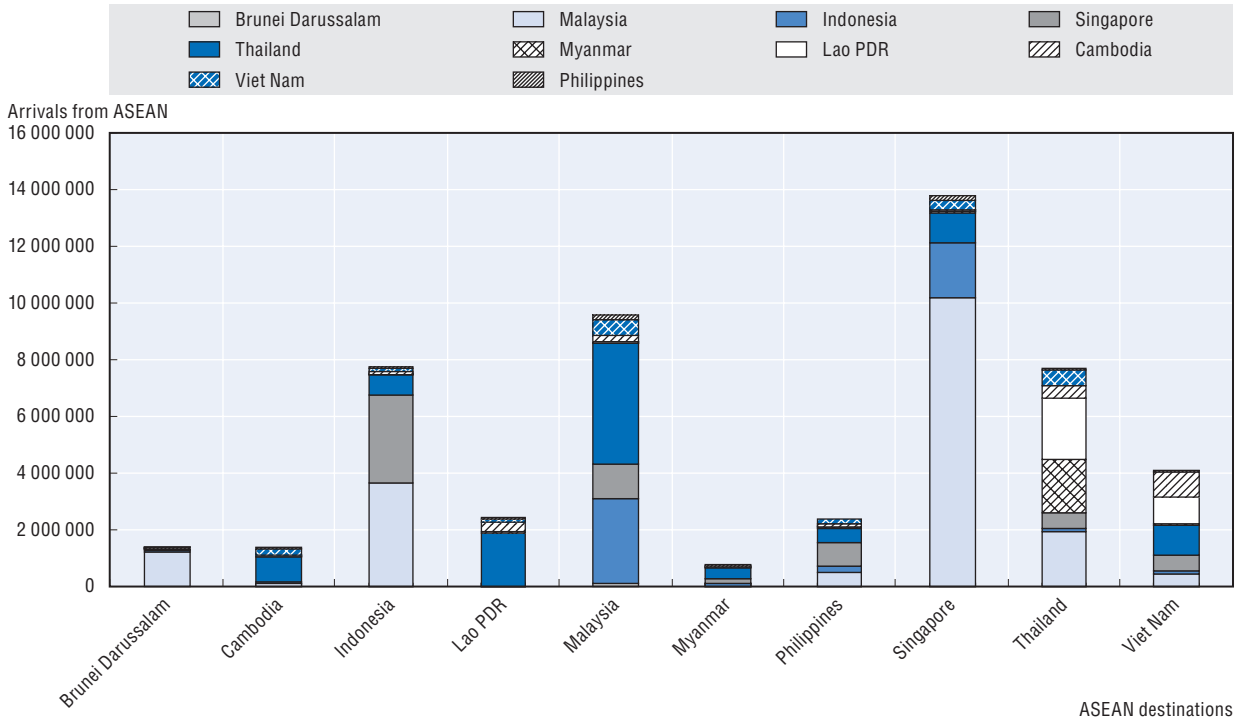
Source: Shen and Yahya (2021), https://doi.org/10.1016/j.jairtraman.2020.101966; Suki (2014), https://doi.org/10.1016/j.rtbm.2014.04.001.

Figure 3.4. **International inbounds to ASEAN**



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

Figure 3.5. **Intra-ASEAN inbound travel, 2019**



Source: Authors' compilation based on UNWTO (2021), *Compendium of Tourism Statistics, Data 2015–2019*, https://www.e-unwto.org/doi/book/10.18111/9789284422494.

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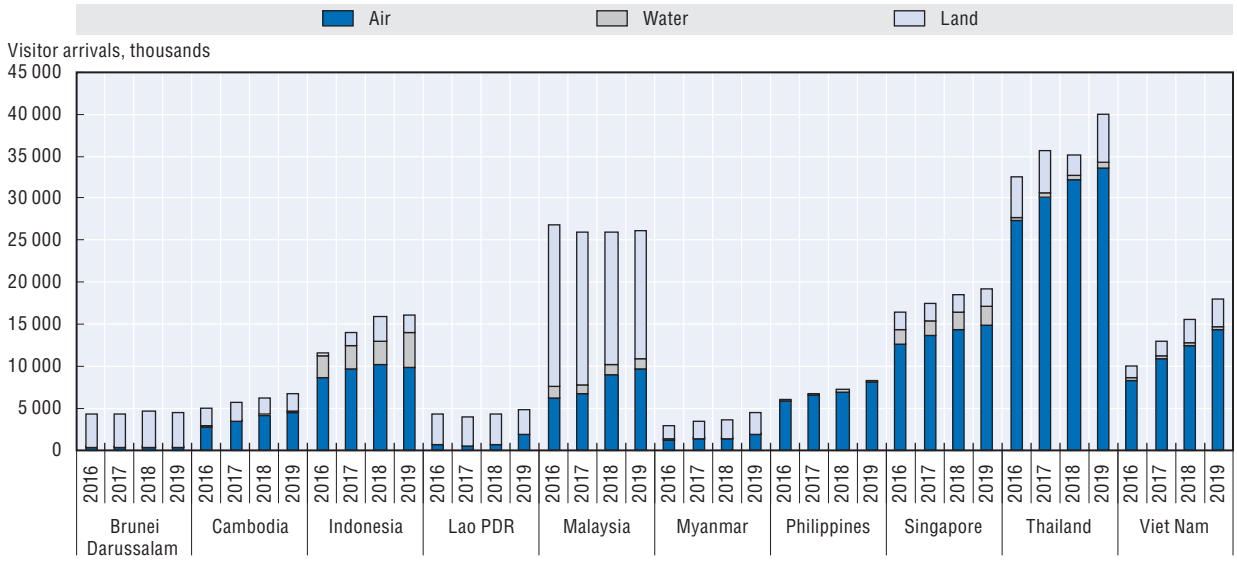
Figure 3.6. **ASEAN arrivals by mode of transport, 2019**



Source: Authors' compilation based on UNWTO (2021), *Compendium of Tourism Statistics, Data 2015–2019*, https://www.e-unwto.org/doi/book/10.18111/9789284422494.

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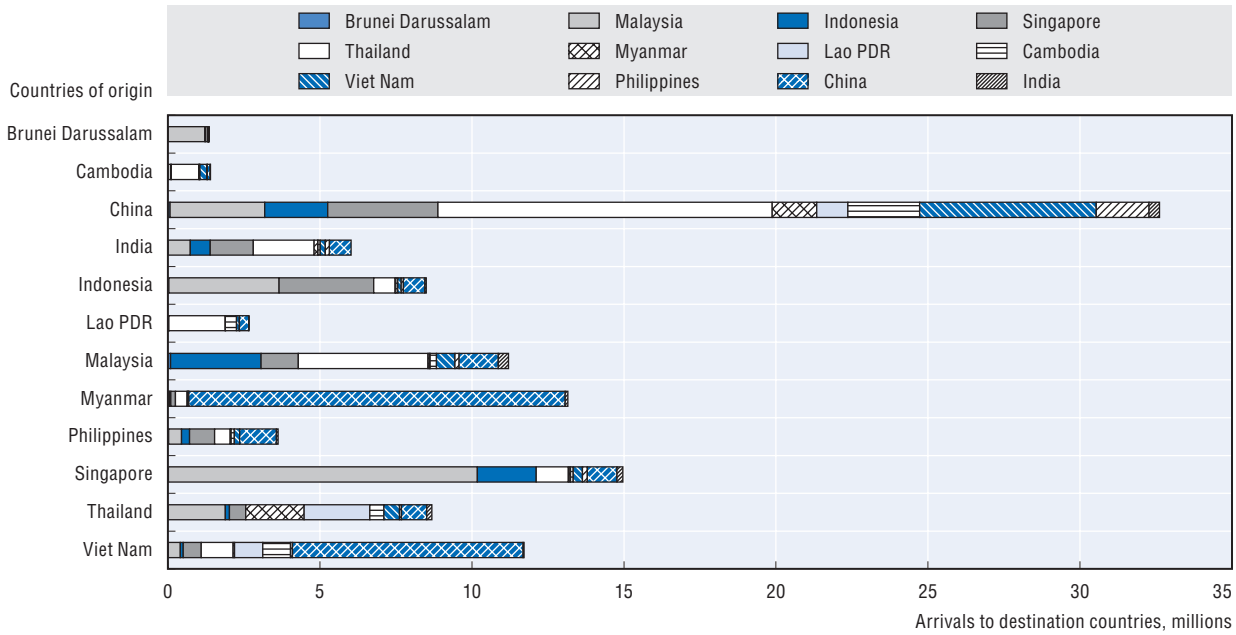
China is the largest source of visitors to all countries in Southeast Asia. The top destinations for Chinese tourists are Thailand, Viet Nam, Singapore and Malaysia (Figure 3.7). Four countries that are highly dependent on the Chinese market are Cambodia, Myanmar, the Philippines and Viet Nam, where the market's annual growth rate has been 25% to 40%, and the market share as of 2019 was 20-40% (Figure 3.4, Panel B). More than 50% of 45 million East Asian visitors to mainland China are from Hong Kong and Macau, which can also be at least partly attributed to the ease of access by land.

Figure 3.7. **Emerging Asia outbound tourist flows, 2019**



Note: China does not include Hong Kong, China or Macau, China.

Source: Authors' calculations based on UNWTO (2021), *Compendium of Tourism Statistics, Data 2015–2019*, https://www.e-unwto.org/doi/book/10.18111/9789284422494.

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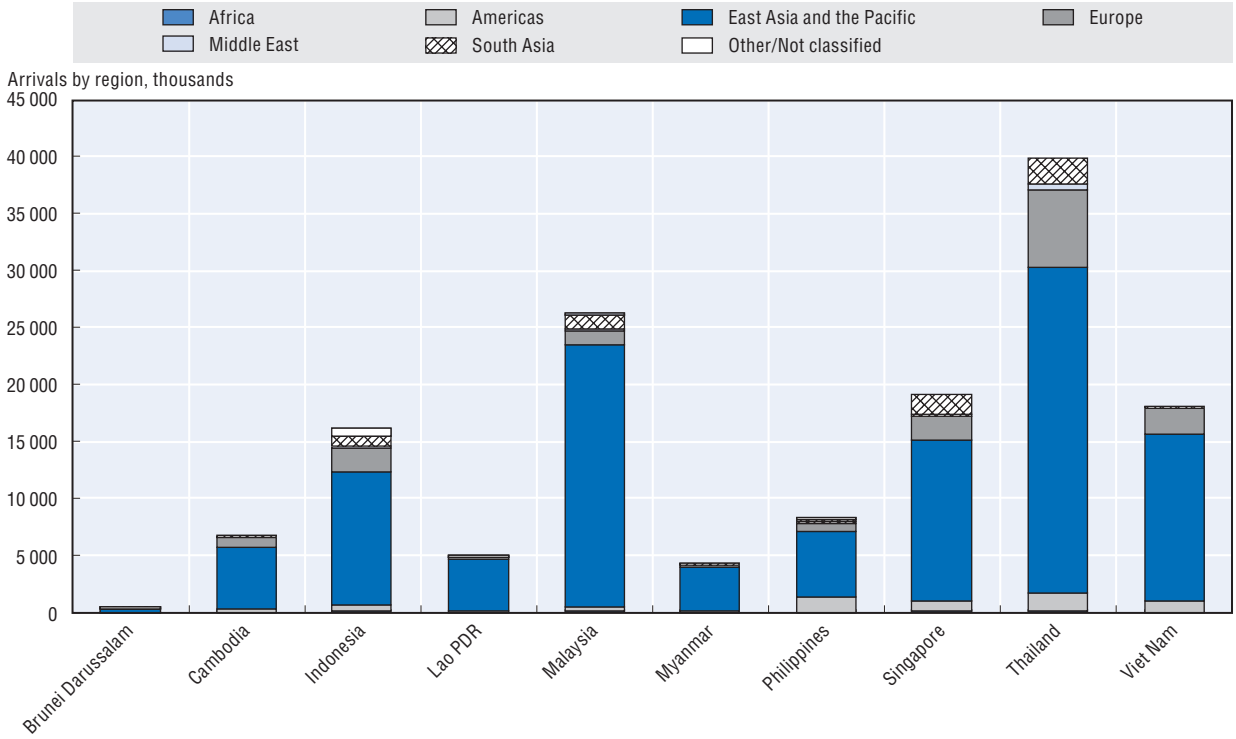
Southeast Asian countries, especially Thailand and Viet Nam, are increasingly targeting the Indian tourist market. Although India is not among markets with the highest number of outbound tourists, its population of more than 1.4 billion and its potential for high-spending tourists make it an attractive source market. Currently, the Indian market has yet to match the potential of having a large population and geographical proximity to Southeast Asia. The top destinations for Indian travellers in the region in 2019 were Thailand, Malaysia, Singapore, Indonesia and China (Figure 3.7). Significant Indian heritage remains in the culture, traditions, religions and physical sites of those four ASEAN countries. The Little India area of Singapore and Brickfields area of Kuala Lumpur, Malaysia are major attractions for Indian travellers. Figure 3.8 shows global arrivals to ASEAN countries, with Thailand, Singapore, Malaysia and Indonesia hosting the most tourists from South Asia (mainly India).

A structural imbalance in international tourism demand has weakened the industry's resilience (ADB, 2022), particularly when many countries in Southeast Asia are overly dependent on arrivals from China. Therefore, diversification of international inbound markets is recommended for some countries in the region, such as the Philippines, Viet Nam,

Myanmar, Cambodia and Lao PDR. Preparations to welcome Chinese tourists back to the region should take place in parallel with a revision of marketing strategies aimed at: i) increasing tourist traffic within ASEAN; ii) connecting with India; and iii) reconnecting with expatriates and the ASEAN diaspora.

Figure 3.8. **Inbound arrivals to ASEAN by region, 2019**



Source: Authors' calculations based on UNWTO (2021), *Compendium of Tourism Statistics, Data 2015–2019*, https://www.e-unwto.org/doi/book/10.18111/9789284422494.

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Strengthening intra-ASEAN travel is recommended particularly for the Philippines and Viet Nam, where there is relatively little regional traffic. In 2019, visitors from ASEAN to the Philippines accounted for only a tiny fraction of total inbounds (6%). Recommendations for the Philippines include increasing air connections to major ASEAN cities and tailoring marketing efforts to attract travellers from other ASEAN countries. Viet Nam has increased its market share of intra-ASEAN tourism to 11% in recent years in 2019. Although visitors from some ASEAN countries such as Thailand, Cambodia and Lao PDR to Viet Nam increased via the opening of the East-West Economic Corridor, the country needs further efforts to attract tourists from some other ASEAN countries, for example by increasing water recreational routes. Lao PDR, Cambodia and Myanmar also need to strengthen regional arrivals through market diversification. This is an urgent matter for Lao PDR, where 68% of arrivals are from Southeast Asia but where the growth rate is negative, indicating that the country's popularity is declining.

Given the long cultural and economic ties between India and Southeast Asia, attracting the Indian market is another option for redressing the tourism imbalance. The growing

number of Indians visiting Malaysia, Singapore and Thailand indicate that Myanmar, Lao PDR, Cambodia and Viet Nam could also target this potential market, although proper research and market intelligence would be necessary. Efforts include opening direct flights to increase accessibility from India and promoting and preserving Indian heritage in Southeast Asia. Malaysia's successful marketing campaign, Malaysia Truly Asia, and Singapore's multicultural identity set examples for other countries. Myanmar has a particular advantage as it shares a land border with India. Cambodia, Lao PDR and southern Viet Nam might also capitalise on their historic connections to India.

A third way to expand the market involves targeting expatriates and diaspora. The countries of Southeast Asia, as well as China and India, have a large proportion 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, tailored packages are needed to target expatriates as their preferences are not the same as those of other tourists. Countries in the region well acknowledge the importance of expatriate communities. The Thai Authority of Tourism, for example, offers special deals and discounts to expatriates (Helbe and Choe, 2020). Malaysian government introduced the Malaysia My Second Home (MM2H) Programme for foreigners to retire and live in Malaysia for an extended period of time.

Boosting support for domestic tourism

Globally, domestic trips (overnight visitors) numbered an estimated 9 billion in 2018, and more than half of these trips were taken in the Asia-Pacific region. The world's largest domestic tourism markets are in the demographically largest countries. 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 (WTTC, 2018). Domestic trips per capita ranged between 2.7 and 3.5 in Indonesia, Thailand and Malaysia in 2019. The Philippines and Viet Nam have emerging domestic tourism markets, with around one trip per person per year (Table 3.1).

Table 3.1. **Domestic trips by country, 2019**

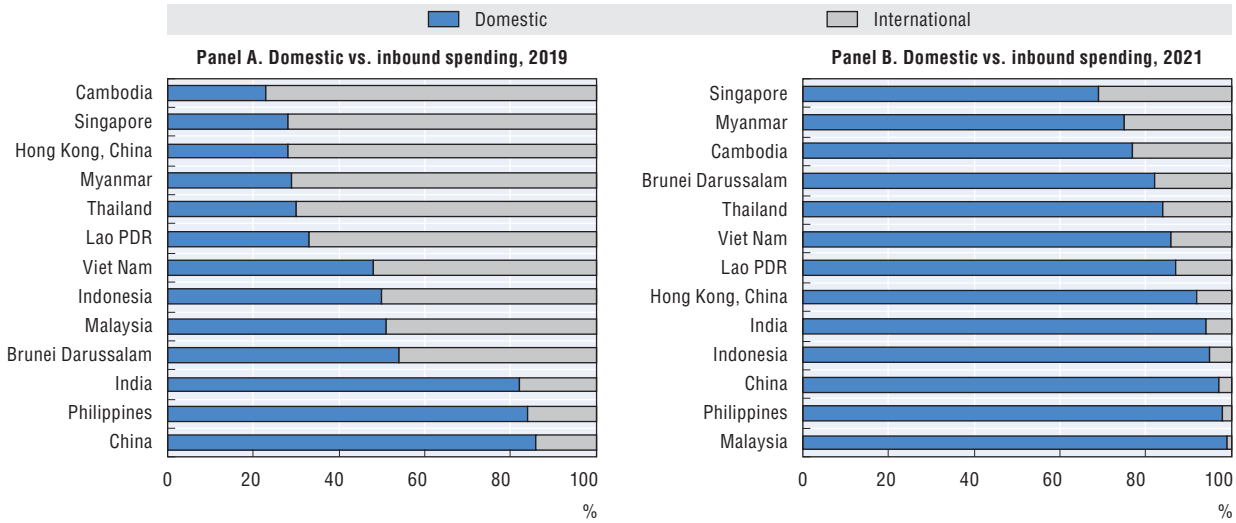
	Domestic visitor trips (million)	Population (million)	Domestic trips per capita
China	6 006	1 395	4.3
India	2 321	1 334	1.7
Indonesia	722	266	2.7
Thailand	230	69	3.3
Malaysia	113	32	3.5
Philippines	110	107	1.0
Viet Nam	85	96	0.9
Cambodia	11	15	0.8
Lao PDR	2	7	0.3

Source: Authors' calculations based on UNWTO (2021), *Compendium of Tourism Statistics, Data 2015–2019*, https://www.e-unwto.org/doi/book/10.18111/9789284422494.

China and India have the region's largest domestic travel markets, primarily due to their large populations and geographical size. China recorded 6 billion domestic trips in 2019, including overnight and same-day visitors. In terms of spending, Chinese domestic tourists spent USD 841 billion in 2017, overtaking the United States to become the world's most significant domestic travel and tourism market (WTTC, 2018). An average of eight new airports have been built every year since 2013 in China, while a rapidly developed high-speed railway has opened up previously remote places to domestic tourists. India, meanwhile, reported more than 2.3 billion domestic trips in 2019. India's government plans to build 100 new airports, with a budget of USD 60 billion, over the next 10-15 years to accommodate and stimulate demand for domestic travel. The rapid growth in middle-class income among households in emerging markets has been an essential driver of domestic tourism in the region (ADB and UNWTO, 2022).

Domestic tourism spending, defined as the tourism expenditure of a resident visitor within the economy of reference, can be higher than the revenue generated by international travel. 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 (Figure 3.9, Panel A). During the pandemic, domestic tourism and its share of spending increased significantly. In 2021, all countries in emerging Asia heavily relied on the spending of domestic tourists (Figure 3.9, Panel B).

Figure 3.9. **Domestic and inbound spending in Emerging Asian countries**



Note: China does not include Hong Kong, China and Macau, China.

Source: Authors' compilation based on WTTC (2022), *Economic Impact Reports* (data bank), https://wttc.org/Research/Economic-Impact, accessed on 7 October 2022.

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Prior to the COVID-19 pandemic, the balance of domestic and international tourism differed greatly across Emerging Asia. The countries with the greatest share of domestic tourism spending in 2019 were China (86%), India (82%) and the Philippines (84%). Domestic and inbound spending were more or less equal in Brunei Darussalam (54%), Indonesia (50%), Malaysia (51%) and Viet Nam (48%), while domestic tourism revenues in Singapore (28%) and Thailand (30%) were outweighed by international tourist spending. While the small

territorial size of Singapore might explain this, a full 70% of tourism revenue came from international tourists in Thailand. During the pandemic, however, domestic tourism gained greater importance in all countries in the region.

Due to extended periods of international travel restrictions across Asia from 2020 to early 2022, most countries in the region repositioned their tourism and marketing strategies to invigorate the domestic market. This focus on the domestic market could not compensate for the lack of international travel, but helped sustain important parts of the hospitality and tourism businesses in the region. In Thailand, for example, hotels started to base their marketing on Thai tourist behaviour. The Tourism Authority of Thailand (TAT) collaborated with Thai Smile Airways, the online travel and lifestyle platform Drive Digital and Tinder to promote "Single Journey" domestic tours specifically designed for the single traveller. TAT explained that the COVID-19 pandemic had changed travel behaviour, creating the need to think "out-of-the-box" and target solo travellers (TAT, 2020). Many destinations that had previously been popular among international tourists, such as Hoi An in Viet Nam, turned themselves into domestic tourism hotspots, for example by adding more local dishes to their menus. A programme titled "Vietnamese People Travel in Viet Nam" was launched to stimulate domestic tourism. In Malaysia, AirAsia launched the Unlimited Pass *Cuti-Cuti Malaysia* in 2020, priced at MYR 399 (Malaysian ringgit, or about EUR 83), allowing members of all Malaysia-based airline programmes unlimited domestic flights. In India, the decade-old "staycation" concept experienced a strong revival, embracing budget and luxury accommodation for more extended stays close to home (Sudevan, 2020).

Domestic tourism has proven its resilience in times of crisis as the region expands its middle class. Two strategies are recommended to capture the growth of the domestic market: i) market diversification, i.e. recognising and increasing the share of the domestic market in tourism revenue; and ii) product diversification through development of the domestic market. While recognising that domestic tourism cannot make up for the absence of international visitor arrivals, it is crucial to explore the full potential of this market. Some countries in Southeast Asia that have long favoured international tourism, such as Thailand, Singapore, Malaysia and Viet Nam, might consider further supporting domestic tourism. While some countries have already implemented initiatives targeted at domestic tourists including marketing, support for domestic tourism may also include the development of infrastructure to facilitate access, and assistance with digitalisation for MSMEs so they can promote their products effectively using the Internet and conduct e-commerce.

At the same time, businesses in the sector could invest in new products and services that are not only affordable for domestic tourists but also provide them with better value for money than do current offerings. Value-for-money is not only (or even necessarily) found in low-cost options, but also in unique opportunities that cater to the desires of the domestic market, even down to the local level. With strong domestic tourism, Indonesia and the Philippines might pursue a product development strategy targeting domestic tourists by providing new products, experiences and services. Better understanding is needed of travel behaviour, consumption, activities and the preferences of domestic tourists. Countries with small populations, such as Lao PDR and Cambodia, can implement both product and market diversification strategies. Singapore provides a good example of reorienting citizens to domestic tourism. Table 3.2 shows initiatives for boosting domestic tourism at a time of crisis in the region.

Table 3.2. **Examples of government initiatives to support domestic tourism**

Country	Initiatives
Cambodia	The Cambodian government has used engaging social media campaigns to boost demand for adventure travel.
China	China conducted a market-intelligence exercise to forecast the proportion of domestic tourism in overall tourism demand.
Lao PDR	Lao PDR targeted young Laotians by promoting nature-based sites for adventure tourism.
Macau, China	Macau, China launched a project encouraging residents to sign up for local tours run by local travel agencies. The project offers Macau permanent and non-permanent residents grants of MOP 280 (Macau pataca), or USD 35, per tour for up to two tours.
Malaysia	The Malaysian government allocated travel discount vouchers worth MYR 500 million (Malaysian ringgit), or USD 113 million, to encourage domestic tourism, complemented by personal tax relief of up to MYR 1 000 for spending related to domestic tourism.
Philippines	The Department of Tourism conducted a nationwide online survey of 12 000 respondents on Filipinos' sentiments and concerns regarding domestic travel. The survey provided insights to tourism businesses to help them meet the wishes of national tourists.
Singapore	Singapore offered SingapoRediscovers Vouchers to all citizens over the age of 18 in 2020. The vouchers, worth SGD 100 (Singapore dollars), were valid for use on hotel stays, tours and attractions. For family members below 18 years old, a SGD 10 subsidy was also available for up to six child or youth tickets.
Thailand	Thailand subsidised 5 million nights of hotel accommodation at 40% of normal room rates, with tourists responsible for the other 60%. The government also approved a budget of more than THB 20 billion (Thai baht) to incentivise Thai nationals to travel domestically, and the tourism authority launched rural tourism awards, with a large investment fund to support local communities that preserve arts, culture, heritage and cuisine.
Viet Nam	The government's "Vietnamese people travel in Viet Nam" campaign encourages locals to explore their own country with discounted fares and increased domestic flights.

Although domestic tourism cannot fully replace international tourism, a resident-focused tourism strategy should continue post-pandemic. Such a strategy helps to reduce dependency on international tourists, serves local needs and, with fewer transport miles, also reduces tourism's carbon footprint.

Another local market often overlooked in tourism marketing is the expatriate population. Müller, Huck and Markova (2020) showed that expatriates (international residents) at a community-based tourism site in Cambodia were willing to pay higher prices for most tourism services than international travellers or local Cambodian tourists. Thailand's TAT developed incentives for expatriates, to motivate them to travel again during the pandemic and to share their local travel experiences at home and abroad (ADB, 2021).

Addressing employment and labour market challenges

The COVID-19 pandemic has heavily affected employment and the labour market in Emerging Asia, particularly in the travel and tourism sectors including hotels, restaurants, transport and other face-to-face service activities. Before the pandemic, travel and tourism supported 41.8 million jobs (13.2% of total jobs) in Southeast Asia, 82.2 million (10.8% of total jobs) in mainland China and 40.1 million (8.4% of total jobs) in India (WTTC, 2022). These figures dropped when travel restrictions were imposed. The International Labour Organization (ILO) predicted in 2020 that nearly all jobs in the tourism sector in the Asia-Pacific region would be impacted by the pandemic, with a disproportionate impact on small firms and low-wage workers (ILO, 2020). The report highlighted the risk of long-term damaging consequences because longer periods of inactivity may lead to skills depreciation and demotivation at the individual level, which lowers productivity and potential economic growth.

Supporting small firms and informal workers

The travel and tourism sector is characterised by a high share of micro, small and medium-sized enterprises (MSMEs) in the accommodation, restaurant, and tours and services segments. These businesses are often individually or family owned. In Thailand, for instance, MSMEs comprise more than 90% of firms in the hospitality sector (APEC, 2017). Owing to their small size and limited access to finance, these companies have fewer options in terms of resilience and diversification for dealing with shocks (IMF, 2021).

The tourism sector is also characterised by low-skilled jobs and a high degree of informality owing to its seasonality. Informal employment makes up nearly 70% of all tourism employment in Myanmar and more than 90% in Cambodia and Lao PDR (ADB, 2022; ILO, 2018). Moreover, informal employment in the industry comprises a high share of youth, women and migrant workers, resulting in income inequality (ILO, 2020). The tourism sector employs a high share of young workers (aged 18 to 25) and is estimated to generate one out of ten youth jobs. Women are highly represented in tourism and hospitality jobs across Emerging Asia and comprise the majority of the sector's workforce, accounting for 54% of those employed in the industry, compared to 39% in the broader economy. However, gender gaps persist in terms of positions, pay and type of contract (ADB, 2021). Women are underrepresented in management roles and earn 14.7% less than men (UNWTO, 2019). Employees in the sector are likely to be among the most vulnerable, as labour laws do not protect informal workers and MSMEs lack access to financial assistance in times of crisis (ADB, 2021).

The informal sector has been particularly hard hit by the pandemic. Throughout Asia, informal workers play a crucial role in providing essential services and goods. Street vendors belong to the largest subgroup of the informal workforce. They sell food, drinks and other small items such as souvenirs, and thus represent an important group in the informal tourism sector. Studies on street vendors in Asia conclude that governments have essentially failed to recognise street vending as a legal activity and that the vendors are viewed as irritants or obstacles to cities' modern development. Working in public spaces usually means working outdoors and thus being directly exposed to heat or cold, strong sunlight, rain or snow as well as to dust and air pollution. Street vendors largely remain without social protection and welfare such as health insurance, paid sick leave or pensions.

Moreover, street vendors often lack technological skills and devices, as well as professional skills, and this prevents them from adopting digitalised sales methods (e.g. online or mobile sales). They are consequently among the most vulnerable groups in times of crisis. A study on female street vendors in urban Viet Nam showed that the pandemic left 56% with almost no sales (Thanh and Duong, 2022). Yet many continued to work despite the risks of exposure to the virus or getting fined for breaking regulations. This shows that informal vendors may be willing to suspend business – even in times of crisis – only when they can ensure their basic needs. Accordingly, city stakeholders need to provide food assistance, housing subsidies or cash grants for the urban poor. Since many of the street vendors across Emerging Asia run non-registered businesses, governments need to include these vulnerable groups in their outreach programmes. Moreover, authorities should endeavour to provide street vendors with access to clean water and clear health advice to the best extent possible. Communicating health advice is vital. For instance, Malaysia's Ministry of Health used announcements in media supported by press conferences from officials and

daily text messages to remind residents of current health advice and recommendations since the start of the COVID-19 pandemic (Aziz et al., 2020).

Strengthening skills to boost labour productivity

Labour productivity is uneven across countries and within tourism and travel sectors. The "Human Resources and Labour Market" pillar in the World Economic Forum's 2021 Travel and Tourism Development Index comprises nine indicators (WEF, 2022). It measures qualification of the labour force (years of schooling, formal educational attainment rates, the education system's ability to meet economic needs and private-sector involvement in upgrading human resources), as well as the flexibility, efficiency and openness of labour markets and labour productivity in the hospitality, restaurant and transport sectors. Table 3.3 shows that labour productivity is very high in these sectors in Singapore (5.5 on a scale of 1-7), while China also scores well (4.9). Among the countries studied, Cambodia, Lao PDR and India score lowest on labour productivity, indicating a need to train and support the labour force to increase its skill level.

Table 3.3. **Human resources and labour market characteristics**

Title	Indonesia	Malaysia	Philippines	Thailand	Viet Nam	Singapore	Cambodia	Lao PDR	China	India
Qualification of the Labour Force, 1-7 (best)	5.1	4.9	4.8	4.7	4.9	6.0	3.4	3.6	5.1	3.8
Mean years of schooling	8.2	10.4	9.4	7.9	8.3	11.6	5	5.3	8.1	6.5
Secondary education enrolment, gross %	88.9	83.7	89.8	113.8	86.1	104.7	54.8	62.8	88.2	75.5
The extent of staff training, 1-7 (best)	5.1	4.5	4.8	4.2	4.8	5.3	4.1	3.9	5.0	3.6
Education system's ability to meet needs, 1-7 (best)	5.1	4.4	3.6	3.8	4.6	5.8	3.8	3.9	5.3	3.4
Labour Market, 1-7 (best)	**4.2**	**4.0**	**3.7**	**4.1**	**4.0**	**5.1**	**3.9**	**3.5**	**4.7**	**3.1**
Hiring and firing practices, 1-7 (best)	4.9	4.3	3.7	4.4	4.8	5.3	4.4	4.1	4.9	3.6
Ease of finding skilled employees in the local labour market, 1-7 (best)	4.8	4.5	4.9	4.6	4.7	4.6	4.0	4.1	5.0	3.2
Flexible working arrangements, 1-7 (best)	4.7	4.3	4.2	4.3	4.7	5.2	3.9	3.9	5.2	3.9
Labour productivity in hotels and restaurants, USD per population	12 247.7	20 525.7	15 029.0	22 690.0	12 692.5	53 731.5	37 390.4	10 852.0	61 365.3	13 553.8
Labour productivity in transport, storage, and communications, USD per population	50 491.5	84 108.1	18 157.1	60 938.4	13 948.9	125 302.7	40 068.4	35 879.8	8 559.5	23 022.8
Human Resources and Labour Market, 1-7 (best)	**4.6**	**4.5**	**4.2**	**4.4**	**4.4**	**5.5**	**3.6**	**3.6**	**4.9**	**3.5**

Source: Authors' compilation based on World Economic Forum data (WEF, 2022), *Travel and Tourism Development Index 2021: Rebuilding for a Sustainable and Resilient Future*, https://www3.weforum.org/docs/WEF_Travel_Tourism_Development_2021.pdf.

Improving social protection for migrant workers

The tourism sector experiences high labour mobility driven by economic conditions. In Thailand, for example, it is estimated that a fifth of the workers in the hospitality sector come from neighbouring countries with lower wages (Cambodia, Lao PDR and Myanmar). Such workers tend to have limited access to social safety nets: a survey by ILO shows

that 97% of migrant workers from ASEAN who were unemployed in destination countries had no access to their host country's social safety systems (ILO, 2021). The high share of migrants in the tourism workforce presents challenges relating to workers' protection, visa arrangements and external dependency (ADB, 2021). Nonetheless, remittance payments made by overseas tourism workers constitute significant income for families at home (ADB, 2021). Migrant workers might also form an expatriate tourist market. Table 3.4 shows the net migration rate calculated by the ratio of the difference between in-migration and out-migration figures from a country expressed per 1 000 people. Singapore remains positive net migration (4.7 per 1 000 people in 2020), as well as Malaysia (1.6 per 1 000 people), although the net migration rate shows sharp decline from previous decades. Less developed countries such as Lao PDR, Cambodia, and Myanmar show constant negative net migration rate, indicating an out-migrant trend from these countries. The negative net migration rate is also observed at a lesser extent in countries with large populations like the Philippines, Viet Nam, and Indonesia.

Table 3.4. **Net migration rate (per 1 000 people)**

Country	1990	1995	2000	2005	2010	2015	2020
Brunei Darussalam	3.0	3.4	2.7	0.2	-1.2	-0.4	N/A
Cambodia	-1.9	8.3	6.1	-0.6	-4.3	-2	-1.9
China	-0.1	-0.1	-0.1	-0.3	-0.3	-0.2	-0.2
India	N/A	-0.1	-0.1	-0.3	-0.4	-0.4	-0.4
Indonesia	0.3	N/A	-0.1	-1.1	-1.1	-0.4	-0.4
Lao PDR	N/A	-2.7	-5.3	-5.3	-3.7	-3.5	-2.1
Malaysia	5.1	3.0	4.7	5.5	5.7	1.7	1.6
Myanmar	-1.0	-3.3	-2.4	-5.1	-5.4	-2.0	-3.0
Philippines	-1.1	-2.1	-2.6	-3.0	-3.4	-1.7	-0.6
Singapore	8.4	18.2	17	4.5	30.7	11.8	4.7
Thailand	1.9	-2.1	2.3	1.2	0.2	0.5	0.3
Viet Nam	-1.0	-1.1	-0.6	-1.6	-1.9	-0.9	-0.8

Source: World Bank (2022), *World Development Indicator database*, https://databank.worldbank.org/source/world-development-indicators.

Making tourism jobs more attractive to ease the labour shortage

Another issue in hospitality and tourism is a shortage of labour. Prior to the pandemic, countries such as China, Malaysia and Thailand were characterised by a high demand for workers in tourism coupled with the unwillingness of young people to enter the labour-intensive industry for a rather low wage. The pandemic exacerbated this problem. During the border closures, many businesses shut down, and as border restrictions were lifted many foreign workers returned to their home countries. Others changed jobs and were unwilling to return to the sector.

Malaysia, which has long relied on foreign workers to sustain the hospitality and tourism industry, is currently experiencing significant shortages in the labour force. Before the pandemic, Malaysia counted more than 3 million migrants (about 10% of the population), according the Department of Statistics Malaysia (2021). Many of these foreign workers have left Malaysia since the pandemic began. While many were deported, others left due to limited economic opportunities during the periods of restrictions.

With the reopening of Malaysia's borders in April 2022, international tourism is recovering faster than anticipated by the government. By September, the country had more than 5 million incoming tourists, surpassing its target for 2022, with a projected 9.2 million by the end of the year. Yet the labour shortage in the tourism and hospitality sector means that many businesses, including restaurants and hotels, may not be able to capitalise fully on the tourism recovery.

The unemployment rate in Malaysia decreased throughout the 2022 recovery and stood at 3.8% (630 600 people) in June, the lowest level since the pandemic struck. In the context of relatively low unemployment and low wages, many hospitality and tourism businesses have difficulty attracting local workers. In May 2022, Malaysia raised the monthly minimum wage by 25%, from MYR 1 200 to MYR 1 500 (EUR 320). Industry stakeholders state that most hotels offer more, with salaries of MYR 1 600 to MYR 2 000 per month as well as a housing allowance, and that this has not been enough to entice locals to take jobs in the tourism sector (Rou, 2022).

To retain and attract workers, employers must provide decent working conditions and competitive terms of employment. During the pandemic, many tourism and hospitality employees – both local and foreign – left or had to leave the industry. By offering them their jobs back (especially to the local workforce), employers would show appreciation for their experience, skills and knowledge. It is also crucial to provide training and career prospects. Hospitality and tourism employees often feel that they lack opportunities for career advancement. This should be addressed via workshops and training that encourages learning and career progression. Feedback on job satisfaction, quality of work life and loyalty can provide helpful information for employers. High levels of job satisfaction increase employees' willingness to remain with an employer.

Steps for tackling the challenges

Challenges facing the tourism and travel industry include upskilling workers via language and vocational training, addressing gaps in digital skills, supporting local MSMEs in order to meet tourist demand for new destinations, empowering local communities to participate and increasing workforce diversity.

Countries generally have programmes to upskill tourism workers to increase labour productivity. The programmes seek to expand vocational and language training for better workforce preparation, and often target travellers from Europe. In Thailand, for instance, the TAT organised online Spanish and Portuguese language training courses for tourism staff. Cambodia's Tourism Ministry signed a memorandum with Swisscontact Cambodia to provide tourism and hospitality vocational-skills training for Cambodian youth. Myanmar, with support from the Luxembourg Development Co-operation Agency, established the Myanmar Institute of Tourism and Hospitality, which focuses on training and developing supervisors, managers and trainers in the hotel and tourism industries (ADB, 2022). Strengthening vocational education and retraining programmes can also allow for swifter sector reallocation. Vocational training opportunities can benefit women and youth, strengthening labour force participation by women and young people.

Skills gaps in local labour markets are the main barrier to adopting new technologies, according to the World Economic Forum's *The Future of Jobs Report 2020* (WEF, 2020). The digitalisation and the use of ICT in the travel industry presents its labour force with

challenges but also with great opportunities, including enhancing productivity (Box 3.3). Digitalisation will be discussed further in Chapter 3. Job training and education in the sector should provide soft skills and lay the groundwork for workplace flexibility. Employers can also help develop transferrable skills that enable workers to explore career paths both inside and outside the industry. Providing digital skills training is crucial in digital transformation. Three steps for strengthening the workforce's digital skills are: i) identification of the status of digitalisation; ii) creation of a programme to address skills gaps; and iii) provision of financial incentives (ADB, 2022).

Box 3.3. **Enhancing productivity in tourism**

The Asian tourism sector is hampered by low productivity and, consequently, by low profit margins. Furthermore, recent the COVID-19 pandemic had a scarring effect on the sector. Two main causes of low productivity can be identified: concentration of demand and low use of information and communications technology (ICT), though the two factors can be interrelated.

Concentration of demand in certain places or at certain times can lead to overtourism and a decrease in tourism quality. In Cambodia, for example, most tourists flock to the Angkor Archaeological Park, while tourism to smaller cities or rural areas remains niche with over 2.6 million visitors to the Angkor/Siem Reap region in 2018 compared to fewer than 900 000 to coastal destinations and just over 70 000 to designated ecotourism sites. Likewise, nearly 39% of visitors to Indonesia entered through Bali, more than double the 15% that entered through Jakarta, the second-busiest entry point. Indonesia's efforts to address overtourism in Bali precede the COVID-19 pandemic, with the launch of the 10 New Balis campaign in 2016 to not only preserve Bali, but also to distribute the economic benefits of tourism throughout the archipelago. In addition, inbound tourism can be seasonal, with dramatic ebbs and flows posing a challenge to consistent cashflows. Efforts to promote tourism outside well-known destinations – to so-called "hidden gems" – should be enhanced to help alleviate overtourism and provide a broader distribution of economic benefits in the sector. To the extent that seasonality is related to regional variance in tourism demand, promoting destinations that are better enjoyed in the off-season, perhaps as discount tourism options, could help smooth seasonality.

ICT use has become one of the important factors in the tourism sector. Development of better ICT skills would serve the sector well, not only for accounting purposes – many places of lodging keep their financial records on paper – but also for the promotion of offerings. In ASEAN, unique experiences may be forgone simply due to a lack of awareness within the potential consumer base. People increasingly rely on travel-advice websites and social media to plan travel, with sites such as Instagram being very popular with young people. Effective promotion involves leveraging the strength of each platform and perhaps recruiting local "influencers" with large social-media followings to promote the destinations. ICT development in the financial operations of tourism businesses is also essential, as tourists may be more likely to pay for travel expenses by credit card than cash, and perhaps online. Online payment systems would also control booking rates and help to prevent overtourism. Several priceless fragile tourist sites across ASEAN began using online ticketing systems during the COVID-19 pandemic to control crowd sizes and could continue to do so even if the focus shifts from health to the sustainability of the attractions. These systems permit dynamic pricing to discourage overtourism. If tourism SMEs enter a common system, some destinations can be suggested as alternatives for periods where the destinations in highest demand are at their sustainable capacity.

Source: Ministry of Investment Indonesia (n.d.), "All You Need to Know about the 10 New Bali Project in Indonesia", https://www3.investindonesia.go.id/en/article-investment/detail/all-you-need-to-know-about-the-10-new-bali-project-in-indonesia.

Support of local MSMEs is essential for the viability of the tourism industry. This is linked to the tourism sector's efforts to geographically decentralise and diversify. Tourist demand for small-scale, remote locations and off-the-beaten-track niche products can facilitate the emergence and vitality of MSMEs. Establishing regional tourism incubators can promote co-operation between tourism MSMEs and research and educational organisations. The internal linkages between tourism demand and local agriculture, manufacturing and entertainment could extend tourism's supply chain, increasing the penetration of visitor spending into the local economy. In less market-oriented economies such as Cambodia, Lao PDR, Myanmar and Viet Nam, start-up funds and microfinance for entrepreneurial establishment are encouraged. Social entrepreneurship can be one of the ways to invest in people and offer sustainable solutions for existing social problems.

Finally, diversification of demand and decentralisation of supply for the travel and tourism sector can only be achieved by empowering local communities and supporting workforce diversity. Making the tourism supply chain more local can enable the leadership and participation of communities and encourage minority groups, women and youth to join the workforce. For local people, accessibility to a resource does not simply mean ownership of the resources but also the capacity to utilise them. Thus, enhancing the capacity of local residents for learning and adaptation to change is recommended for decision makers.

Adapting to new preferences as travel and tourism recover

Local travel and rediscovery

The consequences of the COVID-19 pandemic, along with inflation worldwide and tightened spending on travel and tourism, could lead to a shift towards short-haul domestic and international tourism. Three reasons underlie this potential trend. First, the post-pandemic recovery could see the re-emergence of patriotic consumption, where citizens support local businesses as an act of communitarian commitment. Second, a fall in household incomes could make domestic tourism relatively more feasible than international travel. Third, adopting digital tools to conduct virtual meetings could diminish demand for long-haul meetings, incentives, conferences and exhibition tourism (Helbe and Choe, 2020). Travellers' needs, expectations and preferences have shifted as a result of prolonged travel restrictions, uncertainty over cancellation policies and physical distancing requirements. A survey by the MasterCard Economics Institute of 2 250 consumers across 15 markets found that roughly 21% expected to spend their money on domestic travel and 12% on international travel in the second quarter of 2022 (MEI, 2022). As of July 2021, tourism spending on "experiences" such as restaurants and bars, amusement parks, museums, concerts and other recreational activities was about 34% above 2019 levels and was outpacing spending on "things", such as souvenirs, apparel, cosmetics and other retail goods.

Research by the World Travel and Tourism Council (WTTC) and Trip.com points to four emerging consumer trends: i) domestic rediscovery; ii) freedom and flexibility in travel; iii) rural and nature-based destinations; and iv) a healthier lifestyle (WTTC and Trip.com, 2021). A study by the Asian Development Bank with a focus on ASEAN outlines three similar trends: i) emphasis on health and hygiene; ii) preference for proximity; and iii) demand for sustainable tourism (ADB, 2022). A different survey by American Express shows that 87% of respondents in India are interested in taking extended trips to experience new destinations, and that, when asked whether remote working during quarantine and travel might make

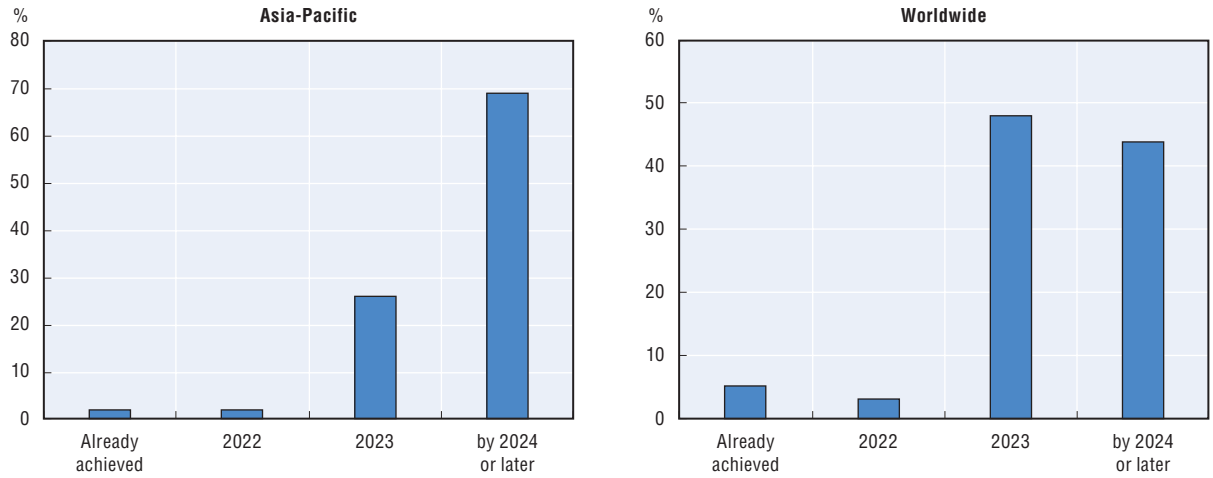
them stay longer, a majority of respondents agreed in Thailand (69%), Viet Nam (57%) and China (54%) (Amex, 2021). Data from Trip.com shows that the most attractive destinations for domestic travellers in the region in 2021 included Shanghai (China), Manila (Philippines), Kuala Lumpur (Malaysia) and Bali (Indonesia). When international travel restrictions were in place in China, demand for domestic travel increased, with bookings for in-province trips or travel within a 300-kilometre radius of home dominating among Chinese travellers in 2021 (WTTC, 2021).

While some studies have highlighted opportunities for more sustainable and local travel in the post-pandemic era, others point to a different pandemic-related trend. After living under lockdowns and travel restrictions for extended periods, people develop a strong desire to travel and consume tourism and hospitality products more frequently and intensively. This pent-up demand is further driven by savings accumulated during the period when people could not travel. Accordingly, this argument suggests that post-pandemic travel will be more frequent, more indulgent and further from home. However, tourists at present are tending to book more short-term travel.

The renewed interest in travel is also supported by the latest UNWTO Confidence Index, which has returned to 2019 levels for the first time since the start of the pandemic, reflecting rising optimism among tourism experts worldwide (UNWTO, 2022c). This optimism builds on strong pent-up demand, in particular for intra-European travel and travel from the United States to Europe. For the Asia-Pacific region, 26% of experts now see a potential return of international arrivals to 2019 levels by 2023, while 69% expect this recovery by 2024 or later (Figure 3.10). Globally, pre-pandemic travel levels are expected to be reached earlier. The region thus lags behind the rest of the world, particularly Europe and the United States.

Figure 3.10. **Expert expectations on the return of international tourism to pre-pandemic levels, 2019**

Percentage of experts



Source: UNWTO (2022b), *UNWTO World Tourism Barometer*, Vol. 20/3, May 2022, https://www.e-unwto.org/toc/wtobarometereng/20/3.
StatLink https://stat.link/ap1fhn

In considering the recovery of the travel and tourism sector, it must not be forgotten that the COVID-19 pandemic is also an economic and social crisis. Most households in Emerging Asia faced a considerable drop in income due to the pandemic. In a survey of eight Southeast Asian countries, conducted from May through July 2020, 75% of households reported a decrease in household income and more than 50% a decline in income of at least 26% (Morgan and Long, 2021). The pent-up demand for travel thus mainly applies to consumers of secure and higher income groups. Within the Asian middle class, consumers of the younger generation may have experienced the first major economic crisis of their working lives and may thus be more cautious with spending for travel. A complex economic environment, coupled with Russia's war of aggression against Ukraine, also puts the recovery of international tourism at risk. Inflation and the increased costs of everyday life, in particular for energy and petrol, may slow the travel recovery.

Rural and nature-based destinations

The pandemic response not only gave tourists and consumers a forced break from travel and consumption, but also isolated many people for a long time. In the post-pandemic era, more consumers are seeking travel to rural and nature-based destinations. They are focusing on experiences and people, prioritising host-guest encounters in small numbers, dialogue and human development. Moreover, with an increase in public awareness about personal health and the need for physical distancing, going to crowded places and being shoulder-to-shoulder with other tourists have become less appealing (Spenceley, 2021). Some consumers avoid crowded places and long-distance travel where they must sit close to other travellers for a long time. Visiting natural venues can help people escape the lockdown experience and improve mental health. More demand is expected for close-up and meaningful experiences with nature (Chaudhuri, 2020).

A 2021 WTTC and Trip.com report on changing travel preferences derived from data on the Chinese online travel booking site Ctrip, reveals that nature-based attraction bookings in China increased by 66.7% in 2020 compared to such bookings in 2019, and rose by 264% in 2021 compared to 2020. In March 2021 alone, rural tourism-related bookings on Ctrip increased by more than 300% compared to 2019. Research by WTTC (2020) also signals an increased desire to explore places closer to home, and to reconnect with nature and travel "off the beaten path" through outdoor and non-urban activities. For example, the official tourism campaign of Malaysia promoted several off-the-beaten-track destinations including Kenong Rimba Park, Taman Negara Sungai Relau, Gua Sisik Naga, Via Ferrata at Muse Ecopark and Lojing Highland.

The pandemic also heightened awareness of environmental issues. Consumers worldwide are paying more attention to the human impact on the environment and are seeking more sustainable travel options (Booking.com, 2021). A survey by Airbnb (2021) found that 44% of consumers in India prefer to travel closer to nature, and that 94% look at sustainable travel options when they leave home. Research by China's Trip.com Group showed that, in order to reduce single-use waste and secondary contamination, more than 80% of its customers supported hotels that did not provide disposable products (WTTC and Trip.com, 2021). Other research finds that consumers in Asia and the Pacific are consuming more consciously and responsibly (ADB and UNWTO, 2022). Research by Earth Changers published in January 2021 found that 76% of consumers had become more

concerned about sustainability since the COVID-19 pandemic. When asked specifically about "sustainable tourism", 14% more were concerned with sustainability than before the pandemic (Earth Changers, 2021).

While there may be increased interest in ecotourism, certain types of wildlife tourism require careful management to minimise the risk of transmission of viruses from animals to humans (ADB, 2021). Education remains at the forefront of promoting sound ecotourism practices that are mutually beneficial for tourists and the environment. Establishing or relaunching educational centres in national parks provides an enriching experience for tourists and also boosts overall conservation efforts. Nature Education Research Centres (NERCs) in Malaysia, for instance, involve partnerships between universities and non-governmental organisations (NGOs), as well as collaboration with the corporate sector through sponsorship programmes. Projects include the revitalisation of former NERCs, such as the one at Endau Rompin National Park, a protected tropical rainforest, which involved collaboration among the government, the Danish Corporation Environment and Development, and the Malaysian Nature Society. New NERCs have been proposed for Lambar Hills, Taman Negara National Park, Tasik Kenyir and the Setiu Wetlands.

The pandemic-driven interest in more authentic and sustainable forms of tourist experiences (Cheer, 2020) is aligned with previously identified trends associated with the experience economy and activity-oriented tourism in the Asia-Pacific region (Tolkach, Chon and Xiao, 2016). Markets include families seeking to rediscover their surroundings via participation in half-day trips, independent travellers looking for transformational journeys via trips of two to three days and institutional groups participating in educational trips. Such trips can provide "experiential authenticity", with tourists actively engaging in activities such as handicraft making, foraging for food and other local events.

Small businesses are vital to the competitiveness of destinations because they can provide alternative products and services that resonate well with an increasing number of discerning travellers looking for immersive and personally transformational experiences.

A growing number of visitors are seeking authentic and responsible experiences based on high-quality service. To assist in developing unique experiences within the Mekong region (Cambodia, Lao PDR, Myanmar, Thailand, Viet Nam and China's Yunnan Province and Guangxi Zhuang Autonomous Region), the Experience Mekong Collection promotes examples of good tourism practices. The website features responsible travel experiences in the Mekong region in six different categories: Cruise, Do, Shop, Stay, Taste, and Tour. The experiences are to be operated by small and medium-sized enterprises. Each experience has a profile page, including a short description and photos. A system of open nominations encourages anybody to suggest businesses for free. Businesses on this platform need to offer travel products and services that are responsible. Nominations are endorsed by the Mekong Tourism Advisory Group (MeTAG), made up of tourism professionals active in responsible tourism.

The Mekong Tourism Co-ordination Office (MTCO) acts as an anchor for the tourism sector in the Greater Mekong Subregion, allowing initiatives such as the Experience Mekong Collection to grow across borders of the six member countries. Yearly fora organised by MTCO play an essential role in fostering dialogue among leaders, entrepreneurs and policy makers in the tourism sector. Platforms such as the Experience Mekong Collection are prominent

benefactors of the forums, with benefits reaped by tourism businesses and tourists alike. Improving digitalisation levels could expand the user base of such websites.

The trend toward more localised experiences and nature-based activities represents both opportunities and challenges for destinations. On the one hand, a stronger interest in rural and marine tourism in less densely populated destinations can reduce overcrowding in urban destinations. It can also contribute to the decentralisation of tourism and the development of remote areas by spreading more tourism revenues to local communities. Furthermore, regional and shorter-distance trips have a smaller carbon footprint. On the other hand, increased interest in remote areas and nature-focused trips could put additional pressure on a sensitive natural or cultural environment and transform less crowded places into mass tourism destinations.

Health and wellness tourism

The COVID-19 pandemic has had a detrimental effect on mental health on a global level, and this has led to increased consumer interest in improving and maintaining good mental health and overall wellness. A survey conducted in April 2021 found that 79% of consumers believe wellness to be essential, and that 42% consider it a top priority (McKinsey, 2021). Another report found that the desire to spend more time and money on self-care, wellness and stress relief will likely continue growing (WTTC, 2021). Several countries in Emerging Asia, including China, India, Malaysia and the Philippines, incentivise businesses to set up wellness programmes. In the Philippines, for instance, the Department of Tourism announced plans after the pandemic to attract health and wellness tourists to the country, while Thailand announced plans to attract medical tourists to Phuket's luxury resorts to shift towards high-value tourism (ADB and UNWTO, 2022). Wellness tourism can benefit the tourism industry in various ways. According to a report by the Asian Development Bank, wellness tourism "diversifies visitor economies and spreads risks associated with concentrated market segments such as the vulnerability of beach tourism to climate change" (ADB, 2021).

The health and hygiene standards of tourist destinations and facilities have become a priority for many travellers. The pandemic transformed the way we approach health and hygiene. For travellers, measures such as additional sanitation at hotels and restaurants and during transportation are now expected (WTTC, 2021). Other measures, such as mask wearing and physical distancing, increasingly depend on individuals, their risk perception and level of comfort. In East Asia, especially mainland China and Hong Kong (China), mask wearing, and in particular surgical mask wearing, is more common than in many other parts of the world (Eves, 2022). Surgical masks were already common in the region during previous health crises such as the SARS epidemic of 2002-03.

Perceived risk such as the perceived probability of a critical incident, feelings of fear or anxiety, and safety concerns are an important component of travel decision making, and risks associated with the COVID-19 pandemic are influencing travel intentions and behaviour. Meng et al. (2021) studied the effects of COVID-19 risk perception on Chinese travel intentions. They found that Chinese travellers were worried about safety measures, the seriousness of the pandemic and the risk of getting infected. The study predicts that if Chinese travel restrictions are lifted, people will still have concerns about travelling.

Therefore, tourism and hospitality businesses will need to focus on hygiene and cleanliness to assure travellers that they are safe. Moreover, contactless technologies and touch-free services (e.g. contactless check-in, payments, and food delivery) will increasingly become necessary for consumers. Tourist sites should consider implementing advance bookings to limit and manage crowds.

Due to health-related concerns, travel in large groups has also been highly impacted by the pandemic, forcing some tour operators out of business. In China, large group travel, which is generally less popular among young tourists, is expected to play a minor role in the post-pandemic era (ADB and UNWTO, 2022). However, group travel will not disappear as there is still a market, especially among an older generation of travellers. Countries with a large share of Chinese tourists, such as Cambodia and Thailand, have a tourism infrastructure that specialises in the Chinese market (e.g. hotels, Chinese-speaking guides and shopping areas).

Wealthy tourists increasingly seek high-quality local health-care facilities where they can find treatment if needed, which points to potential strong demand for medical tourism (ADB and UNWTO, 2022). During the first two years of the pandemic, most health-care facilities in Asia, which previously catered to international medical tourists, shifted their focus to emergency management related to COVID-19 patients (Tatum, 2022). Signs of recovery of the sector are evident in Thailand and Malaysia. According to the Malaysia Healthcare Travel Council (MHTC), revenue from medical tourism could reach pre-pandemic levels by 2025. To ensure that the health-care industry remains a major contributor to services exports, MHTC is focused on strengthening the health-care travel ecosystem to provide a seamless quality of care for each step of the journey. The government is also increasingly focused on branding effectiveness to promote Malaysia as a premier health-care destination. Initiatives include large-scale brand awareness campaigns through digital and conventional channels. Thailand, meanwhile, hosts the biggest number of medical tourists in Southeast Asia, and the Thai government aimed to grow its medical tourism sector by 5% in 2022. It has emphasised wellness facilities broadly, from high-end centres for COVID-19 recovery to nutrition, traditional medicine, herbology, and anti-ageing treatments.

Conclusion

The travel and tourism sector plays an important role in Emerging Asian countries, contributing significantly to the region's economies. However, travel and tourism were severely impacted by the COVID-19 pandemic due to prolonged travel restrictions. The suspension of movement across the globe posed the greatest challenge to the tourism-dependent economies. As restrictions have been lifted, the sector has started showing signs of recovery, although travel and tourism have not yet reached pre-pandemic levels. This challenging situation nonetheless offers an opportunity to look at critical issues in the sector and take corrective actions as borders open for international tourism. Diversifying and expanding the international inbound market and supporting domestic tourism are both important. Countries in the region will need to pay attention to additional challenges, including labour market and human resources issues and adjusting to the post-pandemic tourism and travel aims of consumers.

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Chapter 4

Strengthening sustainable tourism and accelerating digitalisation

Shifting towards more sustainable tourism and embracing digitalisation are the largest short- and medium-term challenges the tourism sector faces. Sustainable tourism involves implementing practices that minimise environmental impact ranging from carbon footprint mitigation to conservation of natural areas, such as forests and oceans. Diversifying tourism opportunities may help to address overtourism and ecosystems stress in any one region. Furthermore, tourism operations should promote linkages between tourism and other sectors and seek to minimise economic distortion or disruption. Digitalisation will further these goals by opening avenues such as virtual travel, smart tourism and the growth of MSMEs, but cost and knowledge barriers remain. Expansion of ICT infrastructure, ICT training and implementation cost support, and the development of robust and dynamic cybersecurity legislation are key priorities in this regard.

Introduction

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. This trend is, among others, driven by the impacts of climate change and the increasing importance of sustainable and green tourism, as well as the role of digitalisation and technology in the travel and tourism industry.

Despite the many challenges faced by the world and the industry due to the COVID-19 pandemic, lessons learned from the pandemic present an opportunity for tourism stakeholders to re-evaluate the tourism and hospitality sector by adopting more sustainable practices. Different forms of tourism development have led to an unequal distribution of economic benefits and overexploitation of resources, and there is a growing discussion on beach resort development in Southeast Asia. Visitor management strategies are needed for sustainability and tourism should be diversified, with ecotourism as well as community-based approaches in ethnic and indigenous tourism. Meanwhile the increasing use of digital technology in travel and tourism, spurred by pandemic restrictions and health concerns, requires the attention of policy makers. Issues in Emerging Asia include cybersecurity, digital skills gaps and a lack of harmonised tourism statistics.

This chapter analyses the challenges on the road towards achieving sustainable tourism, as well as the role of the digital economy in the travel and tourism sector. Based on the analysis, the chapter presents recommendations for policy makers on making tourism more sustainable and capitalising on digitalisation.

Towards sustainable tourism

Overtourism and environmental degradation

There are many different definitions of sustainable development. Most experts tend to agree that it includes diverse pillars (UNEP and UNWTO, 2012) (Box 4.1). The *Sustainable Travel Report 2022* by Booking.com found that 81% of global travellers see sustainable travel as important, with 50% stating that recent news about climate change has influenced them to travel more sustainably (Booking.com, 2022).

The G20 Rome guidelines for the future of tourism emerged in 2021 as a response to the COVID-19 pandemic (Table 4.1). They provide an overview of key issues affecting the tourism industry and how policy makers can respond to these issues effectively. The guidelines have three broad objectives: restoring confidence and enabling recovery; learning from the experience of the pandemic; and prioritising a sustainable development agenda in guiding future tourism. These objectives are embedded in seven inter-related policy areas: i) safe mobility; ii) crisis management; iii) resilience; iv) inclusiveness; v) green transformation; vi) digital transition; and vii) investment and infrastructure. The guidelines were prepared by the OECD on behalf of, and in consultation with, the Italian presidency of the G20 (OECD, 2021).

Box 4.1. **Definition of sustainable tourism**

Sustainable tourism development guidelines and management practices are applicable to all forms of tourism at all types of destinations, including mass tourism and the various niche tourism segments. Sustainability principles refer to tourism development's environmental, economic and sociocultural aspects.

Thus, sustainable tourism should:

- make optimal use of environmental resources that constitute a key element in tourism development, maintaining essential ecological processes and helping to conserve natural resources and biodiversity
- respect the sociocultural authenticity of host communities, conserve their built and living cultural heritage and traditional values, and contribute to intercultural understanding and tolerance
- ensure viable long-term economic operations, and distribute socio-economic benefits to all stakeholders, including stable employment, income-earning opportunities and social services for host communities; and contribute to poverty alleviation.

Source: UNEP and UNWTO (2005), *Making Tourism More Sustainable: A Guide for Policy Makers*, https://www.e-unwto.org/doi/epdf/10.18111/9789284408214.

Table 4.1. **G20 Rome guidelines for action**

Policy area	Guideline actions
Safe mobility	• Work with industry and international partners to provide and share information to inform policies and decisions on safe mobility • Pursue opportunities to agree common international approaches to COVID-19 testing, vaccination, certification and information on travellers to enable lifting of inbound and outbound border restrictions • Explore ways to promote the use of digital traveller identity, biometrics and contactless transactions to facilitate safe and seamless travel • Provide accessible, consistent, clear and updated information to travellers to encourage and facilitate travel planning and journeys • Maintain and improve the connectivity, safety and sustainability of transport systems
Crisis management	• Ensure that tourism needs are integrated in overall crisis management policies and actions • Prepare and regularly review a crisis management strategy for tourism at different levels, linked to tourism policy, and with necessary support and buy-in • Establish structures to implement the strategy and respond to crises when they occur • Develop procedures for meeting the needs of tourists affected by crisis situations • Give high priority to a communication strategy aimed at tourism stakeholders, visitors and markets • Provide necessary support to tourism businesses and workers
Resilience	• Maintain, and where necessary strengthen, whole of government, multi-stakeholder and multi-level structures for tourism planning and management • Integrate tourism policies within wider policy frameworks • Prepare sustainable tourism strategies and action plans, which are actively monitored and sufficiently flexible to respond to changing circumstances • Improve tourism-related data and the evidence base for policy-making planning and taking decisions • Diversify the market and product base for tourism • Identify and address areas of supply-side weakness and fragility in the tourism sector • Work across sectors and internationally to anticipate, identify and be better prepared to respond to potential and emerging threats and risks for tourism

Table 4.1. **G20 Rome guidelines for action** *(cont.)*

Policy area	Guideline actions
Inclusiveness	• Promote legislation, regulations and good practice that provide decent work and other opportunities in tourism, including for women, youth, minorities and other vulnerable groups • Foster and support locally based tourism MSMEs, local supply chains, local entrepreneurship and related capacity building. • Engage local communities in policies and action for the planning, development and management of tourism • Establish targets and monitoring mechanisms on social impact and inclusiveness, including feedback from local communities • Encourage innovation in the development of visitor experiences that spread tourism benefits and which support local creativity and cultural heritage • Support inclusive approaches to the design and development of travel offers, products and services, which enable tourism for all
Green transformation	• Embrace and mainstream sustainability principles and environmental targets in tourism policies • Encourage, support and incentivise tourism businesses to pursue sound environmental management and adopt green business models • Support and co-ordinate destination-level initiatives to promote and deliver sustainable tourism management • Work with the industry on specific sector-level initiatives to reduce environmental impact • Use voluntary monitoring and measurement to support a policy of continuous improvement and to guide decision making and planning
Digital transition	• Prioritise the furtherance of digitalisation within tourism policy, including the closing of current and anticipated gaps in digital skills and infrastructure in the sector • Work with sector bodies and local networks to engage MSMEs and the tourism workforce in developing their digital capacity • Develop a programme of digital skills education, training and other support, tailored to meet the needs of the sector • Encourage business-model and ecosystem innovation through convergence, interoperability and the adoption of data analytics and other enabling technologies • Ensure the presence of necessary infrastructure to enable widespread digital coverage
Investment and infrastructure	• Build capacity and better co-ordinate actions across government to support the shift to more sustainable tourism investment and financing practices • Improve data and analysis on finance and investment in sustainable tourism development • Prepare costings for the identified sustainable tourism strategies and action plans and other related activities • Relate the components of the action plans to cross-government priorities and programmes and to possible external national and international funding opportunities • Identify possible private-sector funding and partnerships • Strengthen support for tourism investment from the banking sector and international financial institutions, and foster the development of alternative modes of finance

Source: OECD (2021), "G20 Rome guidelines for the future of tourism: OECD Report to G20 Tourism Working Group", *OECD Tourism Papers,* No. 2021/03, http://dx.doi.org/10.1787/d11080db-en.

Nonetheless, the environment is often perceived as a resource to be exploited. Before the COVID-19 pandemic, popular coastal tourist destinations in Emerging Asia, such as Bali (Indonesia), Goa (India), Hainan Island (China), Phuket (Thailand), or Sihanoukville (Cambodia) received 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 expansion of uncontrolled tourism resorts and infrastructure, and damage to marine ecosystems. Severe problems of overtourism and degradation of the environment could lead to temporary closure of the tourist destinations (Box 4.2).

As part of the response to the COVID-19 pandemic, some tourist destinations across Emerging Asia were closed for extended periods. Various reports have shown that wildlife and natural environments began recovering in the absence of visitors. In India and Thailand,

nesting turtles were observed at undisturbed beaches, while in waters off Hong Kong, China, Indo-Pacific humpback dolphins returned (Spenceley, 2021).

Box 4.2. **Temporary closure of popular coastal tourist destinations**

Problems of overtourism and degradation of natural resources on the Philippines' Boracay island and at Thailand's Maya Bay led to government decisions in 2018 to close these popular destinations temporarily. Maya Bay, for example, received 5 000 tourists per day and up to 100 motorised boats could be counted simultaneously (Cripps, 2022). Tourists walked on reefs and corals, and boats slammed their anchors into the sea. Boracay, which welcomed 2 million visitors in 2017, reported severe sewage issues, and its beachside waters developed algal bloom, an indicator of pollution and bad water conditions. The closure of an entire tourist destination was a relatively uncommon approach prior to the COVID-19 pandemic. While such shutdowns can help the environment to recover, they also lead to the loss of jobs and revenue, strongly affecting small businesses and poorly-protected informal workers. The tourism shutdown of Boracay affected more than 30 000 employees in the hospitality and tourism industry, including an estimated 17 000 informal workers.

The reopening of Boracay began in late 2018 and was implemented in phases, with restrictions on visitor numbers and new visitor management regulations:

Table 4.2. **Initiatives following the reopening of Boracay**

Target	Initiative
Tourists	A quota limited tourist arrivals to 6 400 per day, with a maximum of 19 200 visitors allowed on the island at any one time; new regulations were issued to manage tourist behaviour, for example prohibiting smoking and alcohol on the island's most popular beach; hotel reservations are required before tourists can enter the island.
Hotels	In order to reopen, all hotels had to be compliant with the requirements of the Department of Environment and Natural Resources, and the Department of the Interior and Local Government; to be accredited by the Department of Tourism; and to be connected to a proper sewage treatment system.
Local population	New regulations were issued to manage the behaviour of the local population, such as prohibiting the raising of chickens and pigs. Gambling is forbidden on the island.
Infrastructure	A road-widening project was launched to resolve congestion issues. Trash and unauthorised buildings were ordered removed from the wetlands, and buildings within 30 meters of the shoreline destroyed.

Visitor management strategies for sustainable and green tourism

Sustainable and responsible tourism require innovative approaches to stimulate but manage demand. In addition to approaches like zoning, education of visitors, fines, and limits of acceptable change, more holistic strategies need to be developed.

Managing demand

Strategies for managing tourist demand include demarketing, ensuring that visits are spread over the seasons, and discouraging particular types of tourists identified as having significant impact on and low value to the destination area. Demarketing aims to decrease demand at a particular place and time. It adopts tactics from the classic marketing mix of the "four Ps" – Product, Place, Price and Promotion, as summarised by Hall and Wood (2021) (Table 4.3). Such tactics have been used to respond to issues of overtourism and could be

used to relaunch tourism in a more controlled and sustainable way. For example, a product demarketing strategy was implemented that removed the Taj Mahal from the Uttar Pradesh tourism brochure, with the aim of redirecting tourists to other, less visited sites. In addition, ticket prices were increased to attract fewer but high-yield tourists (Kainthola, Tiwari and Chowdhary, 2021).

Table 4.3. **Demarketing to manage visitor demand**

Demarketing measures	Marketing elements
Using pricing as a tool, e.g. charging for access or time spent	Price
Using a time booking, queuing system to increase the time and opportunity costs of the experience	Price
Limiting promotion to selected and specialised media channels or ceasing promotion altogether	Promotion, Place
Promoting and communicating the need to conserve through minimal impact and sustainable development	Promotion
Communicating the environmental degradation and negative social effects on the host community that could occur if there are too many visitors	Promotion, Place
Communicating restrictions or difficulties associated with travel to the area	Promotion, Place
Providing alternative locations or experiences for visitors and communicating them	Place, Product, Promotion
Applying zoning policies to limit activities to some locations and not others, which may be undertaken seasonally	Place, Product
Limiting accommodation, parking, entrance or area access	Place
Permitting certain activities only for a set duration and/or with supervision, or ceasing particular activities	Product
Promoting and developing alternative site uses	Promotion, Product
Promoting virtual experiences as a substitute and/or complementary experience	Promotion, Product
Utilising interpretation as a management tool to reduce undesirable and inappropriate behaviours and developing new product relationships in order to reduce visitor pressures	Promotion, Product

Source: Authors' compilation based on Hall and Wood (2021), "Demarketing tourism for sustainability: Degrowing tourism or moving the deckchairs on the Titanic?", https://www.mdpi.com/2071-1050/13/3/1585.

Another relevant concept is degrowth. Instead of focusing on the continuous growth and expansion of tourism, it emphasises the reduction of tourism size and impact as well as the rights of local communities and a rebuilding of the social capacities of tourism (Higgins-Desbiolles et al., 2019).

Managing effects of tourist presence

Strategies for reducing the negative effects of tourist presence involve modifying the way tourists use a site in order to reduce damaging practices. This can be done, for example, by dispersing or concentrating use through zoning and by developing clearly managed tourist trails to regulate tourists' interaction with the environment and the local population. Regulations and education supporting sustainable tourism and behaviour need to be geared towards various stakeholders, including tourists, local residents and the tourism industry, and can be used in tourism planning and management in different ways.

The concept of persuasion is an indirect educational approach that can influence rather than police behaviour. For example, an exhibition on the impact of unsustainable tourist practices is a soft approach that can increase awareness and persuade visitors to adopt more responsible travel behaviour. Codes of conduct are often employed to educate tourists and are mostly used on a voluntary basis. Mandatory regulations are only effective if they are enforced. In many regions they are often poorly enforced or simply impossible to enforce due to financial or other constraints. However, when mandatory regulations are not followed, there can be enforceable consequences, usually a fine, which in itself can lead to increased compliance. Voluntary codes of conduct can contribute towards filling voids in mandatory

regulations, especially while the mandatory rules are being developed and fine-tuned – a process that can take much longer than implementing voluntary codes of behaviour.

Managing resource capabilities

Strategies to ensure that a site has the resources to handle tourists sustainably include developing facilities and ensuring that the quality and provision of infrastructure is aligned to demand. As natural resources and social conditions are the key considerations for tourism to take place, one tool is carrying capacity, which aims to determine the number of visitors a destination can accommodate at a certain period of time without harming the ecological, economical or sociocultural environment. Indeed, quotas, i.e. the capping of tourist numbers, have been applied at a number of urban and coastal tourist destinations across Emerging Asia where overcrowding has become critical. Examples include the Forbidden City in Beijing, Maya Bay in Thailand, and Boracay in the Philippines. Another strategy is development-density controls, which are commonly based on the number of accommodation units per unit of land area. Height restrictions can be useful to prevent the built environment from becoming intrusive. Another indicator of density can be expressed by the floor area ratio (FAR), or floor space ratio (FSR), i.e. the area of all floors of all buildings on a site divided by the area of that site. Finally, minimum distances between landscape features (e.g. between the shore and the start of permitted built infrastructure), known as "setbacks", play a central role in sustainable landscaping design.

Sustainable tourism in the blue economy

The blue economy is defined as "the sustainable use of ocean and coastal resources to drive economic growth and improve livelihoods while protecting and nurturing marine ecosystems, which involves coral reefs, mangroves and coastal settlements" (World Bank, 2017). All Emerging Asian countries except Lao PDR have access to the sea, and thus coastal areas. A significant percentage of the population in these countries lives within 60 kilometres of the coastline. For example, India's coastline extends over 7 500 km and spreads over nine coastal states. Coastal and marine tourism have thus been an essential part of regional tourism 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.

The blue economy has diverse components, which usually include established traditional ocean industries such as fisheries, tourism and maritime transport, but also new and emerging activities, such as offshore renewable energy, aquaculture, seabed extractive activities, marine biotechnology and bioprospecting.

Coastal and ocean-related tourism range from mass forms of tourism, such as seaside and island resorts and cruise tourism, to alternative forms such as dive tourism, maritime archaeology, surfing, ecotourism and recreational fishing. In Emerging Asia, we can identify several forms of tourism that draw on the blue economy and ocean resources, including "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 (Table 4.4). As an example, Box 4.3 demonstrates four major types of ocean tourism in the Philippines.

Table 4.4. **Tourism products deriving from the blue economy in Emerging Asia**

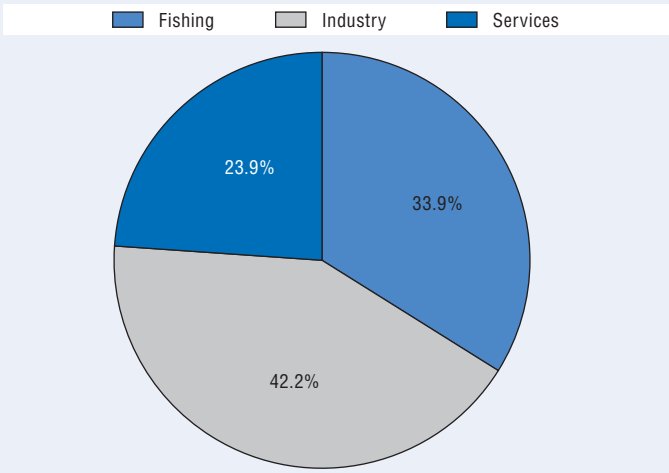
Type of tourism	Benefits/potential	Negative impacts	Challenges
Sun, Sand, Sea tourism	Easy to develop across all market segments (budget to luxury) Generates the most local employment Many different mechanisms to integrate sustainability into tourism operations	Mismanagement and overcrowding can lead to unsustainable tourism Solid waste and water pollution negatively affect the water quality and marine environments Increased bacteria in the water can lead to illnesses	Preventing the overdevelopment of beaches and coastal ecosystems Presenting the business case for investing in natural assets to mobilise the private sector
Snorkelling, diving and marine sports	Can combine diving trips and marine sports with marine educational and clean-up activities Tourist interest and activities can lead to marine life protection, prohibiting commercial fishing	Frequently dived sites may suffer damage or loss of coral cover due to close contact with divers stirring up sediment Snorkelers trample on corals Illegal removal of biodiversity or artefacts Damage resulting from boat anchors	Making the economic benefits of diving more inclusive since it is a niche market
Cruise tourism	Highest growth rates prior to COVID-19 pandemic, with potential to recover Shore excursions can provide immediate economic benefit locally, stimulate infrastructure development, and recruit excursionists as future tourists if co-ordinated between cruise lines and local authorities	Large negative environmental impacts while hoteling, cruising, mooring Congestion due to a large influx of simultaneous arrivals Can push out local tourists from top attractions in favour of higher-paying cruise passengers	Addressing the environmental impacts Requires significant investments in port-of-call infrastructure Sustainable cruise tourism as an oxymoron
Ecotourism	Implementable as community-based ecotourism in smaller communities Linking ecosystems to tourism promotes the development of natural capital	Potential damage to ecosystems and loss of biodiversity without good management of tourism	Developing a tour that is enticing to paying customers Balancing nature conservation with economic activity
Gastronomic tourism	Tours to fishing communities and/or aquaculture Education and awareness about local food, resources and cuisine	Overfishing Unsustainable seafood consumption	Sustainable seafood production and consumption
Research-related tourism (RrT)	RrT travellers view tourism as a way to learn, explore, support communities and grow Research and volunteer programmes may include tracking animal behaviour, mapping coral reefs and mangroves, and conducting marine debris surveys	Students and volunteers may lack the necessary professional experience and cause more harm than good	Creating a win-win situation for local communities participating in or facilitating RrT and for researchers, students and volunteers who are keen to study and work in the area

Source: Authors' compilation based on APEC (2020), *APEC Economic Study on the Impact of Cruise Tourism: Fostering MSMEs' Growth and Creating Sustainable Communities*, https://www.apec.org/docs/default-source/publications/2020/8/apec-economic-study-on-the-impact-of-cruise-tourism/220_twg_apec-study-on-the-economic-impact-of-cruise-tourism.pdf?sfvrsn=9ffd6385_1; Lamers, Eijgelaar and Amelung (2015); "The environmental challenges of cruise tourism: Impacts and governance", https://www.taylorfrancis.com/chapters/edit/10.4324/9780203072332-48/environmental-challenges-cruise-tourism-impacts-governance-machiel-lamers-eke-eijgelaar-bas-amelung; Pino and Peluso (2018), "The development of cruise tourism in emerging destinations: Evidence from Salento, Italy", https://www.jstor.org/stable/26366552; Shah, Trupp, and Stephenson (2022), "Deciphering tourism and the acquisition of knowledge: Advancing a new typology of 'Research-related Tourism (RrT)'", https://www.sciencedirect.com/science/article/pii/S1447677021002084; and Zafra (2021), "Developing the Philippine blue economy: Opportunities and challenges in the ocean tourism sector", https://www.adb.org/publications/developing-philippine-blue-economy-opportunities-and-challenges-ocean-tourism-sector.

Box 4.3. **Profiling ocean tourism in the Philippines**

Services, which include tourism, contribute 23.9% to the Philippines' blue economy, with ocean fishing and ocean industry accounting for the rest (Figure 4.1). The fishing sector includes fishing on open seas and sea-based aquaculture, while the industrial sector comprises the manufacture of ocean-based products, offshore and coastal mining, ocean-based power generation, transmission and distribution, and coastal construction. The services sector includes coastal accommodations, food and beverage activities and coastal recreation, together with other services activities. Opportunities and challenges are associated with certain types of ocean tourism, including sun and beach tourism, dive tourism, ecotourism and cruise tourism (Table 4.5).

Figure 4.1. **Components of the ocean economy in the Philippines, 2021**



Source: Authors' compilation based on latest data from national sources.
StatLink https://stat.link/zoruq6

Table 4.5. **Blue economy tourism challenges in the Philippines**

Activity	Challenge
Sun and beach tourism	This is the major tourism product of the Philippines, as the country has more than 7 000 islands and a tropical climate. Many destinations are considered to be among the world's best beaches or most beautiful islands, including Boracay, Palawan, Bohol and Cebu. Rapidly growing tourism on Boracay, the country's top beach destination, generated more than USD 1 billion in 2017 from a record 2 million visitors. The island's popularity resulted in cleanliness issues, environmental degradation and negative socio-cultural impacts, leading the government to order a 6-month closure for rehabilitation in 2018 (Box 4.2, above).
Diving and marine sports	Given the country's location within the Coral Triangle, diving is a popular tourist activity in the Tubbataha Reefs National Marine Park in the Sulu Sea, the Apo Reef in Occidental Mindoro, Anilao in Batangas and Moalboal in Cebu. The Department of Tourism has hosted dive-centric events, trade shows, and expos to promote the country as a diving destination, while the Philippine Commission on Sports Scuba Diving regulates sports and technical diving, and the accreditation of diving establishments and individual divers. However, the lack of infrastructure, remoteness of the diving spots and seasonality can deter foreign divers from visiting, while scuba diving can be very expensive for locals.
Cruise tourism	Major cruise lines only began arriving in the Philippines in 2017. The five major ports of call (out of 140 ports) are at Manila, Boracay, Palawan, Ilocos Norte and Subic Bay. The growth rate of cruise tourism has been remarkable, from 446 international cruise passengers in January 2017 to 9 156 in January 2018. The Philippines is aiming to develop its cruise tourism product via a national cruise development strategy.
Ecotourism	Mangroves are an important part of the coastal ecosystem as a breeding ground for fish and aquatic species, a habitat for birds and a means of preventing soil erosion. Developing mangrove ecotourism is relatively low cost and easy to implement, and generates livelihoods and revenue for residents and coastal municipalities. Community-based ecotourism is thus well developed in mangrove areas. Communities put up boardwalks along the mangrove forest and offer guided educational tours, boating and kayaking trips, and bird-watching sessions. Benefits for the communities include increased mangrove cover and improvements in fishing.

Source: Authors' adaptation of Zafra (2021), "Developing the Philippine blue economy: Opportunities and challenges in the ocean tourism sector", https://www.adb.org/publications/developing-philippine-blue-economy-opportunities-and-challenges-ocean-tourism-sector, and national sources.

Sustainable tourism can be part of the blue economy. It can help to promote conservation and sustainable use of marine environments and species, to generate income for local communities and to maintain and respect local cultures, traditions and heritage. Given the wealth and biodiversity of natural resources in Southeast Asia, South Asia and the Pacific Islands, the potential for a vibrant blue economy is especially high. In 2015, the share of ocean economy to gross domestic product (GDP) of countries in the region ranged from 30% (Thailand), 28% (Indonesia), 23% (Malaysia), 20.8% (Viet Nam) and 16% (Cambodia) to 9.4% (China) and 7% (Philippines and Singapore) (Global Environment Facility, United Nations Development Programme, and PEMSEA, 2018). It should be noted that the tourism sector is vulnerable to the impacts of climate change and fluctuations in global economies (Connell, 2017).

The countries of Emerging Asia have expanded and improved infrastructure such as seaports and airports in the effort to expand the sectors of their blue economies. For instance, corresponding to the increase of international arrivals by water to Indonesia, the country has developed infrastructure for ground and port capacity, improving its ranking in the World Economic Forum's *Travel & Tourism Competitive Index* by 43 points, to 34 in 2021 from 77 in 2015 (WEF, 2021). Indonesia has thus made a significant investment in resources for the blue economy. Viet Nam, China, Thailand, India and Cambodia have also improved their ground and port infrastructure. Singapore, one of the world's most developed seaports, is ranked second in the WEF index, while Malaysia ranks just ahead of Indonesia in terms of ground and port infrastructure (Table 4.6). It should be noted that the expansion of ground and port facilities supports the development of cruise tourism as well as marine-related tourism activities.

Table 4.6. **Ground and port infrastructure**

Country	2015 (score)	2015 (rank)	2021 (score)	2021 (rank)	Change in rank (2015- 21)
Indonesia	3.27	*77*	4.1	*34*	43
Malaysia	4.50	*35*	4.2	*33*	2
Philippines	3.02	*93*	2.9	*88*	5
Thailand	3.41	*71*	3.8	*48*	23
Viet Nam	3.14	*87*	3.8	*50*	37
Singapore	6.44	*2*	6.6	*2*	0
Cambodia	2.61	*116*	2.6	*99*	17
Lao PDR	3.01	*96*	2.5	*105*	-9
China	3.91	*53*	4.7	*22*	31
India	4.02	*50*	4.3	*32*	18

Source: Authors' compilation from WEF (2021), Travel & Tourism Competitive Index, data from 2015 and 2021, https://www.weforum.org/reports/travel-and-tourism-development-index-2021/downloads-510eb47e12.

Cruise tourism

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. However, cruise tourism has been highly criticised for its negative environmental and economic impacts. Cruise ships are practically floating hotels and produce a lot of waste. As documented by Lamers, Eijgelaar and Amelung (2015), on a seven-day cruise a medium-sized cruise ship with 2 000 passengers and 800 crew members aboard produces 750 000 litres of black water (water containing human waste), 3.75 million

litres of grey water (from bathrooms, laundry and kitchen) and eight tonnes of solid waste. While cruising, these vessels also produce significant amounts of air and water pollutants, as well as greenhouse gases. Once they reach their destinations, cruise ships cause additional negative environmental impacts via mooring activities, including anchoring, embarking and disembarking at ports; loading supplies; and recreational activities onshore. The large influx of simultaneous arrivals often leads to overcrowding and congestion at the destination.

Nevertheless, cruise lines are increasingly aware of such negative impacts and are focusing on environmental protection. Furthermore, cruise tourism can generate positive economic spillovers for port cities. Liquid natural gas is replacing traditional fuels for cruise ships, leading to significant reduction in sulphur, particulate matter, and nitric oxide emissions and hybrid ships will soon follow, perhaps more than 15% of new ships in the next five years. Cruise lines are also supporting infrastructure development in ports to allow for connection to shoreside electricity, which is less polluting than running engines in ports (CLIA, 2023). Other benefits include infrastructure development to support excursionists, potential growth of port cities as tourist destinations, and economic opportunities for women and entrepreneurs.

The development of cruise tourism depends mainly on port facilities and access to water. Table 4.7 describes patterns of port calls in 2019 (CLIA, 2019). Singapore, China and India are generating regions for cruise passengers when the numbers of turnaround port calls are significant. The large volume of passengers from China and India contributes to the high volume of turnaround port calls in five major seaports of mainland China, Hong Kong (China) and Goa (India). Singapore, meanwhile, has become a boarding port for cruise passengers from nearby countries. Malaysia, Thailand and Indonesia, which host more transit ships, are arrival destinations for cruise ships on the Asian loop. Transit calls also outnumber port calls in Viet Nam and the Philippines.

Table 4.7. **Port calls, 2019**

Country	Port	Transit	Turnaround	Overnight	Total
China	Baoshan/Shanghai	22	221	33	276
	Tianjin/Xinggang/Beijing	15	129	17	161
	Xiamen	6	119	4	129
	Guangzhou/Nansha	0	98	0	98
	Shenzhen/Shekou	1	63	0	64
Hong Kong, China	Hong Kong	133	71	51	255
Philippines	Manila	41	2	6	49
	Subic Bay	21	0	1	22
	Puerto Princesa	13	0	1	14
	Boracay	12	0	0	12
	Coron	10	0	0	10
Thailand	Paton Bay/Phuket	151	22	15	189
	Bangkok (Laem Chabang & Klong Toey)	61	21	65	147
	Koh Samui	59	0	0	59
	Phang Nga Bay	9	0	0	29
	Ko Hong	28	0	0	28
Malaysia	Port Klang	126	43	7	176
	Georgetown/Penang	152	6	0	158
	Langkawi	95	0	8	103
	Malacca	62	0	0	62
	Kota Kinabalu	19	2	1	22

Table 4.7. **Port calls, 2019** *(cont.)*

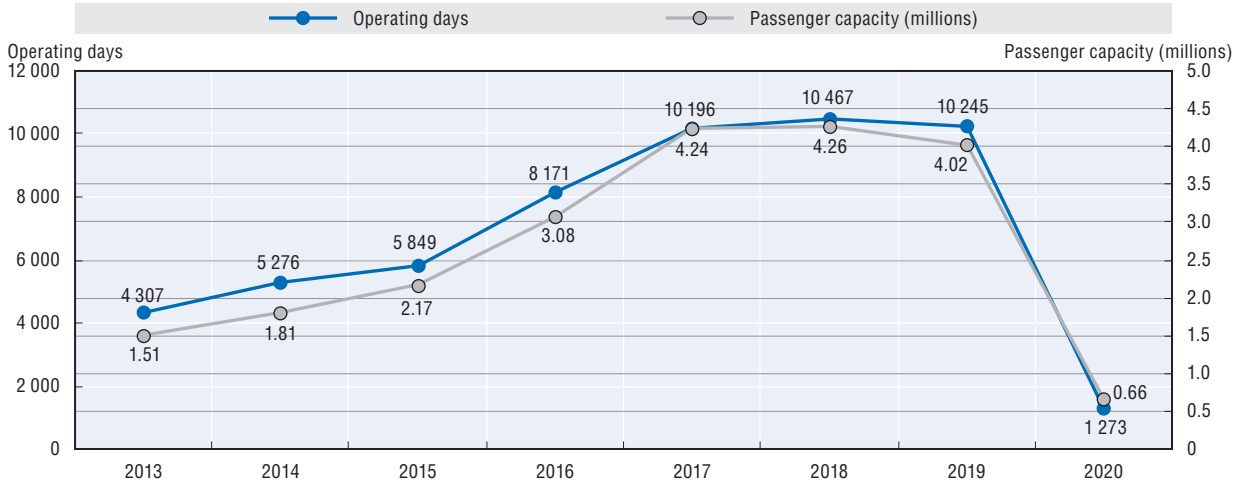
Country	Port	Transit	Turnaround	Overnight	Total
Singapore	Singapore	42	306	52	400
Indonesia	Benoa/Bali	28	26	16	70
	Bintan	51	0	0	51
	Komodo/Slawi Bay	40	0	4	44
	Lembar/Lombok	44	0	0	44
	Semerang/Borobudor	23	0	0	23
Viet Nam	Ho Chi Minh City/Phu My	100	1	43	144
	Da Nang/Hue/Chan May	106	0	10	116
	Halong Bay/Hanoi	50	0	13	63
	Nha Trang	40	0	0	40
India	Mormugao/Goa	66	61	19	146
	Cochin	35	2	10	47
	Mumbai	22	8	10	40
	Mangalore	24	0	0	24
	Port Blair/Andaman Is	7	0	1	8
Myanmar	Yangon	11	2	27	40

Note: Port calls are the number of planned deployments at the beginning of each year. A turnaround port call occurs when the vessel arrives under one cruise number and departs with a different cruise number. Transit port calls apply to all ships with arrival and departure scheduled on the same day. An overnight port call occurs when the vessel departs at least one day after arriving in port.

Source: Authors' compilation from CLIA (2019), *Asia Cruise Deployment and Capacity Report*, Cruise Lines International Association, https://cruising.org/-/media/research-updates/research/2019-asia-deployment-and-capacity---cruise-industry-report.ashx.

Figure 4.2 shows a sharp increase in the volume of cruise passengers in Asian waters between 2013 and 2020, demonstrating the rapid growth of the cruise tourism segment in Emerging Asia. However, cruise tourism was hit badly during the pandemic, and recovery has been slower than in other sectors.

Figure 4.2. **Cruise ship capacity growth, 2013-20**



Note: Operating days = days spent cruising in Asian waters. Passenger capacity = the number of lower berths multiplied by the number of cruises for each vessel.

Source: Authors' calculations from CLIA (2020), *Asia Cruise Deployment and Capacity Report*, Cruise Lines International Association, https://cruising.org/-/media/clia-media/research/2021/oneresource/2020-asia-cruise-deployment-and-capacity-report.ashx.

StatLink https://stat.link/7t6nvf

Climate change and sustainable tourism

The Association of Southeast Asian Nations (ASEAN), China and India are home to 45% of the world's population. Rapid modernisation and economic growth have made the region a significant contributor to climate change. Asia produces approximately half of global carbon emissions and will face rising temperatures, rising sea levels and a higher frequency of weather extremes. Climate change events include changes in precipitation, floods, storms, that endanger natural and built attractions, reduce the attractiveness of destinations and threaten livelihoods (Fang et al., 2022).

Tourism often develops in areas that are exposed to the effects of climate change, such as coastal areas, islands, low-lying urban areas and highland regions. At the same time, tourism activities contribute to carbon emissions both directly – for example, due to the combustion of petrol for transport or the use of energy for air conditioning in hotels – and indirectly, via carbon embodied in products bought or used by tourists, such as food, shopping and accommodation.

Carbon emissions

At the global level, tourism is responsible for about 8% of global greenhouse gas emissions (Lenzen et al., 2018). Carbon emissions in Southeast Asia have been rising at nearly 5% per year over the 1990-2010 period, mainly driven by deforestation and changes in land use and energy consumption concerning industry transport and coal and gas usage (ADB, 2015). The Asia-Pacific region produces at least 35% more greenhouse gases now than in the year 2000, and 80% of the region's total greenhouse gas emissions were generated by just five countries – China, India, Japan, Korea and Russia (UNESCAP, 2022).

There are large regional differences in annual per capita emissions between the more economically advanced countries, such as Brunei Darussalam (16.6 metric tonnes), Singapore (8.8), China (7.4) and Malaysia (7.6), and the less developed countries such as Cambodia (0.7) and Myanmar (0.6) (World Bank, 2022). Based on absolute numbers, China is the world's biggest carbon dioxide (CO_2) emitter, followed by the United States and India. Odonkor (2020) notes that the region recorded "a total of 450 000 premature deaths as a result of energy-related air pollution" in 2018 and that this could reach at least 650 000 by 2040.

Effects of climate change

Temperature plays a significant role in tourism since it is closely correlated with climate comfort and the natural attractiveness of tourist destinations. Susanto et al. (2020) provide evidence from Indonesia, where every 1% increase in temperature is reflected in a 1.37% decrease in the number of international visitors. The region is expected to face higher economic costs from climate change than most other regions, especially in agriculture and tourism, where losses are expected to total 11% of GDP by 2100 (ADB, 2015).

Climate change has contributed to the closure or change of snorkelling and diving sites and the reduction of beach space. Evidence from Thailand's Mu Ko Surin National Park shows how increasing sea temperatures at the destination led to mass coral bleaching, sea-level rise and increased wave height, resulting in a beach erosion rate of 0.38 metres per year and changes in precipitation (Cheablam and Shrestha, 2015). Similar developments have been observed in other coastal tourism destinations in Emerging Asia, prompting the dive

tourism industry to enhance its adaptive capacity (Tapsuwan and Rongrongmuang, 2015). Suggestions include considering the effects of climate change on dive and snorkel operators' business plans; diversification of products and services; and facilitating climate change discussions among operators within and across the region.

Poor and marginalised populations are greatly exposed to climate risks in Asia. Landlocked Lao PDR has a low adaptive capacity, making the country very vulnerable to climate change, especially floods and droughts. Since the 1990s, the heritage town of Luang Prabang, along the Mekong River, has become one of the country's leading tourism destinations, and this has been accompanied by rapid construction, intensification of tourist businesses and displacement of the local population outside the heritage site. Climate change has exacerbated the destination's rapid development. The combination of change in land cover and climate change increases flood risks. In Lao PDR, low capacity and limited staff and resources have played a role in hindering the country's aim to make cities greener and more resilient (Fumagalli, 2020).

In an assessment of the optimal use of natural resources, the tourism industry faces a multitude of significant sustainability-related challenges. The importance of sustainability is included in the *ASEAN Tourism Strategic Plan 2016-2025*. Its core challenges include implementing Strategic Direction 2, "to ensure that ASEAN tourism is sustainable and inclusive", and Strategic Action 2.3, to "increase the responsiveness to environmental protection and climate change" (ASEAN, 2015).

Specific challenges that need to be resolved through the greening of the industry include: i) energy and greenhouse gas emissions; ii) water consumption; iii) waste management; iv) loss of biological diversity; v) effective management of built and cultural heritage; and vi) planning and governance (UNEP and UNWTO, 2012).

Table 4.8 presents "Pillar 15: Environmental Sustainability" from the dataset of World Economic Forum's latest *Travel & Tourism Development Index* (WEF, 2021). The measurement of environmental sustainability is based on three main indicators, all of which impact travel and tourism: climate change exposure and management; pollution and environmental conditions; and preservation of nature. Results are on a scale of 1-7. In Emerging Asia, the Philippines (3.11) and Thailand (3.13) score lowest on climate change. For the second indicator, which includes water stress, marine and air pollution, loss of forest cover and risk of species extinction, India scores lowest (2.64), while China (3.32) and Viet Nam (3.41) are on the critical threshold. India again scores lowest on preservation of nature (3.71). Overall, Singapore obtains the region's best score for environmental sustainability (4.04), followed by Indonesia and Cambodia (3.90).

Countries in the region, however, have taken various initiatives to address environmental challenges in the tourism sector and shift towards sustainable practices. In Thailand, for instance, low-carbon, organic and sustainable approaches are implemented in several areas including Phuket-Phang Nga, and Pathom Organic Village in Suan Sampran that use sustainable food system and organic farming.

Table 4.8. **Environmental sustainability in countries of Emerging Asia (WEF Pillar 15)**

Indicator	Indonesia	Malaysia	Philippines	Thailand	Viet Nam	Singapore	Cambodia	Lao PDR	China	India
Climate change exposure and management, 1-7 (best)	**3.63**	**3.21**	**3.11**	**3.13**	**3.58**	**3.97**	**3.92**	**3.65**	**3.44**	**3.56**
Greenhouse gas emissions, tCO_2e/pop	6.37	12.31	2.2	6.21	3.81	11.82	4.26	5.47	8.4	2.47
Renewable energy, % of total energy consumption	20.86	5.31	23.22	23.72	23.49	0.73	61.84	41.88	13.12	31.69
Global Climate Risk Index	49.42	96.50	22.42	36.50	42.92	145.00	56.00	57.84	49.58	27.59
Investment in green energy and infrastructure, 1-7 (best)	5.19	4.27	2.81	3.62	4.27	5.05	2.86	3.32	5.61	3.95
Pollution and environmental conditions, 1-7 (best)	**3.76**	**4.01**	**3.90**	**3.55**	**3.41**	**4.00**	**3.65**	**3.63**	**3.32**	**2.64**
Particulate matter (2.5) concentration (µg/m^3)	19.4	16.6	18.8	27.4	20.4	18.8	22.1	20.5	47.7	83.2
Baseline water stress, 0-5 (worst)	2.07	0.28	1.55	2.98	0.94	5.00	0.42	0.03	2.40	4.12
Red List Index, 0-1 (best)	0.76	0.70	0.67	0.77	0.72	0.85	0.78	0.81	0.73	0.67
Forest cover loss, average % of baseline	0.88	1.46	0.47	0.75	1.56	1.23	1.59	1.83	0.35	0.39
Wastewater treatment, %	0.03	19.59	2.58	12.07	0.20	100.00	0.00	0.00	16.13	2.25
Clean ocean water, 0-100 (best)	58.24	57.68	54.15	60.33	45.42	38.77	53.36	n/a	35.10	29.48
Preservation of nature, 1-7 (best)	**4.32**	**3.91**	**3.97**	**4.22**	**4.04**	**4.14**	**4.13**	**4.12**	**4.51**	**3.71**
Environmental treaty ratification, 0-29 (best)	22	21	25	21	23	18	21	20	24	26
Adequate protection for nature, 1-7 (best)	4.93	4.11	3.17	3.95	4.39	5.50	3.47	3.87	5.02	2.84
Oversight of production impact on the environment and nature, 1-7 (best)	4.83	4.33	4.31	4.43	4.19	5.02	3.45	4.05	4.89	3.91
Total protected areas, % total area	5.27	7.55	3.72	13.27	2.93	2.46	31.77	18.69	14.75	4.40
Average proportion of key biodiversity areas covered by protected areas, %	21.67	13.33	33.71	45.58	21.43	5.86	45.06	43.96	9.02	15.09
Pillar 15: Environmental sustainability, 1-7 (best)	**3.90**	**3.71**	**3.66**	**3.64**	**3.68**	**4.04**	**3.90**	**3.80**	**3.75**	**3.30**

Source: WEF (2021), Travel & Tourism Competitive Index, data from 2015-21, https://www.weforum.org/reports/travel-and-tourism-development-index-2021/downloads-510eb47e12.

Depletion of forest resources in Southeast Asia is another critical issue. Statistics of forest coverage area from 1990 to 2020 from the World Bank's *World Development Indicators* database (World Bank, 2022) in Table 4.9 show that the highest level of accumulative forest loss has been in Cambodia, Indonesia, and Myanmar. However, forest cover expanded in China, India, and Thailand, and increased dramatically in Viet Nam.

Tourism in developing Asia is highly concentrated in certain areas (Dolezal, Trupp and Bui, 2020). This can adversely affect fragile environments such as mountains or oceans. Box 4.4 shows the negative impact of increasing numbers of tourists in India's Himalayas.

Table 4.9. **Forest area in Emerging Asia, 1990-2020**

Percentage of total land area

Country	1990	2000	2010	2020
Brunei Darussalam	78.4	75.3	72.1	72.1
Cambodia	62.3	61.1	60.0	45.7
China	16.7	18.8	21.3	23.3
India	21.5	22.7	23.4	24.3
Indonesia	65.4	53.9	53.1	49.1
Lao PDR	77.3	75.5	73.4	71.9
Malaysia	62.8	59.9	57.7	58.2
Myanmar	60.0	53.4	48.1	43.7
Philippines	26.1	24.5	22.9	24.1
Singapore	22.1	25.4	25.3	21.7
Thailand	37.9	37.2	39.3	38.9
Viet Nam	28.8	37.9	42.7	46.7

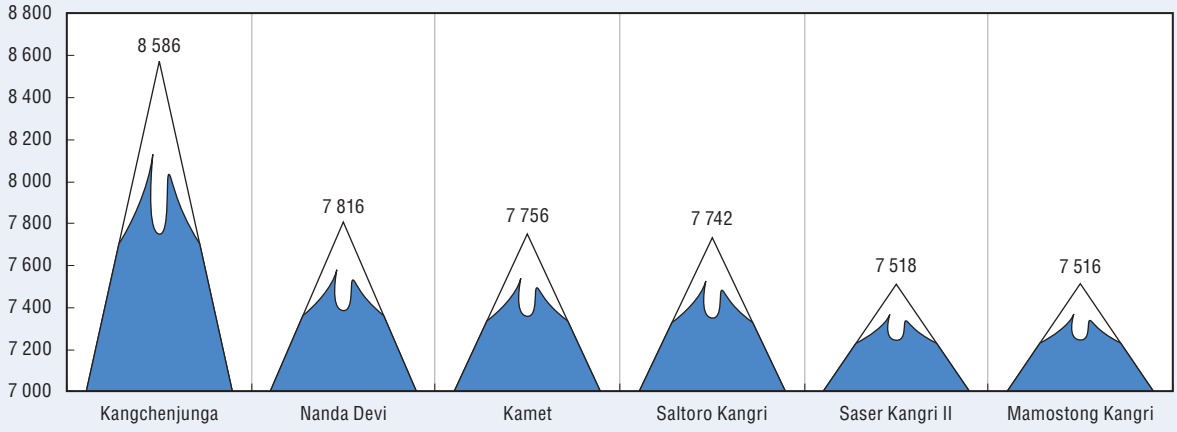
Note: Forest area (% of total land area) = Land under natural or planted stands of trees of at least 5 metres in situ, whether productive or not, and excludes tree stands in agricultural production systems (for example, in fruit plantations and agroforestry systems) and trees in urban parks and gardens. Areas under reforestation that have not yet reached but are expected to reach a canopy cover of 10% and a tree height of 5 metres are included, as are temporarily unstocked areas, resulting from human intervention or natural causes, which are expected to regenerate.

Source: World Bank (2022), *World Development Indicators* (database), https://databank.worldbank.org/source/world-development-indicators.

Box 4.4. **Mountain tourism in the Indian Himalayas**

India's Himalayan Region is well known not only for its scenic beauty, subalpine and alpine pastures, and rich biodiversity, but also for its cultural diversity. The region offers two types of tourism to domestic and international visitors. Trekkers and mountaineers come for adventure tourism, while the region draws Hindu and Buddhist pilgrims worldwide. India is home to Kangchenjunga, the third tallest mountain in the world and a particularly sacred mountain for the Lepcha and Bhutia peoples of Sikkim.

Figure 4.3. **Tallest peaks in the Indian Himalayan range, metres**



Source: Authors' compilation based on data from Alpine Club (n.d.), *Himalayan Index database*, http://www.alpine-club.org.uk/hi/screen1.php.

StatLink https://stat.link/1m3r47

Box 4.4. **Mountain tourism in the Indian Himalayas** *(cont.)*

Under India's Swadesh Darshan programme, theme-based tourist circuits have been developed in the region, such as the Northeast Circuit, Eco-circuit, Himalayan Circuit and Spiritual Circuit. Tourism has been rising for decades in the region, interrupted only during the pandemic in 2020-21. However, increasing tourist flows have increased waste disposal alongside valleys and rivers in the mountains, and waste management has been a big challenge. Other issues include deforestation in Sikkim and water shortages. While local residents consume an average of 75 litres of water a day, a tourist consumes about 100 litres a day. The Ladakh region suffers from water shortages as the state is mostly dependent on snow/glacial melt and the flow of the River Indus.

Recommendations have been issued to the respective states for better tourism management. The first is an assessment of carrying capacity at tourist destinations and eco-sensitive zones prior to online registration of visitors. The second calls for the quantification and segregation of waste; development of biocomposting units; and community-based recycling of non-biodegradable waste. Third, regular monitoring of air and water quality is to be practiced in urban and rural areas to assess tourism's impact, along with an inventory of water resources, including seasonal discharge rates. Fourth, the positive and negative aspects of tourism are to be assessed in a study on tourism activities, biodiversity and the socio-cultural system. Strengthening of community-based tourism needs to be encouraged to reinforce sustainable tourism in the Indian Himalayan Region.

Source: Government of India (2022), *Environmental Assessment of Tourism in the Indian Himalayan Region*, http://www.indiaenvironmentportal.org.in/files/file/tourism-environmental-assessment-Himalayan-region-report-NGT-June2022.pdf.

The way forward

Studies highlight that tourism stakeholders often lack understanding of the actual causes of climate change or that they view climate change as irrelevant to their business (Mat et al., 2020). Such misconceptions can lead to wrong action or inaction regarding business or destination management. Knowledge-transfer programmes and broader public and community participation have been suggested to complement climate-change policies (Tapsuwan and Rongrongmuang, 2015).

There is also the need for a more systematic measuring of climate impacts on tourism for public and private-sector organisations alike. While governments can record climate data aligned with their climate commitments, businesses and industry stakeholders also need to be well informed about carbon and climate risks and engage in environmental commitments. Tourism and hospitality companies can collect data on energy consumption, sources and volume of carbon emissions, and usage of other resources, as suggested in a recent report (ADB and UNWTO, 2022).

Studies recommend a shift to cleaner technology and non-fossil-fuel energy, as well as more resource-saving consumer behaviour (Zhang and Liu, 2019). Governments should create additional mechanisms to encourage environmentally sustainable behaviour and to ensure that tourism stakeholders, including tourists, local communities and industries, are held accountable for their effect on the environment. Sun, Lin and Higham (2020) propose reconfiguring the tourism demand mix to promote low-carbon regional travel. Specific scenarios for achieving the reduction of tourism-based emissions include degrowth (reducing tourist numbers), low-carbon-intensity trips (longer stays and even distribution in monthly arrivals), carbon reduction (via eco-efficiency of tourist infrastructure) and carbon-offset

initiatives (e.g. for inevitable air travel). Green tourism initiatives in Southeast Asia should also further encourage domestic and regional travel, which depend less on travel by air.

Community-based approaches in ethnic and indigenous tourism

Tourism not only has environmental impacts that compromise sustainability but also leads to changing sociocultural dynamics, including in gender relations (Trupp and Sunanta, 2017), cultural commodification (Cole, 2007), inequalities within the resident population (Dolezal and Novelli, 2020) and economic leakages (Geoffrey Lacher and Nepal, 2010). Such sociocultural impacts play a particularly important role in destinations where local people themselves represent part of the tourist attraction, such as in ethnic and indigenous tourism.

Ethnic tourism is when travellers choose to experience the practices of another culture first-hand. In Emerging Asia, such tourism takes place in the highlands of Southeast Asia (Thailand, Lao PDR, Myanmar, and Viet Nam) and in south-western China (Yunnan). It takes the form of trekking tours; one-day excursions to easily reachable minority or indigenous villages; and ethnic-minority souvenir selling at urban markets or beachside tourist destinations (Trupp, 2017).

In Thailand, much ethnic tourism to highland villages ("hilltribe tourism") evolved in an uncontrolled and unplanned manner. Many of these villages receive a high number of tourists (sometimes more than 100 per day), yet their participation in the planning and management of tourism and their actual benefit from it is very low. Tourist numbers often fluctuate, and there is no secured income from tourism as villagers largely depend on tourist-generated income from souvenir selling, posing for cameras and taking part in local homestays. Another common problem is that tourism-generated income often benefits a local elite, who run the accommodation or the most prominent souvenir stalls in the village. Such tourism does not necessarily support local development and can lead to further local and regional disparities.

To counter such developments, one strategy is community-based tourism (CBT), which seeks to engage the host community in tourism planning, development and management. CBT has emerged as an alternative to mass tourism and its negative impacts. It can be a catalyst for reviving local cultures, including the languages, customs and traditions of indigenous groups, thus helping to achieve sustainable development goals (Scheyvens et al., 2021). For example, in Lai Chau (Viet Nam), Sìn Suối Hồ CBT successfully promotes indigenous leadership. Villagers know that their H'Mông traditional identity attracts tourists and have integrated traditional livelihoods, such as horticulture and agriculture, into the tourism value chain (Phi and Pham, 2022).

"Pro-poor tourism", which integrates the tourism development agenda with poverty alleviation, can be of use in the region, where a substantial proportion of the population lives below the poverty line. Pro-poor tourism is an impetus for local development in less developed countries such as Cambodia, Lao PDR and Myanmar, and for ethnic groups communities in Thailand (Trupp and Sunanta, 2017), China (Wen, Cai and Li, 2021) and Viet Nam (Truong, Hall and Garry, 2014). A case study in Lao PDR highlights the potential that tourism offers to some communities, but also identifies challenges and consequences that can undermine the Sustainable Development Goals (SDGs) (Pasanchay and Schott, 2021). In remote mountainous areas of Viet Nam, for example, there has been unequal distribution of profit from tourism, with a large proportion of income going to the tour operators, leaving a tiny balance for poor local street vendors (Truong, Hall and Garry, 2014).

Box 4.5. **Risks faced by local communities that become dependent on tourism**

Tourism development is widely promoted as providing livelihoods for local communities, including those whose resources depend on the ocean, such as fishing villages. A case study on Indonesia's Komodo island of a fishing village that became dependent on tourism shows both the opportunities and challenges of this sort of livelihood transition (Lasso and Dahles, 2018). Tourism on Komodo has been rising since the 1980s, mainly been driven by Komodo National Park, home of the famous Komodo dragon, as well as improved accessibility and increasing numbers of cruise-ship tourists.

Table 4.10. **Komodo dragon facts**

Type	Reptile
Diet	Carnivore
Average life span in the wild	30 years
IUCN Red List status*	Endangered
Size and weight	10 feet (3 metres), 330 pounds (150 kilogrammes)
Size relative to a 6-foot (1.8-metre) man	

Note: * International Union for Conservation of Nature's Red List of Threatened Species.
Source: Authors' adaptation from National Geographic (n.d.), "Komodo dragon", https://www.nationalgeographic.com/animals/reptiles/facts/komodo-dragon.

Tourism in the coastal areas of Komodo brought in additional income and also contributed to local livelihoods by reducing pressure on natural resources. Fishermen on the island increasingly moved away from fishing and involved themselves in tourism-related entrepreneurial activities, mainly souvenir businesses, and in smaller numbers in homestays and local tour guiding. Although the transformation from a fishing-based to a tourism-based livelihood brought about relatively good income for local community members, this shift significantly increased their vulnerability. A return to the fishing economy has become very difficult as many local people have given up their boats and surrendered their fishing skills.

Dependency on tourism as a single source of income becomes highly challenging in times of crisis, such as during the COVID-19 pandemic. Stakeholders in local coastal and island tourism contexts need to support livelihood diversification involving both tourism- and non-tourism-based businesses. Education and training for local community members are needed to expand their skills beyond souvenir production and sales.

Another issue spawned by increased tourism is the displacement of local communities, abandonment of traditional practices and increased reliance on tourism as a livelihood activity (Movono, Scheyvens and Auckram, 2022). A study of Komodo Village on Indonesia's Komodo Island revealed that increased tourism resulted in the local community giving up fishing to focus on selling souvenirs. While this may deliver short-term gains, dependence on this new livelihood brings considerable risks given that the market is limited, competitive and seasonal (Lasso and Dahles, 2018) (Box 4.5). In search of a better model of local community participation in tourism, a partnership between the private sector and the community at the Misool Marine Reserve, also in Indonesia, sets an excellent example of linking tourism with conserving the marine environment (Box 4.6).

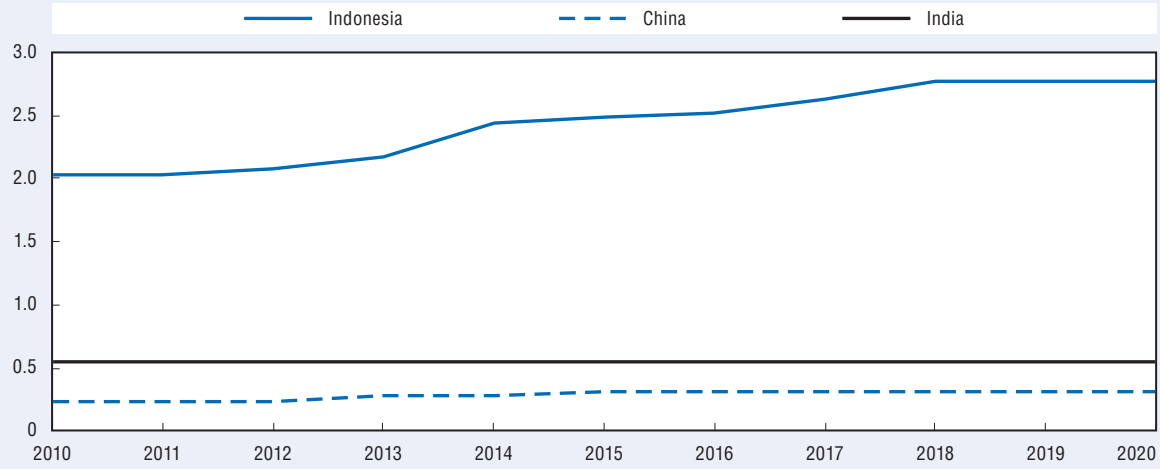
Box 4.6. **Linking ecotourism with conservation: Misool Marine Reserve**

The Misool Marine Reserve protects a complex and biodiverse coral-reef system in South Raja Ampat, Indonesia. The reserve is jointly managed by the Misool Foundation and Misool Resort, a private island resort that uses ecotourism revenue to fund the reserve. The Misool Marine Reserve was established in 2005. A unique lease agreement forged with the local community enabled the creation of a 425 km^2 no-fishing zone, known as a No-Take Zone (NTZ), expanded in 2010 to cover 1 220 km^2 across two connected zones. All marine extraction is prohibited within the NTZs, including small-scale artisanal fishing and the collection of turtle eggs. The initiative not only prevents overfishing and marine plastic pollution associated with the fishing industry, but also prevents destructive illegal fishing practices and protects marine species, such as sharks, from exploitation by illegal wildlife traders. By successfully expanding their outreach and engaging in multistakeholder partnerships, including with international NGOs involved in conservation, Misool Resort served as a catalyst for the declaration of a Shark and Manta Sanctuary across the entire marine area of Raja Ampat (46 000 km^2), aimed at re-establishing healthy stocks of these species, and the development of a network of six marine protected areas across Raja Ampat that together protect nearly 45% of the area's reefs and mangrove systems.

The Misool Ranger Patrol enforces the NTZs with patrols from their basecamp at the resort and three satellite ranger stations. Some rangers are former fishermen who now earn more by protecting the reserve and educating their communities on marine conservation. The ranger patrol is funded by Misool Resort as well as grants from international foundations and private donors. In 2019, the rangers conducted 383 patrols, with an average of 3.05 hours of patrol time per person per day.

Together, Misool Resort and the Misool Foundation employ about 250 people, 96% of whom are Indonesian. These salaries support an estimated 1 000 people from the local communities. In addition, Misool Foundation established two sustainable livelihood co-operatives in the Misool area and on Solor Island in East Indonesia. These co-operatives provide training in sustainable fishing techniques and assist with developing skills in business and financial management. The reserve's management plan is periodically reviewed and updated to ensure optimum performance.

Figure 4.4. **Marine Protected Area as a percentage of exclusive economic zone**



Source: Authors' compilation, based on data from CEIC.
StatLink https://stat.link/4biy6q

Box 4.6. **Linking ecotourism with conservation: Misool Marine Reserve** *(cont.)*

Through this approach, the Misool team has demonstrated a number of best practices in conservation, including establishing a marine protected area, expanding protection outside the boundaries of the protected area, involving the local community, positively impacting the local economy, working with the government, collaborating with other conservation groups, adapting to change, mitigating the potential negative consequences of ecotourism, implementing innovative waste management solutions, conducting research and monitoring, and educating others.

Source: Authors' adaptation from UNESCAP and Misool Foundation (n.d.), *Misool Marine Reserve: Successfully Linking Ecotourism with Conservation*, https://sdghelpdesk.unescap.org/technical-assistance/best-practices/misool-marine-reserve-successfully-linking-ecotourism.

Local communities in remote mountainous areas play an important role in promoting small-scale sustainable tourism. Owing to the cultural and religious symbolic meaning of the mountain, in addition to surrounding forests and landscapes, innovative tourism products with links to the local community are options for development (Jones, Bui and Apollo, 2021). Mountains are not only distinctive for biological characteristics and landscape values, but numerous Himalayan peaks are sacred in indigenous beliefs. Mountainous areas also provide excellent environments for stargazing and viewing astronomical phenomena, which can be sold as "astrotourism" experiences with facilities, lodging and guides (Table 4.11). Participants on these tours also have opportunities to interact with the local villages and appreciate their arts and crafts. A series of experiences known as *Astrostays* established in the Ladakh region of India demonstrate the fullest potential of this tourism model. The experiences provide jobs, especially for women, and the revenues generated are reinvested into community improvements such as greenhouses and solar water heaters (UNWTO and FAO, 2021).

Table 4.11. **Examples of astrotourism locations in low- and lower-middle-income countries***

Location	Country	Attraction
Siloli Desert	Bolivia	Nature
Arsanjan	Iran	Nature
Masai Mara National Park	Kenya	Stargazing
Playa Maderas	Nicaragua	Nature
Kirindy Mitea National Park	Madagascar	Stargazing
Chenini Village	Tunisia	Stargazing

Note: "Attraction" refers to the principal attraction for the location. Astrotourism can take place at all sites. *Country income classification is based on World Bank Country and Lending Groups for fiscal year 2023.

Source: Astrotourism (n.d.), "Places", https://www.astrotourism.com/world-best-stargazing-places-top-astrotourism-destinations/.

Another such successful mountain tourism example is "The Akha Experience" in northern Lao PDR, a community-based ecotourism programme. During a three-day trek to eight Akha villages, participants meet the villagers, get acquainted with their tangible heritage (traditional dress, local food, cultural artefacts, village structure and local houses) and learn about their oral traditions, local knowledge and rituals as well as the local livelihood and environment (rice cultivation, forest products, livestock).

The Akha Experience grew out of a public-private partnership (PPP) between eight local village communities, an international development agency and a private tour operator. While the local villagers are rich in cultural knowledge and resources, many lack the experience and training to operate a tourism business. Therefore, the development agency, in co-operation

with the local government, facilitated training and workshops, such as a tourism-awareness workshop; technical training in hospitality, cooking, hygiene, housekeeping and management; and education in English and tour guiding. The private-sector tour operator played an important role by facilitating access to the international tourism market. The package for tourists includes items and activities that directly benefit the community, such as a village development fund to which every visitor contributes; locally prepared food making use of local ingredients; a locally crafted souvenir that every visitor receives as a gift; a local forest preservation and trail maintenance fee; and various local entertainment and performance activities. A rotational system was put in place for hosting tourists in local homestays so that different villages and communities could share the work and the benefits. Yet there were challenges. While this approach achieved higher economic benefits for local community members and stronger participation in various activities, the transition from external to local control did not take place.

Enhancing linkages

Linkages and leakages are opposites in the local development of tourism. Leakages, or the amount of revenue that leaves the local economy (especially through payments for imported goods), represent a challenge. 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. There are prospects for linkages between food producers and the hospitality industry, based on the notion that it should be possible to enhance local food systems that supply tourist hotels and resorts in the region.

For example, Club Med resorts in Indonesia (and other emerging economies) collaborate with Agrisud, a non-governmental organisation (NGO), towards a lasting match between local supply of food products and the demand of Club Med resorts (UNWTO, 2018). The aim is to meet criteria for quality, quantity, diversity, regularity and prices, and to ensure fair remuneration for producers and a strong distribution of added value, giving the poorest groups access to these markets. The project works with very small enterprises and supports local farmers by: i) strengthening producers' capacities in technical matters, management and organisation; and ii) establishing a sustainable local procurement system via participatory development of the procurement protocol and by grouping producers into commercial co-operatives. The role of Club Med is to support the NGO's work financially and to buy the produce directly from the small farming enterprises. At the resorts, the source of the food on offer is highlighted to customers and excursions can be booked to the nearby farms. Such projects often raise concerns over costs of local production, irregularities in volume and quality of products, and interruptions of demand due to seasonality and unforeseeable events and crises.

Partnerships between NGOs and private tourism businesses can be highly effective to support local development and small businesses while simultaneously benefiting a large enterprise. At the same time, a strong and respectful relationship between a resort and farming groups needs to be established and developed. This includes agreement on production schedules, purchase commitments and pricing. Finally, such partnerships are also an opportunity to educate guests about eating locally and seasonally, thereby creating more awareness on sustainable production and consumption.

Moving towards higher quality is essential for increasing the value derived from tourism in the green economy (Box 4.7).

Box 4.7. **Digital nomads: Shift of focus from mass tourism to sustainability**

Indonesia is moving away from mass tourism in favour of ecotourism and sports tourism, as well as promoting nature and culture to tourists. Focusing on quality and sustainability marks a major shift of tourism and travel operations towards a green economy. Quality tourism with positive impacts on local communities is promoted by offering tourists products such as local food and traditional headgear in community-based tourism in 3 000 villages across the country. Moreover, travellers spending their holiday in Indonesia can offset the carbon footprint of their flights through activities like mangrove planting or waste management and by empowering local people, who benefit from tourist dollars.

Indonesia is also targeting longer-staying tourists, or "digital nomads" – people working remotely who stay a month or longer in destinations to combine work with leisure. Longer-stay tourists are better for the local economy because they tend to spend more on locally produced goods and services, which has economic multiplier effects. It also helps the environment, as increasing the availability and consumption of local products by fewer but longer-staying visitors can shorten supply chains and reduce negative environmental impacts – two critical factors for building destination resilience and sustainability.

Malaysia and Thailand are also seeking to attract longer-term tourists focused on sustainability. However, the intentions of each offer may vary (Table 4.12). For instance, the "digital nomad" visas offered by Indonesia and Thailand are targeted to medium-term investors, while the Malaysian visa offers more relaxed conditions. Visas may also vary by the length of eligibility, and the eligibility of family members to join the initial applicant in the destination country.

Table 4.12. **"Digital nomad" visas in Asia**

Country	Visa name	Terms	Eligibility criteria
Indonesia	Second-Home Visa and Temporary Stay Permit	5 or 10 years Fees: IDR 3 million (Indonesian rupiah)	Passport: valid for 36 months minimum Funds: IDR 2 billion minimum, must be placed in Indonesian state-owned banks
Malaysia	DE Rantau Nomad Pass	3-12 months and renewable for up to 12 months Spouse and children eligible Fees: MYR 1 000 (Malaysian ringgit) each for applicant and spouse, MYR 500 for dependents	IT job Employment contract >3 months Annual income > USD 24 000
Thailand	Long-Term Residency Visa	5 years, renewable for another 5 years with conditions Spouse and children eligible	Minimum income, assets and investments in Thai government bonds, FDI or Thai property Possible minimum education and field requirements Conditions depend on class of visa

Source: Authors' compilation from Direktorat Jenderal Imigrasi (2022), "Press release: Directorate General of Immigration officially launches second-home visa", https://www.imigrasi.go.id/en/2022/10/25/siaran-pers-ditjen-imigrasi-resmi-luncurkan-aturan-second-home-visa/; Malaysia Digital Economy Corporation (n.d), "For foreign digital nomad", https://mdec.my/derantau/foreign/; Thailand Board of Investment (2022), "Long-term residents visa Thailand", https://ltr.boi.go.th/.

ICT infrastructure is the most important concern for attracting digital nomads. The digital nomad lifestyle is built upon not being bound to a particular physical location for work. Digital nomads are often self-employed or are otherwise in agreement with their employers to work on a fully remote basis. This means that if wireless ICT infrastructure performs poorly or fails outright (as in the case of a disaster), digital nomads risk losing their ability to produce output and earn a living as they do not have employer offices as a last resort. Improving digitalisation within countries (which should be a top priority, as discussed in previous editions of the *Outlook*) will expand the geographic range where the digital nomad life is feasible.

Source: Authors' adaptation from ADB (2021a), *Sustainable Tourism after COVID-19: Insights and Recommendations for Asia and the Pacific*, https://www.adb.org/publications/sustainable-tourism-after-covid-19-insights-recommendations, and Teresia (2022), "Indonesia aims to lure more digital nomads to its shores", Reuters, https://www.reuters.com/world/asia-pacific/indonesia-aims-lure-more-digital-nomads-its-shores-2022-09-15/.

Rethinking tourism products in the green and blue economies

This section considers options for diversifying tourism by rethinking the development of beach and island tourist destinations, where mass tourism has caused damage, and analyses the advantages and challenges presented by alternative "niche" forms such as ecotourism.

Beach and island tourism

Tropical beaches and islands have long been part of Southeast Asia's tourism identity and are still dominant in tourism development planning (Dolezal, Trupp and Bui, 2020). Alongside the perennial popularity of seaside resorts, the remoteness of island destinations has gradually been overcome. With cheaper airlines, higher incomes and longer vacations, tourism has brought new development to isolated islands. Those with advantages in terms of clean beaches, unpolluted seas, warm weather and the vestiges of distinct cultures have the potential to be turned into luxury hideaways. However, while some Asian islands have received overwhelming numbers of tourists owing to distinctive resources, most islands without unique cultural or natural attractions remain far from conventional tourist circuits.

Sustainable development of beaches and islands through tourism has proved difficult (Connell, 2020). Major challenges faced by seaside resorts and islands are outlined below.

- *Marginalisation of locals*. Promoting tourism and finding markets has usually been the province of hotels, travel agents and national and regional tourism bodies, all of which can be remote from local people. When Kuta (Bali, Indonesia) evolved from a small village to a popular tourist destination, local people played a declining economic role as people from other provinces and international interests constructed hotels and other facilities and secured employment. But sometimes locals benefit from tourism. For instance, a recent boom has brought large numbers of weekend visitors to Tap Mun Island (Hong Kong, China), which had seen a decline of agriculture, fishing and population but is now welcoming tourists who spend money on food, souvenirs of dried fish and seaweed, and water taxis (Connell, 2020).
- *Leakages*. Tourism stimulates development in other economic sectors, but multiplier effects are smaller on small islands where goods are more likely to be imported and where tourism exists in enclaves. All-inclusive resorts owned by international chains stress that everything is available within the resort. 40% to 85% of tourist expenditure leaves the islands, with the lowest proportion retained in the smallest islands (Connell, 2020).
- *Transformation of society and culture*. In some contexts, tourism has contributed to a revival of material culture (traditional handicrafts, textiles, and ornaments) and visual culture (art, dance, and music), but it has also had negative consequences. On the island of Pari (Indonesia), for example, tourism has created jobs, incomes and better access to services, but it has reduced social cohesion, as competition has developed and there is less adherence to traditional customs (Kinseng et al. 2018).
- *Environmental change*. A critical issue associated with seaside resorts and island development is inefficient understanding of the coastal environment, including coastal erosion, water supplies and waste disposal (Do and Phi, 2022). Some Asian island sites, including Boracay (Philippines) and Koh Phi Phi (Thailand), have recently been temporarily closed to tourism due to excessive environmental degradation.

Other islands, such as the Tidung Islands of Indonesia, have experienced a recent decline in tourism, primarily due to ecological degradation. The islands of Phu Quoc (Viet Nam) and Koh Rong (Cambodia) appear to be following this trend (Connell, 2020). Box 4.8 presents a sustainable approach to tourism planning in fragile marine environments in Viet Nam.

Box 4.8. **Integrated planning for sustainable marine tourism in Viet Nam's Côn Đảo islands**

Côn Đảo is a Vietnamese archipelago consisting of 16 small islands with a total area of 76 km^2. Its remote and isolated location southeast of the mainland has contributed to preserving Côn Đảo National Park, one of Viet Nam's largest marine reserves, spanning nearly 20 000 ha, with many rare species of coral, turtles, dolphins and endangered dugongs. Côn Đảo has 200 km of coastline, with many untouched beaches. The development of Côn Đảo, which began with an ambitious plan to turn the island into a modern tourist economic zone in 2011, has changed to efforts to ensure a harmonious relationship between economic development and conservation of historical and cultural relics while protecting forest-sea ecosystems. Côn Đảo's new tourism development towards sustainability embraces the following initiatives:

Table 4.13. **Côn Đảo's tourism development initiatives**

Initiative	Description
Investment	Investment is encouraged in high-end accommodation projects such as the Six Senses Resort.
Accessibility	Accessibility by sea is improved via high-speed boats from Vũng Tàu or Cần Thơ and the speedboat Superdong, connecting Sóc Trăng and Côn Đảo in 2.5 hours with a capacity of 806 passengers. The islands are accessible by air via direct connections between Côn Sơn airport and Hồ Chí Minh city, Cần Thơ and Sóc Trăng, or by private helicopter from Vũng Tàu.
Sustainable energy	Côn Đảo's electricity has been produced by a diesel generator, which has failed to meet the demand of both locals and growing numbers of tourists. In 2021, a project to connect Côn Đảo island to the national electricity grid was approved. Solar power and wind power, once considered supportive sources, are now being encouraged to expand. Côn Sơn is the only one of the 16 islands with limited underground fresh water and five freshwater lakes.
Zoning development	Côn Đảo will face significant challenges in terms of limited land for development, freshwater scarcity and waste treatment challenges as tourism grows. The new plan seeks the containment of the most recent development projects within the central town of Côn Sơn, the main island. Any new construction outside this area must meet strict criteria for minimising environmental impacts, conserving the forest-sea ecosystem and controlling population growth
Regulating inflow	Tourist numbers are to be kept at the lowest level, with a focus on balance between domestic tourists (60%) and international tourists (40%). To reduce negative impacts on nature and the ecosystem, tourism products are to be diverse, with tourists encouraged to go beyond ecotourism to explore the islands' cultural and historical monuments, legends and festivals.

Source: Authors' adaptation from Do and Phi (2022), *Marine and Island Tourism: Stakeholder Involvement in Policy Formulation and Implementation*, https://www.cabidigitallibrary.org/doi/abs/10.1079/9781789242782.0005#core-collateral-purchase-access.

Ecotourism

Ecotourism represents a facet of the sustainable use of forest resources in which biodiversity is regarded as a product to be sold to consumers. A focus on ecotourism is warranted because it is a fast-growing product, aligning with emerging trends in tourism consumption. From the community's perspective, income earned through direct payment for ecotourism services provides benefits and incentives to engage in biodiversity conservation. A study of ecotourism in Phuket and Bali has shown that ecotourism essentially links to

the structures that are created through mass tourism and can happen in mass tourism destinations, creating a form of "mass ecotourism", where both kinds of tourism co-exist and blur into one another (Kontogeorgopoulos, 2003). If managed properly, ecotourism can be a catalyst for environmental conservation and community development, as shown in the example of Borneo Eco Tours (Box 4.9).

Box 4.9. **Increasing positive impact on the environment: Borneo Eco Tours**

Borneo Eco Tours, established in 1991 in Sabah, Malaysian Borneo, was an ecotourism pioneer. Its sister property, Sukau Rainforest Lodge, built in 1995, sits on the bank of the Lower Kinabatangan River, the surrounding forest being one of Sabah's most exceptional but sensitive and fragile environments. Borneo Eco Tours and the award-winning lodge specialise in nature and wildlife tours. They received about 11 000 visitors in 2018, and expansion of capacity is expected to be limited in the next few years. They maintain high standards as a responsible tour operator and eco-lodge by regularly consulting with experts and academics, especially on animal welfare and conservation. They continuously improve their wildlife knowledge and interpretation, as well as how they conduct wildlife tours. The training given to employees includes responsible wildlife guiding, environmental practices and hospitality skills. Their guides and in-house naturalists are knowledgeable and provide excellent service to guests.

The lodge has an interest in not only doing its best to minimise its potential harmful impact on the sensitive environment in Kinabatangan, but also in increasing its positive impact. Sukau Rainforest Lodge is constantly finding ways to ensure that the riches of Kinabatangan will continue to exist for generations to come. The lodge uses the BioSolv Treatment System, a sewage treatment process with low environmental impact. The system utilises enhanced micro-nutrient technology that shortens the overall treatment time. It has a much smaller footprint than conventional sewage treatment plants and minimises the impact of water pollution. The end product from the septic tank is compost that can be used as fertiliser for the garden plants grown at the lodge. In addition, the lodge practises rainwater harvesting, making it 100% self-reliant for fresh water. The rainwater is filtered and chlorinated for kitchen use and washing purposes. The hot water used for showers in all rooms is supplied by four Crystal Solar Heating Systems with a capacity of 300 litres. Other environment-friendly efforts include eliminating the use of plastic straws, reducing energy usage by using LED bulbs and energy-saving inverter air conditioners, using electric-powered motors for boats, composting food waste and recycling.

Borneo Eco Tours uses green and sustainable practices as guidelines for its employees. The guidelines emphasise being mindful of the environment and reducing negative impact through practices like reducing and eliminating single-use items such as plastic bags, cutlery and bottles. The guidelines aim to inspire employees to lead a more sustainable lifestyle. Borneo Eco Tours also encourages guests to bring along their own water bottles and provides free bulk water in all its vehicles so that guests can refill during tours. Employees of both Borneo Eco Tours and the lodge are given training in hygiene, health and safety, and basic first aid, as well as on guidelines for wildlife viewing. Their guides are respectful of other guides despite being competitors. As a result, the guides from different tour operators have built a good relationship and share information with one another about recent wildlife sightings.

Source: UNWTO and Guangdong Chimelong Group (2020), *Sustainable Development of Wildlife Tourism in Asia and the Pacific*.

One of the criteria for sustainable tourism, as defined in Box 4.1, is ensuring viable, long-term economic operations that provide socio-economic benefits to all stakeholders. In this regard, countries might consider aligning tourism finance with sustainability. This requires inclusive and sustainability-oriented governance frameworks. Strengthening co-ordination and stakeholder management will be necessary for tourism development in line with the SDGs (Box 4.10).

Box 4.10. **Challenges of ecotourism funding in Viet Nam**

Viet Nam has three ways of financing protected areas: Payment for Forest Environmental Services (PFES), entrance fees and payment for ecotourism services. These methods are intended to increase funding for biodiversity conservation in protected areas and to generate financial and economic incentives for local communities. However, there is dissonance in the design and implementation of the three financing options (Table 4.14). First, although all three are designed as market-based options, the government defines the payment framework, regulates the payment mechanisms, decides on the types of services, identifies the buyers and sellers, and ensures that payment occurs.

Table 4.14. **Conservation funding landscape in Viet Nam**

Funding channel	Description	Challenges
Payment for Forest Environmental Services (PFES)	Firms engaging in activities that affect forests (including ecotourism) pay for conservation efforts	Inconsistent enforcement, high transaction costs, slow disbursement of collected funds
Entrance fees	Protected areas are gated and payment is required to enter	As affordability is prioritised, revenue requirements can only be met by granting access to too many people
Ecotourism services	Specific tourism experiences (possibly guided)	Overlapping responsibility of two ministries, with responsibilities not delineated Similar issues to the entrance fee model

Source: Authors' compilation from Pham and Bui (2020), "Ecotourism and sustainable development in Vietnam's protected areas", https://www.taylorfrancis.com/chapters/edit/10.4324/9780429264191-4/ecotourism-sustainable-development-vietnam-protected-areas-pham-hong-long-huong-bui and Thuy et al. (2013), *Payments for Forest Environmental Services in Vietnam: From Policy to Practice*, Center for International Forestry Research, https://www.cifor.org/publications/pdf_files/OccPapers/OP-93.pdf.

Second, while ecotourism may help to reduce state budget burdens in the forestry sector, its contribution to forest protection may be limited due to issues of forest governance. Governance of entrance fees and ecotourism services in Viet Nam functions on the principles of a centrally planned economy, with fees fixed for all national parks, while the management unit for ecotourism is a state-owned organisation. Low prices for entrance tickets make ecotourism affordable for various social groups, including students and seniors, fulfilling the social objective of making natural sites accessible to all social classes. However, the low-price entrance policy conflicts with the goal of maximising revenue to ensure economic sustainability. This means that, in order to reach the target revenue planned by the government, national parks have only one option: to admit unrestricted numbers of visitors.

Source: Authors' adaptation from Pham and Bui (2020), "Ecotourism and sustainable development in Vietnam's protected areas", https://www.taylorfrancis.com/chapters/edit/10.4324/9780429264191-4/ecotourism-sustainable-development-vietnam-protected-areas-pham-hong-long-huong-bui and Ly and Nguyen (2017), "Application of carrying capacity management in Vietnamese national parks", doi.org/10.1080/10941665.2017.1359194.

Tourism in the digital economy

Leveraging digitalisation

With lockdowns and severe mobility restrictions across Asia over long periods, digital technology has become ever more critical for everyday life and work. A recent report on digitalisation in six Southeast Asian countries (Indonesia, Malaysia, Philippines, Singapore, Thailand and Viet Nam) found that 100 million additional internet users came on line in the last three years (Google, Temasek and Bain, 2022). This rise of digital technologies creates both opportunities and challenges for consumers and businesses in hospitality and tourism.

During the pandemic, digital platforms for operating, booking and marketing, payment, services and other processes gained popularity as consumers avoided face-to-face interaction. Innovative products such as smart tourism, virtual travel and augmented reality are increasingly popular. 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 micro and small businesses that may lack access to digital infrastructure. There are also digital divides between countries with different levels of socio-economic development.

Digital platforms

Bookings across the tourism sector are driven by technology platforms, including global distribution systems (GDS), such as Sabre, Amadeus, Galileo, and online travel agencies (OTA) that cater to independent travellers booking directly (Booking.com, TripAdvisor, Airbnb, Expedia, Travelocity). Three main business models predominate among OTAs. TripAdvisor revenues are based on advertising and a pay-per-click revenue model; Booking.com is primarily driven by a commission model; and Expedia functions as a wholesaler, mainly buying services in bulk in advance before selling them to consumers (World Bank, 2020b). OTAs are agile in responding to emerging data and shifting supply, and are faster to bounce back than traditional service providers. GDSs serve as marketplaces for travel agents to reserve air tickets, hotels and other travel services. They act as a global inventory management and reservation system. Operators are increasingly adopting online-booking technology, OTAs and GDSs to develop their product offerings (ADB, 2021a).

E-commerce and contactless payments

Increased access to the internet in Emerging Asia has facilitated the spread of internet-based technologies and services, including e-commerce and contactless payments in the tourism and hospitality industries. Electronic commerce, or e-commerce, is understood as the organisation and sale of a product or service through the internet and via information and communication technologies (ICT). Advantages include the reduction of production or service costs, 24/7 business operation, instant payment and easy access for consumers. Communication with customers is increasingly automated and combined with Artificial Intelligence (AI) via chatbots. Online travel agencies are becoming more essential in the travel industry, and during the pandemic the retail sector further incorporated digitalisation into sales channels.

Another trend is the decline of cash payments in favour of cashless and contactless payments. This type of e-commerce includes online shopping, ride hailing, food delivery and shopping at supermarkets and retail stores. E-wallets have become increasingly popular in Emerging Asia. According to Google, Temasek and Bain (2021), e-wallet usage in Southeast Asia has increased by 45% compared to before the COVID-19 pandemic, and its transaction value is projected to more than double by 2025.

Mobile devices are an on-the-go digital self-extension of individual travellers, and digital payments therefore support and enable mobility. For travellers, making a mobile payment is the last hurdle in the mobile booking experience. For travel service providers, it is a way to increase traveller satisfaction and revenue growth. Mobile payment service providers include: i) fintech firms, such as Alipay, PayPal Pay and WeChat Pay; ii) device-centric mobile-pay service providers, such as Apple Pay, Android Pay and Samsung Pay; iii) financial institution/network-instigated mobile-pay service providers, such as Capital One, Visa Checkout, UnionPay and Masterpass; and iv) merchant-centric mobile solutions, such as Dunkin' Donuts and Starbucks.

The smartphone penetration rate is high in some Emerging Asian countries, notably Singapore, China and Malaysia. Travellers are consequently using mobile devices to pay for travel-related services, and service providers are implementing mobile payment options (WTTC, 2019). In Singapore, for instance, contactless payments grew by 15% in the first quarter of 2020 alone (ADB and UNWTO, 2021). Before the pandemic, China was already leading in the transformation of cashless payment of travel and tourism services (Box 4.11).

Box 4.11. **Use of contactless mobile payment by Chinese travellers**

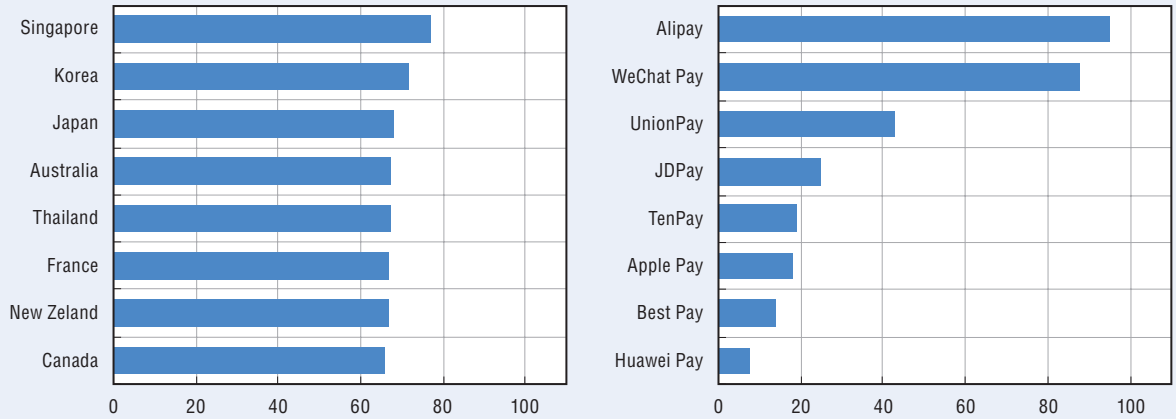
China, the world's biggest spender in outbound travel, also leads the trend among global travellers to pay via mobile phone when abroad. In 2017, 61.2% of mobile payment users worldwide were Chinese, with transactions via mobile payment in China totalling more than USD 12.8 trillion. Nevertheless, the most prevalent payment method among Chinese outbound travellers is still cash, followed by credit cards and mobile payment. In terms of platforms, Alipay and WeChat Pay have dominated the overseas mobile travel payment market.

A survey of 287 Chinese outbound travellers found that shopping and dining were the two most common types of travel services for which mobile payment was used, followed by accommodation, tourist attractions and flights. Convenience, speed and security are main factors driving the use of mobile payment. The most common reasons cited by non-users for avoiding mobile payment during outbound travel were that not enough merchants overseas accept mobile payments, security concerns and being accustomed to other payment methods such as cash and credit cards.

Security issues both motivate and limit the use of mobile payment during overseas travel. Some argue that mobile payment is more secure than traditional payment methods due to security features such as biometric authentication and tokenisation. Others suggest that mobile payment is prone to security risks due to the use of public Wi-Fi, lost or stolen devices, and phishing.

Box 4.11. **Use of contactless mobile payment by Chinese travellers** *(cont.)*

Figure 4.5. **China's preferred mobile payment travel destinations and services**



Note: Travel destination ranking determined by the proportion of Chinese tourists that used mobile payment in a specific country in 2019. Services ranked based on 3 100 respondents from mainland China between October 2020 and June 2021.

Source: OECD Development centre based on Nielsen Holdings (2019), *2019 New Trends for Mobile Payment in Chinese Outbound Tourism* and Statista (2021), "China's most popular digital payment options".

StatLink https://stat.link/apfweq

Source: Authors' adaptation from WTTC (2019), *Mobile Payments in Travel and Tourism – Unlocking the Potential.*

Geographic location of digital services

Amid fierce worldwide competition to host digital services, Emerging Asia remains a global leader. Kearney's *2019 Global Services Location Index* ranks 50 countries across four main categories: financial attractiveness; people skills and availability; business environment; and digital resonance, including digital skills and legal adaptability (Kearney, 2019). India, with its depth and breadth of English-speaking skilled labour, remains at the top of the list. As of 2018 it hosted more than 1 140 global in-house captive centres, allowing almost half of the top 500 global companies to work in India. China holds second place in the index, followed by Malaysia, Indonesia, Viet Nam, the United States and Thailand.

Meanwhile, digital trade is on the rise in Southeast Asia. The Philippines has established itself as an IT-BPO hub, and Indonesia and Thailand are well on their way to joining the Philippines in that space. Indonesia and Viet Nam are regional leaders in e-commerce and app, while some other ASEAN countries may need some additional efforts to improve basic internet use and specific e-commerce implementation. Indonesia and Viet Nam have also become leaders in app development, which will eventually provide positive spillovers for the rest of Emerging Asia (ADB, 2021b).

Youth and social media

As in the rest of the world, young people in Emerging Asia are highly engaged in social media. Generation Z has shifted on line to work, study, relax and socialise, perhaps more effortlessly than any other generation, and their cultural influence is reshaping traditional beliefs about online travel, entertainment, shopping, news and education (ADB and UNWTO, 2022). A Google survey of Gen Zers in Southeast Asia and India found that 74% had bought

products online using social media and shopping apps (Google, 2020). The survey also found that digital wallets have quickly become the preferred method of managing money over credit cards, with apps that help track spending.

Promotion of destinations through social media can strengthen an emotional connection among travellers, destinations and local communities, and initiatives are taking shape to tap into the youth market via social media. For instance, the Mekong Tourism Co-ordination Office initiated a multi-country marketing campaign, #MekongMoments, where businesses encouraged customers to share their experiences via social media using the #MekongMoments hashtag (Destination Mekong, 2022). This user-generated content was shown on MekongMoments.com, directing traffic to the respective websites of the tourism businesses (ADB, 2021a).

In a post-pandemic survey on responsible travelling in the Asia-Pacific region, *The Economist* reported differences in the way different age groups view the uses of technology (Economist Group, 2022). According to the report, younger travellers see digital tools as benefiting local people, while older travellers see them as means of accessing information for themselves.

Automation and smart tourism

Businesses are increasingly using automated services and robots to replace humans in carrying out mundane tasks in a trend triggered by high labour costs, a decline of workers willing to take jobs in the labour-intensive hospitality and service industry, and increasing demand for contactless services. China has the world's fasted growing service robot sector, with more than 25% of the international market share. It is also expected that 50 million workers in China will be displaced or impacted by robotics technology (Moore, 2021).

Intelligent service robots can be used at restaurants, hotels, airports or shops. Such interactive robots are enhanced with artificial intelligence and designed to deliver on-the-site answers to questions (Tussyadiah, 2020). Robot "concierges", for example, can suggest interesting tourist attractions. The Chinese company Keenon Robotics is present in more than 500 cities in China and 60 countries worldwide. It specialises in contactless delivery and robotic servers, including food delivery robots and robot maids in hotels. The units cost around USD 8 000, making the technology increasingly affordable for smaller businesses (Moore, 2021).

Smart tourism is based on digital technologies connecting consumers with tourism businesses such as hotels, restaurants or destinations. The Internet of Things (IoT), in which objects are fitted with sensors, software and other technologies, plays an important role. When connected to the internet, "things" such as an air-conditioner or TV in a hotel room can exchange real-time data with other connected devices such as smartphones or other systems. In smart hotel rooms, travellers can sync and share data across various devices during their stay. In China, hotel facial-recognition check-in and AI smart rooms had already been piloted before the pandemic. The international hotel chains Marriott and Intercontinental collaborated with China's Alibaba and Baidu technology firms. According to the hotel group, the facial-recognition technology can cut the check-in process from three minutes to less than one minute (Chan, 2018). Facial-recognition technologies have also been introduced at airports and airlines for faster identification and boarding. Such systems are already in place at the Malaysian national carrier Malaysia Airlines, low-cost carrier AirAsia, and at airports

in China, Hong Kong (China), India and Singapore. While the technology is increasingly embraced in many parts of Asia, critics have raised the alarm about data security and how governments could use the collected data.

Virtual travel

Virtual reality and augmented reality have grown in importance since the start of the COVID-19 pandemic. Virtual reality (VR) refers to computer-created environments that simulate or mirror seemingly realistic experiences. The technology currently provides sensory immersion focusing on audio and visual stimuli and some haptic (touch) interfaces. VR-based activities that use headsets offer the user an immersion experience in a 3-D space. 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. VR technology thus allows users to visit geographic locations virtually or to experience social settings to which they would normally not have access. Augmented reality (AR) 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.

For example, the Malaysia-based LokaLocal website (https://www.lokalocal.com/) implemented VR features during the pandemic and now offers immersive virtual and 360-degree experiences across Southeast Asia, including tourist attractions, museums, restaurants, real estate and e-commerce. Another example is Singapore-based Vizzio Technologies, which created a VR digital twin of the city-state of Singapore. In China, live streaming of tourism sites became a trend during the pandemic. Many travel agencies, tourist destinations and individuals started live broadcasting from tourist attractions via social media platforms such as TikTok, WeChat and Weibo. In a study conducted in China during the pandemic, 90% of respondents expressed interested continuing to use virtual tourism even once the pandemic had ended and travel restrictions were lifted (Lu and Xu, 2021). Their primary motivations for using virtual tourism were to gain a preview of the destination before a visit, to pay a virtual visit to destinations that are usually not accessible to them (due to constraints related to time, money or geographical accessibility), and to experience a new technology.

AR is also increasingly found in the tourism and hospitality industry as a travel assistant to guide tourists through complex public transport systems and museums or other tourist attractions in real time. AR applications enable tourists to learn about destinations and attractions through the camera viewfinder functionality of their mobile device. As the device identifies the environment, the application marks places of interest and importance and provides information about it. Such applications are increasingly found in museums, other cultural attractions and urban tourist destinations across Emerging Asia. Another area where AR is becoming an important technology is food service, where such technologies can support operational efficiency and increase productivity.

Digitalisation and microbusinesses

Advances in transport, mobility, communications and technology have given rise to a "new tourism subculture" in which tourists rely less on large-scale travel agencies but prefer to use products and services directly from local tourism microentrepreneurs (Morais,

2021). Digital platforms can create direct links between tourism microentrepreneurs and discerning travellers, leading to economic benefits for the entrepreneurs. Such platforms can create more opportunities for tourism microentrepreneurs to choose how they want to be represented in promotional materials and to inform tourists about the meaning, value and sociocultural attributes of their products and services, such as agricultural methods, food, handicrafts or cultural performances. In this way, tourism can empower Asian microbusinesses and communities to be innovative, self-determined and entrepreneurial in a sustainable way.

However, there is a lack of information in Emerging Asia on the links between tourism microentrepreneurs, travellers and other tourism stakeholders. It is thus vital to understand what motivates and hinders tourism microentrepreneurship so that adequate training and policy intervention can be developed to facilitate success.

An interesting collaboration between small tourism businesses and academia is North Carolina State University's "People-First Tourism" (p1t) initiative (https://peoplefirsttourism.com/), a global network of academic tourism programmes which seeks to make travel more local and sustainable and supports the digitalisation of tourism businesses, especially SMEs (Morais et al., 2017). Researchers work closely with them to develop online profiles for tourist products and experiences, including some where tourists can participate actively, such as cooking classes. The experiences are promoted through local networks of vetted participants, including educational institutions. The p1t initiative also helps develop itineraries for visitors to maximise the value of their time in each region.

The rise of tourism, hospitality and business schools within Asian universities presents opportunities for collaboration between academia and small businesses with the aim of creating knowledge and tourism products and services. While universities benefit from opportunities to conduct research with and about small businesses, SME owners receive training, support and guidance in developing and marketing their products, and obtain access to online promotional platforms.

Addressing 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 its ability to deal with data and statistics for tourism, at a time when data sharing and transparency raise complex legal and technical issues.

Cybersecurity

Cybersecurity is becoming increasingly significant, particularly with the acceleration of digital adoption and with digital identities and digitised health information becoming more mainstream. These shifts will require governments to protect traveller data while encouraging businesses to be proactive in implementing cybersecurity measures and guidelines, including using biometric-related technologies to reduce cyber risks (WTTC and Microsoft, 2022). Travel service providers are concerned about privacy leaks and payment fraud. Cybercrime and data breaches pose an increasing security threat to individuals and destinations, especially those lacking ICT skills (ADB and UNWTO, 2021).

Greater use of big data will create vast volumes of data on every aspect of life and the economy, raising questions of privacy and surveillance. Safeguarding sensitive and personal information requires skills and technical infrastructure that many destinations lack (ADB and UNWTO, 2021).

Hotels process large amounts of personal information, making them prime targets for cybercriminals, who operate on a global and borderless scale. Sophisticated cyberattacks can infiltrate several channels of the tourism sector, including hotel Wi-Fi networks, online booking services and other customer touchpoints (Accenture, 2020). In 2018, almost 514 million hotel data records were stolen and lost worldwide (CyberSmart, 2021). Another vulnerable target within the tourism industry is the aviation sector. A ransomware attack on the India-based airline SpiceJet in May 2022 left hundreds of passengers stranded at various airports across India (SpiceJet, 2022). Software technology providers that operate passenger processing systems have also been affected. In 2021, Singapore Airlines reported that passenger data on 580 000 of its frequent flyers had been compromised in an attack on the *Société Internationale de Télécommunications Aéronautiques* (SITA), a large information technology (IT) company that provides IT services to the air transport industry (Asian Aviation, 2021).

Measuring ICT readiness

A recent report by the World Economic Forum on digitalisation in Emerging Asia covers not only the existence of modern physical infrastructure (e.g. mobile network coverage and electricity supply), but also the degree to which digital platforms are used for travel and tourism (WEF, 2022). WEF (2021) measures ICT readiness including the development and use of ICT infrastructure, and digital services (Table 4.15). In terms of overall ICT readiness, Singapore and China top the list, 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.

Table 4.15. **ICT readiness in selected countries of Emerging Asia**

	Indonesia	Malaysia	Philippines	Thailand	Viet Nam	Singapore	Cambodia	Lao PDR	China	India
Individuals using the internet, % of pop	53.7	89.6	46.9	77.8	70.3	75.9	78.8	25.5	70.6	41.0
Broadband internet subscribers per 100 pop	3.9	10.4	5.5	16.6	17.2	25.9	1.1	1.1	33.6	1.6
Active mobile broadband internet subscriptions per 100 pop	89.1	120.0	68.4	90.3	80.2	144.1	96.4	48.6	96.3	52.5
3G mobile network coverage rate, % of pop	97.7	95.3	93.0	98.8	99.8	100.0	85.1	82.0	99.9	98.2
Use of digital platform for financial services, 1-7 (best)	5.1	5.6	5.0	5.5	5.0	6.2	4.1	4.2	5.4	4.2
Use of digital platforms for transportation and shipping, 1-7 (best)	5.4	5.2	4.3	5.0	4.8	5.9	4.2	4.0	6.0	4.5
Use of digital platform for hotels, restaurants and leisure activity services, 1-7 (best)	5.4	5.1	4.6	5.5	5.3	5.8	4.5	4.2	5.6	4.7
Power losses, % of domestic supply	8.4	6.9	9.4	6.2	6.5	1.0	10.1	26.7	4.4	16.7
ICT readiness, 1-7 (best)	4.9	5.5	4.4	5.4	5.1	6.0	4.5	3.3	5.8	4.0

Source: Authors' compilation from WEF (2021), *Travel & Tourism Competitive Index* (dataset), https://www.weforum.org/reports/travel-and-tourism-development-index-2021/downloads-510eb47e12.

Kearney (2019) ranks countries by their investment in cybersecurity as a percentage of GDP against a Digital Evolution Index, which is calculated from 108 digitalisation indicators and ranges from 1.50 to 3.75. Under this ranking system, countries in Emerging Asia fall into three categories:

- *Nascent:* India, China, Viet Nam, Indonesia, Philippines and Thailand (<0.10% of GDP spent on cybersecurity, and Digital Evolution Index <2.75)
- *Tipping point:* Malaysia (0.05-0.20% of GDP spent on cybersecurity, and Digital Evolution Index <3.25)
- *Fortified:* Singapore (0.10-0.30% GDP spent on cybersecurity and Digital Evolution Index <3.75).

Research by Google, Temasek and Bain (2021) further focuses analysis on six countries in Southeast Asia within the three categories identified by Kearney. The six countries – Indonesia, Malaysia, the Philippines, Singapore, Thailand and Viet Nam – had 440 million internet users in 2021. Among them, 350 million digital consumers made at least one purchase online. The study found that 60 million new digital consumers had been added to the internet economy since the pandemic started. It reveals that online travel booking grew by only 5% in 2020-21, to USD 13 billion, mainly due to travel restrictions and uncertainty. At the time of the research, domestic flights had recovered to 50% of pre-pandemic levels, though international flights remained 95% down. However, 36% growth is expected in this sector, reaching the gross merchant value (GMV) of USD 43 billion by 2025. The performance of significant Southeast Asian digital economies is shown in Table 4.16.

Table 4.16. **Southeast Asia's digital economies**

	Indonesia	Malaysia	Philippines	Singapore	Thailand	Viet Nam
Population (millions)	274	32	110	6	70	97
Internet users who made a purchase on line	80%	81%	68%	97%	90%	71%
New digital consumers 2020	8%	11%	14%	7%	11%	10%
New digital consumers 2021	5%	4%	6%	3%	7%	4%
Internet economies (2020-21 growth rate)	49%	47%	93%	35%	51%	31%
Search volumes for the merchant, indexed to the 2017 level	18x	13x	9x	3x	11x	3x
e-Wallet payments, indexed to the 2017 level	9x	16x	12x	3x	3x	10x
Online travel growth (2020-21)	29%	4%	31%	28%	8%	-45%
Online travel GMVin 2021 (USD billion)	3.4	2.2	0.7	2.3	2.8	1.4
Online travel projected growth (2021-25)	30%	34%	50%	38%	32%	44%
Online travel GMVin 2025 (USD billion)	9.7	7.3	3.4	8.4	8.5	5.9

Note: GMV = gross merchant value.

Source: Authors' compilation from data of Google, Temasek and Bain (2021), *e-Conomy SEA 2021: Roaring 20s: The SEA Digital Decade*, https://services.google.com/fh/files/misc/e_conomy_sea_2021_report.pdf.

Gaps in technical skills and the need for digital training

The WEF's *Future of Jobs Report 2020* indicates that skills gaps in local labour markets have been the main barrier to adopting new technologies (WEF, 2020). At a time when the digital economy is rapidly evolving, education systems are not adapting at the same pace. In Asia-Pacific Economic Cooperation (APEC)'s *Closing the Digital Skills Gap* survey, conducted in 2019, 75% of respondents – employers, government officials and academics – reported a significant skills mismatch (APEC, 2019). Survey respondents felt that the curricula at many academic institutions did not sufficiently bring digital skills into classrooms, and that government agencies had a weak understanding of the digital skills landscape.

This skills gap cannot be resolved in the short run and requires major investment in education and training (ADB and UNWTO, 2021). As a result of the digital skills shortage, governments are competing with private-sector organisations, both domestically and globally, to recruit and retain professionals from an increasingly tightening ICT talent pool. For instance, Thailand established a Government Big Data Institute to train its first 1 000 government officers in big data skills in 2020. However, retention of these staffers could prove difficult, as qualified candidates can expect a 25-30% average salary increase when switching to the private sector. This difficulty will become more acute as Thailand 4.0 deepens and more private-sector ICT roles become available (ADB and UNWTO, 2021).

In tourism and hospitality, future jobs are needed in data analytics and digitalisation (OECD, 2020). Currently, many businesses cannot invest in employee training or employ digital experts. They thus depend on external expertise, which can be expensive. To respond to the rapid evolution of digital skills, the approach is to focus on training. Without more upskilling programmes to improve digital expertise, many workers may lose their jobs to automation (APEC, 2019). Thus, it is necessary to reskill tourism employees to interact with digital resources and adapt to different customer service requirements.

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. Statistics and ICT skills comprise knowledge on official tourism statistics, data science, computer programming, database management, big-data analysis, visualisation and machine learning. These skills can maximise the potential of big data for business impact.

There is digital divide in Emerging Asia between underconnected economies and those with advanced digital development. In addition, many experts argue that digital growth favours individual consumers and large firms, not MSMEs. Digital skills training therefore needs to reach everyone, including micro and small businesses – from farmers and home-based handicrafts producers to small-scale hotels, restaurants and shops – as well as underserved and vulnerable communities, including women, the unemployed, rural communities with weak access to digital resources and low-skilled migrant workers.

As digital skills differ across countries and age and socio-economic groups, tailored programmes for different levels and competencies need to be offered. Such programmes as "Go Digital ASEAN" aim to close the digital gap by educating people from rural regions and underserved communities. In 2020-21, the programme exceeded its target by training more than 225 000 individuals across the region, 60% of whom were women (Asia Foundation, 2022). In one initiative, the programme taught a microentrepreneur in Lao PDR to use mobile-phone digital maps to share a location pin with delivery drivers instead of giving directions via phone conversations. The microentrepreneur also received basic training in online marketing via social media and e-commerce platforms. With a new social media site and the skills to pinpoint locations for delivery drivers, her ease of doing business improved significantly.

Given the current digital context, governments need to implement further training for tourism and hospitality professionals and microentrepreneurs. In order to reach remote and or underserved communities in Emerging Asia, a balance between national and local

strategies is needed. It is crucial to create access for small and micro businesses, especially in partnership with local organisations that can provide training at accessible times and locations, and offer local trainers follow-up support.

In more centralised areas where internet access is widespread and inclusive, governments, in collaboration with educational institutions and industry, can provide training in high-demand digital skills via online courses. To be inclusive, such digital learning experiences or skills portals should be available in different languages to be accessible to the different ethnic and migrant groups within a country, especially in countries with a large foreign worker population in hospitality and tourism, such as Malaysia, Thailand and Singapore. Online training has the advantage of providing greater flexibility and being more cost effective than in-person training. Yet there is also a need for supported training courses that use real-world, scenario-based exercises, labs and coursework to build skills and workforce opportunities for the unemployed or underemployed people (Raj, 2022).

Basic digital skills such as the use of operating systems, software for communication and presentation, and social media are already required in all subsectors. More specialised skills, such as computer programming, artificial intelligence and robotics, will require high levels of training to be utilised fruitfully in tourism organisations and businesses. Different sectors within the tourism and hospitality industry will require different digital skill sets in the near future. In the accommodation sector, the use of mobile devices and apps is already in place for facilitating check-in and check-out procedures and controlling in-room devices. Future skills will need to focus on cybersecurity (developing and implementing protocols for digital ethics and security), domotics (hotel automation) and biometrics (especially for guest identification and access to various hotel services). The food and beverage sectors have experienced a large shift towards online delivery, with the appearance of mobile apps supporting these processes. Knowledge of payment systems and online security are needed, as well as marketing and customer interaction skills.

Tourism data and statistics

With the emergence of digital travel platforms on which consumers engage in online searches and book travel and related services, enormous datasets ("big data") are being compiled (World Bank, 2020b). Big data consists of large, diverse, structured and unstructured datasets of information generated and transmitted by organisations, people and machines. Tourism-specific data are derived from tourism operators, online travel sites and social media, as well as global distribution systems like Amadeus, while non-tourism-specific big data are generated from telecommunications, financial services, retail geospatial data and health data. Technology giants such as Google and Facebook also collect substantial data on consumer travel habits and businesses (ADB and UNWTO, 2021).

Big data can track a visitor's digital footprint. In the current intensively data-driven world, the digital footprint left by travellers is widely employed in many sectors, with the aim of improving competitiveness and, to a lesser extent, supporting sustainable approaches. In tourism, the use of big data has seven main purposes (UNWTO, 2021):

- Tracking and monitoring visitor flows
- Profiling visitors

- Measuring visitor satisfaction and sentiment
- Measuring visitor expenditure
- Promoting visitor engagement
- Prediction of visitor behaviour
- Use of big data for tourism resources.

Big data can be used to complement traditional government statistics and fill in tourism data gaps, as the case of Indonesia (Box 4.12). The experience of Culture Trip underlines the role of big data in identifying consumption patterns and predicting behaviour in cultural tourism. Culture Trip is a platform that promotes tourist destinations by using stories (Table 4.17). Culture Trip makes use of big data to provide customers with the destinations most suited to their needs and wants. Their big data can also help tourist service providers by advising them of the specific features and amenities required to attract tourists (UNWTO, 2021).

Box 4.12. **Mobile positioning data supplements tourism statistics in Indonesia**

The geographical structure of Indonesia, the world's largest archipelago, poses challenges for accurately measuring population inflows and outflows due to the country's many entry and exit points on sea and on land. Indonesia maintains checkpoints at airports, sea and land borders that record entry and exit numbers. It also uses periodic cross-border surveys to account for travellers seeping in and out of the country, but these surveys are costly and insufficiently accurate (Lestari et al., 2018).

As a solution, Indonesia began using mobile positioning data (MPD) in 2016 to fill data gaps associated with international arrivals, outbound travel and domestic tourism. Statistics Indonesia entered a commercial relationship with Positium, an Estonian company that specialises in positioning data for official statistics (OECD, 2022). While cross-border surveys were previously completed once a year in the more remote regions of the country, positioning data has allowed the production of monthly reports (Lestari et al., 2018).

MPD statistics differ significantly from previous reports. For example, the data show the share of tourists from neighbouring countries hovering around 30% instead of the 7% measured using traditional methods. From Timor-Leste alone, 100 000 monthly travellers were observed using MPD (Positium, 2019). However, as MPD techniques are in their infancy, proper calibration of the models to estimate tourism flows remains a challenge, especially when comparing yearly trends. But as the methodology improves, the data quality will improve and help generate more conclusive results for timely policy purposes.

MPD is one of the latest tools in the use of big data for tourism. As Statistics Indonesia demonstrates, partnerships with emerging data providers such as Positium can allow countries to supplement traditional government statistics. Going forward, partnerships will become increasingly important to generate data solutions for pressing tourism challenges, such as measuring the impact of tourism on the environment and shielding the tourism industry from the effects of a pandemic.

Source: OECD (2022), *Tourism Trends and Policies 2022*; Lestari et al. (2018), "Indonesia's experience of using signaling mobile positioning data for official tourism statistics"; Positium (2019), "Helping Indonesia measure tourism and achieve sustainable development goals", *Mobile Positioning Data (MPD) Case Study*.

Table 4.17. **Ecotourism destinations recommended by Culture Trip**

Destination	Location	Attractions
Pacific Rim National Park	British Columbia, Canada	Kayaking, surfing, trekking, wildlife spotting (seals)
Cerro Castillo National Park	Patagonia, Chile	Hiking, sightseeing
Faroe Islands	Denmark	Hiking, kayaking, wildlife spotting (puffins)
Atlas Mountains	Morocco	Hiking, mountain biking, rock climbing
Sinharaja Biosphere Reserve	Sri Lanka	Hiking, sightseeing, waterfalls, wildlife spotting (animals and birds)
Julian Alps	Slovenia	Kayaking (summer), hiking, mushroom foraging, sightseeing, skiing (winter)

Source: Authors' adaptation from Thrussell (2022), "The best locations for an eco-adventure", https://theculturetrip.com/europe/articles/the-best-locations-for-an-eco-adventure/.

Although the emergence of a greater variety of digital channels and big data helps policy makers adopt a multifaceted approach to analysing the tourism industry, cross-country comparisons remain challenging. The main issue is the lack of standardised methods for collecting tourism data. Given our growing understanding of the importance of data-driven policy making and business management, greater data comparability would yield benefits for policy makers and the tourism industry alike. Although the UN World Tourism Organization (UNWTO) provides useful aggregate data at the country level, there is little or no evidence of standardised metrics (Lam and Mckercher, 2013). ASEAN economies would benefit strongly from adopting a standardised approach to measuring tourism. This would provide better understanding of the industry and foster healthy regional competitiveness.

The COVID-19 pandemic has accelerated digitalisation and the use of big data, as national and regional governments seek to achieve better understanding of the effects of the pandemic and associated responses on traveller movements and habits, and to support safe and sustainable recovery by helping businesses to develop better and smarter products and services. In partnership with online travel agents and telecommunications and financial services companies, governments around the world are tapping big data to formulate and implement tourism-related policies. An example is an initiative to improve marketing strategies in Singapore (Box 4.13).

Box 4.13. **Singapore's use of big data to relaunch tourism**

Singapore's government is leveraging on technology and its big data infrastructure to roll out its recovery plan for the tourism sector. Singapore Tourism Board (STB) launched the Singapore Tourism Analytics Network for Stan, a data analytics platform to view visualisations and perform analysis on tourism-related data, aggregated from STB and the industry, to derive actionable insights about the Singapore tourism landscape in 2020. It aims at building analytics capability among the tourism stakeholders by empowering them through extending data for use through data visualisation and data marketplace that is API-enabled. Tourism data partners can tap on the tools within Stan, such as Private Space and Sandbox to analyse data, and facilitate data sharing and collaboration to derive insights. Stan currently has more than 400 tourism companies on board.

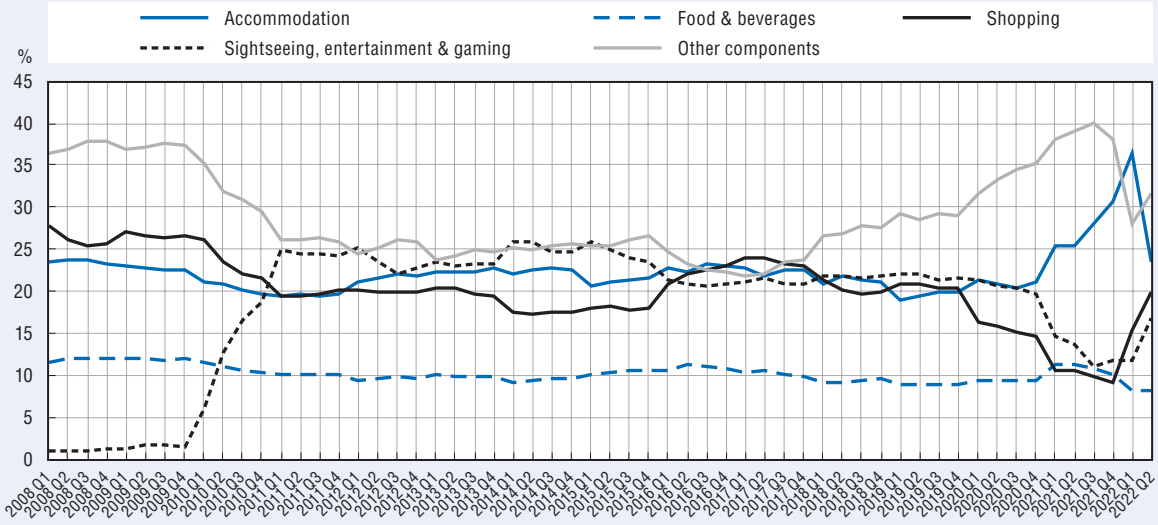
As part of building analytics capabilities, STB rolled out programmes to catalyse industry data transformation. These included the Data Analytics Shift (DASH) Programme, a data capability upskilling initiative for tourism stakeholders and the Data Transformation Programme (DTP) to enable the co-creation of industry use cases through data sharing and adoption of data analytics to accelerate business recovery and growth at both industry and enterprise level.

Box 4.13. **Singapore's use of big data to relaunch tourism** *(cont.)*

In July 2020, "SingapoRediscovers", the country's largest ever domestic marketing campaign, was launched during the onset of the COVID-19 pandemic, to encourage locals to explore Singapore's local offerings and drive footfall and spending in support of tourism and lifestyle businesses. As a further incentivisation, the STB worked with various Authorised Booking Partners (i.e. Changi Recommends, GlobalTix, Traveloka, Trip.com and Klook) on the SingapoRediscovers Vouchers (SRV) scheme which was introduced as part of the campaign in December 2020, and which granted Singaporean Citizens aged 18 years and over a SGD 100 digital voucher to encourage spending on attractions, hotels and tours. Citizens could log in and secure vouchers via their Singapore Personal Access (SingPass) account. These initiatives remained important throughout 2021 as a combination of quarantine requirements for foreigners and ongoing restrictions on gatherings led to a shift in tourist spending habits (Figure 4.6). SingPass is a digital platform that allows easy and secure online transactions with more than 60 government agencies. It provides secure authentication for the distribution of SRV to Singapore citizens. For longer-term recovery, the STB signed a three-year memorandum of understanding with the online travel agency Trip.com to market Singapore as a destination of choice to strategic source markets.

In September 2020, STB announced a three-year partnership with Visa focusing on joint research and analytics, as well as marketing partnerships, to address the needs of Singapore's small and medium-sized enterprises in the tourism sector.

Figure 4.6. **Components of tourism receipts (Year-to-Date), quarterly, quarter-end**



Source: Authors' adaptation from Singapore Department of Statistics (n.d.), "Tourism Receipts by Major components (Year-to-Date)", https://tablebuilder.singstat.gov.sg/table/TS/M550371.

StatLink https://stat.link/9uyrtn

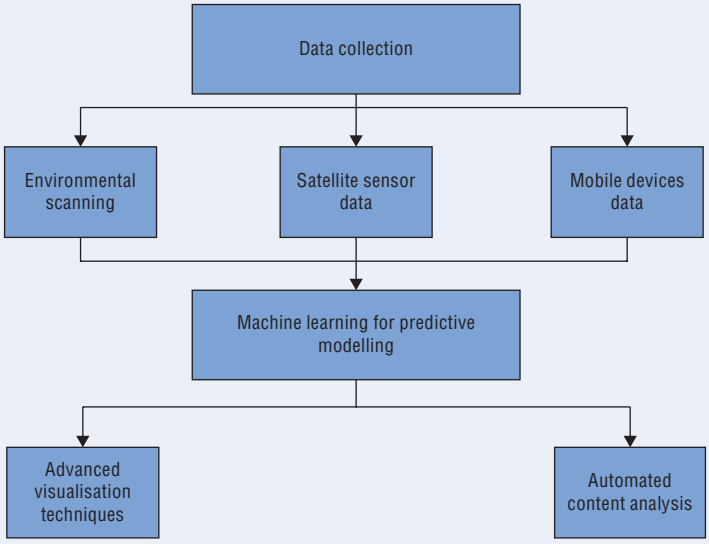
Box Source: Authors' adaptation from ADB and UNWTO (2021), *Big Data for Better Tourism Policy, Management, and Sustainable Recovery from COVID-19*, https://www.adb.org/publications/big-data-tourism-policy-management-recovery-covid-19, and national sources.

Big data is also being used to generate or complement tourism statistics. The combination of big data and statistics facilitates the implementation of Tourism Satellite Account (TSA), a statistical framework that is the main tool for the economic measurement of tourism, and that would be beneficial for economies in Emerging Asia. Australia demonstrates its global leadership in the use of big data in official statistics by promoting partnerships between statistical agencies, research institutions and data agencies (Box 4.14).

Box 4.14. **Australia's use of big data in official tourism statistics**

Tourism Research Australia and the Australian Bureau of Statistics (ABS) are jointly responsible for official tourism statistics. Tourism Research Australia (TRA) collects tourism data via quarterly national and international visitor surveys, while the statistics bureau provides data on tourism's contribution to the economy for annual Tourism Satellite Accounts (TSA). The ABS's Big Data Flagship Project centralises data for researchers. In 2017, TRA enlisted a private sector firm to identify data gaps. Movement data was the primary gap identified and, since that time, the TRA has given consideration to using anonymised mobile phone data, but that has yet to come to fruition.

Figure 4.7. **Australia's Big Data Flagship Project**



Source: Authors' adaptation from ADB and UNWTO (2021) *Big Data for Better Tourism Policy, Management, and Sustainable Recovery from COVID-19*, https://www.adb.org/publications/big-data-tourism-policy-management-recovery-covid-19.

Regulations and policies

Digital payment is an area where technology development is moving far faster than the development of regulations and policies. Moreover, different countries have different regulatory policies on digital payments, as well as on tourist spending and taxes (WTTC, 2019). In addition, policy changes can affect the mobile-related operational costs of travel service providers. These and other challenges need to be dealt with in a co-ordinated fashion by Emerging Asian policy makers moving forward.

Governments across the region should continue to support digital technology through investments in broadband, smartphone use and app development for sustainability, health, education and business. Governments should also seek training for small businesses, youth and women to help them adapt to technological innovations.

Incentives for tourism businesses to adopt new technology can improve their operational efficiency. For example, a shift toward digitally self-guided tourism does not require group

travel and is therefore consistent with physical distancing norms, which may persist for an extended period. As more tourism-related transactions go digital, it will be vital for SMEs to accelerate integrating digital capabilities into their businesses. As touchless technology and automation become more prominent, tourism workers will face challenges such as job losses or emotional isolation, while visitors may experience feelings of loneliness and lack of connection to destination. These implications need to be managed carefully (World Bank, 2020b).

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 for their compilation. Each country uses its own definition and methods of data collection, featuring the unique socio-economic conditions of the country. For instance, India's data on international inbound tourists shows a large proportion of "other" travellers who cannot be identified as international or domestic tourists. There are also problems in defining and collecting data from domestic tourists who do not stay in commercial accommodations.

A common framework and method to harmonise tourism data needs to be agreed upon and promoted. Countries in Emerging Asia may gradually move towards data harmonisation under the UNWTO's forthcoming "Statistical Framework for Measuring the Sustainability of Tourism". The framework is an organising structure for integrating statistics on the economic, environmental and social dimensions of sustainable tourism. It provides a structure for the most relevant data and indicators, and supports harmonised data production focused on international comparability (ADB and UNWTO, 2021). The forthcoming framework aims to link up with the Tourism Satellite Account (TSA) framework. It is recognised by the UN Statistical Commission as the primary tool to evaluate the contribution of tourism to the Sustainable Development Goals.

Conclusion

The COVID-19 pandemic damaged the travel and tourism industry but also transformed it. There are ways to reshape the way tourism operates through more responsible and sustainable approaches. However, striking a balance between the various pillars of sustainable development remains challenging. Policy challenges will need to be addressed to adjust to the quickly and constantly evolving environment within which travel and tourism operate. First, tourism is moving towards deeper integration with the green and blue economies. It is thus important to anticipate market demand and to shift tourism supply towards enhancing sustainability for better integration into the green and blue economies. Second, the digital economy is increasingly important in the tourism sector. Accelerating the adoption of digital technology is recommended for the travel and tourism industry. Finally, although each country faces particular challenges and opportunities, policy makers might consider sharing their experiences and furthering regional co-operation towards sustainable recovery of tourism and travel.

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Chapter 5

Country notes: Current situation and challenges in tourism

Policy reforms need to be implemented in the tourism sector to promote its flourishing post-pandemic. This chapter discusses key tourism policy challenges for each Emerging Asian country. The country notes also include recent initiatives in various areas of the tourism sector, including ecotourism, cultural tourism, urban tourism, Meetings, Incentives, Conferences and Exhibitions (MICE) tourism and medical and wellness tourism. These areas are supplemented by broader interrelated topics, such as infrastructure projects, human capital development and education.

Brunei Darussalam

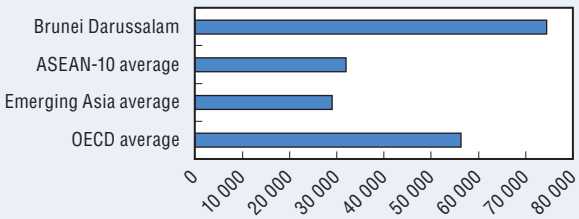
Basic data (2022)

GDP growth: -1.5%
Nominal GDP (US dollar): 18.4 billion*
GDP per capita at PPP: 74 196.0 (current International Dollar)*
Exchange rate (2022 average): 1.4 (BND/USD)
Total population (mid-year estimate): 0.4 million**

Note: * IMF estimate. ** UN World Population Dashboard.

Source: OECD Development Centre, national sources, CEIC and IMF.

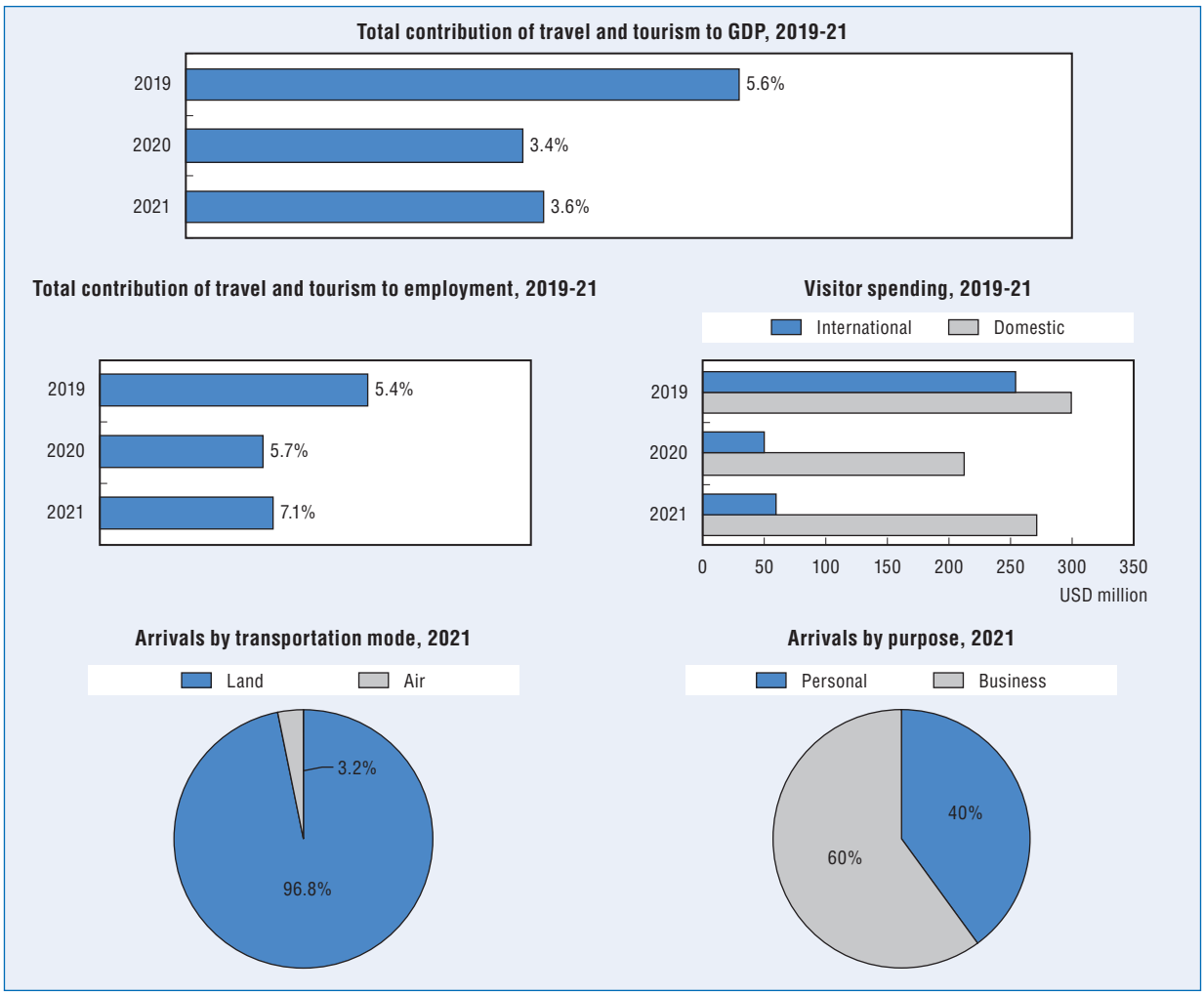
GDP per capita (2022)



Note: PPP, current International Dollar.

Source: IMF World Economic Outlook Database, October 2022.

Key tourism indicators



Source: OECD Development Centre based on data from UNWTO (2022), "Global and regional tourism performance" (database), UN World Tourism Organization, https://www.unwto.org/tourism-data/global-and-regional-tourism-performance (accessed on 26 November 2022) and WTTC (2022), "Brunei 2022 Annual Research: key highlights", https://wttc.org/DesktopModules/MVC/FactSheets/pdf/704/79_20220613154804_Brunei2022_.pdf.

Introduction

Brunei Darussalam has gradually built infrastructure to make tourist attractions more accessible. Incorporating the abundance of nature, several superstructures have been planned and built to stimulate domestic businesses and diversify tourism products. Brunei Darussalam is endowed with rich natural tropical rainforests and non-urban communities. Although cities offer cultural and heritage resources for tourist activities, nature and community-based tourism will be future areas of focus. Beyond issues related to infrastructure and connectivity, Brunei Darussalam could become more competitive if it can successfully identify and develop unique experiences in these areas.

Current situation and policy challenges

Key drivers that sustained tourism over the last two years were a government stimulus package for the tourism and hospitality sector and substantial tax relief to boost domestic tourism during the pandemic. One initiative was Selera Bruneiku, which promoted various cultural and nature activities centred on food tourism. Challenges included the need to quickly meet the high demand for domestic tourism; diversification of tour products; and close co-operation between organised communities with travel agents and tour operators. The promotion of community-based tourism (CBT) during the pandemic fostered growth of micro-enterprises and family businesses. In Brunei Darussalam, more than 30 CBT establishments operate as homestays, lodges, and cultural centres across the country (Noorashid and Chin, 2021). However, many of the communities and their leadership found it difficult to operate on fixed schedules and to set prices. These issues will eventually be resolved as communities and travel agencies negotiate their offerings, integrate operations and offer greater product variety to satisfy guests (Noorashid and Chin, 2021).

Brunei Darussalam's long-term development plan, Wawasan Brunei 2035, aims to increase tourism through product diversification and by enhancing service quality (TDD, 2019). A key tourist attraction in Brunei Darussalam is nature. This, combined with community-based tourism, has the potential to attract international tourists who are conscious of sustainable practices and seek ecotourism activities. Places of interests such as Jerudong Park and Ulu Temburong National Park play an outsize role in attracting tourists, along with the Royal Regalia, Malay Technology and Maritime museums (TDD, 2020).

Community- and nature-based tourism

A critical area for tourism in Brunei Darussalam is the development of infrastructure. The recently opened Sultan Haji Omar Ali Saifuddien Bridge, a dual carriageway that is 30 kilometres long, will facilitate nature-based tourism. The bridge provides easier access to Borneo's virgin forests for exploration and trekking, and allows day trips from greater Brunei to enjoy the ecosystems of the lowlands, with tree-top views from canopy walkways at the Ulu Temburong National Park. While travel opportunities are now enhanced for people and tourists from the Mura, Tutong and Belait districts, it is important that communities living around the natural sites be further integrated with the attractions and services so that small enterprises and micro businesses can be a balancing force for protecting and preserving natural environments. This is in addition to bringing social and economic benefits to communities at tourist sites (Mahmud, 2021).

Within the context of the nature parks, research suggests that greater co-operation among government agencies, as well as public-private partnerships (PPP), may answer the challenges faced by tour operators and tourists in relation to diversification of tourism products and cost effectiveness of services (Salleh, 2017). The government is attempting to kickstart tourism via CBT packages (Wong, 2022). This, plus nature-based tourism and promotion campaigns targeting a younger generation, might allow the country to increase tourist arrivals.

Brunei Darussalam's tourism approach could focus on accessibility, continued CBT-enabling policies and diversification of product offering. Concerning accessibility, in addition to road connections, boat rides from greater Brunei to Ulu Temburong National Park could be enhanced. The boat rides offer tourists attractive sights of coastal lands and mangroves. Communities living along these waterways could offer cultural products and homestays for those who wish to reside in traditional village settings. Building more lodges along the waterways could also ease or prevent the building of resorts at the Temburong National Park itself.

Brunei Darussalam's museums, from the Royal Regalia to the Malay Technology Museum, have a common theme that highlights the Malay kingdom's cultural heritage and national progress as an element shared by ethnic communities in Indonesia and Malaysia. By introducing a museum circuit tour, Brunei Darussalam could showcase the fascinating and rich heritage of the Malay populations of Southeast Asia.

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Cambodia

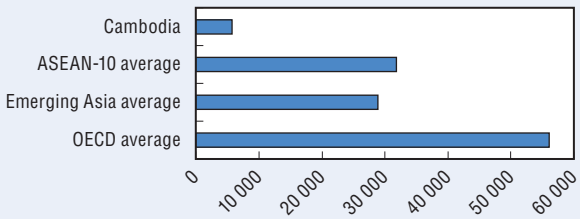
Basic data (2022)

GDP growth: 5.1%
Nominal GDP (US dollar): 28.3 billion*
GDP per capita at PPP: 5 583.0 (current International Dollar)*
Exchange rate (2022 average): 4 102.0 (KHR/USD)
Total population (mid-year estimate): 17.2 million**

Note: * IMF estimate. ** UN World Population Dashboard.

Source: OECD Development Centre, national sources, CEIC and IMF.

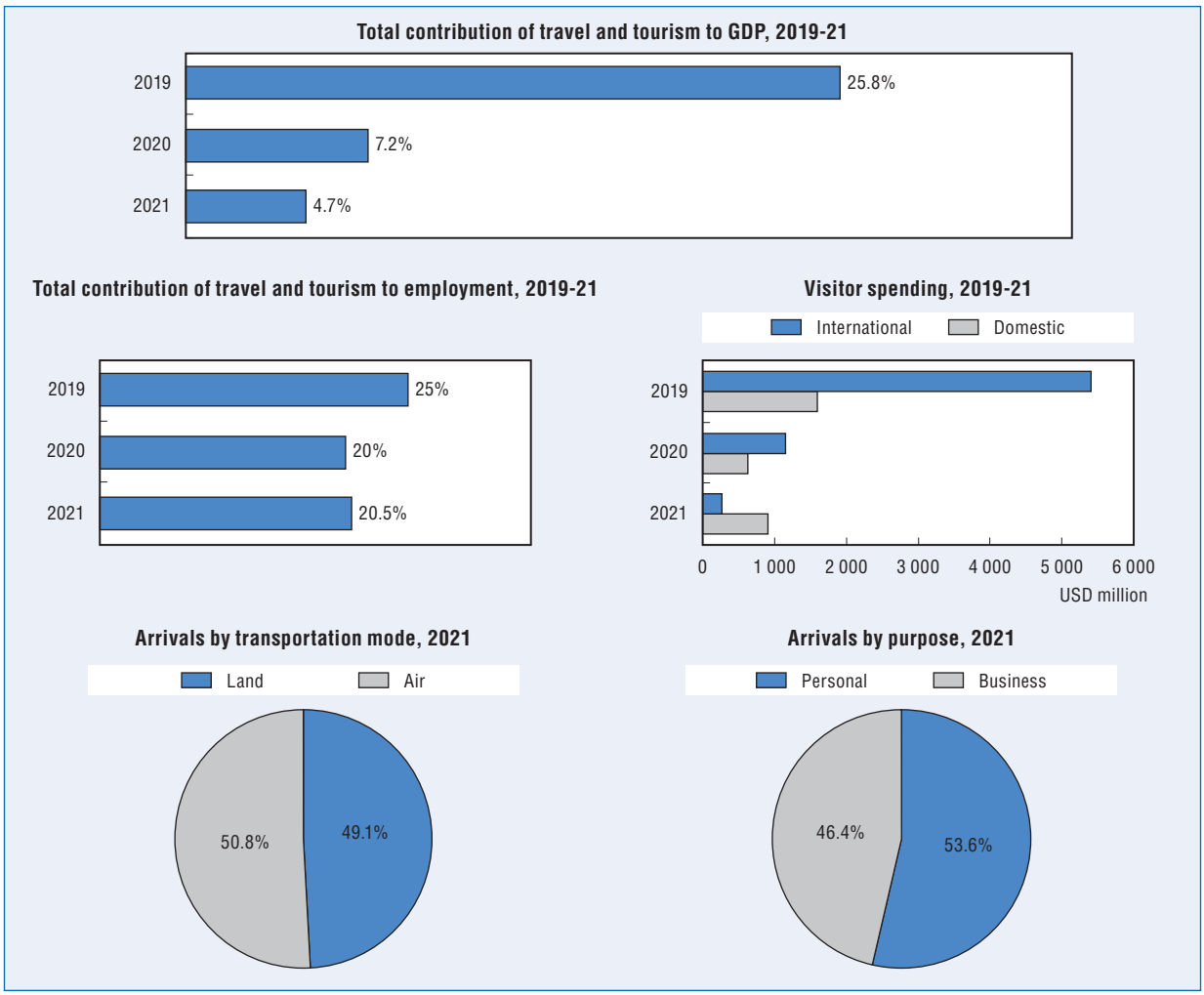
GDP per capita (2022)



Note: PPP, current International Dollar.

Source: IMF World Economic Outlook Database, October 2022.

Key tourism indicators



Source: OECD Development Centre based on data from UNWTO (2022),), "Global and regional tourism performance" (database), UN World Tourism Organization, https://www.unwto.org/tourism-data/global-and-regional-tourism-performance (accessed on 26 November, 2022) and WTTC (2022), "Cambodia 2022 Annual Research: key highlights", https://wttc.org/DesktopModules/MVC/FactSheets/pdf/704/83_20220613154919_Cambodia2022_.pdf.

Introduction

Cambodia is a key tourist destination home to Angkor and the Preah Vihear Temple, both UNESCO World Heritage Sites. A secondary attraction is the seaside resort destination of Sihanoukville and further beach tourism developments emerging from the Kep Tourism Development Master Plan (2022-35). The construction of new international airports at Phnom Penh and Siem Reap is expected to usher in a period of increased travel to Cambodia, with accommodation for larger planes and expanded welcome capacity.

Since relaxing entry requirements in 2021, the latest numbers suggest that tourists are returning to Cambodia in droves. In 2022 international tourists arrivals increased from the pandemic years to more than 2.27 million, with an increase of hotel occupancy to 75% from around 15% in the previous year and international tourism receipts of USD 1.4 billion from USD 184 million in 2021 (Ministry of Tourism, 2022).

As the host of the upcoming Southeast Asian (SEA) Games in 2023, Cambodia is poised to get a further boost in tourism. The Vietnamese carrier Bamboo Airways has already begun operations on the Hanoi-Siem Reap route, and Bangkok Airways is operating from Phnom Penh. Flights from Singapore and Malaysia are expected to increase tourist arrivals to levels higher than before the pandemic. Cambodia Airways routes from Singapore, Siem Reap and Da Nang will restore Cambodia as a popular destination for cultural heritage and seaside resorts.

Current situation and policy challenges

International airline connections and airport expansion

Cambodia depends heavily on Thailand and Singapore as regional hubs to bring in tourists. The country's aviation authorities perhaps need to make greater efforts to invite airlines from beyond Southeast Asia, the People's Republic of China (hereafter "China") and South Korea. Direct flights from Europe and America would have the potential to increase tourist traffic into Cambodia. This is currently hampered by existing airport infrastructure, which cannot host large aircraft and mass tourist arrivals despite previous investment to expand both runways and airport facilities.

Table 5.1. **Sample of passenger flights into Cambodia (as of March 2020)**

Destination	Sihanoukville	Phnom Penh	Siem Reap
Number of airlines	4	41	25
Airline country of origin	Cambodia; China	Cambodia; China; Indonesia; Japan; Lao PDR; Malaysia; Singapore; Qatar; South Korea; Thailand; UAE; Viet Nam	Cambodia, China, Lao PDR; Malaysia; Singapore; South Korea; Thailand; Viet Nam

Source: Cambodia Airports (2020), "Airlines & destinations" (web page), https://pnh.cambodia-airports.aero/en/airlines-destinations/all-destinations.

The country's new Siem Reap-Angkor International Airport is expected to open in 2023 and is poised to receive 10 million passengers per year (Center for Aviation, 2022). The biggest issue regarding such serious efforts to welcome tourists is the carrying capacity of the country's attractions, particularly the Angkor Temple complexes.

Crowd control and heritage site management

A lack of crowd-control measures remains a threat to UNESCO's World Heritage Sites and is a major issue in Siem Reap. To increase ticket sales during the pandemic, the Cambodian government lengthened the validity of one-day Angkor Wat tickets by an additional day and five-day tickets by two days. The policy was initially scheduled to be in effect until the end of 2021, but in December 2021 it was extended through the end of 2022 (Nika, 2021). Crowd management strategies are needed to protect the temples' sanctity and structural maintenance. Limits on visitor numbers, either via ticket sales or by using modern applications to inform prospective visitors on the carrying capacity and crowd sizes of each site, could be implemented so that visitors can calibrate their schedule to avoid overcrowding.

Cambodia's Siem Reap Tourism Master Plan 2021-2035 is expected to create 940 000 employment opportunities to accommodate about 18.4 million tourists and generate about USD 6 billion in national revenue (OpenDevelopment Cambodia, 2021). However, the question remains as to how the heritage-rich city can protect its most important national resource from degradation.

One way to dilute the flow of tourists to the Angkor temples is to develop ecotourism. The Siem Reap Tourism Master Plan 2021-2035 has identified ecotourism regions and activities that incorporate the country's village life and biodiversity (OpenDevelopment Cambodia, 2021). These potential resources would need further attention and investment. Along with success of developments in Phnom Penh and the Kep Islands, ticketing controls at the Angkor temples and enhanced community-based tourism in the Kulen and Cardamom Mountain regions, distribution of tourists may help Cambodia to thwart overcrowding at its precious Angkor temple complexes.

Agricultural produce and urban entrepreneurship

The Master Plan for Crop Production in Cambodia 2030 calls for the development of rigorous standards to ensure food and nutrition safety and sustainability (Goletti and Sovith, 2016). Agriculture, which contributes around 22% to GDP, is an important sector in the economy. The plan also calls for management of water and land resources and the creation of value-chain programmes.

In Siem Reap and Phnom Penh, there are a fair number of young adults from farming communities. Among them, many have local university qualifications and tend to be quite entrepreneurial. In many instances, these entrepreneurs are working by trial and error on their farm products in conjunction with hotels, which set specific standards in terms of hygienic production of local delicacies and the quality of vegetable and fish produce. Both the Cambodian tourism authority and educational institutions have important roles to play in terms of providing the right skill sets and training, as well as co-ordination with the tourism and hospitality sector and agricultural industries. It is essential that Cambodia's local farm entrepreneurs be enabled with marketing skills, as well as the more significant aspect of creating the right agricultural product mix, to meet the standards of the tourism industry.

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China

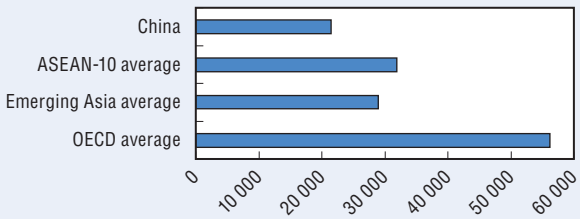
Basic data (2022)

GDP growth: 3.0%
Nominal GDP (US dollar): 18 321.2 billion*
GDP per capita at PPP: 21 290.9 (current International Dollar)*
Exchange rate (2022 average): 6.74 (RMB/USD)
Total population (mid-year estimate): 1 448.5 million**

Note: * IMF estimate ** UN World Population Dashboard.

Source: OECD Development Centre, national sources, CEIC and IMF.

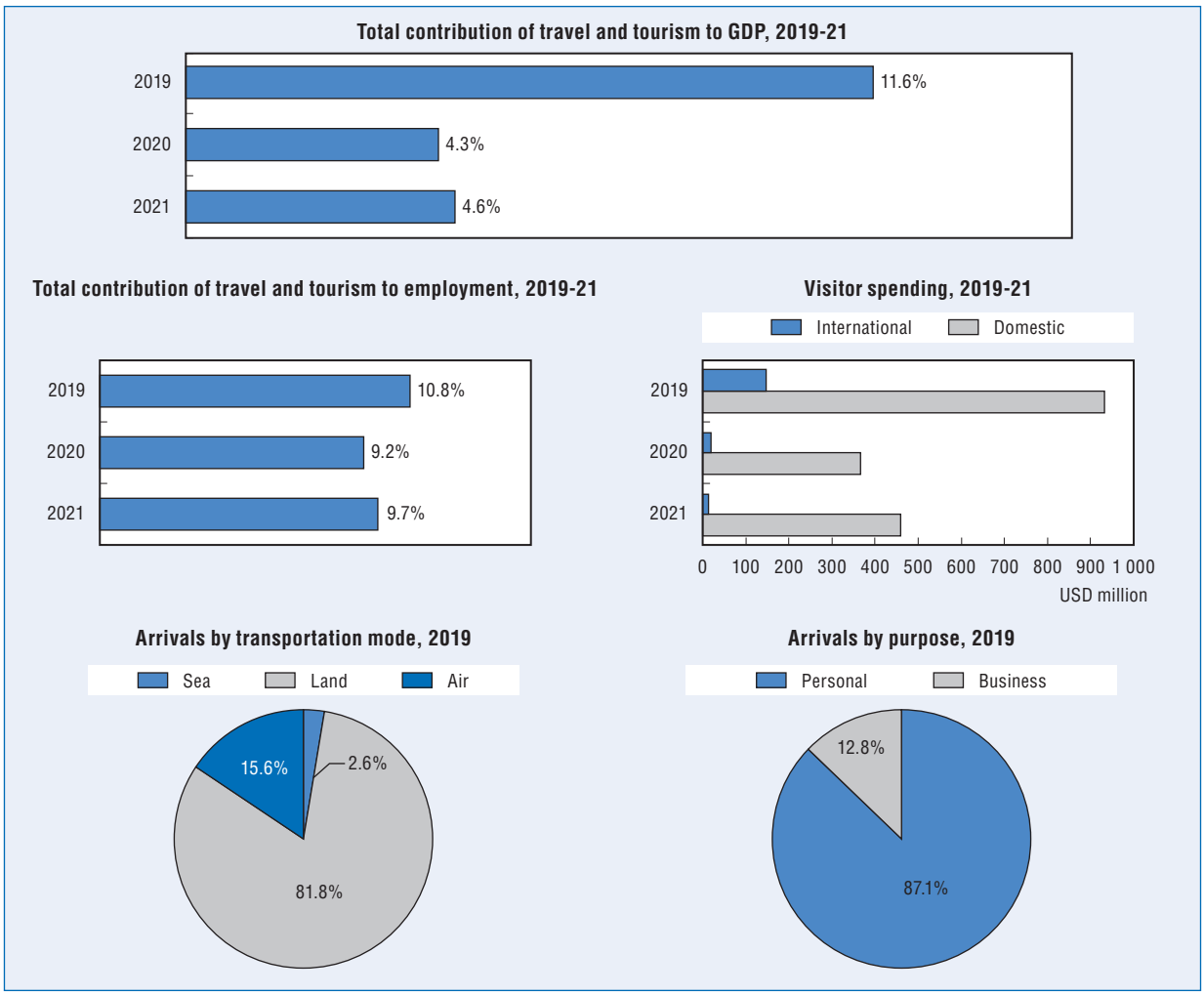
GDP per capita (2022)



Note: PPP, current International Dollar.

Source: IMF World Economic Outlook Database, October 2022.

Key tourism indicators



Source: OECD Development Centre based on data from UNWTO (2022), "UNWTO dashboard: China", database, United Nations World Tourism Organization, https://www.unwto.org/tourism-data/country-profile-inbound-tourism and WTTC (2022), "China 2022 Annual Research: key highlights", https://wttc.org/DesktopModules/MVC/FactSheets/pdf/704/91_20220613155207_China2022_.pdf.

Introduction

China had enjoyed vibrant domestic tourism for years prior to the implementation of zero-COVID policy. The abandonment of the policy in late 2022 will allow it to flourish again in 2023 alongside the return of international tourists (please see Chapter 1). Domestic tourism recorded 6 billion visitors in 2019, far exceeding international arrivals of around 163 million. Indications of the past decade suggest that both segments of the tourism sector will return to growth now that zero-COVID policy has been abandoned.

Current situation and policy challenges

Tourism growth has been phenomenal for China, but large crowds can damage attractions and elevate maintenance costs. Therefore, crowd management is a concern for the sector.

High tourism numbers convey enormous financial benefits, and the government has made tangible efforts to enhance conservation of the country's cultural heritage and natural resources. For example, the heritage site of Lijiang has undergone considerable renewal, which has contributed to an influx of tourists wishing to discover a traditional culture that is being preserved in both architectural aesthetics and old cultural charm. At the same time, rural areas are facing rapid urbanisation and changes in land regulations. This threatens heritage sites, which become vulnerable to development (Yu et. al., 2016; Li et. al., 2020). Efforts to protect and rejuvenate the heritage sites of cities that are urbanising, such as Shigatse in Tibet and Quanzhou in Fujian province, would result in an increase in tourism, which would help fund future preservation efforts.

China's unique landscapes, such as the grassland steppes of the Urumqi area, the Guilin bridge, the Tibetan plains and many other places, provide settings that could be leveraged for movie making, whether Chinese or international, and this could also benefit tourism.

China's latest five-year master plan for tourism (2021-25) calls for a stronger modern system for the tourism sector integrated with cultural development (State Council, 2022). With modern techniques of spatial characterisation of cities with historical "old towns", the unique identity and structures of heritage towns can be preserved. A meticulous approach is needed when development is planned for these cities so that new infrastructure does not mean destruction of the heritage. Development should incorporate the city's heritage into urban planning, in addition to embedding pride and acceptance by the city's administrators and, more importantly, the city's residents.

Where there are crowds at the attractions, technology can play an important part in ensuring that carrying capacity is not exceeded. For example, an app could provide regular and timely crowd monitoring information at popular destinations and suggestions of nearby attractions as alternative sites to visit.

The master plan calls for harnessing existing attractions to regional and co-ordinated development strategies. Tourism policy makers may want to consider ways of creating themes that connect various nearby attractions for special-interest tourists – for example, those interested in religious attractions, shopping or nature parks. The use of technology and organisational presentation of the attractions on offer would bolster this effort.

China's advantage as a destination is that it is a vast country with multiple ethnic communities, such as in the Tibetan and Mongolian steppes, along with Lijiang and Xishuangbanna. Further infrastructure connectivity balanced with preservation of the communities' way of life would benefit both domestic and international tourists. It might be useful to consider: i) determining capacities of attractions; and ii) developing strategies to manage crowd influx. Carefully controlled marketing and promotion need to be combined with measures to support capacity.

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India

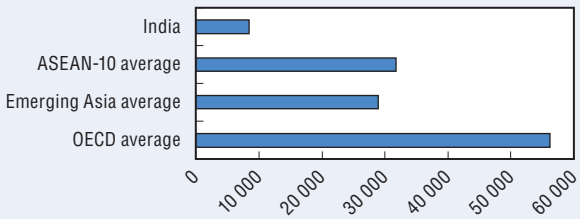
Basic data (2022)

GDP growth: 6.9%
Nominal GDP (US dollar): 3 468.6 billion*
GDP per capita at PPP: 8 293.2 (current International Dollar)*
Exchange rate (2022 average): 78.6 (INR/USD)
Total population (mid-year estimate): 1 406.6 million**

Note: * IMF estimate. ** UN World Population Dashboard.

Source: OECD Development Centre, national sources, CEIC and IMF.

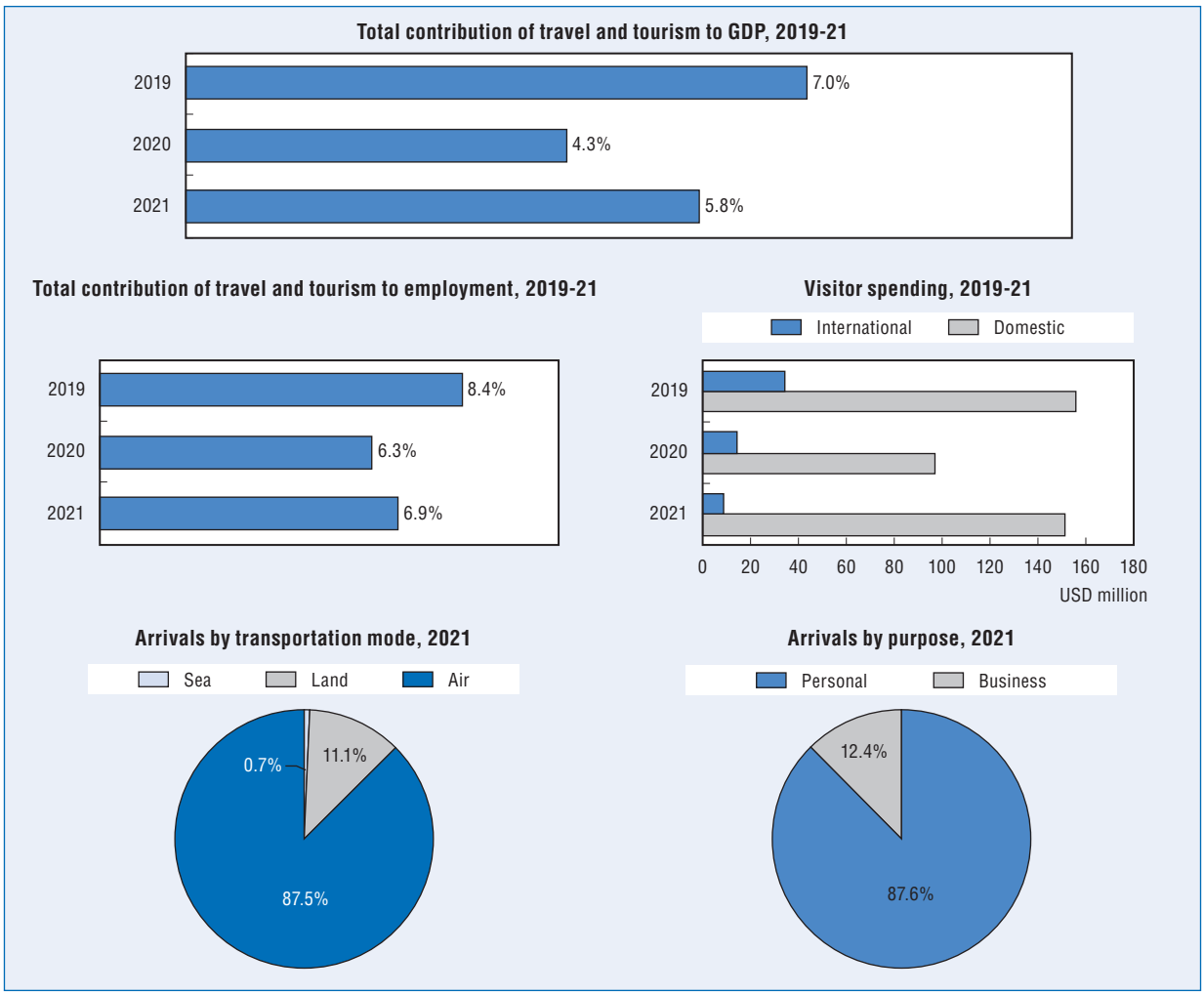
GDP per capita (2022)



Note: PPP, current International Dollar.

Source: IMF World Economic Outlook Database, October 2022.

Key tourism indicators



Source: OECD Development Centre based on data from UNWTO (2022), "Global and regional tourism performance" (database), UN World Tourism Organization, https://www.unwto.org/tourism-data/global-and-regional-tourism-performance (accessed on 26 November, 2022) and WTTC (2022), "India 2022 Annual Research: key highlights", https://wttc.org/DesktopModules/MVC/FactSheets/pdf/704/130_20220613162321_India2022_.pdf.

Introduction

India has come a long way in building up its tourism sector thanks to efforts by the government and the private sector to create a diverse range of products and services through infrastructure and human capital development. These efforts include a series of large infrastructure programmes that have made tourist sites more accessible. They have also enabled rural development and enhanced religious and spiritual rejuvenation, the hallmark of Indian tourism and hospitality.

India has a vast and diverse tourism landscape. The focus on wildlife, cultural heritage and unique Indian wellness offerings is an advantage that tourism industry stakeholders could build upon. And there have been earnest efforts by tourism policy makers at the national and regional state levels to do so. The tourism industry is expected to contribute USD 460 billion to national income by 2028 (Chakraborty, 2021). Over the last two years, stimulating domestic tourism has been a key strategy via the *Dekho Apna Desh* campaign that encourages Indians to explore regions beyond their home state. The government is supporting infrastructure development and is taking a strategic marketing approach to boost India's competitiveness as a destination.

Current situation and policy challenges

India's current 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 a religious tourist experience and spiritual wellness. The *Swadesh Darshan* initiative allows cultural, heritage, wildlife and beach tourism to be separately developed and promoted, but integrated via complementary infrastructure that enhances what India has to offer. The government recently updated *Swadesh Darshan* to incorporate sustainable and responsible tourism practices, and an ecotourism offering is now one of 15 thematic circuits (Ministry of Tourism, 2022a; 2022b). The approach encourages tourists to combine nearby and distant attractions, from religious-cultural sites to rural and ecotourism trips. Circuit tourism and the *Prasad* approach can thus enhance the experiences of special-interest tour groups.

However, due to developments in tourism and at key destinations in India, the current theme-based tourism policy approach requires further assessment and focused management. This country note examines and makes recommendations in four areas where policy makers could have a significant impact: wildlife tourism, human resources, tourist safety and infrastructure development.

Wildlife tourism

The creation of experiences such as wildlife tourism can be a challenge for India, particularly if the multiplier effect does not impact local communities. There are instances where, despite good intentions, residents do not benefit from the development of a destination (Chauhan, 2020; Rao and Saksena, 2021; Singh, 2021).

A study on wildlife tourism at the Ranthambore Tiger Reserve found that local residents had been marginalised from primary activities and employment opportunities, with private investors and non-natives taking the lead role in management (Rao and Saksena, 2021). Another study investigated the Gupteswar Cave, a site for pilgrims and visitors (Debata, 2021).

Recommendations to protect the cave's 18 different bat species called for entry controls such as gated entrances, limiting the number of visitors via schedules and restricting the viewing of bat colonies during the mating and birthing seasons. In both instances, issues that should be addressed include lack of co-operation among key stakeholders, inadequate tourism infrastructure and a narrow marketing strategy. Such issues require the attention of key policy makers on a wider scale.

Table 5.2. **Parks and wildlife sanctuaries in India, 2021**

Type of facility	Total
National parks	104
Tiger reserves	52
Bird sanctuaries	61
Wildlife sanctuaries	566

Source: Bon Travel India (2022), "Wildlife tourism in India", https://www.bontravelindia.com/wildlife-tourism-india/.

Wildlife protection and conservation efforts need a balanced approach that takes account of local communities. Wildlife tourism should clearly target employment and stakeholding opportunities for local people. Employment opportunities for locals may allow them to earn income from tourist activities rather than through poaching and selling of hides. This would help protect wildlife at national parks and sanctuaries.

Human resources

Talent development in the industry is another key challenge for Indian tourism. Evidence suggests that employees from the hospitality sector have greater intentions to stay with their job if the organisational culture is supportive of employee growth and development (Gupta, 2019). At the macro level, human resources for the tourism and hospitality industry are shaped by India's Institutes of Hotel Management (IHM) and Food Craft Institutes (FCI), which follow the directives of the National Council for Hotel Management and Catering Technology (Ministry of Tourism, 2022c). As of 2020, India had 46 IHMs, 14 FCIs and about 220 universities and technical schools offering degrees in hospitality and tourism (Kumar, Suklabaidya and Gautam, 2020; Sardar, 2021). India's current preoccupation is to ensure that these young adults enter the workforce with sufficient skills to raise service standards.

In order to achieve a higher standard of hospitality services, India should continue expanding collaboration with international universities for student and faculty exchange programmes. It should also introduce technology as a keystone in modernising the tourism and hospitality sectors. Especially in rural communities, many attractions appear to lack employees with the proper hospitality skills. Private and public institutions offering a range of tertiary skills are rare in remote regions like Ladakh, and Simla.

Tourist safety and government initiatives

Indians have an expression, *Atithi Devo Bhava*, meaning "our guest is God". In tourism, this means that safety, security, convenience and accessibility need to be satisfactory in order for the warmth of Indian hosts to be felt by visitors (Incredible!ndia, 2004). Given that studies have shown that crime adversely affects tourist perceptions of India as a destination, more needs to be done to educate Indians and tourists alike on safety precautions and understanding the tourism landscape. In certain major cities, such as Mumbai, crime against

tourists is a major concern (Times of India, 2019). A police presence at key attractions and bus terminals might help to allay tourists' fears.

The Ministry of Tourism's latest annual report (2021-22) presents an overview of the identification, consolidation and diversification of existing and new tourism products (Ministry of Tourism, 2022d). There is increased government awareness of the significance of the tourism sector. Various financial schemes have been put in place for educational institutes to promote training and development of human capital, diversification into MICE tourism and various nature-based adventure activities. These initiatives, together with the continued leveraging of the country's power of attraction for the film industry, are expected to cause tourist arrivals to surge beyond 2023.

Infrastructure development

Infrastructure development is a key aspect of stimulating the tourism industry, and road-network and other development is indeed taking place. However, much more investment is needed to manage the increasing number of tourists going to popular destinations such as Agra, Pangong Lake and even urban sites such as New Delhi's Connaught Circle. An expansion of road connections to Agra and Pangong Lake is much needed. The road from Leh to Pangong Lake can be treacherous, with a single lane on largely mountainous terrain including stretches that are not properly tarmacked. The Connaught Road circle in the capital also requires review as to how the structures and space can be spruced up to create a proper tourist and local leisure site. One possible way would be to lease management of the buildings in the circle to a private enterprise, with stipulations on maintenance, subleasing and promotion.

A final aspect of Indian tourism is the need to educate citizens, as well as international visitors, about waste disposal. A complaint of many visitors is that there are no proper trash bins at key points of an attraction. Due to this inconvenience, the easiest way to deal with waste is to throw it just about anywhere. The unsightly result at what could have been a clean and attractive site may have a negative impact on both the environment and visitors. Part of the larger infrastructure development effort could be to install convenient trash bins and signs concerning litterbug fines in order to help shape the behaviour of tourists.

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Indonesia

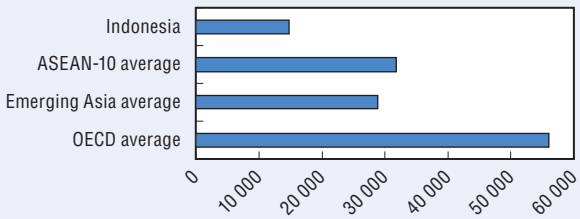
Basic data (2022)

GDP growth: 5.3%
Nominal GDP (US dollar): 1 289.4 billion*
GDP per capita at PPP: 14 638.4 (current International Dollar)*
Exchange rate (2022 average): 14 849.9 (IDR/USD)
Total population (mid-year estimate): 279.1 million**

Note: * IMF estimate. ** UN World Population Dashboard.

Source: OECD Development Centre, national sources, CEIC and IMF.

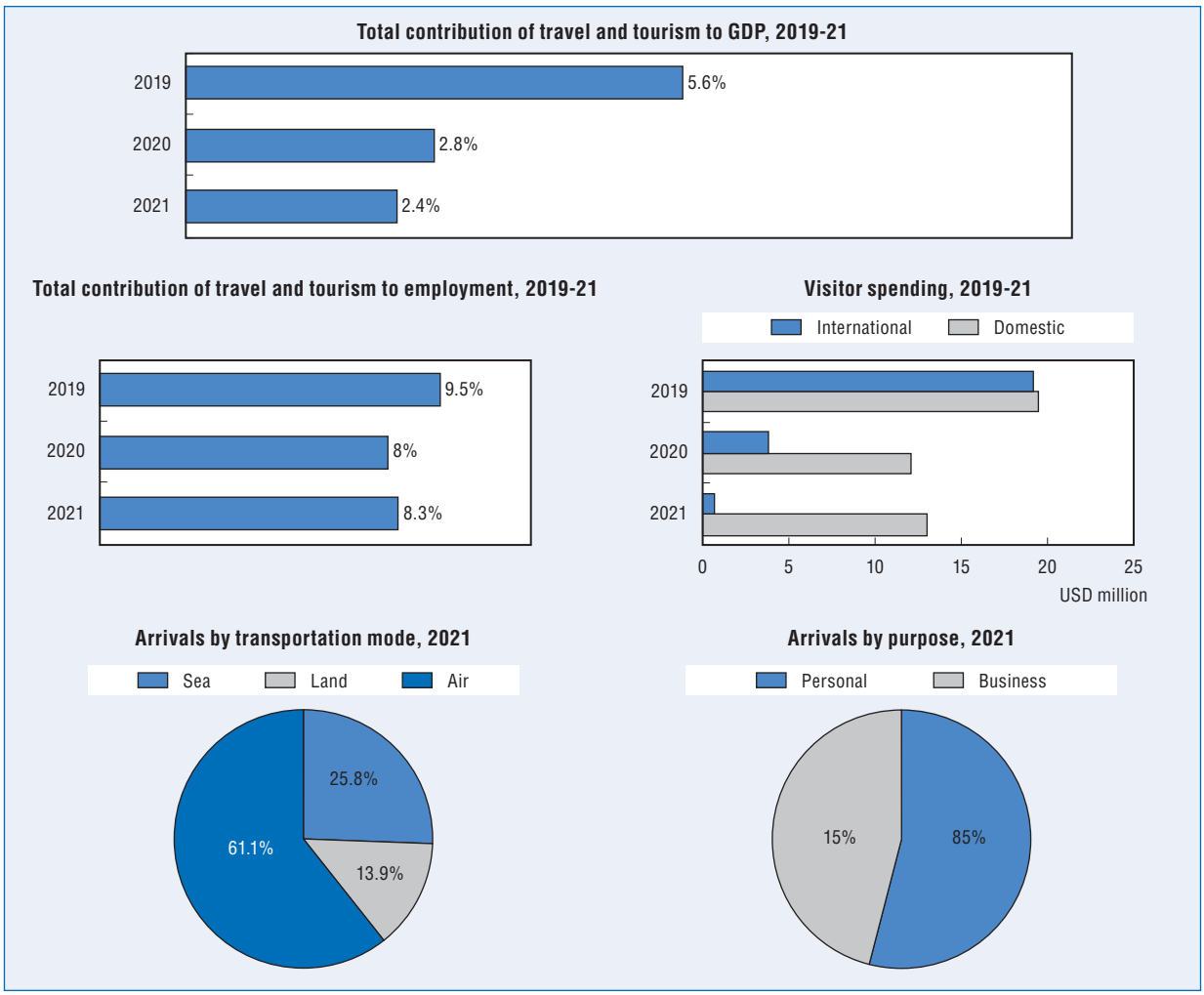
GDP per capita (2022)



Note: PPP, current International Dollar.

Source: IMF World Economic Outlook Database, October 2022.

Key tourism indicators

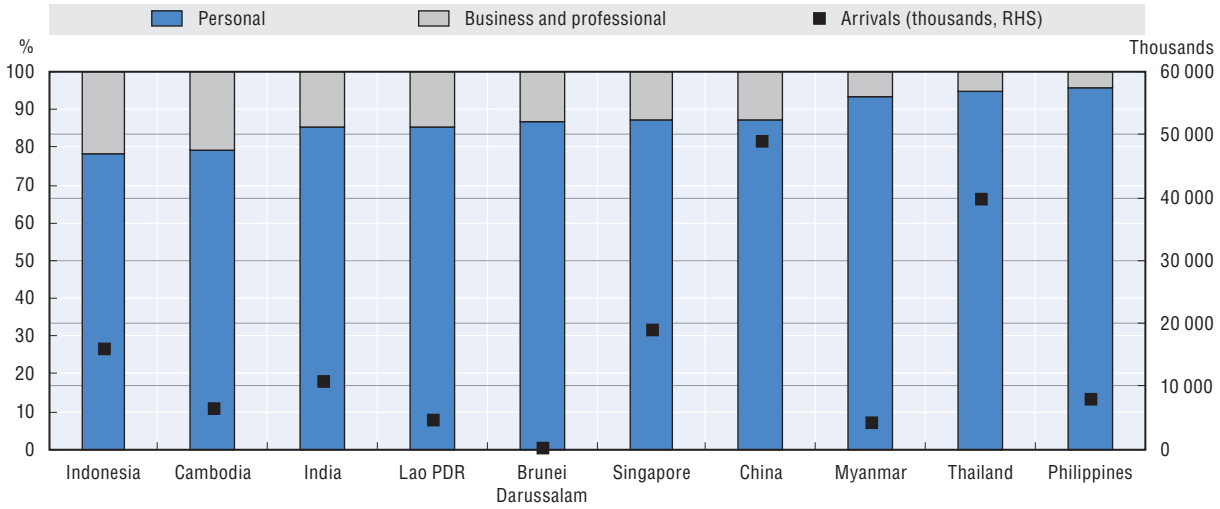


Source: OECD Development Centre based on data from UNWTO (2022), "Global and regional tourism performance" (database), UN World Tourism Organization, https://www.unwto.org/tourism-data/global-and-regional-tourism-performance.and WTTC (2022), "Indonesia 2022 Annual Research: key highlights", https://wttc.org/DesktopModules/MVC/FactSheets/pdf/704/131_20220613162338_Indonesia2022_.pdf.

Introduction

Tourism's contribution to Indonesia's gross domestic product (GDP) exceeded 5% before the pandemic and the country has vast tourism potential. With its thousands of islands and their diversity of culture and landscape, it can offer a wide variety of tourism experiences. As business travellers provide an important contribution to Indonesian tourism (Figure 5.1), the country seeks to intertwine its cultural heritage with Meetings, Incentives, Conferences and Exhibitions (MICE) tourism, and is currently advocating a strategy to replicate Bali's success as a tourist destination throughout the Indonesian archipelago.

Figure 5.1. **Arrivals by purpose, 2019**



Source: Authors' calculations based on UNWTO database.
StatLink https://stat.link/2lnxk0

The country's latest slogan, "Wonderful Indonesia", promotes appreciation of the archipelago's diverse cultural heritage and natural beauty. The most successful tourism destination has been Bali, and Indonesia's "10 New Balis" project seeks to create similar successful tourist areas at ten new cultural destinations. The country's National Tourism Strategic Areas project includes Lake Toba, Borobudur and Lombok as areas for further development, while the Integrated Tourism Master Plan calls for better connectivity and further development to attract tourists to sites in Sumatra, Java, Kalimantan, Sulawesi, Bali, Nusa Tenggara, Papua, Maluku Islands, and other areas. This country note will examine the "10 New Bali" initiative, the potential offered by blue economy tourism and issues related to human capital in Indonesia's tourism and hospitality sector.

Current situation and policy challenges

Infrastructure expansion and the "10 New Balis" initiative

Indonesia's attempt to direct and develop destinations other than Bali has met with resistance from local communities. Several conflicts over land rights developed between communities and prospective tourism developers at sites at Lake Toba and in Lombok (Jong, 2022). In order to be inclusive, dialogue among authorities, key stakeholders and the

local community, focusing on the positive aspects of tourism development such as beneficial infrastructure while noting stakeholders' concerns, is crucial. However, infrastructure development connected to tourism needs a strategy that will reduce negative ramifications on communities. Careful studies of the social impact of the projects are important to ensure that the development includes a community acceptance dimension.

The government can adopt a holistic strategy by involving communities, travel agents, tour operators, airports, seaports (including cruise centres) and other stakeholders, as well as taking account of the culture, traditions and population of each site. A concerted effort is needed to determine how the cultural heritage of existing communities and the uniqueness of that destination can be shared with tourists. This will require earnest efforts by the government to communicate with communities on the benefits of presenting their culture to tourists. In the case of domestic tourists, ample opportunities can be facilitated through regional cultural fairs and interaction with the diverse Indonesia citizenry.

Expanding blue-economy tourism

In terms of maritime leisure, Southeast Asia has much potential. One of the greatest opportunities for Indonesia lies in developing the blue economy tourism industry. With more than 17 000 islands stretching from Sumatra to Papua, Indonesia has the potential to further promote maritime activities. Formulating a policy that facilitates greater maritime leisure activities would have the advantage of bringing tourism to many islands beyond the major destinations such as Bali and Lombok and would thus stimulate economic activity. However, it is important to ensure that blue economy tourism is conducted sustainably, as discussed in the previous chapter. This could be done, for instance, by ensuring protection and conservation of natural and cultural heritage, and encouraging sustainability concept throughout the cruise value chain. Moreover, the socio-economic impact of tourism development on the local communities in coastal villages should also be taken into account.

Indonesia currently has a well-established approach that allows international yachters to anchor at any of its international ports of call across the archipelago. The government has made it convenient for international ships to validate their entry permit online. This can help bolster tourist arrival numbers. Indonesia has also initiated a strategy of promoting a major port-of-call event each year since 2009, when the first such event, Sail Bunaken 2009, was held. The latest, Sail Nias 2019, placed the north Sumatran island of Nias on the map of prospective adventure yachters. This strategy of promoting a different port and its region each year should continue, together with developing infrastructure from ports to villages and attractions which are in line with local culture, working closely with local residents and agencies to enunciate clear and unique tourism products and packages, and expanding market reach by deepening networks with other ports in Southeast Asia to boost intra-ASEAN cruise and yacht tourism.

Human capital and education

Human capital is another challenge for Indonesia's tourism and hospitality industry. Much of the workforce comes from vocational institutions, with only a small number of graduates having university education in tourism (Rosyidi, 2021). In addition, there is evidence that many multinational hotels favour expatriates over locals as senior managers. In a recent study, local managers said there was an average two-year turnover for expatriates,

while they remained in their positions unpromoted (Situmorang and Japutra, 2019). These two factors suggest that greater effort is needed to improve skills and education in this sector.

One example is by encouraging student exchanges and internship programmes that facilitate travel by tourism students to other countries for further education and training. Overseas experience might help local graduates to become candidates for higher managerial positions at multinational hotels. A stronger government thrust is also needed to convince multinational tourism and hospitality companies to facilitate work for local senior managers in their overseas operations. This would allow Indonesian managers to gain experience and improve their skills.

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Lao PDR

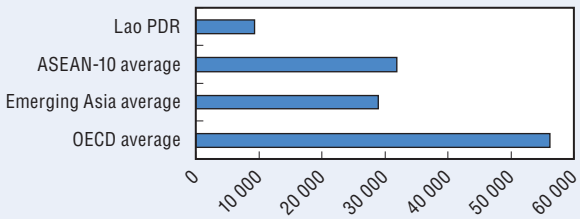
Basic data (2022)

GDP growth: 3.1%
Nominal GDP (US dollar): 16.3 billion*
GDP per capita at PPP: 9 166.3 (current International Dollar)*
Exchange rate (2022 average): 14 035.2 (LAK/USD)
Total population (mid-year estimate): 7.5 million**

Note: * IMF estimate. ** UN World Population Dashboard.

Source: OECD Development Centre, national sources, CEIC and IMF.

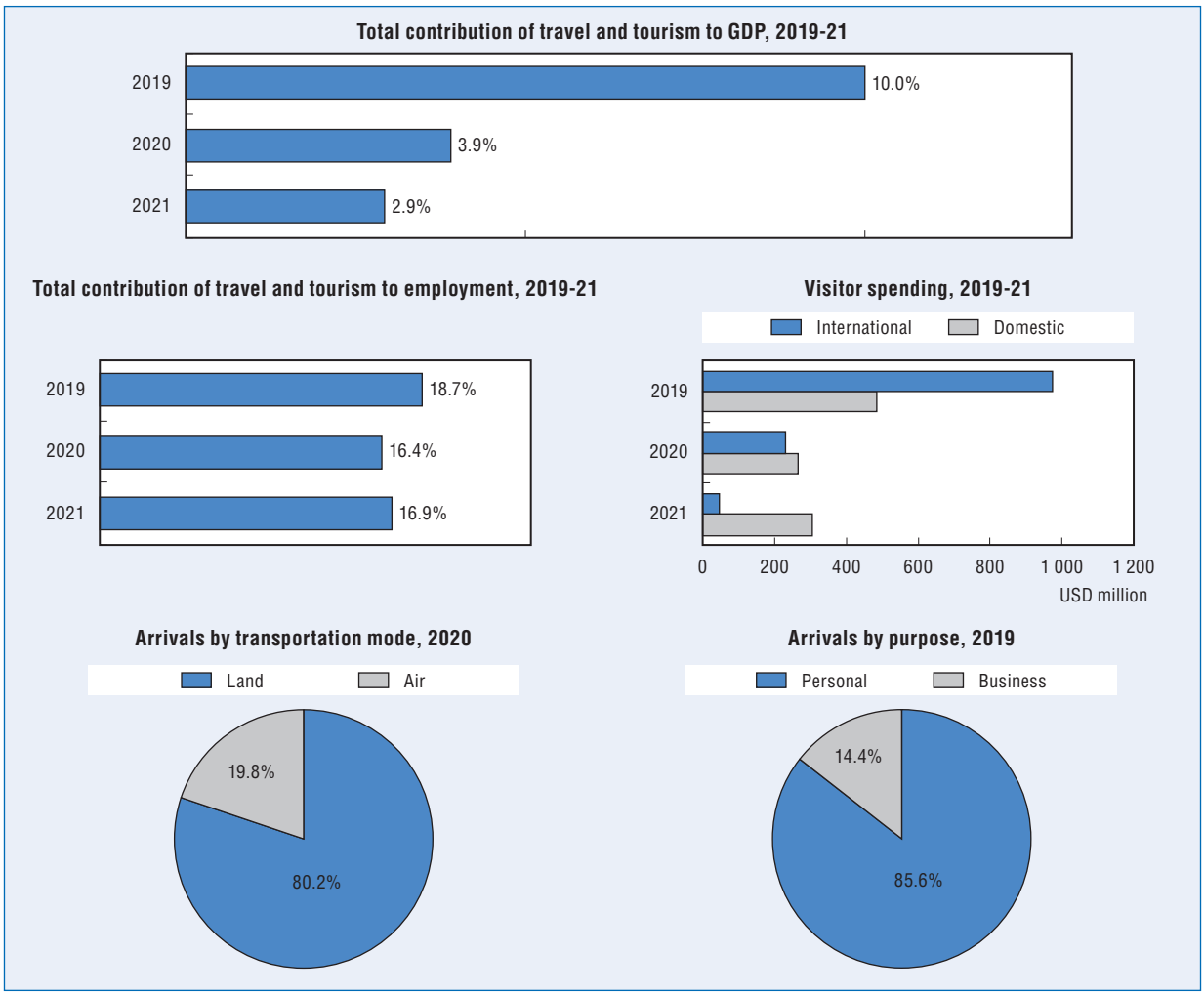
GDP per capita (2022)



Note: PPP, current International Dollar.

Source: IMF World Economic Outlook Database, October 2022.

Key tourism indicators



Source: OECD Development Centre based on data from UNWTO (2022), "Global and regional tourism performance" (database), UN World Tourism Organization, https://www.unwto.org/tourism-data/global-and-regional-tourism-performance (accessed on 25 October 2022) and WTTC (2022), "Laos 2022 Annual Research: key highlights", https://wttc.org/DesktopModules/MVC/FactSheets/pdf/704/145_20220613162912_Laos2022_.pdf.

Introduction

With more than 2 000 potential historical and cultural sites identified by the government for development, Lao PDR has many more exciting tourism products to offer in coming years, and participating investors can look forward to a growing tourism economy given the government's generous tax-break schemes. Lao PDR has been focusing on creating responsible tourism so that its nature-based resources are sustainable. Tourism in the landlocked country depends on a limited number of airports and flight connections as well as border crossings with the Mekong Basin countries of China, Cambodia, Viet Nam, Myanmar and Thailand.

Tourist arrivals into Lao PDR have fluctuated, but were generally on the rise prior to the COVID-19 pandemic. Most of its market is from the ASEAN region, with tourists coming primarily from Thailand, Viet Nam and China. Currently, tourists can fly in to four international airports or arrive by road or via boat connections from Thailand, China, Viet Nam and Cambodia. While regional tourists from neighbouring countries stayed for an average of just two days, international tourists stayed for an average of 7.9 days (MICT, 2020).

The Lao government conducted extensive marketing in 2019, which explains in part the sharp rise in tourist arrivals and revenue for that year. In the same year, there was an increase in Western-market arrivals across the board. Lao PDR has great potential to be a key destination in mainland Southeast Asia if it continues extensive marketing, expands its infrastructure programmes and diversifies tourism product availability and accessibility with community-based tourism and natural, cultural and historical attractions (MICT, n.d.). This country note reviews the policy challenges facing the tourism sector, such as environmental damage due to improper waste disposal at natural sites, the need to facilitate more international arrivals by air, and also considers potential mitigating efforts that could revive tourism in Lao PDR.

Current situation and policy challenges

Tourism is one of six key sectors of the economy targeted for government efforts and development, yet the sector's contribution to GDP has declined over the last decade. In 2011, travel and tourism contributed 14.6% of the GDP, while in 2019 it had declined to 10% (International Trade Administration, 2022). Some challenges need to be addressed to improve the sector's performance.

Waste management

The government of Lao PDR advocates a green growth policy in tourism. The World Bank has recommended protecting wildlife through concessions and regulations to support responsible tourism business practices and be inclusive of village partnerships. Lao PDR has 1 200 villages within or on the margins of its 24 national forest reserves. Its policy of promoting green tourism is therefore a perfect approach. The policy works well for promoting Lao PDR as a destination for backpackers, adventure seekers and tourists interested in cultural heritage (World Bank, 2020). While green and community-based tourism are seen as integral to the tourist experience in Lao PDR, the waste that travellers frequently leave behind is a concern (Phonevilay, 2022). A national strategy is needed for communities to monitor and assess waste management so that measures can be taken to mitigate any adverse impact on the environment and local communities. Rather than imposing restrictions on tourists and limiting their movements, a salient policy would be

to educate tourists with signs and information about disposing their plastic bottles and respecting local cultural practices. As people often dispose of trash indiscriminately when there is no bin readily available, plastic pollution can be further contained if more trash bins are located at key tourist attractions and residential areas (JICA, 2021).

International airlines

International airlines currently fly to Lao PDR mainly from five countries – China, Singapore, South Korea, Thailand and Viet Nam. They include China Eastern Airlines, Viet Nam Airlines, Bangkok Airways, Jin Air, Sichuan Airlines, China Express Airlines, Thai Smile Air, Thai Airways, Jeju Air, Scoot Airlines and Air Busan. The only airline that flies in from a Western country is China Southern Airlines, which offers a route from the United States. Ultimately, if Lao PDR wishes to increase tourist traffic, marketing and promotion beyond these Asian countries must be conducted. Lao PDR may also want to develop its hospitality industry commensurate to the growth of air connectivity. The government target of attracting at least 1.4 million tourists in 2023 has to be carefully measured against the availability of accommodation.

Larger tour operators dominate the tourism industry in Lao PDR. Given this situation, there is space for growth. It can be stimulated through a stronger regulatory framework for local and international investors to participate in developing key tourist destinations. Through the Ministry of Information, Culture and Tourism, the government has already established investment schemes, such as a four-year tax exemption for investors and concessions on land leases of up to ten years (Elliott, 2017).

Hydroelectric power and tourism

Blessed with an abundance of rivers, hilly terrain and a dispersed small population, Lao PDR has been able to build dams and produce hydroelectric power not only for local consumption but also for export to neighbouring countries, such as Thailand and Viet Nam. By 2025, Lao PDR is expected to have at least 50 hydropower stations (International Hydropower Association, 2022). This circumstance:

- helps rural communities to access electricity and enhance their tourism accommodation facilities
- strengthens ecotourism with a high-value product, particularly if the site is located in proximity to the hydro industry
- creates new tourist attractions, as a hydroelectric station is an architectural marvel in itself.

The dam activities of a hydroelectric station at major rivers can be a hazard if a thorough impact study is not carried out. There is also a need for consideration of the down-river impact on nature and society. For example, the Xayaburi dam project caused damage to the river banks of Luang Prabang, where the famous heritage sites are located.

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Malaysia

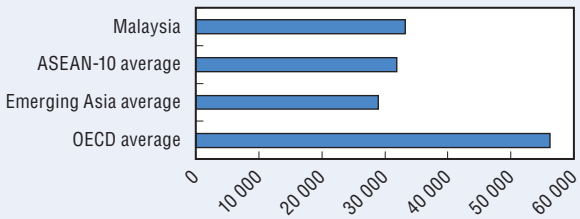
Basic data (2022)

GDP growth: 8.7%
Nominal GDP (US dollar): 434.1 billion*
GDP per capita at PPP: 33 112.7 (current International Dollar)*
Exchange rate (2022 average): 4.4 (MYR/USD)
Total population (mid-year estimate): 33.2 million**

Note: * IMF estimate. ** UN World Population Dashboard.

Source: OECD Development Centre, national sources, CEIC and IMF.

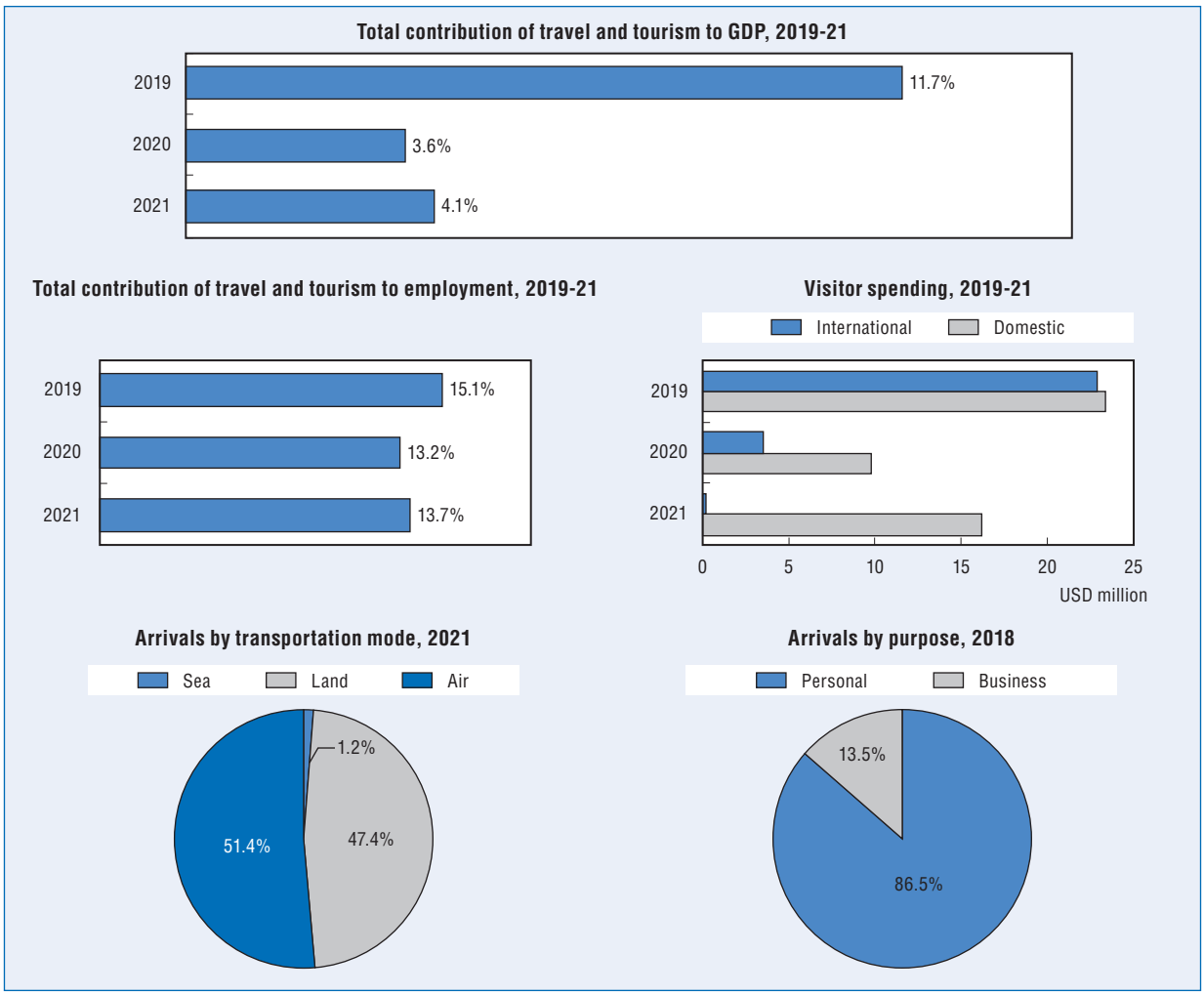
GDP per capita (2022)



Note: PPP, current International Dollar.

Source: IMF World Economic Outlook Database, October 2022.

Key tourism indicators



Source: OECD Development Centre based on data from UNWTO (2022), "Global and regional tourism performance" (database), UN World Tourism Organization, https://www.unwto.org/tourism-data/global-and-regional-tourism-performance (accessed on 26 November 2022) and WTTC (2022), "Laos 2022 Annual Research: key highlights", https://wttc.org/DesktopModules/MVC/FactSheets/pdf/704/145_20220613162912_Laos2022_.pdf.

Introduction

Malaysia aspires to be the world's top Muslim-friendly destination. In this regard, it plans to expand its partnerships internationally to establish itself as a lifestyle destination and a health hub within the context of Islamic tourism. These objectives are already in motion: Malaysia hosted the World Islamic Tourism Conference from 17-19 October 2022. The Islamic Tourism Centre (ITC) is the agency entrusted by the Ministry of Tourism, Arts and Culture to drive Malaysia's 2020-30 Islamic tourism agenda. At the same time, Tourism Malaysia's Strategic Plan 2022-26 aims to reinvigorate the post-pandemic tourism landscape through a coherent and holistic approach to ensure the demand and supply of sustainable tourism. This country note discusses Malaysia's potential in Islamic tourism, and the need of enhancing tourist experience through smart tourism and water villages and cultural products.

Current situation and policy challenges

Islamic tourism

Islamic tourism destinations in Southeast Asia are largely dominated by Malaysia and Indonesia, along with the other countries such as Thailand and Singapore, according to the Global Muslim Travel Index (GMTI) (CrescentRating, 2022). With an Islamic tourism thrust and a large domestic Muslim population and Islamic traditions, Malaysia has the potential to continue to stand out.

One challenge consists of the type of services on offer at various attractions. At hotels, for example, Halal or Islamic tourism could be more palatable if the hotel swimming pool offered an allocated space or a separate pool for Muslim swimmers. However, this raises resource challenges. The same is true of the variety of food on offer at a hotel breakfast buffet or on the menu. Preparing two parallel lines of food can be both challenging and costly. Businesses in the tourism sector must carefully weigh the provision of such facilities. Moreover, the country could identify businesses and facilities in the tourism sector that can make a real difference to Islamic travellers so that they are fully privileged to enjoy their holidays without any inconvenience. In the GMTI survey, most respondents placed Muslim-friendly facilities above all other factors, such as price, accommodation and transportation (CrescentRating, 2022).

Enhancing the tourist experience

Malaysia offers tourists a broad variety of experiences, from cultural heritage and rural tourism to nature-based and adventure tourism. Moreover, the National Tourism Policy plans to expand niche tourism and holiday packages, incentivise personalised small-group tours and extend inducements to suppliers to consider offering more niche tours. In this section, we highlight three key areas where tourist experiences can be enhanced, namely Smart Tourism 4.0, and attractions in the Borneo states of Sabah and Sarawak.

Smart Tourism 4.0

Smart Tourism 4.0, a campaign initiated in 2018, is meant to extend digital technology in the tourism space. The campaign was suspended in 2020 due to the COVID-19 pandemic. However, the goal is worthy as smart technology is believed to have the potential to increase

Malaysia's tourism-based revenues to USD 110 billion by 2030 (MIDA, 2022). One of the challenges to achieving this goal is efficient network provision. A 2020 study found that internet connectivity was weak at most attractions and that tourists felt that too few tourism businesses were providing or facilitating smart tourism technologies (Amir et al., 2020). Further investment and government incentives could induce tourism businesses to adopt more technology-based services. Given the growing number of millennial and Generation Z travellers, it would be prudent for tourism policy makers to identify key points at Malaysia's attractions, restaurants, public squares and transportation hubs to provide easy access to the internet and digital services – a point that is recognised by the government (Britshi, 2019).

Water villages and cultural products

While community-based tourism is quite popular in the states of Sabah and Sarawak, the tourism potential of the area's water villages – in which dwellings are built on stilts over the water – has yet to be fully realised (Borneo Post, 2022). Local communities and tourism authorities need to come together to see how water villages can benefit from tourism, for example via homestays, local cuisine and the sharing of cultural insights. Perhaps lessons can be learned from neighbouring Brunei Darussalam, where water villages have been transformed into a key tourist attraction.

Malaysia is rich with villages and village life, where weddings and celebrations are shaped by tradition, and this could be part of special-interest tourism. In Sabah and Sarawak, culture, adventure and nature remain mainstays of the tourism sector. A study of tourism by-products has recommended that key stakeholders, such as the Tourism Board and heritage and craft centres, use traditional handicrafts to enhance the two states' tourism image (Zahari et al., 2017). In other words, crafts should not merely be souvenirs but rather products developed as representing the nature of local artisanal works. The idea is to advertise and promote this cultural heritage in key tourism messaging. There have been similar calls for promoting cultural pride elsewhere in Malaysia. Engaging local communities to practice their handicraft traditions for tourism could improve livelihoods and standards of living (Amri, 2021).

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Myanmar

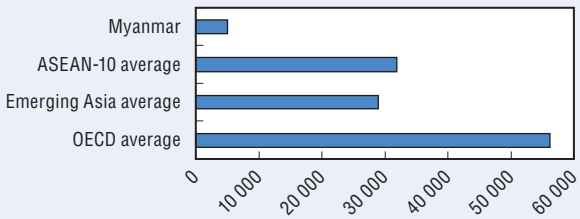
Basic data (2022)

GDP growth: 2.0%
Nominal GDP (US dollar): 59.5 billion*
GDP per capita at PPP: 4 830.1 (current International Dollar)*
Exchange rate (2022 average): 1381.6 (MMK/USD)
Total population (mid-year estimate): 55.2.2 million**

Note: * IMF estimate. ** UN World Population Dashboard.

Source: OECD Development Centre, national sources, CEIC and IMF.

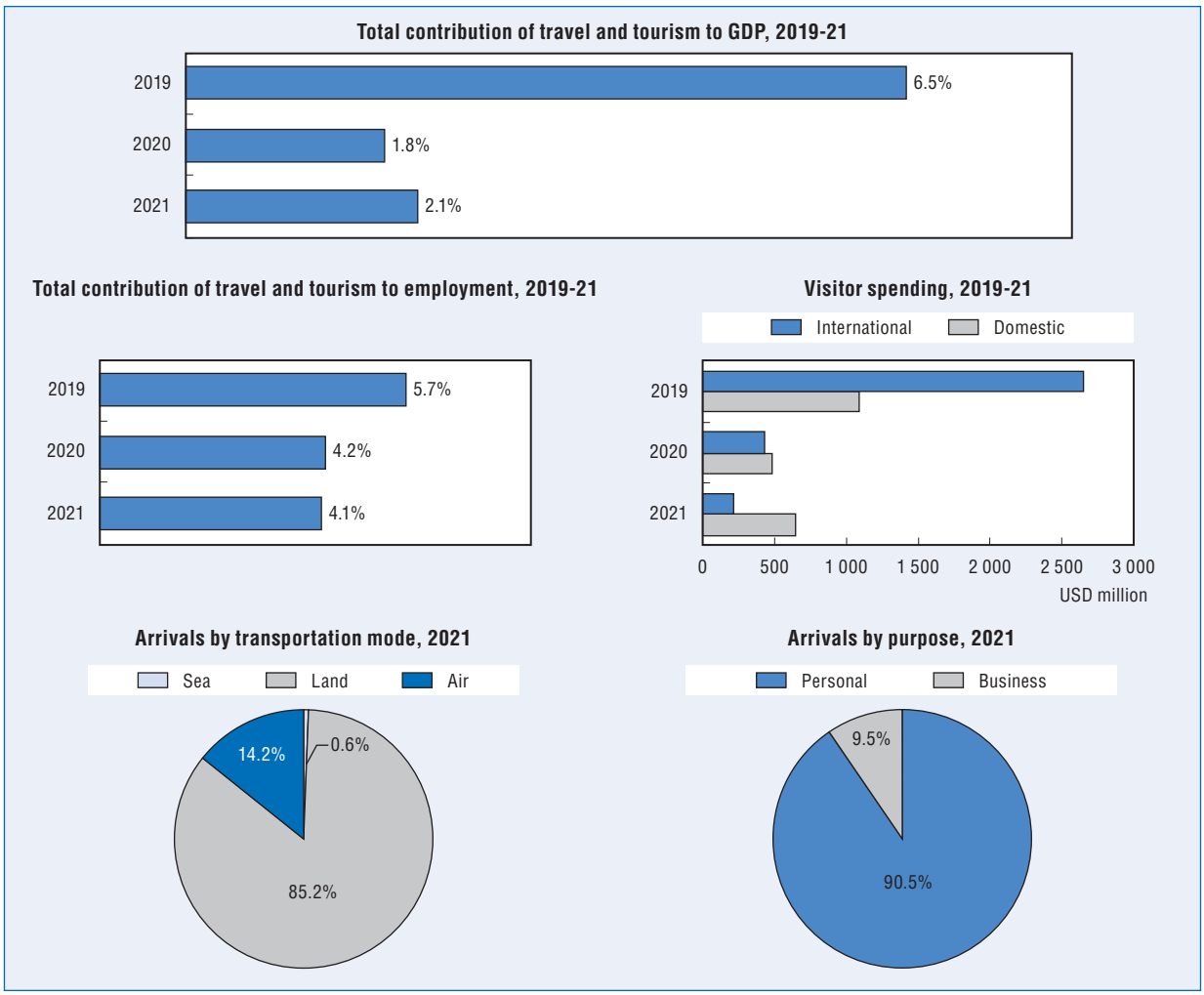
GDP per capita (2022)



Note: PPP, current International Dollar.

Source: IMF World Economic Outlook Database, October 2022.

Key tourism indicators



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Introduction

The *Myanmar Tourism Master Plan 2013-20* aims to increase tourism employment and income that is distributed in a way that maximises benefits. It was followed by the *Myanmar Tourism Strategic Recovery Roadmap 2021-25*, which continues the earlier master plan but also proposes a devolution of tourism planning to regional centres, the enhancement of existing destinations and products, and the development of new ones.

Current situation and policy challenges

Tourism arrivals were steadily increasing in Myanmar prior to the pandemic but declined sharply in 2020 and 2021, primarily due to travel restrictions and political uncertainty. A significant drop in tourist arrivals can be observed from the countries bordering Myanmar. The government recorded a yearly drop of 85% from China, 76% from India and 78% from Thailand in 2020 (Ministry of Hotels and Tourism, 2020).

Infrastructure development and maintenance of key attractions

Since early 2021, several infrastructure-building programmes – in transportation networks, electricity and energy – have been in limbo (Win, 2021). Investments worth approximately USD 20 billion will be affected. Much of the country's tourism infrastructure needs further development, from airports to road transportation. There is also a dire need of funding for the maintenance of key temples and attractions in Mandalay, Bagan and other remote regions, as well to ensure their attractiveness. In an extensive study of Myanmar's ancient cities, it was found that the country's existing tourism products can be enhanced and further expanded (LaGeS, 2016). The research was conducted by Laboratorio Di Geografia Sociale at the University of Florence in collaboration with the University of Mandalay and various Myanmar government ministries. The findings provided recommendations including:

- Pedestrian pathways should be widened and new ones created for leisurely walks beyond historical sites and natural features in and around urban centres.
- Elementary mobility connections should be established between distant attractions due to the lack of an efficient transportation network.
- Visitor routes should be created to handicraft cities, rural villages and viewing points where there are heights.
- Cycling routes should be developed for athletic tourists.
- There should be regular maintenance of religious monuments and monasteries, e.g. to repair rain damage to roofs, which can cause seepage onto mural paintings and floorings over time.

Community-based tourism

The development and promotion of community-based tourism (CBT) is aligned with the tourism policy of benefiting communities through equitable distribution of income (Ministry of Hotels and Tourism, 2022). Some 46 villages are currently using the CBT model, part of a strategy to involve rural communities in tourism to provide them with additional income aimed at alleviating poverty. A crucial aspect of CBT development is public-private partnerships involving rural communities. Greater guidance could be given by the Ministry of Hotels and Tourism to rural communities on the types of services that can be provided.

Though much of the agricultural produce in rural communities is for self-consumption by families, the idyllic rural lifestyle, together with authentic food and homestay living, are excellent pull factors for tourism. Regulatory measures are needed to ensure that those participating in CBT are prepared to undergo some form of hospitality training on hosting guests and preparation of accommodation to a reasonable standard for tourists, including maintaining reasonable standards of hygiene and safety. For local operators to participate in an informed way, continuous training support on opportunities and pathways is needed, with the co-operation of tourism government agencies and community organisations at the local level (LaGeS, 2016).

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Philippines

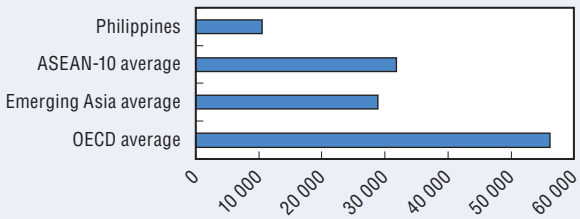
Basic data (2022)

GDP growth: 7.6%
Nominal GDP (US dollar): 401.7 billion*
GDP per capita at PPP: 10 343.6 (current International Dollar)*
Exchange rate (2022 average): 54.5 (PHP/USD)
Total population (mid-year estimate): 112.5 million**

Note: * IMF estimate. ** UN World Population Dashboard.

Source: OECD Development Centre, national sources, CEIC and IMF.

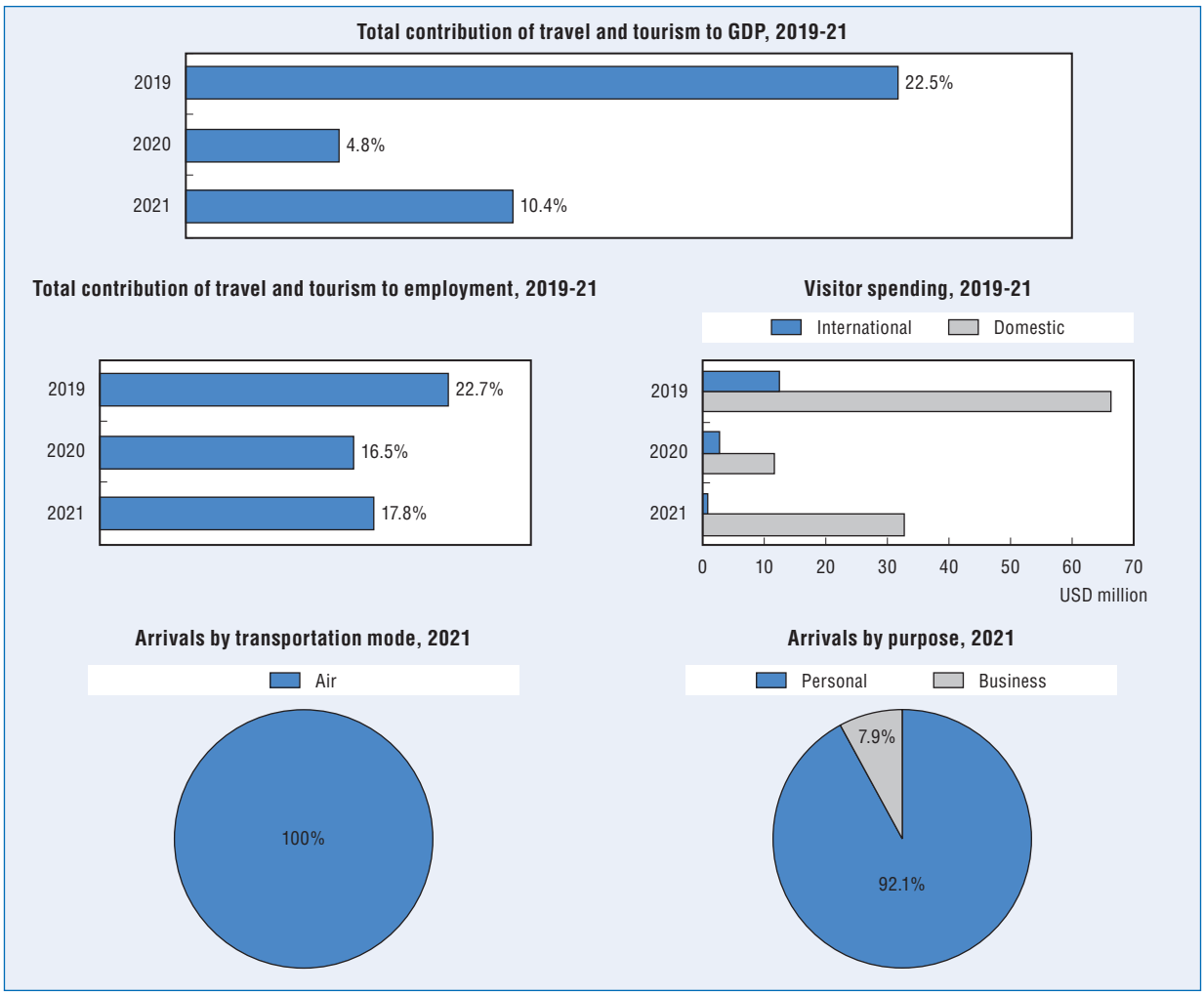
GDP per capita (2022)



Note: PPP, current International Dollar.

Source: IMF World Economic Outlook Database, October 2022.

Key tourism indicators



Source: OECD Development Centre based on data from UNWTO (2022), "Global and regional tourism performance" (database), UN World Tourism Organization, https://www.unwto.org/tourism-data/global-and-regional-tourism-performance (accessed on 26 November, 2022) and WTTC (2022a), "Philippines 2022 Annual Research: key highlights", https://wttc.org/DesktopModules/MVC/FactSheets/pdf/704/184_20220613165812_Philippines_2022_.pdf.

Introduction

The Philippines is endowed with a rich cultural heritage and natural landscapes from sandy beaches to densely forested mountains. Its tourism scene is characterised by a tropical clime and low prices, flavoured with fun and warm hospitality. Official policy of the Philippines declares tourism an indispensable element of its economy and seeks to promote the heritage of the Filipino people as well as sustainable tourism development. In 2019, the Philippines achieved the highest number of tourist arrivals ever, at 8.26 million (Department of Tourism, 2021). Unfortunately, this was followed by two years where the tourism sector was deeply curtailed by the COVID-19 pandemic and responses to it, but tourist arrivals exceeded government targets in 2022 and China's abandonment of zero-COVID policy should help spur growth even further in 2023 and beyond. The World Travel and Tourism Council (WTTC) predicts that travel and tourism could contribute more than USD 155 billion to GDP in 2032, potentially creating nearly 3 million new jobs in the sector (WTTC, 2022b). This country note examines infrastructure challenges facing the sector as well as ecotourism development initiatives.

Current situation and policy challenges

Tourism policy objectives

From 2016-22, the Philippine government pursued several tourism objectives: transportation development, travel facilitation, attracting business investments, tourism promotion, and increased services standards. Transportation development is being pursued mainly through the development of airports. Nine airport construction or upgrade projects are expected to be completed in 2023. Streamlining the visa application process and introducing electronic visas will help stimulate inbound tourism. The tourism sector will also be bolstered by an improved business and investment environment. Developing and promoting new luxury products, or luxury versions of existing ones, can allow tourism businesses to cater to two distinct market segments and raise profits. Furthermore, developing a workforce able to communicate in additional languages will increase human resources capacity and service standards, as many foreign tourists to the Philippines come from countries with primary languages other than English, such as Korea, China and Japan. The national government will work with the local government units (LGUs) and relevant MSMEs to formulate 60 tourism plans per year, each catering to specific local needs.

Airport infrastructure

A new terminal was opened recently at Clark International Airport, north of Manila, with the aim of welcoming more tourists and flights into the Philippines and of improving passenger comfort. The new terminal expands passenger capacity to 8 million per year (Egis, 2021) and further expansion of the airport is expected to increase passenger capacity to 12.2 million per year and ultimately create 150 000 jobs, with multiplier effects on other activities (Rosario, 2022). Similar expansion programmes are expected at other domestic and international airports to stimulate the economy (Rosario, 2022).

The Philippine government's "Build! Build! Build!" programme is helpful for reviewing the existing capacity of airports in terms of facilities and possible expansion to accommodate bigger aircraft and more traffic (Southeast Asia Infrastructure, 2022). Further oversight by

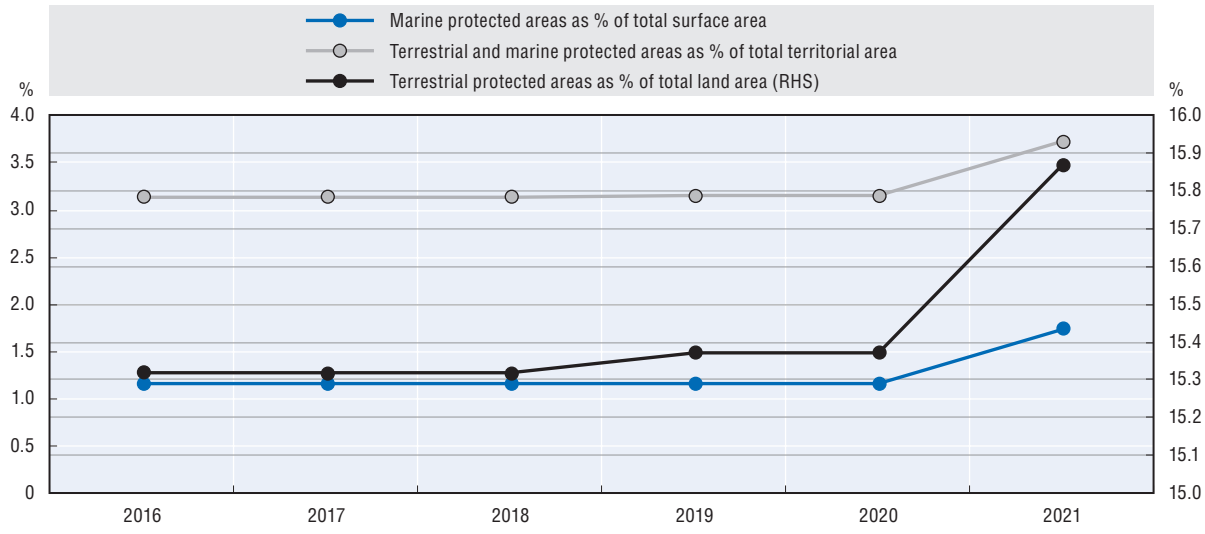
the government should be a priority, together with rehabilitation of airports throughout the country, including in and around Manila. Airport projects to ramp up capacity are crucial for the Philippines to be a competitive destination.

Ecotourism and protection of the environment

The top tourist destinations in the Philippines are nature-based, so authorities have taken conscious efforts to protect the Philippines' natural environment through the implementation of sustainable practices embedded in ecotourism for both ecological reasons and to preserve the economic viability of these sites. The previous government showed its willingness to close the island of Boracay to tourists for six months in 2018. This drastic step aimed to clean up the island's beaches and refresh its fragile ecosystem, which had been affected by trash, pollution and non-compliant disposal of sewage by established businesses.

Among the many sites where ecotourism is popular, the islands of Bohol, Cebu and Palawan face a similar situation. Locals and environmentalists are deeply concerned about the effects on island ecosystems of the continuous influx of tourists and improper waste disposal. Existing permit requirements and regulations are meant to ensure that the environment is protected. These measures include the Clean Air Act; the Clean Water Act; the Hazardous Waste Law; the Ecological Solid Waste Management Act; and Presidential Decree No. 1586 on the establishment of an environmental impact system. The country's efforts in conserving the environment can be seen in an increase in the amount of both terrestrial and marine area designated as protected in 2021 (Figure 5.2).

Figure 5.2. **Philippines bolsters conservation in 2021**



Source: CEIC.
StatLink https://stat.link/ki8gpu

One of the first policies to promote ecotourism was initiated in 1999 via Executive Order No. 111, which outlined the establishment of a National Steering Committee and Regional Ecotourism Committee to oversee the development and management of ecotourism attractions and leisure facilities (Official Gazette, 1999). Moreover, non-governmental

organisations (NGOs) and volunteer groups carry out regular beach clean-up activities, and many attractions conduct brief education sessions on respecting nature and wildlife. Even with these measures in place, enhanced transparency and enforcement are needed to ensure compliance. In Davao, local authorities impose a fine for trekkers who deviate from the prescribed route and leave trash on their trail (Tagoranao and Gamon, 2019). A combination of specifying approved behaviour and similar fines could help preserve the environments of other protected areas.

Consumer demand also plays a role in the decision to pursue environmental protection standards. More travellers are now considering their environmental impacts and seeking to limit them as much as possible. The Department of Tourism offers an Environmental Compliance Certificate (ECC) to hotels and resorts and has incorporated environmental standards into the star ratings of these establishments, though better enforcement is needed to ensure compliance with ECC standards. The ECC initiative provides a signal to these travellers that ECC-holding establishments are choices that better align with their concerns, while the incorporation of environmental standards into hotel ratings helps present hotels and resorts with more environmentally friendly practices as better choices to those travellers who care less, or do not care at all. Furthermore, certification programmes with limited validity could be implemented for tour operators who conduct wildlife tours or scuba diving in protected areas, increasing the attractiveness of these experiences to those with environmental concerns.

Business conditions and development projects

The Philippines has an open business environment for tourism establishments. The Tourism Act of 2009, recognises tourism as a vital part of the Philippine economy, authorises the Tourism Infrastructure and Enterprise Zone authority (TIEZA) authority to grant incentives to tourist enterprises in designated zones, including tax holidays, tariff and duty exemptions to reduce operating costs. The government is also undertaking projects to attract tourists to the Philippines and make their stays more enjoyable so that the benefits of the business environment can be fully realised.

Authorities are working to increase the efficiency of the travel experience to the Philippines through the Travel Facilitation Initiative, which calls for as streamlined visa process and the issuance of electronic visas. The development of rest and information centres as well as a comprehensive *Tourist Lifecycle App* will enhance the travel and transportation experience within the country. A total of ten Tourist Rest Areas (TRAs) are currently planned, and they will be distributed among Luzon, Visayas, and Mindanao. To improve accessibility within the country, authorities are considering establishing "hop-on, hop-off" buses in key tourist destinations. These projects are considered high priority, as the Department of Tourism (DOT) seeks to distinguish the Philippines as a unique destination from its ASEAN neighbours and make up for a later removal of entry restrictions than in other ASEAN countries.

Ground was broken on two of the TRAs in Carcar City, Cebu on 17 December 2022. The *Philippine Experience* caravan tours will immerse tourists in a region of their choice. Inspired by an earlier programme in Cebu, *Philippine Experience* tours are expected to be operation nationwide during the first quarter of 2023. The Philippine government is also enlisting

Filipinos abroad and Overseas Foreign Workers (OFWs) in their tourism recovery effort. They are able to sponsor a tourist through the Department of Tourism's *Bisita Be My Guest (BBMG)* programme, which features helpful information, discounts, and chances to win prizes for both the sponsored tourist and the sponsor.

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Singapore

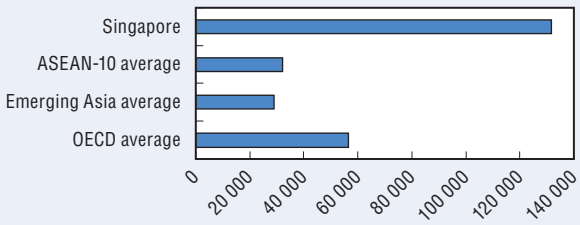
Basic data (2022)

GDP growth: 3.6%
Nominal GDP (US dollar): 423.6 billion*
GDP per capita at PPP: 131 425.7 (current International Dollar)*
Exchange rate (2022 average): 1.4 (SGD/USD)
Total population (mid-year estimate): 5.9 million**

Note: * IMF estimate. ** UN World Population Dashboard.

Source: OECD Development Centre, national sources, CEIC and IMF.

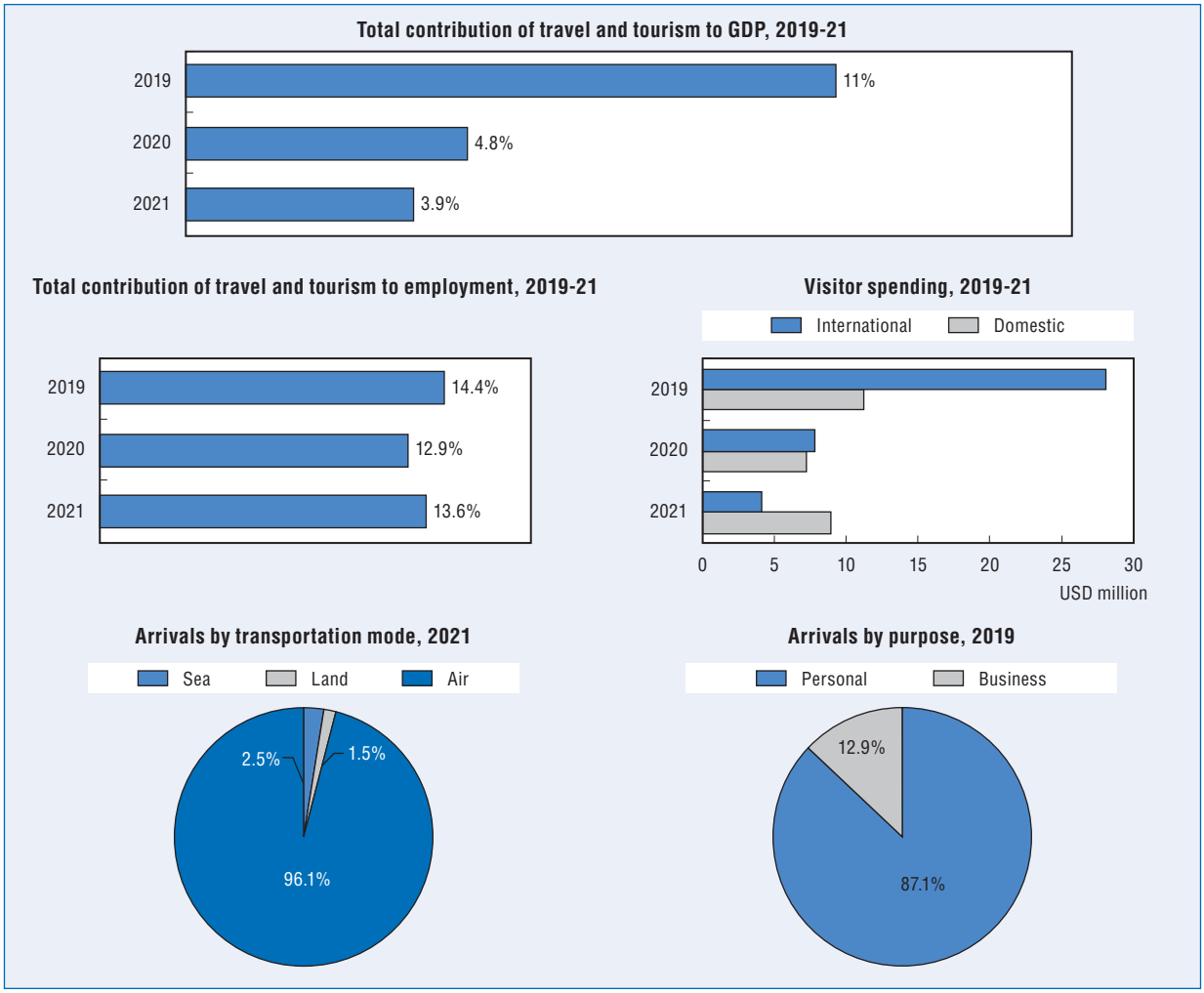
GDP per capita (2022)



Note: PPP, current International Dollar.

Source: IMF World Economic Outlook Database, October 2022.

Key tourism indicators



Source: OECD Development Centre based on data from UNWTO (2022), "Global and regional tourism performance" (database), UN World Tourism Organization, https://www.unwto.org/tourism-data/global-and-regional-tourism-performance (accessed on 26 November, 2022) and WTTC (2022), "Singapore 2022 Annual Research: key highlights", https://wttc.org/DesktopModules/MVC/FactSheets/pdf/704/200_20220613170640_Singapore2022_.pdf.

Introduction

Singapore has made progress steadily in its tourism landscape, building key attractions, and refreshing its tourism products every 5-10 years. After the opening of Marina Bay Sands, Resorts World Sentosa and Universal Studios Singapore, the country launched Gardens by the Bay and National Gallery Singapore in 2012 and 2015 respectively. This was followed by Jewel in 2019, an entertainment and retail complex linked to Changi International Airport. Work is underway for a fifth terminal, and the city-state will soon complete the development of the Mandai Nature Park progressively with the opening of Bird Paradise in 2023. While the country continues to market its multi-faceted appeal as a business and leisure destination, it has also embarked on new growth areas towards being a sustainable urban destination to draw a growing segment of conscious travellers, as well as an urban wellness haven. This country note examines these themes.

Current situation and policy challenges

Quality tourism

Singapore's pursuit of "quality tourism", as defined by the Singapore Tourism Board (STB), comprises three key dimensions: i) tourism continues to be an important economic driver for Singapore; ii) tourism development will result in productive and innovative industries and firms that would create employment opportunities for Singaporeans; and iii) sees continuing efforts to nurture public engagement and participation as part of tourism development. To secure quality tourism growth, STB looks to pursue medium term strategies and approaches through a yield driven marketing approach, enhance destination attractiveness, support industry competitiveness, and build local engagement.

Recognising that the strong support and active participation from Singaporeans are imperative to the tourism sector. The SingapoRediscover campaign launched in 2020 by STB, Enterprise Singapore (ESG) and Sentosa Development Corporation (SDC), encouraged Singaporeans and residents to explore different sides of Singapore. The campaign focused on partnering with local communities to help locals discover hidden gems, curating precinct itineraries to create authentic experiences for the locals and collaborating with stakeholders to develop quality experiences and promotions for the locals to enjoy.

MICE tourism

Singapore is well placed as a MICE destination. The country enjoys the reputation as a leading international convention city, according to the International Congress and Convention Association 2021 rankings and has an excellent track record of hosting numerous large-scale and prestigious business events. With the recovery of business events in 2022, Singapore hosted several events, including the Singapore Airshow (13 000 attendees), 60th International Young Lawyers' Congress (1 200 attendees), World Stroke Congress 2022 (2 200 attendees), Singapore Fintech Festival 2022 (62 000 attendees) and the EY APAC Tax Symposium 2022 (800 attendees). Singapore hosts approximately 4 000 events for more than 400 000 attendees per year (Travel and Tour, 2022), with MICE tourism expected to bring in USD 5.2 billion by 2027 (Research and Markets, 2019). One concern is Singapore's ability to provide sufficient accommodation for its visitors during popular events (Zalizan, 2022).

To further improve MICE tourism, key stakeholders could consider continuing to seek innovative ideas for hosting global events, market Singapore to global societies and associations as a site for their next annual meeting, package MICE products with leisure tours in Singapore. And to address the challenge of providing sufficient accommodation, a review of property rental laws could be useful to allow shorter-term rentals by local residents during peak event periods via home-sharing platforms like Airbnb.

Manpower and certification programmes

MICE professionals in Singapore have access to professional certifications by Professional Convention Management Association (PCMA) and the Singapore Association of Convention & Exhibition Organisers & Suppliers (SACEOS). Most recently, the PCMA Digital Event Strategist (DES) certification is designed to help business events professionals effectively plan, produce and measure the results of live stream and digital engagement events. This enabled participants who obtained the DES certification to stand out as certified professionals on live stream and virtual events. Furthermore, SACEOS launched the SG SafeEvent Certification in 2021, to provide clear guidelines on safety and hygiene and bring assurance and peace of mind to all event industry professionals. This was in addition to the existing professional development programmes offered by SACEOS such as Professional Conference Management and Professional Exhibition Management.

There are also other existing national trade skills certificate programmes under SkillsFuture Singapore, and full trade-related and degree programmes offered by Singapore's five polytechnic schools and three universities. The demand for professional certifications presents an opportunity for Singapore to work with its ASEAN counterparts to enhance existing certification programmes and elevate the region's MICE industry's competitiveness.

Wellness tourism

The Global Wellness Institute (GWI) defines wellness tourism as travel associated with the pursuit of maintaining or enhancing one's personal well-being (GWI, n.d.). Despite the COVID-19 pandemic, wellness tourism was an industry worth USD 436 billion in 2020 (GWI, 2021). It is important to note that wellness tourism and medical tourism are distinct, although there may be some overlap. Medical tourism focuses on treatment and recovery, while wellness tourism focuses on health maintenance.

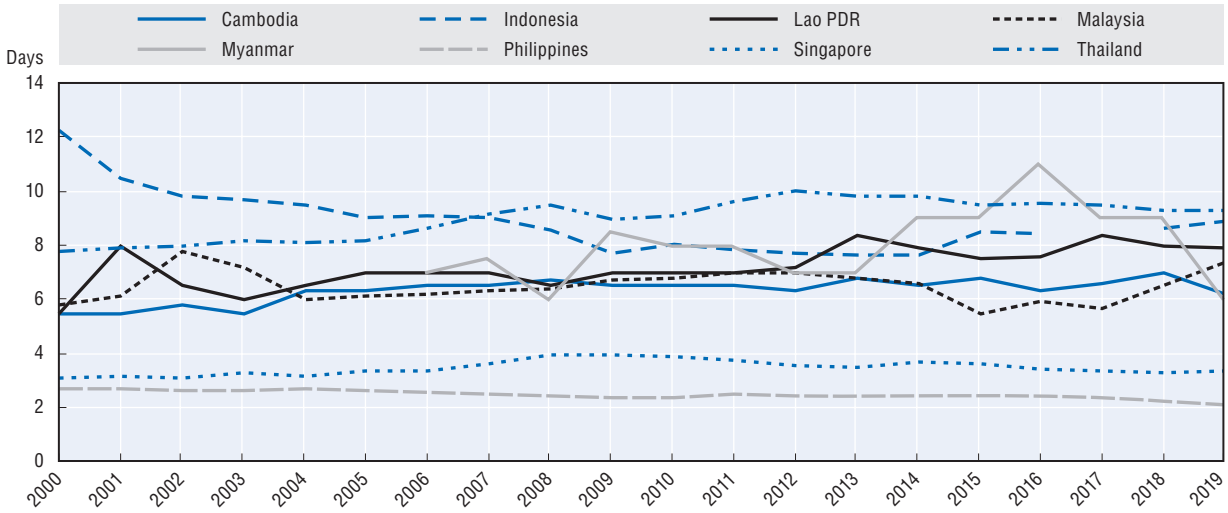
The Singapore Tourism Board (STB) is seeking to leverage on the country's unique biophilic identity, coupled with its high accessibility, and strength in innovation and technology to position Singapore as an urban wellness haven that is differentiated from other popular Asian destinations. In the domestic tourism market, the STB sought to establish wellness demand and advocacy amongst locals and sustain a robust wellness industry through the Wellness Festival Singapore, an annual multi-site festival of events where locals and visitors can celebrate holistic wellness together with various programmes and initiatives under 3 main pillars (fitness, emotional and mental, lifestyle).

The STB collaborated with global wellness aggregator, ClassPass, to promote businesses in the fitness and wellness subsectors (ClassPass, n.d.). ClassPass offers businesses with greater market reach through platform onboarding, while ClassPass users receive credits in exchange for a monthly subscription fee and can use these credits to access a wide variety of wellness offerings. The global nature of ClassPass means that benefits are not limited

to Singapore residents alone and can be promoted to inbound travellers. Other STB-led initiatives will look at integrating wellness with other tourism verticals like MICE, hotels, attractions and tours, etc.

Raising the profile of wellness tourism among short-stay business travellers is a key challenge for the subsector (Figure 5.3). As these travellers often lack familiarity with available offerings, marketing support will be key. Activities that are promoted for these travellers should be shorter in duration, and marketing must clearly demonstrate that the activities add value, given the travellers' time constraints.

Figure 5.3. **Average length of visitor stay in selected Southeast Asian countries**



Note: Data for Malaysia represent nights; data for Philippines represent nights in hotels; data for Singapore and Philippines represent annual averages of values that were originally reported monthly.

Source: CEIC.

StatLink https://stat.link/np4s8x

Wellness tourism for domestic and international visitors is the STB's latest initiative, and the wellness focus is very much on parks and green spaces (Lim, 2022). Further wellness aspects such as spa and massage treatments could prove challenging and make it hard for Singapore to compete with Thailand and other neighbouring countries with advantages in terms of heritage, culture and cost variables. Hence, the STB's pronouncement of their urban wellness strategy and plans to tap existing strengths as a City in Nature offers a differentiated wellness tourism experience easily catered to any type of traveller (Raguraman, 2022). Singapore's resilience as a tourist destination can be bolstered by its close work with retailers, attractions, travel agents and hotel associations; innovative live, virtual and hybrid events; and by maintaining a quality workforce; and SingapoReimagine Marketing Programme which supports innovative destination marketing by local businesses.

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Thailand

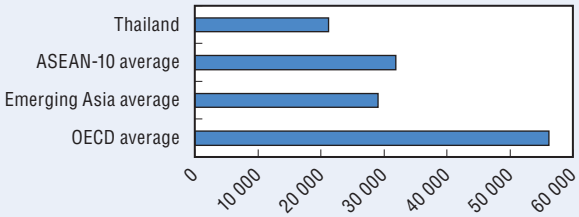
Basic data (2022)

GDP growth: 2.6%
Nominal GDP (US dollar): 534.8 billion*
GDP per capita at PPP: 21 114.2 (current International Dollar)*
Exchange rate (2022 average): 35.1 (THB/USD)
Total population (mid-year estimate): 70.1 million**

Note: * IMF estimate. ** UN World Population Dashboard.

Source: OECD Development Centre, national sources, CEIC and IMF.

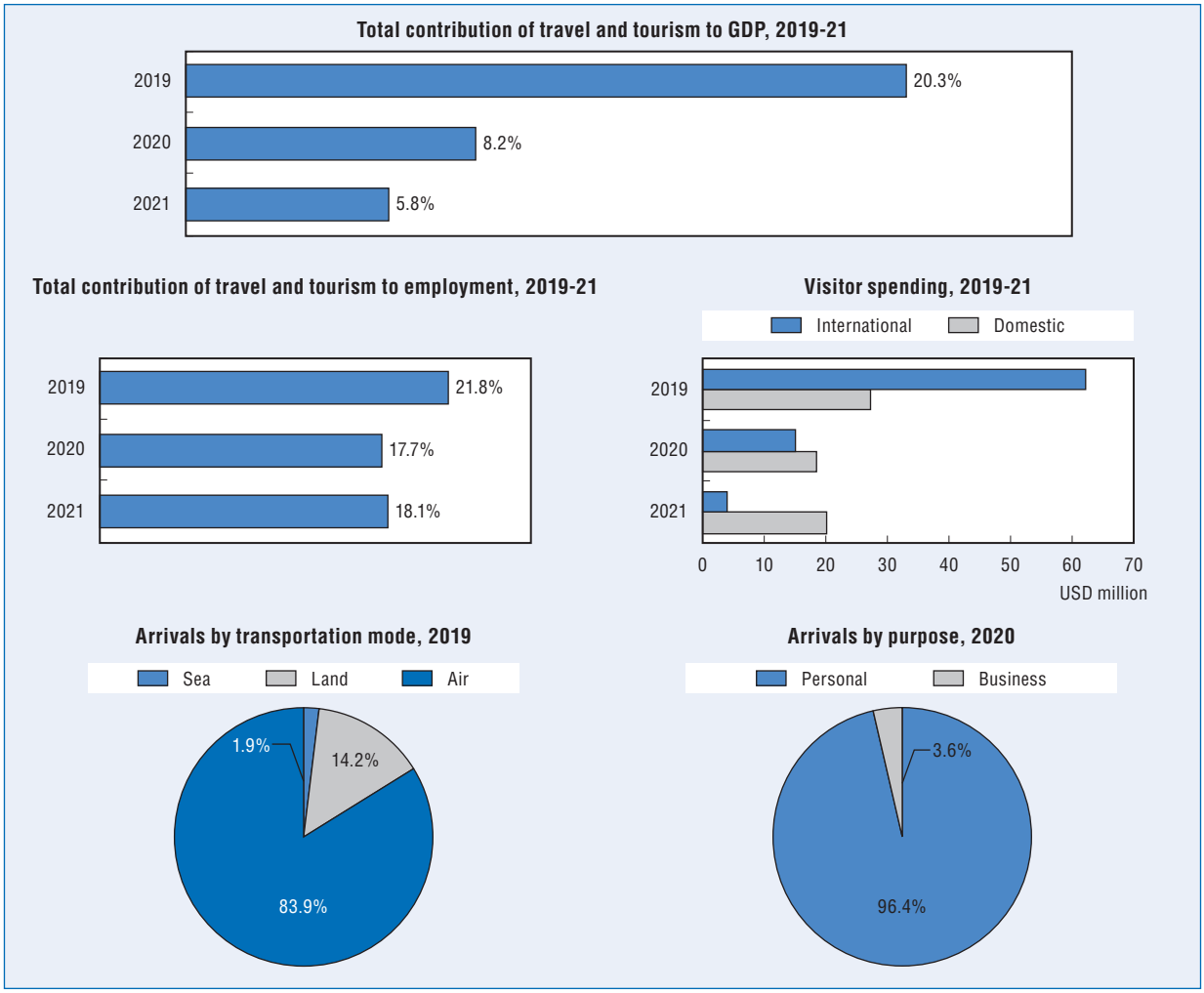
GDP per capita (2022)



Note: PPP, current International Dollar.

Source: IMF World Economic Outlook Database, October 2022.

Key tourism indicators



Source: OECD Development Centre based on data from UNWTO (2022), "Global and regional tourism performance" (database), UN World Tourism Organization, https://www.unwto.org/tourism-data/global-and-regional-tourism-performance (accessed on 26 November, 2022) and WTTC (2022), "Thailand 2022 Annual Research: key highlights", https://wttc.org/DesktopModules/MVC/FactSheets/pdf/704/219_20220613171313_Thailand2022_.pdf.

Introduction

Thailand has initiated innovative approaches to entice tourists for short, medium and long-term stays. The country offers numerous beaches, tropical forests, cultural attractions, shopping, medical and wellness programmes for tourists and MICE tourism. This country note examines Thailand's efforts to boost domestic tourism and maintain its strong presence in medical and wellness tourism, as well as the challenge of making its urban areas more appealing for tourists.

Current situation and policy challenges

Increasing domestic tourism

The Thai authorities have made every attempt to reinvigorate tourism following the COVID-19 pandemic, which decimated the industry. In order to drive domestic tourism, Thailand is investing in infrastructure and incentive programmes to entice the average Thai to travel within the country at least three times a year. The government's initiatives, including We Travel Together and Khon La Khrueng subsidy programme, have helped raised Thais' confidence about travelling (TAT News, 2020). The Khon La Khrueng subsidy programme offers locals THB 150 (Thai baht) per person per day for purchases of food, drinks and general goods, with a THB 3 000 limit per person. We Travel Together programme provides discounts on hotel rooms and restaurants as well as flight refund. To further stimulate domestic travel, the Tourism Authority of Thailand (TAT) and stakeholders can consider initiating additional special incentives to motivate Thais to travel such as offering special rates for locals, encouraging more educational tours for students and businesses, or working with industry partners in promoting travel packages and vouchers.

Urban tourism approaches

Thailand's National Strategy (2018-37), which sets the country's long-term direction, address urban planning via themes on Smart Livable Cities and Special Economic Zones (PHANNISA, 2020). Primarily focused on sustainable growth and improving competitiveness, the plan also calls for environmental care while developing economic hubs that can become global nodes.

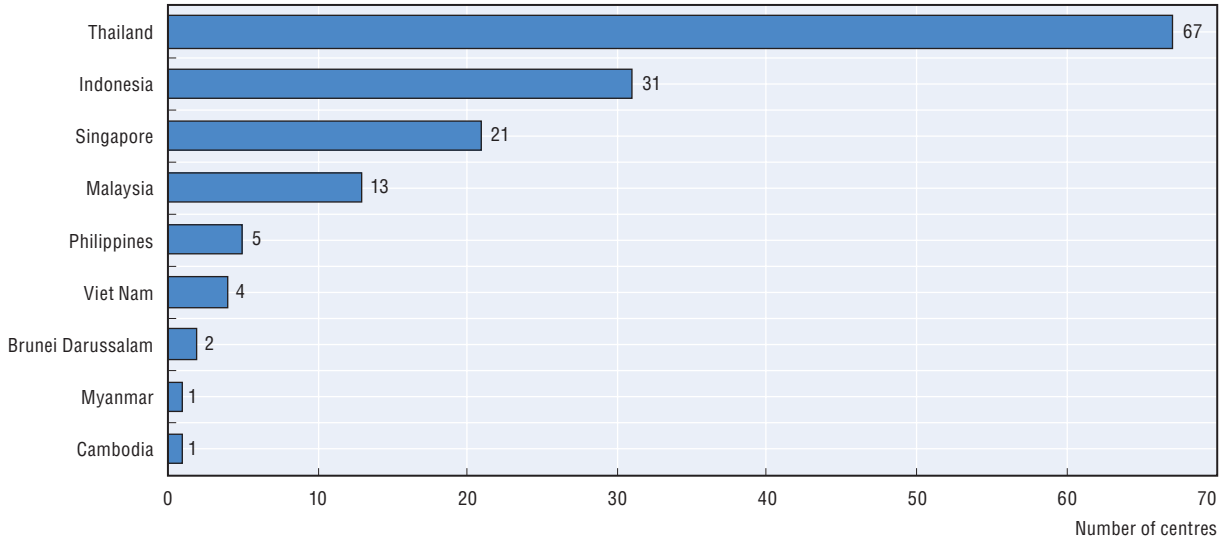
In conjunction with urban planning, Thailand's tourism development strategy is all inclusive and aims to protect the environment as well as people's livelihoods. In a recent report (Srisorn, Chayaon and Punluekdej, 2020), the authors make four recommendations focusing on tourism, which could also be implemented in urban tourism strategy:

- government support in urban areas with the purpose of creating an area identity
- development of storytelling or a record of site history that links the area to tourism interests
- initiation of cluster tourism within urban centres in tandem with ASEAN's growth plans and tourism touch points, to strengthen regional tourism
- support for entrepreneurs who are propelled by investment and an interest in creating a cultural identity within a city area.

Medical and wellness programmes

Thailand remains at the top of the medical tourism league. Medical and wellness programmes for tourists generated USD 1.8 billion in 2019, and the country plans to focus on adding higher value to these services in the future (Tatum, 2022). With 67 medical centres accredited by the Joint Commission International (JCI), Thailand ranks top among Southeast Asian countries (Figure 5.4).

Figure 5.4. **JCI-accredited health care centres in Southeast Asia**



Source: The ASEAN Post (2019), "Medical tourism on the rise", 27 July 2019.
StatLink https://stat.link/2mq83l

Thailand possesses a range of tourism products for convalescing patients and visiting family members. While Thailand's government was not previously fully involved in co-ordination, structural planning and investment in medical tourism, it is reportedly putting in place infrastructure and a visa policy to push the destination as a prime choice for medical tourists (Pattharapinyophong, 2019; Consultancy Asia, 2018). An example is the Smart Visa for professionals working in the medical profession or investing in the health care sector. Such programmes should continue, as they help improve the country's medical tourism sector.

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Viet Nam

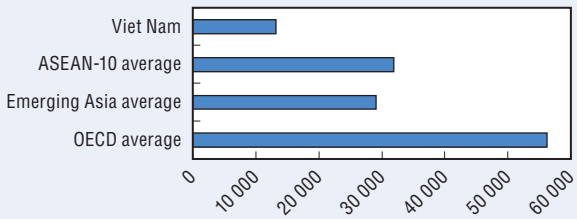
Basic data (2022)

GDP growth: 8.0%
Nominal GDP (US dollar): 413.8 billion*
GDP per capita at PPP: 13 075.0 (current International Dollar)*
Exchange rate (2022 average): 23 159.8 (VND/USD)
Total population (mid-year estimate): 99.0 million**

Note: * IMF estimate. ** UN World Population Dashboard.

Source: OECD Development Centre, national sources, CEIC and IMF.

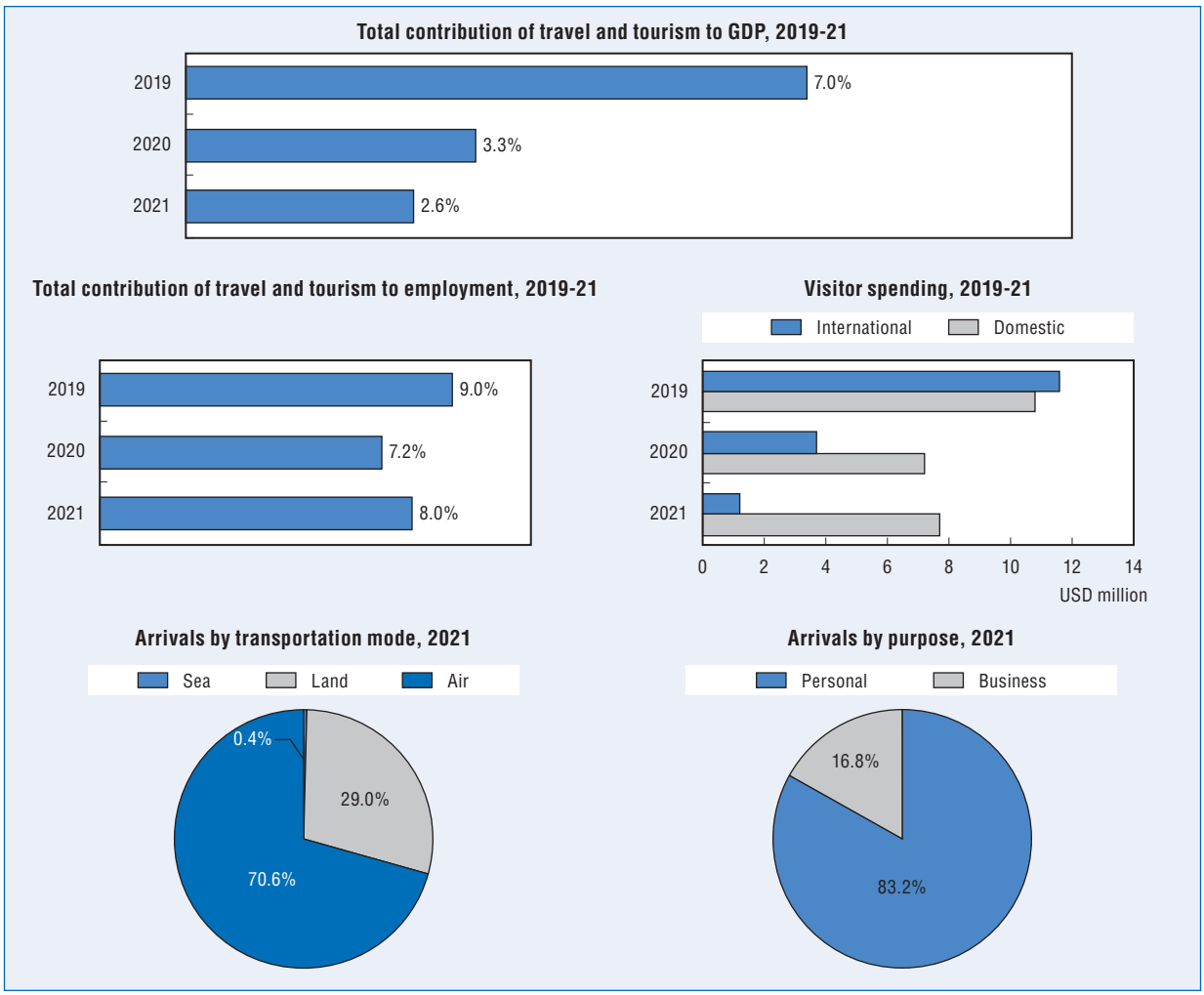
GDP per capita (2022)



Note: PPP, current International Dollar.

Source: IMF World Economic Outlook Database, October 2022.

Key tourism indicators



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Introduction

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. In 2019, just prior to the COVID-19 pandemic, Viet Nam greeted 18 million international tourists and earned VND 755 trillion (USD 32.8 billion) in tourism receipts, a direct contribution of 9.2% to GDP (VNTA, 2019). Viet Nam is open for international flights from almost every country. The four largest international markets by far are China, South Korea, Japan and Chinese Taipei. This country note will examine Viet Nam's approaches to these forms of tourism as well as the challenges it faces to become more attractive to tourists.

Current situation and policy challenges

Ecotourism

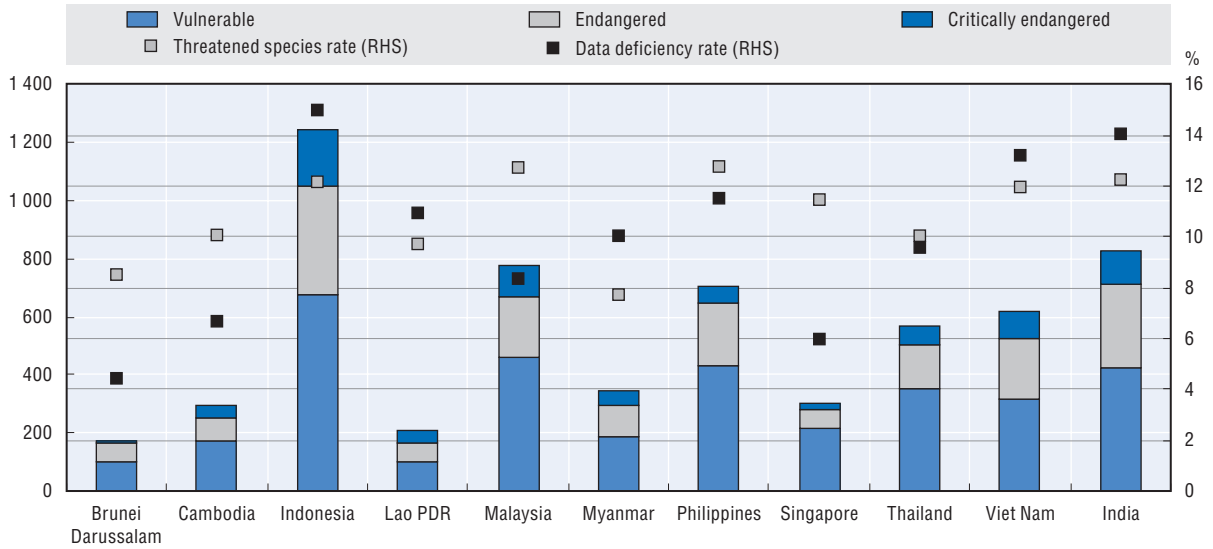
Viet Nam has approached ecotourism as a way to boost several activities. From tropical jungle hikes to green lodging and community-based tourism, the country offers a variety of options. Viet Nam is home to more than 13 200 species of plants and approximately 10 000 species of animals, including over many red-book species (Convention on Biological Diversity, 2022), living in national forests, biodiversity conservation areas and many other natural zones. Its development strategy for tourism to 2020 identified ecotourism as one of the driving forces for developing the industry (VNTA, 2012). However, financial and marketing support for companies that promote tourist sites has been weak, and this support has been approached on a national scale instead of targeting specific aspects of tourism. As a result, many ecotourism areas have been established, but they have not been managed well.

Challenges for the government and industry stakeholders include the need for better infrastructure and better links among stakeholders; a low level of participants and tourism literacy at the local level; and mass tourism in nature areas. The government needs to adopt a framework that will:

- improve the tourism knowledge of local communities and tourism enterprises, e.g. via outreach programmes by local institutions
- educate tourism and hospitality students on the management of ecotourism sites and increase local commitment to preserving nature
- establish a comprehensive system identifying areas of focus for tourism, in partnership with tourism stakeholders
- ensure responsible tourism to maintain the ecosystems of parks and villages, and ensure that treks do not disturb biodiversity.

Research will be needed, at the national and local levels, to develop understanding of the present ecological situation (Viet Nam suffers from significant data gaps in this area, Figure 5.5), identify which nature-based sites need new infrastructure, financial support, marketing efforts and improved business knowledge of tourism for locals.

Figure 5.5. **Threatened species in Emerging Asia - Animalia**



Note: Threatened Species Rate = (Vulnerable + Endangered + Critically Endangered)/(Total - Extinct - Extinct in the Wild). Data Deficiency Rate = Species Labelled "Data Deficient"/Total.

Source: Authors' calculations based on data from the IUCN Red List.

StatLink https://stat.link/jas9ev

Cultural and heritage tourism

Cultural and heritage tourism are regarded as core aspects of Viet Nam's tourism development strategy, yet cultural and heritage sites are currently managed locally. For example, when requested, local residents hired by a tourism company will organise a cultural trip for tourists (VNTA, 2015). Many cultural performances and celebrations are very localised, while cultural events in cities and towns near tourist destinations are not sufficiently integrated for tourist consumption. There are considerable opportunities in this regard, and tourism companies have a key role to play.

As for heritage tourism, management is difficult because local residents often live on heritage sites, farming and building houses on the land. Moreover, local people are often not aware of the existing rules. Key stakeholders – and especially regulation, if enforced – could help to better synchronise tourism policies and management of the country's heritage sites.

To update Viet Nam's approach to cultural and heritage tourism, policy makers could work on new ways of ensuring that local communities benefit more and are more independent in doing business, not just relying on tourism companies. The lack of tourism knowledge among local businesses suggests that the government should focus more on tourism education – guiding local entrepreneurs, opening more programmes in schools and organising educational meetings for local people on how to avoid overtourism at their heritage sites.

Food tourism

Viet Nam is regarded as a prime tourist destination for food. The country offers a wide range of local cuisines in the cities and mountainous areas favoured by tourists. Tourism policies promoting local food still have a large room to improve, however. Encouraging and

developing local foods as a tourism prospect could contribute to preserving traditional ways of making foods in local families and providing the country many opportunities to promote Viet Nam as a gastronomy destination.

Promoting local cuisines is important, but more research is needed to identify the roles and connections of stakeholders along the food value chain, from input (ingredients) to output (food ready to be served). Based on this research, the government should be able to co-operate with tourism companies and local communities to forge new policies supporting the development of food tourism (Yen, 2020). Tasting local food is one of the ways to allow visitors to learn more about local people as well as their history and culture, heritage, traditions and the ways that food is grown, prepared and shared.

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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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