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Fiji's economic recovery, question of how many visitors

Fiji's tourism industry has been hit hard by COVID-19 induced border closures. In this note:

- We define the importance of the tourism sector to Fiji's economy;
- Discuss some possible border reopening scenarios; and
- Conclude that under our baseline scenario of the border reopening at the end of Q2 in 2021, Fiji could get just under 500k visitors next year, which, in turn, would contribute +19.8ppt to GDP in 2021.

Tourism contribution to Fiji's GDP and regional growth

Between 2012 and 2019, Fiji's inbound tourism was strong, helped by solid economic conditions, particularly income growth in key source markets including Australia and New Zealand. Growth in overseas arrivals averaged 5% per year. So much so, that tourism became the main driver of Fiji's economy last decade.

Tourism revenue flowed directly into sectors such as accommodation & food services, retail and transport, but then also fed through to other supporting industries yielding material secondary benefits to the economy. Once you add the stimulus from employment and taxes collected, the tourism sector's total contribution to GDP is 1.7 times its direct contribution to GDP and equates to about 40% of the nation's output.¹

However, tourism has been one of the sectors hardest hit by the COVID-19 pandemic. Fiji's economy is now under severe pressure from COVID-19 induced border shutdown. With closed borders, the country's key international tourism industry has been decimated, with visitor arrivals virtually collapsing to zero since April 2020. Businesses in the tourism region on the west coast of Viti Levu (the largest island) are experiencing negative cash flows and struggling to meet commitments. This has resulted in the loss of many thousands of jobs and the unemployment rate has shot up to 21.5% from 7% in 2019.

When can tourism recover?

A profitable tourism industry is important for Fiji, given the sizeable contribution of tourism to GDP. The return of tourists in some capacity in 2021, either through safe travel corridors or once immunisation against COVID-19 is complete, would be welcome. With good news on vaccine development, it is conceivable that borders could open to all visitors at some stage in 2021. However, the timing remains uncertain.

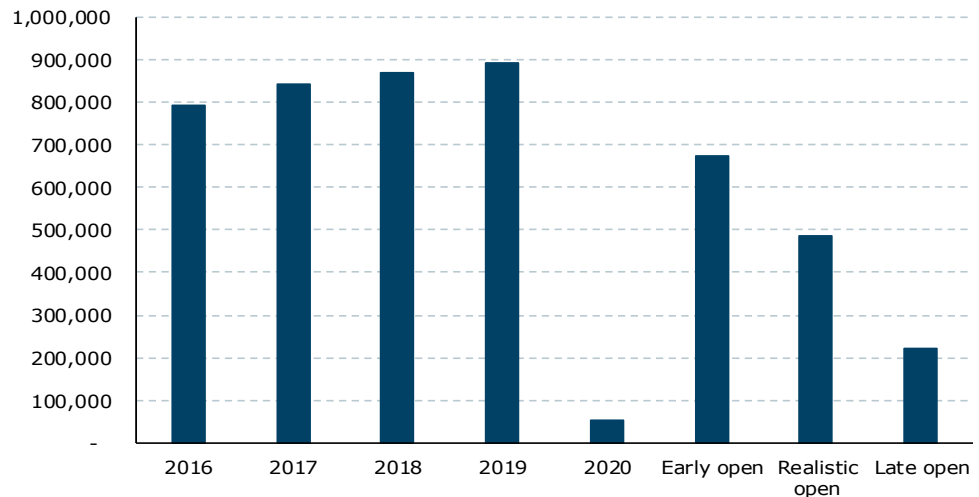
We think the possible dates for open borders are:

1. end of Q1 or earlier (perhaps an optimistic scenario),
2. end of Q2, which is a more realistic, and
3. late or end of Q3, lifting of restrictions.

¹ Direct contribution is calculated as the sum of in-country spend by tourists on domestically produced goods and the income that accrues to Fiji Airways from transporting international travellers. We estimate that in 2019, the direct contribution of the tourism industry was FJD2,700m (23% of GDP). The indirect contribution is calculated by subtracting direct contribution from total addition to GDP which is widely assumed to be 40%. In 2019, the total contribution was FJD4,860m.

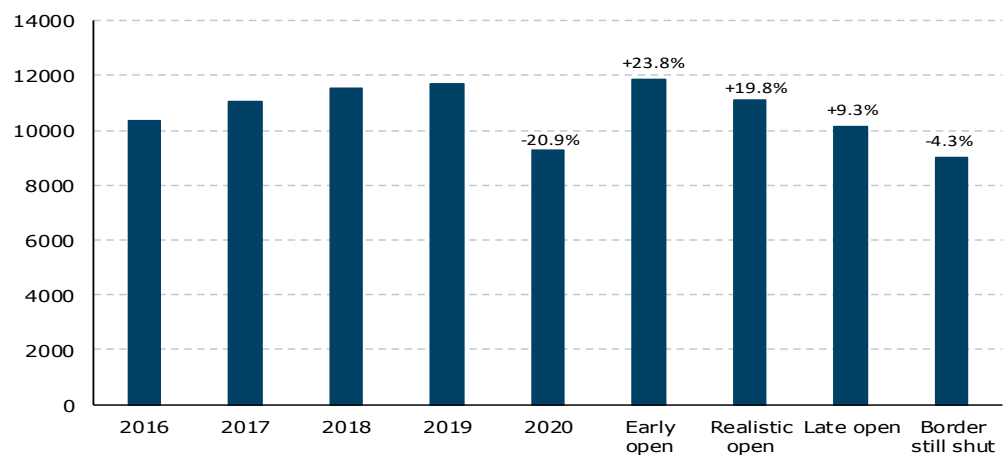
Under the optimistic first scenario, Fiji could get 675k overseas arrivals (75% of 2019 visitors), resulting in a 23.8% rebound in GDP (Figure 1 and 2). The more realistic scenario could draw 487k visitors, yielding a bounce of 19.8% in GDP. If border restrictions remain deep into next year, then a more modest 220k leisure travellers could arrive in Fiji, resulting in a 7.8% lift in GDP. If borders remain shut for all of 2021, then we estimate tourism’s contribution to GDP would fall by –3.5%. Note that Fiji received about 140k overseas visitors in Q1 2020 (ie before the pandemic set in).

Figure 1. Visitor arrivals under early, realistic and late border openings



Source: Fiji Bureau of Statistics, ANZ Research

Figure 2. GDP impact under alternative border opening scenarios



Source: Fiji Bureau of Statistics, ANZ Research

Mid-2021 border opening could boost GDP by FJD1,836m

An end of Q1 date for border opening could see tourism making a contribution of FJD2,614m to GDP (+23.8%). A more realistic timeline of end of Q2 border reopening, which is our baseline case, could potentially see about 490k overseas arrivals adding FJD1,836m to GDP (+19.8%). If borders remain shut well into 2021, then we see a more modest contribution of FJD860m (+9.3%), Figure 3.

Figure 3. Fiji's economic recovery under different tourism scenarios

| Visitors arrivals and tourism contribution to GDP | Overseas visitor arrivals in calendar 2021 | Contribution to nominal GDP | | | | Contribution to real GDP (ppts) |
|---|--|-----------------------------|------------------------------|---------------------------|---------------------------------------|---------------------------------|
| | | Direct contribution (FJDm) | Indirect contribution (FJDm) | Total contribution (FJDm) | Percentage points (ppts) contribution | |
| Border opening end of Q1 2021 | 675,401 | 1,538 | 1,076 | 2,614 | +23.8% | +22.3% |
| Border opening end of Q2 2021 | 486,894 | 1,080 | 756 | 1,836 | +19.8% | +18.3% |
| Border opening end of Q3 2021 | 220,330 | 506 | 354 | 860 | +9.3% | +7.8% |
| Borders remain shut all of 2021 | 0 | -154 | -108 | -262 | -2.8% | -4.3% |

Source: Fiji Bureau of Statistics, ANZ Research

Notes: Visitor arrivals are based on 2019 statistics but we have shaved about 15-20% for some of the early months as believe people may be slow to adjust behaviour towards overseas holiday. The indirect contribution is calculated by applying the GDP tourism multiplier which we estimate to be 1.7 (total contribution divided by direct contribution, see footnote on page 1). However, we have made some adjustments to the multiplier to reflect that it will take time for the tourism industry to return to capacity. We have assumed a price deflator of 1.5% to calculate the contribution to real GDP.

Commentary

Any lifting of Fiji's international travel restrictions will be determined by Fiji's government, and we presume vaccination of the majority of the population will be a prerequisite. Alternatively, the government might consider accepting "safe travel or quarantine-free travel", presumably if they are satisfied it wouldn't harm the health and wellbeing of its citizens.

In this analysis, we have quantified the economic impact of tourism restarting under alternative scenarios for when quarantine restrictions are lifted and inbound tourism returns. Our base-case scenario suggests Fiji could have just under 500k overseas visitors in 2021, which, in turn, would contribute +19.8ppts to GDP growth.



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