

Economic Vulnerabilities and Livelihoods: Impact of COVID-19 in Fiji and Vanuatu

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INTRODUCTION

The COVID-19 pandemic crisis has pushed the global economy into a deep recession. It has adversely affected trade, tourism, commodity and financial markets, global value added and supply chains (goods or services), and economic growth. Although only Fiji and Papua New Guinea have recorded cases of infection, economic disruptions are likely to be especially severe in most of the Oceanic nations as the tourism sector makes up the largest proportion of gross domestic product (GDP), of direct and indirect employment, and of foreign exchange earnings. Since border closures and international travel restrictions have halted tourism in Oceania, the economies of the small islands developing states (SIDS) have been impacted by a contraction in consumer and investor confidence, and associated global value chains.

Tourism sector development is one of the key strategies for economic growth established in Fiji and Vanuatu as a vital source of business, investment, employment, and entrepreneurial activities. These nations have mobilized the tourism industry as a key player to create prosperity for sustainable development. In considering the impact of COVID-19 on the tourism sector, this study analyses the relationship between tourism and economic growth outcomes on the supply and value chain, and the level of impact of economic vulnerabilities on the livelihoods of local communities in the formal and informal sectors. The findings provide wider implications for the sustainable development goals (SDGs) and tourism linkages and their developmental outcomes.

TOURISM, SECTORAL FOCUS, AND LIVELIHOODS

Tourism is a crucial source of employment and of business activities; it makes direct and indirect contributions to GDP. The total travel and tourism industry's contributions to GDP was 34% for Fiji and 34.7% for Vanuatu in 2019 (World Travel and Tourism Council [WTTTC] 2020). The contribution to total employment was 26.3% in Fiji and 36% in Vanuatu (employment contribution includes jobs that are directly and indirectly supported by the sector) (*ibid.*). The global value chain shows the people and activities involved in the production of a good or service and its supply, distribution, and post-sales activities (*i.e.*, supply chain) as activities are coordinated across geographies. As higher economic growth occurs through the contribution of tourism activities, the supply and value chain become increasingly essential to improve tourism's contribution through local supply (Zhang et al. 2009). This provides the chain of expenditures and commodities transactions from production to consumption and higher opportunities for local commerce, industries,

diversification of productive structures, employment creation, income generation, and higher government revenue. These backward and forward linkages became vital in ensuring economic growth in SIDS.

Tourism forms a major basis for global value-added and supply chain and meets various targets of the SDGs 8 and 9, which motivates an adoption of a tourism-led economic growth approach. The United Nation's 2030 Agenda notes tourism to be a major sector to deliver decent work and economic growth (SDG 8); as well as SDGs 1, 9, 10, 12, 14, and 15 (see United Nations 2015). The earlier view of tourism as a luxury good with high income elasticity from the demand side of income and wealth resulted in the diversification of tourism services and host markets (Nowak et al. 2013). The literature on the importance of the tourism sector has been noted in the SIDS (Apergis and Payne 2012; Caneen and Haynes 2000; Durbury 2004; Narayan et al. 2012; Seetanah 2011; Sica 2005), as well as in the developed economies (Antonakakis et al. 2015). In the SIDS, globalization has led to an increase in non-traded goods through the provision of services sector goods domestically, and has become a major source of foreign exchange earnings.

The governments of Fiji and Vanuatu have prioritized tourism industries in the national planning strategies to meet challenges and opportunities unique to the development context (Ministry of Economy 2017; Ministry of Tourism Trade and Industry and Ni Vanuatu Business 2019). Tourism's advancement in the SIDS is linked through the supply and demand side to global suppliers through computerized information, bookings, and reservations, thus decreasing the travel and communication costs while increasing the level of international tourist arrivals. The associated economic, social, and cultural activities have been crucial in the process of structural change and economic diversification. A major impact on economic growth and development policy outcomes are the important effects of the COVID-19 pandemic, especially those associated with the health issues of such a disaster (see also Tevi 2020).

Adopting a diversification tourism strategy in the SIDS has brought about immense benefits necessary to achieve faster economic growth. The tourism-led growth premise shows a flow of benefits from tourism to the economy that consequently has a spill-over effect on various other sectors (Schubert et al. 2011), particularly agriculture, manufacturing, and other services sectors. Several macroeconomic benefits flow from an increase in foreign exchange, such as investment and greater efficiency of local firms, and a reduction in unemployment. Tourism is therefore enhancing livelihoods in both urban and rural areas. The microeconomics of tourism activities boost value chains, value co-creation, and business innovation (Rodriguez et al. 2014).

In the 2030 Agenda, SDG 8 builds on the International Labour Organization's (ILO 2012:v) four core standards on decent work agenda that address not only those working in the formal economy but also the self-employed, casual, and informal workers, and predominantly women working in the care economy and private households. The SDG 8-tourism linkages are based on diversification and growth in industry innovation; growth of micro, small, medium enterprises (MSME); access to financial services and; steering the urgent need for inter-sectoral work to achieve productive work targets for all. It places an emphasis on equal work of equal value, promoting value chains, and increasing aid for trade support for developing countries (United Nations 2015). Tourism development in the SIDS is part of both the formal and informal sectors, and the livelihoods of a large proportion of this population are associated with these sectors that can in turn help reduce poverty.

However, even before the pandemic, the thriving international tourist industry in Fiji and Vanuatu has been challenged on several fronts: the recent economic crises—the 1997 Asian Financial Crisis, the United States 2001 recession, and the 2007–2008 Global Financial Crisis (GFC) have compounded the adversity of COVID-19, provoking the largest

economic contraction since the Great Depression of the 1930s (see also Ritchie et al. 2010). Furthermore, the geographical nature-based tourism destinations are susceptible to threats to the social, economic and physical environment of the tourism system (Hall and Boyd 2005). Several cyclones and flash flooding occurred in the 2014–15 and 2017–2019 periods in Fiji and Vanuatu. The effects of cyclones, droughts, flash flooding, poor marine resources, and coastal and maritime tourism have led to declines in tourist arrivals over time (Gounder 2018). The past political instabilities in Fiji and Vanuatu have also adversely impacted on economic growth, causing vulnerabilities that further undermined the contribution of the tourism industries (Gounder 2002; Premdas and Steeves 1990).

COVID-19 AND ECONOMIC VULNERABILITIES

As of 25 August 2020, the economies of the six island nations of Northern Marianas, Papua New Guinea, Fiji, French Polynesia, Guam, and New Caledonia have suffered a severe blow from COVID-19 (South Pacific Community 2020). These islands are significantly impacted given the second wave of coronavirus, the associated travel bans, and the difficulty in creating a travel bubble with Australia and New Zealand. Most of the SIDS are highly vulnerable and dependent on major trading partners like Australia and New Zealand. Many of the resorts and hotels are closed, which has led to job losses, the stalling of business activities, and a significant decrease in government revenue. The decline in revenue has been mainly affected by a decrease in tourism demand resulting in a reduction in export earnings.

The reduction in tourist arrivals and its associated activities poses various challenges resulting in lower economic growth. The decline in GDP is expected to be 5.8% in Fiji and 3.3% in Vanuatu as exports and tourism demand decline (Ma 2020). The short to long-term economic impacts are food insecurity, loss of education, unemployment, decline in remittances, loss of human capital, and a rise in poverty. The poverty levels in Fiji are high at 34%, and in Vanuatu at 12.7% (Table 1). Gounder and Xing (2012) note that while those in the lowest income quartile benefit the most from formal education, this cannot sustainably prevent people with primary education from falling into poverty.

Lack of job opportunities in the wage sector and higher unemployment levels will increase economic vulnerability as inbound tourist arrivals decline in 2020. The closure of micro and small businesses and job loss also impact a larger share of informal workers. The UN projection of unemployment in Vanuatu's formal work force could reach up to 40%, with greater job losses in the informal sector (Ma 2020). Vanuatu's foreign aid to GNI share is high at 15.7%, reflecting a higher level of dependence on development assistance. Remittances from families abroad and seasonal employment have been a vital source of income for households in Fiji (5.5%) and Vanuatu (2.2%) (Table 1). For the remittances-receiving families this direct source of income could decline in the COVID-19 crisis period and reduce the total income of receiving households by affecting their consumption, education,

Table 1 Poverty and economic vulnerability, Fiji and Vanuatu

Country	PPP \$1.90 a day 2010–18 (%)	National poverty line	Working poor PPP \$3.20 (%)	Remittances inflow (% of GDP) 2018	Net ODA (% of GNI) 2018	2016–18 Inbound tourism expenditure (% of GDP)
Fiji	1.4	34.0	8.0	5.2	3.0	25.0
Vanuatu	13.2	12.7	—	2.2	15.7	37.1

Source: United Nations Development Programme (UNDP 2020).

business opportunities, labour, and productivity. The average inbound tourist expenditures in Fiji (25% of GDP) and Vanuatu (37.1% of GDP) are significant for both nations, however this source of government revenue will decline substantially in 2020 given the closure of borders. Loss of tourism revenue results in drastic economic vulnerabilities (for instance, poverty and inequality) that also affect a very large proportion of the population whose livelihoods are linked to both the formal and informal sectors.

Fiji and Vanuatu implemented fiscal policy stimulus incentives that included various initiatives in response to COVID-19. The stimulus package provides affected households and businesses with targeted measures to reduce stress and loss of tourism's small and medium businesses, agricultural responses to ensure food security and the informal sector associated with tourism's supply chain (*i.e.*, tour operators, dive businesses, transport providers, boat transfers for food manufacture, food providers, restaurants, bars, spas, and small and medium enterprises). In Fiji, businesses were affected due to COVID-19 pandemic with more than 150,000 workers impacted across the country, including about 40,000 workers in the tourism industry. With the closure of businesses, many workers have lost their jobs and livelihoods. The tourism industry's workforce consists of mainly young people who have been affected by the socio-economic impacts of the pandemic (Government of Fiji 2020). In Vanuatu the government's financial and economic stimulus package for COVID-19 supported workers, businesses, and communities to address short-term cash flow challenges and set up medium-longer term recovery efforts (Government of Vanuatu 2020). Both these countries undertook measures to ensure a recovery process following the major contraction of the economy mainly caused the impacts of COVID-19 on tourism.

In May, the United Nations World Trade Organization tabled a seven-point priority tourism recovery plan (UNWTO 2020). However, just a month later, the WTTC pointed out that the second wave of coronavirus, extended lockdowns, and ongoing border closures had led developing countries further away from the path of positive economic outcomes. The international tourism value added chain benefited the population's income and savings capacity. However, in the absence of alternative exporting goods, these accrued benefits will not result in foreign exchange earnings, employment in the formal-informal sectors, or enhanced income to stimulate the level of economic activities. With the COVID-19 pandemic and the effects of Tropical Cyclone Harold affecting thousands of people in Fiji and Vanuatu, local initiatives were also undertaken. Vanuatu's responses to Cyclone Harold have focused on the role of local communities and traditional structures where the Malvatumauri (National Council of Chiefs) raised funds, collected relief items (from youth, mothers groups), donated root crops and delivery logistics (traditional ways) to support the people and the government-led supply of local nutritious food items (Kenni and Wijewickrama 2020; Tevi 2020). Similar community efforts in Fiji along with domestic organizations assisted in food distribution and building/repairing houses in the villages, and making donations through the public National Disaster Management Office (Fiji Village 2020). Local businesses also committed to provide food and other supplies to people who had lost their jobs as a result of the pandemic crisis (Fiji Village 2020).

DEVELOPMENT STRATEGY FOCUS AND POLICY IMPLICATIONS

The impact of COVID-19 is a systemic human development crisis that has affected the economic and social dimensions of development in unprecedented ways. Policies to reduce vulnerabilities and build capacities to tackle the crisis in the short and long term are important. Especially crucial are the wider practical implications of development policies on the

resilience of the tourism sector, in order to meet the 2030 Agenda through shifts in new business structures for tourism operators and societal change.

COVID-19 has affected various factors of production such as land, labour, and capital (agriculture production and output; loss of jobs, domestic and foreign investment, foreign aid, remittances). By way of response, this requires significant support in commodity production, trade (exports and imports), businesses, jobs, and maintenance of the level of wage rates to reduce socio-economic vulnerabilities. For the hardest-affected tourism sector, the Pacific's return to tourist-based quarantine steps will lead to a large contraction in economic activities. Stimulus packages with several fiscal and monetary policy instruments can be sustainable in the short term as the Pacific Island nations will find it challenging to protect vulnerable populations as a result of the large contraction in GDP and the debt situation. Agricultural and manufacturing commodities can play a larger part in domestic supplies and intra-regional trade under the Pacific's regional trade agreements.

A key economic policy is to enlarge the supply chain in the post-COVID-19 era to improve the regional economic integration and extend markets in agriculture, manufacturing, and services outputs. This cooperation across countries, civil society and, the private sector is essential to build domestic capacity for global production. Policy responses to improve nations' capabilities should support the population to develop firms and industries and enhance jobs, increase investment in infrastructure, human capital, and growth-enhancing institutions for economic and social wellbeing. Thus, upholding a stable rules-based international trading system will be critical to launching a strong and durable global economic recovery (ILO 2020).

CONCLUSION

This study on the relationship between the tourism sector, economic growth, and the effect of the coronavirus pandemic crisis indicates an accrual of economic vulnerabilities in the case of Fiji and Vanuatu. In addition to several international economic crises, the economic and social vulnerabilities were further exacerbated by recent climatic disasters, which have led to substantial declines in tourist arrivals and inbound tourism earnings in these Oceanic nations. This downward trend continues more sharply under COVID-19. These prolonged uncertainties present a unique set of challenges for future policy actions, but clearly there is a need to invest in quality infrastructure, transport linkages, investment incentives, skill development, and land to develop new ways to improve citizens' standard of living. It is crucial for national governments to enhance agricultural and manufacturing outputs to facilitate jobs for people's livelihoods, intra-regional trade and outputs for long term recovery of the economy, and improve the commodity and financial sectors and markets for enhanced production and economic growth.

The tourism value chain and economic growth linkages as a development strategy are heavily reliant on revenue, employment, exports, and public-private investment for GDP growth. Multisector tourism engagement with a deliberate policy is vital to boost small-medium businesses through key productive sectors and employment to address crisis-related changes in supporting the business sector and the economy. Some of the opportunities for reform programs are to advance technological capabilities, infrastructure, sustainable productivity growth, boost national skills, and create a path to enhance the resilience for socio-economic outcomes. A policy mix would help expand economic, social, and cultural activities based on the employment-led SDG 8 goal targets. These are vital for value added and supply chains to bring partnership-centred equitable gains for companies, the economy, and communities.

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