

# When will Aruba's tourism industry recover?

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As of April 1 2020, Aruba's tourism industry has shut down as the Government attempts to slow the rate of infections from the COVID19 virus.

By way of background: -

- On March 15<sup>th</sup> regulations were put in place regulating the entry of visitors.
- On March 21<sup>st</sup> the Aruban border was closed indefinitely to incoming visitors and returning residents. On the same date a curfew from 9 pm until 6 am was implemented.
- On Sunday March 29<sup>th</sup> a Shelter in Place order was implemented whereby the population was confined to their homes. No date was given when this order would be lifted. All bars, restaurants, nightclubs, casinos, stores, malls, and other related facilities were deemed non-essential and were closed.
- The airline industry responded to these regulations, and to other similar regulations being implemented elsewhere, by almost immediately suspending air service to Aruba.
- According to the Official Airline Guide (OAG), between March 16<sup>th</sup> and March 30<sup>th</sup> Aruba lost 84% of its air seats, falling from 33,338 seats for the week of March 16<sup>th</sup> to 5,266 seats for the week of March 30<sup>th</sup>, a drop of 28,072 seats, with further cuts to come.
- Many airlines have indicated they will not be flying to Aruba during the month of April with indications that the suspension of these flights could well continue through May.
- Many cruise lines suspended operations on March 13<sup>th</sup> and have stated they do not plan to recommence their cruises again until at least May 11<sup>th</sup>.
- As of Wednesday April 1<sup>st</sup>, Aruba has reported it had 55 positive cases of COVID 19, that is 487 cases per one million persons. The USA reported 207,637 positive cases on the same date, that is 628 cases per one million persons. In both instances the number of cases is growing significantly on a daily basis.

More than 90% of airline capacity will be lost.

No cruise calls until 12<sup>th</sup> May at the earliest

## Aruba and its Economy.

Aruba has an official population of 113,000 persons. Of these, 24.3% are between 0 and 19 years old, 61.6% are between 20 and 64 years old, and 14.1% are 65 years old or older.

The Aruban economy is almost completely dependent upon its tourism industry.

47,000 jobs are at severe risk

98% of GDP Impacted

\$1.86 **Billion** income exposure

According to the **World Travel and Tourism Council** in 2019 tourism accounted for 98.3% of Aruba's GDP of US\$ 2,876 billion and generated 47,000 jobs, that is 99% of all employment. WTTC estimated that visitors spent US\$1.876 billion in Aruba in 2019.

In 2019 75% of Aruba's visitors came from the USA, with 4% coming from Canada and 4% from the Netherlands, with the balance coming from the rest of the world.

Again in 2019, 52% of Aruba's visitors from the USA came from the five states of New York, New Jersey, Massachusetts, Connecticut and Pennsylvania. New York was by far the most important state generating 20% of all visitors from the USA.

20% of US visitors originate in New York state – the global epicentre of COVID-19

**The recovery of the tourism industry will depend upon two things – recovery of demand and the situation in Aruba.**

### **Demand.**

As has been indicated the USA is by far the primary source of visitors to Aruba. It could be argued that visitors from the USA generate 74% of Aruba's GDP, while visitors from New York state alone generate 15% of the country's GDP.

So, following the existing business model, the recovery of Aruba's tourism industry will be heavily dependent upon recovery in demand from the USA and from the north-east USA.

It might be possible to diversify our source markets, but this will take aggressive marketing and having enough airlift in place and could take a considerable amount of time.

## **As of April 1st, what do we know (and what don't we know) about COVID 19 and the situation in the USA?**

We know: -

- COVID 19 is a novel (new) virus for which there is no effective vaccine.
- The virus is mutating which is not unexpected and is not necessarily a bad thing.
- It will take 12 to 18 months to develop an effective vaccine. It will take a further amount of time to produce the vaccine in large quantities and to administer doses.
- It is highly contagious.
- It can take a number of days before infected persons display symptoms.
- That the USA currently has the largest number of positive cases in the world. As of April 1, it has reported 207,637 cases, a rate of 628 per one million persons.
- That China has probably significantly under-reported the number of cases and deaths.
- According to the World Health Organization the global mortality rate of those infected is 3.4% but this varies very much from country to country. In Italy the mortality rate is 11%, in Spain 9%.
- The overall global policy response has been to “flatten the curve”, that is to try and slow the increase in the rate of infections to prevent health care facilities becoming overwhelmed and thus mitigating the number of deaths.
- To achieve this many countries have implemented “social distancing” policies, that is minimizing contact between members of the resident population and in implementing Shelter at Home policies.
- The most effective long-term policy is “test and trace”. This requires thorough effective testing of as many people as possible, isolating those who have been infected and tracing those with whom they have been in contact. This also requires significantly expanding the health care facilities especially hospital facilities and having enough supplies such as masks and ventilators, to deal with the rise in the number of patients.
- That South Korea has probably managed the crisis better than any other nation.
- In some countries, where local transmission has been significantly slowed (China and South Korea), new infections are being caused by visitors from outside resulting in such countries closing their borders to foreigners.
- It is highly probable that the virus will become endemic, like flu, and will reappear again and again in the future.

What we do not know: -

- How many people are infected? The numbers are skewed by the rate of testing. As testing gets better and more widely administered the number of cases will increase but that does not mean we know how many persons overall are infected. The number of infections at the moment is grossly underestimated.

- We do not know how many deaths are ascribed to COVID 19 or ascribed to other causes such as pneumonia or some other respiratory ailment, so the mortality rates are inexact.
- We do not know if an individual having tested positive for the virus, and having recovered, is immune to a second bout of infection or for how long they will be immune.
- We do not know if social distancing works. This should be clearer by the end of April.
- We do not know whether or not there will be a second or possibly third wave of infections.
- And we do not know how long it will take to develop an effective vaccine.

Recent estimates suggest that peak infection levels for the USA will come in mid-April. AS of April 1, social distancing policies in the USA will remain in place until April 30<sup>th</sup> and will only be relaxed once it is obvious the rate of infections has slowed.

It is estimated that by September 2020 that even if all procedures and regulations are followed exactly as required about 200,000 Americans will die as a result of this pandemic.

However, even if the social distancing policies work, in the sense that the curve has been somewhat flattened, the pandemic does not go away. People will continue to get infected; people will continue to die.

There are three possible endgames for the pandemic

1. Every nation on earth bring the virus under control at the same time . This is not at all likely.
2. That the virus infects so many people that a “herd immunity” is established whereby the majority of the population is immune. This can only come at the cost of many millions of dead.
3. That governments use the test and trace approach stamping out outbreaks until an effective vaccine is produced. This could take a year to 18 months.

Given the above, in simple terms, the effects of the pandemic will be prevalent for at least another 18 months, with social distancing having to be reintroduced when there are deemed to be outbreaks which need such a response.

## The economic consequences

Social distancing has come at an enormous economic cost. The airline industry and cruise industry are to all intents and purposes no longer functioning. The hotel industry likewise. Offices, restaurants, bars and shops have been closed. Millions of people in the USA are now unemployed with no real sense when they will go back to work.

Travel & Tourism is currently dead

Major source markets will see severe economic recessions

Aruba's economy is on a ventilator

It is thought the USA has already entered a recession and could well fall into a depression.

Some economists believe that the GDP of the USA will shrink by 12% in the second quarter (Bank of America) while other believe it could shrink by 30% (Morgan Stanley). The US Federal Reserve estimates unemployment in the USA could reach between 30% - 35%.

The simple fact is the situation is totally unprecedented and no one can know for sure what the economic impact will be although they do know it will be hugely significant.

The long-term costs of borrowing huge amounts of money to provide aid and offset revenue losses will impact the economies of countries for years to come resulting in lower levels of investments in necessary infrastructure and higher taxation levels.

## When will things get back to normal for the travel industry?

There is a view that once the peak infection rate is reached and the infection rate begins to diminish, social distancing regulations will be relaxed and people will be allowed out of their homes, will go back to work, will pick up the pieces of their lives. This could happen as early as May.

This could mean that some locations where there is little risk of significant person to person contact could re-open. However large sporting events such as baseball or football games, music events or crowded beaches will continue to be banned.

Travel could be allowed but, in all likelihood, it will be by car and will avoid places where crowds gather such as airports, on trains or on planes.

And it may be that a second wave of infections develops in the fall which requires the reintroduction of more strict social distancing policies.

Now leisure travel is discretionary. It is not essential.

**MMGY**, a leading travel and tourism marketing agency, believes that demand will rapidly increase in the latter part of the second quarter, that is in June, and the number of trips will increase substantially in July and August. They are of the view that domestic leisure trips by car will be the first to show growth, with international trips following. Airlines will offer extremely low fares to get people to travel again, while the cruise lines may find it much more difficult to generate demand.

This may be too optimistic.

It does not allow for the fact that many customers will have been financially harmed by the consequences of the social distancing regulations imposed in March and April and **Tourism Economics** is of the view that the industry will show a substantial decline in 2020 with modest recovery in 2021 and full recovery not occurring until 2023 although the high end luxury market may bounce back more quickly than the overall market.

This is a similar pattern to what happened after the September 11 2001 terrorist attacks where it took the industry close to three years before it fully recovered. It is also thought the airline industry will be very different in 12 months' time from what it is today, with probably fewer airlines and fewer available air seats. The cruise industry may also shrink.

Every visitor to Aruba is an International Traveller

International travel is not expected to return before 3<sup>rd</sup> Qtr 2020

And it should be noted that the US government may continue to keep its borders closed to foreign visitors and returning residents well into the second half of 2020, if not longer, to prevent the importation of the virus from other countries. This is the policy currently pursued by China. This would mean that travel by Americans overseas would be severely restricted if not completely banned.

And it is possible that the US federal and state governments mandate that leisure trips can only be made within the USA to help revive the country's own tourism industry.

Given these constraints it would be reasonable to suggest that demand for international travel will probably not begin to become significant until well into the third quarter of 2020 and will begin to start slow recovery in the fourth quarter, provided there is no second wave of infection.

### **The situation in Aruba.**

The Government of Aruba is also pursuing a policy of “flattening the curve”, that is slowing the rate of infections to allow its health care system to continue to function. To do this it has pursued aggressive social distancing policies which could remain in place until the end of April. Aruba is probably two/three weeks behind the USA which in turn is behind Italy and Spain so it is likely the rate of infections in Aruba will not peak until early/mid-May.

Should those policies succeed then the rate of local transmission should be substantially reduced although clearly there would still continue to be infections.

But the Government of Aruba faces a huge challenge.

The economy of Aruba is almost completely dependent upon welcoming visitors from abroad. Aruba needs visitor spending to generate income and provide employment. So, there will be enormous pressure to re-open its borders to visitors.

However, once Aruba opens its borders it is inevitable that infected persons from overseas will enter the country and could infect members of the local population who will in turn infect other residents. It is worth noting that New York state generates 20% of all visitors from the USA and will, in all likelihood, have the highest level of infections of any state in the USA.

If the Government chooses to open its borders, as it must if it is to revive its economy, then it is going to have to accept that infections will continue to occur as will deaths resulting from severe cases of infection.

The Government will then have to decide what is an acceptable level of mortality for its population.

It is suggested that accepting visitors can only be mitigated by stringent testing at the airport and cruise port using procedures such as are currently in place in South Korea as this will prevent further infections coming in from the outside. Such testing would have to remain in place for at least 18 months, that is until an effective vaccine is developed and distributed.

Potential international travellers will demand assurances on resort safety and cleanliness

Rebuilding brand Aruba will be crucial.

Today's product is not tomorrow's...

What impact that will have on the desirability of Aruba as a tourist destination is hard to say but it is likely that many other Caribbean countries will employ similar tactics to address this conundrum.

At the same time, it is worth noting that the level of tourist plant inventory, the hotels, resorts, casinos, restaurants, attractions etc, could well be substantially reduced by the second half of the year. A number of resorts could close and not re-open. A number of hotels may close parts of their property and consolidate business into other parts of the complex. Casinos and restaurants may close permanently. Tour companies may go out of business. All of this will result in lower aggregate spending than in 2019.

At the same time, Aruba's attractiveness is heavily dependent upon its beach experience. It may be that a relatively high level of infections will result in a public health policy that demands that social distancing be rigorously enforced on Aruba's beaches. This could make our product significantly less attractive to visitors.

It has been estimated that unemployment in Aruba could reach 50% of the workforce with many persons out of work and who will be without their normal income for many weeks, if not months. A major concern has to be that crime begins to rise substantially as persons attempt to obtain income to support themselves and their families. It will be important in the long run that Aruba protects its image as a safe destination and that rigorous law enforcement practices are put in place to prevent any largescale upswing in crime.

Aruba, like many other destinations, will have to spend considerable sums of money on marketing to bring back business. At the same time, it may well have to invest large sums of money to guarantee airlift at a time of reduced demand. Whether those funds will be available in sufficient quantity is debatable.

Finally, it is possible that many of our best and brightest may emigrate from Aruba to the Netherlands or elsewhere in search of work, leaving us with diminished skill levels in our work force.

### **Past Experience**

Previous incidents such as 9/11, SARS, the Holloway Incident, and the financial crisis of 2008/2009 all suggest that it will take two/three years for the volume of arrivals to get back to previous levels, in this case to the levels achieved in 2019.

### **Three Scenarios.**

Three possible scenarios are suggested:-

- Optimistic
- Likely
- Pessimistic

These scenarios reflect the worst possible outcome, a base case of what is considered to be the most likely outcome, and the best-case scenario. It is important to note that all scenarios herein reflect our opinion, based on our assumptions, assessments, and currently available data to date, and are likely to change as the situation continues to unfold.

### **Optimistic:**

This assumes the following

- That the USA manages to substantially slow the rate of infections during the month of April and that the social distancing regulations are relaxed, if not removed, by May 1<sup>st</sup>.
- That the US government removes all restrictions on entry to the USA from foreign countries by foreigners and returning residents.
- That unemployment peaks in late April at about 25% - 30% of the workforce.
- However, people start going back to work in May and the economy begins to recover.
- That as a result of the workforce having income, that demand for discretionary purchases begins to grow.
- That similar success is achieved in major source markets in Europe, particularly the Netherlands.
- That the airline industry responds positively to this demand for travel and flights are reinstated.
- That the cruise lines also respond positively to this demand and reinstate cruises.



- That the hotel industry and related tourist inventory within Aruba is not badly impacted by the suspension of traffic during March and April.
- That social distancing and related policies implemented within Aruba are successful and that the infection rate is minimized.
- That the Aruban Government opens its orders to foreign visitors sometime in May 2020 without requiring mandatory testing at a port of entry.

**Likely Scenario:**

- That the USA manages to slow the rate of infections during the month of April, but the infection rate continues to grow at an unacceptably high level and that the social distancing regulations continue through the month of May and possibly into June.
- That the US government keeps all restrictions on entry to the USA from foreign countries by foreigners and returning residents in place through May and into June.
- That unemployment peaks in May/June at about 30% - 35% of the workforce.
- That people slowly go back to work with most not re-entering the workforce until July/August
- That as a result the workforce has a substantially less income and that demand for discretionary purchases only comes from a small affluent cohort of the population.
- That a similar pattern is demonstrated in major source markets in Europe, particularly the Netherlands.
- That the airline industry responds to this demand for travel and flights are reinstated but not until August/September
- That the cruise lines also respond to this demand and reinstate cruises but do not reach a significant number of cruises until October/November.
- That the hotel industry and related tourist inventory within Aruba is impacted by the suspension of traffic during March through June but is not fatally damaged.
- That social distancing and related policies implemented within Aruba are reasonably successful and that the infection rate is minimized.
- That the Aruban Government opens its orders to foreign visitors sometime in June 2020 but with mandatory testing of all visitors at the airport and presentation of clear evidence by all cruise lines that all passengers are virus free.

**Pessimistic:**

- That the USA manages to slow the rate of infections during the months of April and May, but the infection rate continues to grow at unacceptably high levels and that the social distancing regulations continue through the months of June and July and possibly into August.
- That the US government keeps all restrictions on entry to the USA from foreign countries by foreigners and returning residents in place indefinitely.
- That unemployment peaks in July/August at about 40%% of the workforce.

- That people slowly go back to work with many not reentering the workforce until September/October although the economy will be substantially smaller by then
- That as a result the workforce has a substantially less income and that demand for discretionary purposes only comes from a small affluent cohort of the population.
- That a similar pattern is demonstrated in major source markets in Europe, particularly the Netherlands.
- That the airline industry responds to this demand for travel and flights are reinstated but not until the fourth quarter of 2020 but only in limited numbers. The airline industry is substantially smaller than in 2019 and has limited capacity.
- That the cruise lines also respond to this demand and reinstate cruises but do not reach a significant number of cruises until the fourth quarter. The cruise industry finds strong resistance from Aruba and all Caribbean countries to receiving their visitors without clear evidence that all cruise passengers are virus free.
- That the hotel industry and related tourist inventory within Aruba is severely impacted by the suspension of traffic during March through September and is substantially reduced in size.
- That social distancing and related policies implemented within Aruba are moderately successful and that the infection rate is minimized but is still at a relatively high level.
- That the Aruban Government opens its orders to foreign visitors sometime in June 2020 but with rigorous testing of every arriving visitor.

## Scenarios: Volume of Tourist Arrivals

2019						
		First	Second	Third	Fourth	Total
Stopovers		294,183	281,466	273,192	265,000*	1,113,841*
Cruise		292,922	142,190	120,413	276,476	832,001

\*estimate

	2019	2020					2021	
	Total	First	Second	Third	Fourth	Total	Total	% change
<b>Stopovers</b>								
Best	1,113,841	230,000	84,440	136,596	159,000	610,036	793,047	30.0%
Likely	1,113,841	230,000	42,220	68,298	92,750	433,268	498,258	15.0%
Worst	1,113,841	230,000	14,073	40,979	53,000	338,052	354,955	5.0%
<b>Cruise Visitors</b>								
Best	832,001	255,384	49,767	72,248	165,886	543,284	706,269	30.0%
Likely	832,001	255,384	28,438	42,145	124,414	450,381	517,938	15.0%
Worst	832,001	255,384	7,110	24,083	69,119	355,695	373,480	5.0%

		First	Second	Third	Fourth	Total
<b>Stopovers</b>						
Best		-21.8%	-70.0%	-50.0%	-40.0%	<b>-45.2%</b>
Likely		-21.8%	-85.0%	-75.0%	-65.0%	<b>-61.1%</b>
Worst		-21.8%	-95.0%	-85.0%	-80.0%	<b>-69.6%</b>
<b>Cruise Visitors</b>						
Best		-12.8%	-65.0%	-40.0%	-40.0%	<b>-34.7%</b>
Likely		-12.8%	-80.0%	-65.0%	-55.0%	<b>-45.9%</b>
Worst		-12.8%	-95.0%	-80.0%	-75.0%	<b>-57.2%</b>

The likeliest scenario is that Aruba re-opens its borders sometime in May of 2020. Airlines will be slow to provide service as demand for international travel will remain weak. June through September will see some visitor traffic but probably at levels 70% - 80% below those of the same months of 2019. Demand should begin to pick up in October and continue to grow throughout the balance of the year but probably at levels about 60% - 7% below those for the same three months of 2019. 2021 will see slow growth in demand with recovery not coming until the latter half of 2022.

We need to plan NOW for tomorrow

Considerable investment and repositioning are necessary.

This is a crisis BUT with opportunity.

First movers will recover quicker

**In simple terms therefore in 2020 stopovers falling by 61% and cruise visitors falling by 46%.**

### **We need to plan now for our recovery.**

Clearly this is a crisis of huge proportions. Aruba depends almost completely upon its tourism industry for its way of life and our tourism industry must be revived as quickly as possible. We need : -

- A task force created now to plan how we will revive our tourism industry. This must involve all key stakeholders.
- Identify and develop new product in tune with these changed times.
- A detailed plan of action with clear targets, responsibilities and budgets.
- To identify the funds which will be needed for marketing and to support airlift as quickly as possible and ensure these funds are dedicated to the recovery process.
- To train as many of the workforce as possible to adjust the new situation.
- To move as quickly as possible and be a first mover.
- To implement new and innovative marketing techniques to attract the visitors we will require.
- To identify and implement rigorous testing procedures to be used at Aruba's ports of entry similar to those used in South Korea.
- To implement a highly effective Test and Trace policy for the population of Aruba.

Cases of COVID-19 as of April 1 2020					
	Cases	Population	%	Cases Per Million	
1	Spain	102,136	46,754,778	0.2185%	2,185
2	Switzerland	17,768	8,638,587	0.2057%	2,057
3	Italy	110,574	60,461,826	0.1829%	1,829
4	Belgium	13,964	11,589,623	0.1205%	1,205
5	Austria	10,585	9,006,398	0.1175%	1,175
6	Germany	76,544	83,783,942	0.0914%	914
7	Netherlands	13,614	17,134,872	0.0795%	795
8	France	51,487	65,273,511	0.0789%	789
9	USA	207,637	330,500,000	0.0628%	628
10	Iran	44,606	83,992,949	0.0531%	531
11	Aruba	55	113,000	0.0487%	487
12	UK	29,474	67,886,011	0.0434%	434
13	USVI	30	104,425	0.0287%	287
14	Canada	9,538	37,742,154	0.0253%	253
15	South Korea	9,887	51,269,185	0.0193%	193
16	Barbados	34	287,375	0.0118%	118
17	Dominican Republic	1,109	10,847,910	0.0102%	102
18	Puerto Rico	286	2,860,853	0.0100%	100
19	Curacao	14	164,093	0.0085%	85
20	Saint Lucia	13	183,627	0.0071%	71
21	Trinidad & Tobago	85	1,399,488	0.0061%	61
22	China*	81,554	1,439,323,776	0.0057%	57
23	Bahamas	15	393,244	0.0038%	38
24	Cuba	212	11,326,616	0.0019%	19
25	Jamaica	36	2,961,167	0.0012%	12

\*The numbers for China are considered to be under-reported.

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## **Analyst expects high-end travel to make a rapid recovery**

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