

The COVID-19 Outbreak and Australia's Education and Tourism Exports

Philipp Grozinger and Stephanie Parsons^[*]



Photo: martin-dm – Getty Images

Abstract

International travel restrictions to contain the spread of COVID-19 and precautionary behaviour on the part of travellers have significantly disrupted the movement of people globally. Education and tourism were Australia's fourth and fifth largest exports prior to the pandemic, and exports of these services have fallen sharply. This article documents the effects of the virus on Australia's education and tourism exports and draws on information from the Reserve Bank's regional and industry liaison program to discuss the uncertainties around the medium-term outlook once international travel resumes.

Introduction

International travel restrictions to contain the spread of COVID-19 and precautionary behaviour on the part of travellers have significantly disrupted the movement of people across international borders. Australia, like most countries, has been severely affected. An average of 28,000 international visitors arrived in Australia every day for leisure, study or work in 2019. These visitors spent around \$65 billion on Australian goods and services in the year, accounting for 13 per cent of exports and 3 per cent of GDP. The collapse in international arrivals since the outbreak of COVID-19 has had a

devastating impact on Australian businesses that service these visitors and has contributed to the sharp fall in economic activity over the first half of the year.

We begin this article by presenting a snapshot of Australia's education and tourism exports prior to the pandemic. We then document the effects of COVID-19 on these exports and draw on information from the Reserve Bank's regional and industry liaison program to discuss the medium-term outlook once international travel resumes. The medium-term outlook for education and tourism exports is highly uncertain.

On the eve of the pandemic

Global demand for education and tourism in Australia grew solidly in the decade prior to the COVID-19 pandemic.^[1] A range of factors contributed to this growth, including rising household disposable income (particularly in Asia), a relaxation of travel restrictions and visa requirements in some countries, and increased access to affordable air travel. Australia's inbound air capacity increased by 50 per cent between 2010 and 2019, and policy changes contributed to an almost fourfold increase in airline capacity directly between Australia and China (Graph 1) (Productivity Commission 2015).

Australia's education exports totalled \$40 billion in 2019. This included \$17 billion in tuition fees paid by international students and \$23 billion in international students' living expenses while they studied in Australia. China has accounted for one third of Australia's education exports over the past few years (Graph 2). According to liaison contacts in the education industry, the desire to obtain a qualification in English from a reputable institution was a common reason that students from China chose to study in Australia. Growth in education exports to China eased somewhat between 2017 and 2019, which liaison contacts partly attribute to increased competition for international students from other English-speaking countries, such as the United Kingdom and Canada. Meanwhile, the number of international students from South Asia, particularly India and Nepal, has

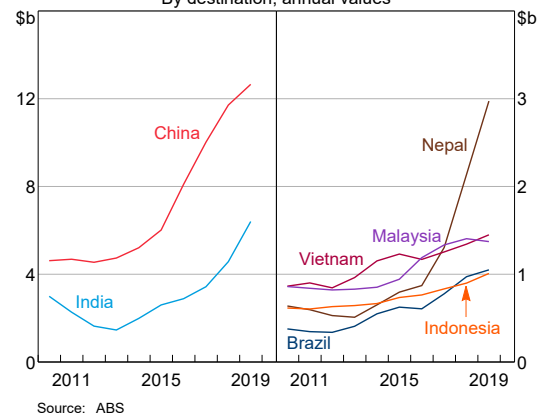
increased strongly from a lower base. Liaison contacts note that South Asian students have found Australia's post-study work arrangements appealing; over 40 per cent of all temporary graduate visas granted in 2019 were to Indian or Nepalese graduates (Graph 3).^[2]

Australia also exported around \$23 billion in tourism services in 2019. Tourism includes travel to Australia for a range of personal reasons, such as holidays and visiting friends and relatives. The value of tourism exports to China has grown strongly over the past decade, overtaking New Zealand and the United Kingdom to become Australia's largest destination for tourism exports (Graph 4). The difference in the value of tourism exports across countries reflects differences in the number of visitors from each country as well as average spend per traveller. For example, Australia had more leisure visitors from

Graph 2

Education Exports

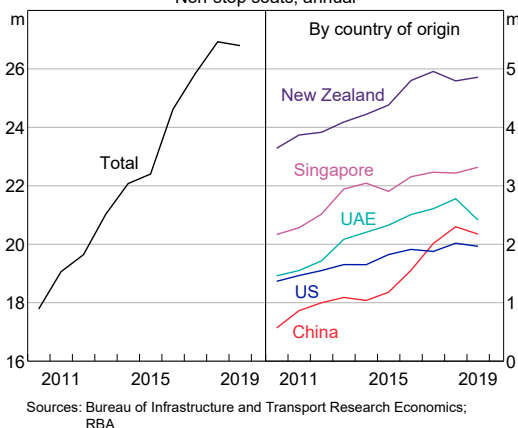
By destination, annual values



Graph 1

Inbound Passenger Seats

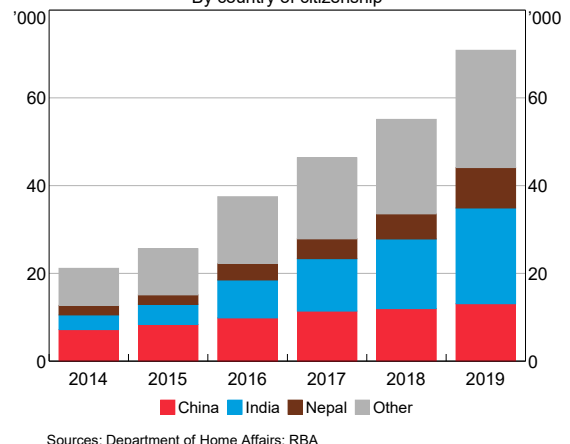
Non-stop seats, annual



Graph 3

Temporary Graduate Visas Granted

By country of citizenship



New Zealand than China in 2019 but Chinese leisure visitors spent, on average, 2½ times as much per person in Australia.

The COVID-19 pandemic began as Australia's tourism sector was still dealing with the aftermath of one of the worst bushfire seasons on record.^[3] The bushfires in late 2019 and early 2020 had a devastating effect on many regional communities and disrupted tourism during the usually busy summer holiday period. Although the affected regions relied more on domestic tourism than international tourism, liaison contacts reported that international media coverage of the fires had damaged Australia's reputation as a safe place to visit. Contacts expected this to have an adverse effect on international tourism for 6–12 months.

International travel restrictions

Early 2020

On 1 February 2020, Australia introduced restrictions on non-residents arriving from mainland China in response to the outbreak of COVID-19. Short-term visitor arrivals were around 20 per cent lower in February relative to the previous year (Graph 5). Travel restrictions affected Chinese international students planning to commence their programs in February and March, as well as continuing students who had travelled home for Chinese New Year. At the time the restrictions were imposed, more than half of student visa holders from China were outside of Australia (DESE 2020). Some Chinese students subsequently entered

Australia by quarantining in a third country for two weeks, but a significant number remained overseas. Those students unable to enter Australia chose to either defer their studies or study online from China. Consequently, education exports declined sharply in the March quarter. In addition to providing flexible study options for students unable to get to Australia (including online), educational institutions extended some financial support to international students affected by the pandemic.

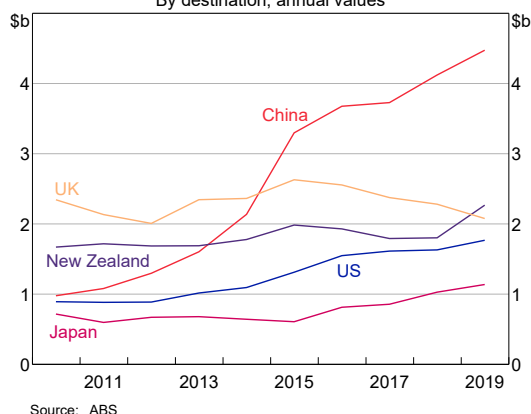
Full border closure

As the virus spread to more countries, travel restrictions were expanded to include arrivals from Iran (1 March), South Korea (5 March) and Italy (11 March), before Australia's border was ultimately closed to all non-resident travellers on 20 March. By the start of April, most international tourists had left Australia, causing tourism exports to collapse to close to zero in the June quarter (Graph 6). This had a large and immediate impact on many Australian businesses and their workers. Liaison contacts reported a collapse in demand for businesses reliant on international travellers, such as airlines, hotels and experience providers, and also noted that these businesses stood down staff and postponed non-essential spending to preserve liquidity.

International travel restrictions had a less pronounced effect on education exports because the majority of international students who were in Australia at the start of March chose to remain in the country. However, education exports still

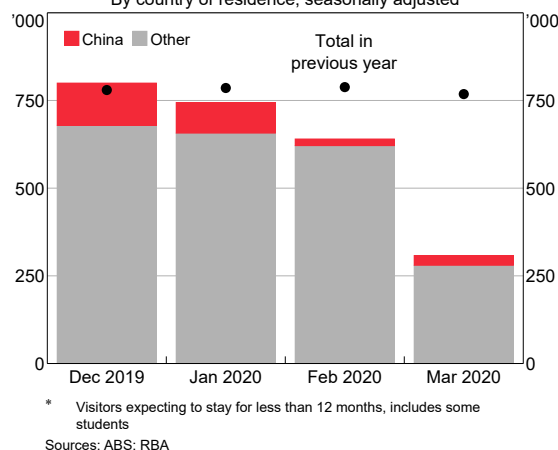
Graph 4

Tourism Exports
By destination, annual values



Graph 5

Short-term Visitor Arrivals*
By country of residence, seasonally adjusted



declined by a further 6 per cent in the June quarter. Domestic lockdown measures likely weighed on international students' discretionary spending, while a small number of students returned to their home country and either deferred their studies or chose to study online. Liaison contacts also reported that some international students reduced their study loads. Overall, the decline in education and tourism exports subtracted around 1½ per cent from GDP over the first half of 2020.

Ongoing effects

Australia's education exports have fallen further in the second half of the year. The number of international student enrolments has declined, driven by a much smaller midyear intake than usual. The size of the fall in new enrolments (commencements) has varied across different types of programs (Graph 7). The midyear intake for higher education programs was about one third lower than in 2019. Although international students were not able to travel to Australia, university liaison contacts reported that some international students already in Australia enrolled in a degree after completing a pathway program, while others started studying online outside of Australia. In contrast, the midyear intake for vocational education and training programs was similar to that in 2019, driven by demand from students still in Australia. Meanwhile, the midyear intake for shorter programs, such as English language and foundation

programs that often serve as pathways to higher education or vocational programs, was about 70 per cent lower compared with 2019.

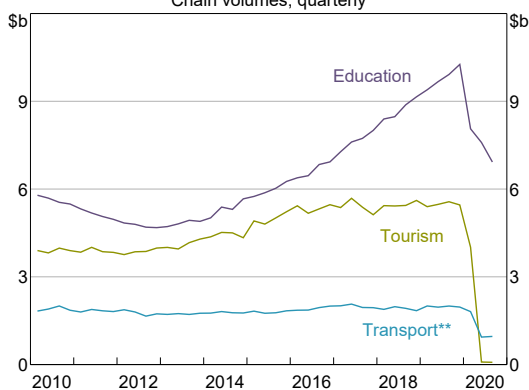
The continued take-up of online study by international students is expected to provide some support to education exports while international borders are closed. A relatively small number of international students could also enter Australia through pilot programs. These programs are likely to be targeted at continuing students who are already studying online outside of Australia. However, most liaison contacts still expect international student enrolments to fall further in 2021 if travel restrictions remain in place. Many universities have cut expenses, including labour costs and non-essential investment, to partly offset expected revenue shortfalls in 2020 and 2021.^[4]

Tourism exports will not pick up until international travel restrictions are materially lifted and potential international tourists become confident about travelling abroad. In the meantime, the lack of international tourists will continue to severely affect Australian businesses that typically rely on international visitors. Liaison contacts have reported that some regional areas, such as Cairns, the Gold Coast and Uluru, attracted a particularly high share of international tourists prior to the pandemic.^[5]

Some tourism businesses have benefited or expect to benefit from a pick-up in demand from domestic tourists who are unable to travel overseas. Overall, Australian tourists typically spend about twice as

Graph 6

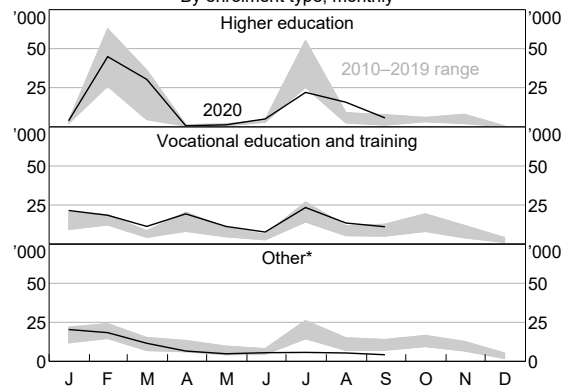
Education and Tourism Exports*
Chain volumes, quarterly



* Reference year is 2018/19; seasonally adjusted by the RBA up to and including March 2020, original figures for June and September 2020
** Includes passenger transport exports, such as international visitors travelling to Australia on an Australian airline
Sources: ABS; RBA

Graph 7

International Student Commencements
By enrolment type, monthly



* Includes English Language Intensive Courses for Overseas Students, non-award and school
Sources: Department of Education, Skills and Employment; RBA

much abroad as international tourists spend in Australia. However, liaison contacts have noted that Australian domestic tourists have tended to have different preferences and spend far less, on average, than international tourists. The recent introduction of the 'trans-Tasman bubble' has allowed New Zealanders to travel to parts of Australia, although few short-term visitors are expected while quarantine requirements in New Zealand for returned travellers remain in place.

After travel restrictions are lifted

The baseline forecasts presented in the November *Statement on Monetary Policy* assumed that travel restrictions will remain in place until around the end of 2021. However, the speed of the recovery in education and tourism exports remains highly uncertain, and the unwinding of restrictions will ultimately depend on progress controlling the virus globally and/or advances in medical treatments. This section outlines the key factors likely to influence Australia's education and tourism exports in the period after travel restrictions are lifted.

Australia will remain an attractive destination ...

Australia will still be an appealing destination for international students and tourists when international travel resumes. Liaison contacts have noted that overseas news coverage of Australia's management of the virus has been favourable, enhancing the country's reputation as a safe destination. Liaison contacts in the education industry have not seen any change in the perceived quality of Australian qualifications, and students are reportedly eager to return for face-to-face learning and the experience of living in Australia. In the tourism sector, liaison contacts have reported some pent-up demand for leisure travel to Australia, particularly to visit friends and relatives after a long period of separation. Increased interest in outdoor experiences and visiting natural landmarks, where it is easier to practise social distancing, could also see Australia remain a popular destination for holidaymakers in the medium term.

... but demand might take time to recover

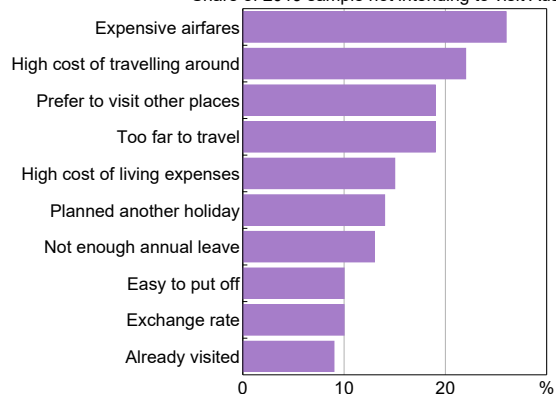
The global economic downturn brought about by the pandemic has resulted in lower household income, higher unemployment and increased concerns about job security in economies that are key sources of international tourists. This will likely weigh on international tourism even once borders reopen, with economic activity in major tourist markets not expected to return to its pre-pandemic path for at least a few years.^[6] Some potential tourists may choose cheaper, local holidays or divert spending to other goods and services. These substitution effects could be particularly pronounced for Australia compared with other countries, given Australia was considered to be a relatively expensive destination before the pandemic (Graph 8).

Liaison contacts have also been concerned that the economic effects of the virus in many South Asian countries (particularly India) could require students to look for cheaper alternatives.^[7] Labour market conditions in Australia will also be a key consideration for these students. Census data indicate that over three quarters of Indian and Nepalese holders of student visas were in the Australian labour force in 2016 (Graph 9). Therefore, a lack of part-time work opportunities in Australia – in line with broader spare capacity in Australia's labour market – could weigh on demand for education exports. The availability of graduate job opportunities will be a consideration for students

Graph 8

Barriers to Visiting Australia*

Share of 2019 sample not intending to visit Australia



* Includes respondents from 11 major tourist markets

Source: Tourism Australia

intending to work in Australia after completing their studies.

More broadly, the virus could lead to more cautious attitudes towards travel in the medium term. This could result in reduced demand for longer-distance travel in particular; for Australia, this could adversely affect demand from major markets, including the United States and Europe.^[8]

Regardless of demand, fewer flights might be available initially

Long-haul aircraft fleets are likely to be smaller for some time as a result of the pandemic. In response to a collapse in revenue, many airlines – including those servicing the Australian international market – have cut costs by scrapping some aircraft earlier than planned, ordering fewer new aircraft and not renewing aircraft leases (Graph 10). In turn, aircraft manufacturers have reduced production targets for the next few years by around one third. Production rates might not be able to ramp up quickly enough to restore fleets, at least initially, if the recovery in demand is stronger than expected. In addition, liaison contacts have been concerned that skilled

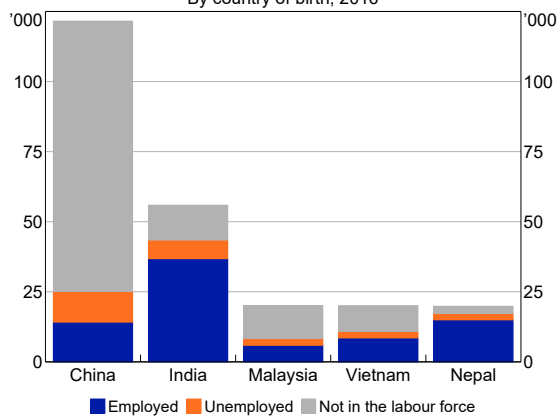
labour shortages could slow the recovery in airline capacity; for example, if some pilots have been unable to maintain flying hours to meet strict aviation requirements for recent experience.

Conclusion

Prior to the COVID-19 pandemic, education and tourism exports had grown to become important contributors to economic activity in Australia. The collapse in international arrivals in 2020 has led to a sharp fall in Australia's exports of education and tourism, and no material recovery is expected until international travel restrictions are eased. Thereafter, the speed of the recovery is also highly uncertain. Information from the Reserve Bank's liaison program suggests that pent-up demand is likely to provide an initial boost to education and tourism exports when borders reopen. However, the pandemic will have lingering negative effects on demand for travel and long-haul airline capacity. Given their importance to the economy, monitoring developments affecting education and tourism exports, and their effects on the recovery, will remain a key focus for the Bank's liaison program in the period ahead. ✎

Graph 9

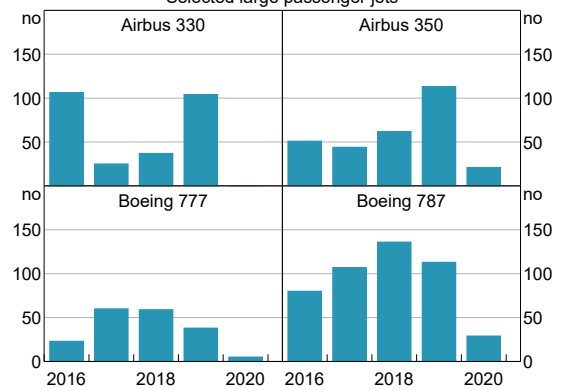
Labour Force Status of Student Visa Holders
By country of birth, 2016



Source: ABS

Graph 10

Global Aircraft Orders*
Selected large passenger jets



* Includes orders that were subsequently cancelled and freight variants; 2020 includes orders to 31 October
Sources: Airbus; Boeing; RBA

Footnotes

- [*] The authors completed this work in Economic Analysis Department. The authors thank Paul Gardiner and David Lancaster for their input and colleagues in the Regional and Industry Analysis team for conducting the liaison meetings that informed this work.
- [1] For more on international trade in services prior to the pandemic, see Rickards (2019).
- [2] Subject to eligibility criteria, recent university graduates can usually stay in Australia for 2–4 years to gain work experience. Extensions will be available for graduates from regional universities from 2021.
- [3] See RBA (2020) for a discussion of the economic effects of the bushfires.
- [4] The Australian Government's Higher Education Relief Package announced in April provided guaranteed funding and regulatory relief for higher education providers. State governments have also announced a range of measures to assist universities, including funding for research and loan facilities to support cash flow.
- [5] The Australian Government is supporting regions affected by the loss of tourists through initiatives such as the Building Better Regions Fund and the Recovery for Regional Tourism Fund.
- [6] See Dobson and Hooper (2015) for a discussion of how past changes in economic conditions have affected demand for travel to Australia.
- [7] However, a growing population and rising living standards are likely to support education exports to South Asia in the long run (Alston *et al* 2018; Fairweather and Sutton 2020).
- [8] The International Air Transport Association (IATA) is forecasting global passenger traffic to return to 2019 levels in 2024 (IATA 2020).

References

- Alston M, I Arsov, M Bunny and P Rickards (2018), 'Developments in Emerging South-East Asia', RBA Bulletin, December, viewed 17 November. Available at <<https://www.rba.gov.au/publications/bulletin/2018/dec/developments-in-emerging-south-east-asia.html>>.
- DESE (Department of Education, Skills and Employment) (2020), 'Student visa holders in and outside Australia in 2020', Research Snapshot, April. Available at <https://internationaleducation.gov.au/research/Research-Snapshots/Documents/RS_VisaHoldersMarch2020.pdf>.
- Dobson C and K Hooper (2015), 'Insights from the Australian Tourism Industry', RBA Bulletin, March, pp 21–31.
- Fairweather Z and M Sutton (2020), 'Economic Developments in India', RBA Bulletin, December, viewed 17 November. Available at <<https://www.rba.gov.au/publications/bulletin/2020/dec/economic-developments-in-india.html>>.
- IATA (International Air Transport Association) (2020), 'Recovery delayed as international travel remains locked down', 28 July. Available at <<https://www.iata.org/en/pressroom/pr/2020-07-28-02/>>.
- Productivity Commission (2015), 'Australia's International Tourism Industry', Productivity Commission Research Paper, February. Available at <<https://www.pc.gov.au/research/completed/international-tourism>>.
- RBA (Reserve Bank of Australia) (2020), 'Box B: Macroeconomic Effects of the Drought and Bushfires', Statement on Monetary Policy, February, viewed 13 November. Available at <<https://www.rba.gov.au/publications/smp/2020/feb/box-b-macroeconomic-effects-of-the-drought-and-bushfires.html>>.
- Rickards P (2019), 'The International Trade in Services', RBA Bulletin, March, viewed 11 November. Available at <<https://www.rba.gov.au/publications/bulletin/2019/mar/the-international-trade-in-services.html>>.