

Travel Industry After COVID-19 and Sanctions

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Abstract

The article analyzes the declining outbound tourism from Russia in 2022 and 2023 and its effects on the states which introduced sanctions. First it reviews the data on the inbound and outbound tourism, then studies the impact of COVID-19 and sanctions on the tourism industry, the consequences of tourism decline on related industries and services including aviation, food, and accommodation. Finally, the article considers alternative destination places for Russian tourists including the expansion of internal tourism and policies favoring it to replace outbound destinations.

Keywords

Russia, tourism, sanctions, COVID-19, restrictions

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Tourism destinations globally are witnessing a significant blow to their economies as many Russians prefer internal tourism due to special military operation (hereinafter SMO) related sanctions, with possible long-term effects on international tourism and economy of the countries which introduced sanctions against Russia. This comes as European countries with Russian borders say they may ban all Russian tourists. Russians were the world's seventh biggest tourist spenders before the pandemic³, splashing out US\$36 billion annually.

For more than two years, the tourism industry was badly affected due to the widespread COVID-19 that shattered the world. As COVID-19 largely subsided, the current situation connected with SMO and sanctions is noticeably affecting the smooth operation of tourism business because of the series of stringent sanctions.

In addition, at the height of the geopolitical confrontation, Russia does not appear as a popular vacation destination and will likely remain so in the coming years as sanctions have drastically cut foreign travel especially to and from the United States and Europe.

Long before these two factors, COVID-19 and Russia-Ukraine crisis, Russia made it comparatively easier for foreign tourists to visit the country. But still at least before the start of COVID-19, more Russians visited European and American cities than foreigners crossed into Russia.

Since last year, corporate directors of the hospitality industry have expressed their sentiments on the slow flow of clients, half-empty hotels and lack of sustainable tourism benefits. That however Russian officials unreservedly blamed the collapse of tourism on Western sanctions. The SMO in Ukraine is sending shockwaves through the global economy and latest analysis by the OECD⁴ shows that global economic growth could be set back by more than 1% this year due to the conflict and related sanctions.

³ International Tourism Highlights 2019 Edition. UNWTO. URL: <https://www.e-unwto.org/doi/pdf/10.18111/9789284421152> (accessed: 30.09.2023)

⁴ Confronting inflation and low growth. OECD Economic Outlook, Interim Report September 2023. URL: <https://www.oecd.org/economic-outlook/september-2023/> (accessed: 30.09.2023)

Local Russian media reports indicated that the number of foreign tourists visiting Russia has drastically reduced especially last year due to the impact of Western sanctions imposed on the country following the SMO in the Ukraine. The Association of Tour Operators of Russia (ATOR) in its latest review report indicated that only 200.100 foreigners visited Russia in 2022. According to the latest report, citing figures from border services, it was a drop of 96.1 % from pre-pandemic years⁵. Most of Europe closed its airspace to Russian planes a few days after February 2022. Beginning in March 2022, Russian national carrier Aeroflot suspended its international flights, though it gradually resumed flights to “friendly countries”.

In 2022 only 842 Chinese tourists visited Russia. The number of international tourists in 2022 was lower than in the midst of the COVID-19 pandemic, when the country recorded 335.800 and 288.300 visits in 2020 and 2021 respectively. Tourists from Germany, Turkey and Iran topped the 2022 rankings. Even if 25.400 German tourists visited in 2022, this still represented about 20 times less visitors than in 2019⁶. Russia has been struggling to uphold its domestic tourism. Early February, Transportation Minister Vitaly Savelyev said at the meeting on developing domestic tourism with President Vladimir Putin that his ministry plans to boost the services of Russian airlines with incentives for more potential passengers in 2023.

The aim is to raise the total volume of traffic in order to adjust for the extended closure of the 11 airports in southern Russia. Savelyev said that airline passenger traffic exceeded 95 million travellers in 2022. As such, the ministry expects the indicator to grow 6% this year⁷. As pressures mount and combine in different ways in different destinations, tourism jobs, careers, and businesses are again at risk in many countries, especially those which introduced sanctions.

⁵ Иностраный турпоток в Россию в 2022 году сократился на 96,1%. URL: <https://www.atorus.ru/node/51298> (accessed: 30.09.2023)

⁶ Tourism collapses in Russia following Western Sanctions. URL: <https://english.alarabiya.net/News/world/2023/02/09/Tourism-collapses-in-Russia-following-western-sanctions> (accessed: 30.09.2023)

⁷ Transport Ministry expects Russian airlines to boost passenger traffic 6% in 2023. Interfax, 14/01/2023. URL: <https://interfax.com/newsroom/top-stories/87222/> (accessed: 30.09.2023)

Inbound and Outbound Tourist

The Federal Security Service (FSB)'s Border Service additionally explained in its statistical report that approximately 200.000 foreign tourists visited Russia in 2022, down by 28.8% from the previous year. Most of the tourists came from Germany (25.300, or 33.4% less than the year before), followed by Turkey with 22.600 tourists (down by 2.5%) and Iran with 14.600 tourists, up 25 times from 2021⁸. Also in the top five are Kazakhstan (13.270 tourists) and Cuba (11.300). They are followed by Uzbekistan (8.860), Kyrgyzstan (6.600), India (6.400), the United States (5.580) and Armenia (5.200). In addition, Israel, Latvia, the United Arab Emirates, Serbia, Azerbaijan, South Korea, Turkmenistan, Italy, France and Lithuania are in the top 20.

Inbound tourism in Russia drastically decreased amid the coronavirus pandemic. The border closure in 2020 cut tourist arrivals by 93%, compared to 2019 when Russia was visited by over 5 million foreign tourists. There were 288.000 foreign tourist arrivals in Russia in 2021, or 14% less than in 2020. In order to save the industry, President Vladimir Putin held a meeting with cabinet members on January 24. The Kremlin said that development of domestic tourism in 2023 was the key topic of the meeting agenda. Minister of Economic Development Maxim Reshetnikov, Minister of Transport Vitaly Savelyev and Minister of Natural Resources Alexander Kozlov participated with reports.

Thousands of Russian tourists visit Asian beach resorts, as Thailand, the Philippines, India and Vietnam are ready to promote tourism. The crisis with Europe might further push Russian tourists to popular destinations in Asia and a few destinations in Africa. Thus, Russia is trying to develop and promote tourism.

According to statistics, Russian tourists spent over \$300 billion abroad over the past 20 years⁹, and their money could build domestic tourism

⁸ Russia sees almost 30% decline in inbound tourism in 2022 - Border Service. Interfax. 08/02/2023. URL: <https://interfax.com/newsroom/top-stories/87765/> (accessed: 30.09.2023)

⁹ Russian tourists spent over \$300 bln abroad over past 20 years. 31/03/2022. URL: <https://interfax.com/newsroom/top-stories/77668/> (accessed: 30.09.2023)

infrastructure. Experts also argue that the Russian tourism infrastructure has been demonstrating some growth over the past year, and it is important not to lose this pace under the current circumstances.

Federal Agency for Tourism, which promotes tours – both domestic and foreign – underscored steps taken by the Russian government to put tourism back on track including subsidy offers for local destinations, an effort towards encouraging and promoting domestic tourism, which is safe and offers comfortable conditions for Russian tourists, during the forthcoming seasons.

Analysts expect tourism business to develop considerably inside Russia. The sanctions against Russia threaten several tourist destinations that rely on Russian visitors. In order to attract inbound tourists amid sanctions it is necessary to simplify travel rules and regulations for visiting the country.

Industry experts suggested that travel and tourism connect people and bring the world closer through shared experiences, cultural awareness and community building. It provides jobs, spurs regional development, and is a key driver for socio-economic progress. Here is the choice between the emerging multi-polar and an isolated world. Unfortunately Russia's membership has been stripped off from some international organizations, i.e. the Executive Council has suspended Russia's membership from the United Nations World Tourism Organization¹⁰.

Impact on tourism sector

The tourism sector, which directly accounts for nearly 7% of jobs in the OECD is likely to be among the hardest hit again¹¹. Globally, air travel stopped almost entirely during the pandemic.

In 2020, there were 1 billion fewer international trips with only marginal improvement in 2021. For two years, this has meant millions of tourism jobs, careers and businesses have been put at risk or on hold in the world's most popular destinations. Many relied on emergency government support for their survival.

¹⁰ World Tourism Organization (UNWTO) Members Vote to Suspend Russia. URL: <https://www.unwto.org/news/unwto-members-vote-to-suspend-russia> (accessed: 30.09.2023)

¹¹ More Tough Times Ahead For The Tourism Sector URL: <https://oecdorgito.blog/2022/04/08/> (accessed: 30.09.2023)

2021 provided the industry with the promise of a new dawn. As travel restrictions eased, visitors started making grand plans. A higher intent to travel in 2022 than pre-pandemic in all five markets covered by their survey (the United States, United Kingdom, Australia, Singapore and Japan), and a higher average spendings per trip too. Demand for international air travel in January 2022 was up 165% compared to January 2021, and February's ticket sales pointed to continued steady growth. Tourism was back in business, with expectations of a return to pre-pandemic levels by 2024¹².

The sanctions following the SMO in Ukraine now pose major challenges for tourism businesses still recovering from the pandemic. They can hold back the fragile tourism recovery and add uncertainty about future prospects and investment. The Russian outbound market, worth EUR 32.5 billion to destination markets pre-pandemic, is the sixth largest in the world but with a higher ranking in countries such as Estonia, Finland, Latvia, Lithuania, and Poland, where travel restrictions are in place¹³.

Even destinations that remain open to Russian airlines such as Israel and Turkey will be affected as Russian tourists are challenged by restrictions on card payments and volatility in the rate of the rouble.

Flight bookings within Europe fell by 23% in February 2022, and flights to Europe from the United States were down 13%. Countries close to Russia and Ukraine – Bulgaria, Croatia, Estonia, Georgia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia have seen a 30-50% collapse in bookings¹⁴.

Second, the closure of Russian airspace has added time and cost for many companies travelling between Europe and Asia, discouraging long-haul trips. The European air traffic manager estimates that avoiding Russian airspace for a flight between Paris and Tokyo, adds more than 1000 nautical miles and 150 minutes¹⁵.

Businesses including hotels, restaurants and tour operators 85% of which were already in a fragile financial situation, after a tough two years in which they ran down their reserves and ran up debts during long periods of closure.

¹² Ibid.

¹³ Ibid.

¹⁴ Ibid.

¹⁵ Asia-Europe flight paths continue to face disruption. Financial review. URL: <https://www.afr.com/business-summit/asia-europe-flight-paths-continue-to-face-disruption-20220307-p5a2ge> (accessed: 30.09.2023)

Many now lack financial buffer to absorb these price shocks, especially since emergency support measures which succeeded in supporting many jobs and firms during the pandemic have been lifted in many countries.

The UNWTO stated tourism is “a bridge to understanding. It has a unique capacity to promote peace between peoples around the world.”¹⁶ But sanctions spoil tourism development, movements of peoples and globalization. All tourism stakeholders from immediately affected countries and governments that rely heavily on tourism to private-sector travel operators should work together to overcome the short, medium, and long-term challenges to come.

The main effect has been felt over the availability of oil. The dependence of Europe and the USA on Russia for energy sources and the closing of this commercial relationship have meant a big increase in transportation and food production costs, which severely affected their domestic economies.

Many long-haul flights are not being offered. Therefore there is less supply and demand for international travel, and any remaining flights available have become significantly more expensive. Due to longer flights and higher fuel costs International trade has changed abruptly. There have been severe disruptions to air connectivity, and trade with Russia has been blocked with immediate effect. The butterfly effect has not been long coming: rising oil prices, falling incomes, inflation.

With the blockade over Russian airspace, usual journeys have been turned into longer trips that demand higher fuel costs, leading to price increases or even cancellations. The USA, Canada, Europe, and other countries have established restrictions on flying over Russian airspace. As a result, routes from Japan to Europe fly across the Pacific and over Alaska, a much longer flight. Japan Airlines has decided to cancel flights due to more flight hours and higher fuel costs at a critical time as Japan Airlines tries to recover from the devastating impact of the pandemic. On the other hand, there are also instructions not to give coverage to Russian airlines.

¹⁶ Tourism Raises Its Voice For Peace. 18/12/2022 URL: <https://www.unwto.org/news/tourism-raises-its-voice-for-peace> (accessed: 30.09.2023)

The global travel and tourism industry providers, Sabre and Amadeus, have removed Aeroflot from their reservation systems. However, these measures do not affect Russian airlines operating with foreign-registered aircraft or on domestic flights. The psychological impact of crisis commonly leads to fear of travel, as has happened previously. However, this time, it has coincided with the end of the COVID-19 pandemic. The instability caused by the conflict in the Ukraine generates uncertainty, which, in turn, slows down travel. There have already been the first cancellations in Europe as fear is affecting travel. This impact is expected to be localized, however, with a greater impact on the countries in the immediate vicinity: Russia and Eastern Europe and countries such as Poland or Finland.

High dependence on Russian energy led to raised prices, especially in some countries more than others (in the whole EU, Russian gas represents 40% of the energy supply, although, in some countries such as the Czech Republic and Latvia, it rises to 100%). The energy sector, food, financial markets, and economic growth are strongly affected. The International Monetary Fund will soon update the World Economic Perspectives. But inevitably, there will be further monetary tightening coupled with a recession. Expected inflation will cause people domestically to focus their income on the basics, such as food and energy. It is therefore highly likely that the public will reduce spending on travel.

The closure of airspace, economic sanctions decreed by Western governments against Russia, and the blocking of credit cards and SWIFT transfers, have left Russian tourists in a complicated situation during outbound travel. At the same time these restrictions influence the inbound travel to Russia. Thus the immediate effect is the decrease of tourism flows.

The importance of Russia to the Spanish tourism market used to be high. After the pandemic, hopes of recovering Russian tourism were rising. In 2019, Spain received more than 1.3 million Russian visitors. The most demanded destinations by these customers are Barcelona, Alicante, Madrid, and Malaga, with an expenditure of 1.1 billion euros¹⁷. With Aeroflot and Siberia Airlines

¹⁷ Russia-Ukraine conflict: how will the developing conflict affect tourism?. URL: <https://alandistravel.com/trends/russia-ukraine-conflict-effect-on-tourism/> (accessed: 30.09.2023)

(the leading company in Russia-Spain travel) paralyzed, there are no Russian travellers. The important impact here is not the number of arrivals, but the loss of expenditure, given that Russian tourists are the biggest spenders in Europe. Cuba also feels an economic blow from departing Russian tourists. One of the first destinations with which Russia established connections after the pandemic was Cuba. Russia has become the leading source of tourists for Cuba (63% in the first semester of 2020) especially Varadero with direct flights scheduled weekly. With airspace closure, Russia has cancelled all flights to the island. It's a further complication for Cuba, which was already in a difficult situation. What's more, tourism was not Cuba's only financial link with Russia. Between 2006 and 2019, Russia offered Cuba export credits worth \$2.3 billion to finance projects in the fields of energy, metallurgy, transport, and the supply of goods necessary for the development of the island's economy¹⁸.

Impact on specific industries

The aviation industry has been hit hard. The industry is not only affected by fuel increases or airspace restrictions. European companies stop leasing 512 aircraft to Russia due to sanctions out of a total of 861¹⁹. Aircraft manufacturers and maintenance companies are not far behind in the supply of new aircraft and spare parts. One of the most important events in this sector is the Farnborough International Airshow, which has suspended Russian participation in this year's event, to be held in July outside London.

Airlines from countries such as the United Arab Emirates, Qatar, and Serbia are among the few that continue to serve Russian destinations regularly. Lufthansa, Germany's largest airline, states that "flights to the Far East may be subject to short-term changes in departure and arrival times due to the rescheduling of flight routes." Flights to the South Korean capital or Tokyo will take 90 minutes longer than usual²⁰.

¹⁸ Ibid.

¹⁹ Ibid.

²⁰ Russia-Ukraine conflict: how will the developing conflict affect tourism? URL: <https://alandistravel.com/trends/russia-ukraine-conflict-effect-on-tourism/> (accessed: 30.09.2023)

Rental Accommodation. There has been a drastic drop in demand for rental apartments. Brian Chesky, CEO, and co-founder of Airbnb maintained that the rental platform would suspend all operations in Russia and Belarus.

Travel & Tour Operators. Cancellations for travel to Russia were made by companies such as G Adventures until at least the end of 2023. Its founder, Bruce Poon-Tip, called for more pressure on Russia by banning Russian tourists from travelling with small groups and agencies²¹. The big European tour operator TUI has been directly involved as a member of its supervisory board Alexei Mordashov (with 34% of TUI) was forced to resign, after EU sanctions²². The reality is that international travellers are cancelling their vacations to northern and eastern Europe.

Food & Drink. Russia and Ukraine together account for 14% of world wheat production and about 30% of world wheat exports. They are known as the breadbasket of Europe. Food supplies of this commodity are already being affected in terms of consumption. Due to the paralysis of ports and cargo flights, there has already been a shortage of key products such as oils and livestock feed, resulting in high costs. Food & drink supply chains have been disrupted; logistics companies have halted their shipments of goods, and air transport costs have skyrocketed.

Insurances. In response to global sanctions against Russia and risks to the Russian economy, insurers around the world will not be able to carry out their contractual responsibilities. Crucial insurance for companies or business partners in Russia has been discontinued.

Tourism Issues. The EU has already suspended the European Union-Russia visa facilitation agreement²³, which made it relatively easy for Russians to obtain travel documents. Earlier sanctions had included bans on EU and Russian airlines flying to and from Russia²⁴. They also limited Russian tourists access to international credit overseas²⁵.

²¹ Ibid.

²² Russian billionaire Alexei Mordashov quits Tui board after EU sanctions. URL: <https://www.theguardian.com/business/2022/mar/03/russian-billionaire-alexei-mordashov-quits-tui-board-eu-sanctions-putin-ukraine> (accessed: 30.09.2023)

²³ EU foreign ministers agree to suspend visa travel deal with Russia. URL: <https://www.theguardian.com/world/2022/aug/31/eu-foreign-ministers-agree-to-suspend-visa-travel-deal-with-russia> (accessed: 30.09.2023)

²⁴ Russian airlines to be banned from most European airspace. URL: <https://www.theguardian.com/world/2022/feb/27/germany-and-italy-are-latest-to-ban-russian-aircraft-from-airspace> (accessed: 30.09.2023)

²⁵ Mastercard and Visa block in Russia does not stop domestic purchases. URL: <https://www.theguardian.com/business/2022/mar/06/russians-visa-mastercard-ban-domestic-purchases-mir> (accessed: 30.09.2023)

Many wealthy Russian tourists have switched to trips to Dubai. However, high-end shops in New York, London and Milan, and in glitzy destinations like St. Moritz and Sölden and popular spa towns such as Karlovy Vary in the Czech Republic, are missing the business of the wealthiest Russian visitors. On the French Côte d'Azur, luxury boutique hotels and expensive seafood restaurants have experienced a drop in business. They have not been able to replace Russian tourists with enough travellers from countries such as Bahrain.

Smaller countries, which hosted large numbers of Russian tourists as lockdowns eased, including Cyprus, the Maldives, Seychelles and the Dominican Republic found their post-pandemic tourism recovery short-lived. Cyprus, whose service industry including tourism, accounts for more than 80% of the economy is at risk of losing up to 2% of annual GDP if Russian tourists do not return to the country. Cuba saw an increase of 97.5% in Russian tourists in 2021, according to the country's National Office of Statistics and Information²⁶. When that market collapsed, Cuba's economic recovery plans were hit. Russians were expected to account for 20% of Cuba's visitors in 2022, with far fewer tourists visiting the resort of Varadero.

According to the results of the first six months of 2023, the inbound tourist flow to Russia from abroad increased by 100 thousand trips of foreigners compared to the same period last year²⁷.

The tourist exchange between Russia and the Western countries is expected to be relatively frozen, on the other hand, the outbound tourism with other countries, the majority of the world (Turkey, Egypt, CIS countries, China, South-East Asia, etc.) will begin to grow as well as the domestic Russian tourism.

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It is too early to determine the true impact of COVID-19 and sanctions on the world. It is necessary to study the evolution of events to evaluate the possible consequences and establish necessary adjustments. From COVID-19,

²⁶ The disappearing Russian tourist. URL: <https://asiatimes.com/2022/09/the-disappearing-russian-tourist/> (accessed: 30.09.2023)

²⁷ Foreign tourist flow to Russia increased by 130% over the year. RTG. URL: <https://russtd.com/foreign-tourist-flow-to-russia-increased-by-130-over-the-year.html>

the sanctions and its effects on the international economy, it is obvious that countries introducing sanctions will be mostly affected. Europe's image will also be affected, but, as experts say, it will not be an impact like the one caused by the COVID-19 pandemic.

Tourism will not grow with the same expectations but not because of the lack of travel or the recess that will continue as long as the sanctions last, but rather because of the lack of Russian tourism that will leave some destinations without essential income, as is the case of Cuba, the Spanish coast or countries like Turkey. If Russian tourists switch to other internal and external destinations and the tourist business makes logistical adjustments, it will be difficult to switch back to the previous tourist schemes.

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Международные отношения / исследовательская статья

Туристическая отрасль после КОВИД-19 и санкций

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Аннотация: В статье анализируется спад выездного туризма из России в 2022 и 2023 годах. Сначала рассматриваются данные по въездному и выездному туризму, затем изучается влияние пандемии COVID-19 и санкций на туристическую отрасль, последствия уменьшения туристических потоков для смежных отраслей и услуг, на авиационную промышленность, сферу услуг и жилья. Показано, что санкции негативно влияют на экономику стран, которые

их ввели. Сделан вывод, что туристическая отрасль в России предлагает альтернативные направления внутри России и в Азии, а политика государства способствует замене выездного туризма внутренним, поэтому туристический бизнес в России продолжает развиваться.

Ключевые слова: Россия, туризм, санкции, COVID-19, ограничения

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