



Reference Document
For the National Focal Points' Meeting
16 June 2020

The Impact of COVID-19 on CAREC Aviation and Tourism

Draft, 8 June 2020

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Scope of Study:

This study includes the following 10 CAREC countries: Afghanistan, Azerbaijan, Georgia, Kazakhstan, Kyrgyz Republic, Mongolia, Pakistan, Tajikistan, Turkmenistan and Uzbekistan. China's Xinjiang Uygur and Inner Mongolia autonomous regions are also part of CAREC but China is excluded in all data and analysis compiled as part of this study. Data is not available on specifically these regions of China and to include all of China would distort the overall data.

Introduction

COVID-19 has had a devastating impact on the aviation industry globally as nearly all air travel came to a halt in late March and April. CAREC was no exception as virtually all scheduled international flights were suspended and several countries also implemented bans on domestic air travel in attempt to contain the spread of COVID-19. All CAREC countries arranged repatriation flights to bring citizens stuck overseas home but this traffic was very limited compared to normal volumes.

Domestic markets in CAREC started reopening in May and domestic services in all CAREC countries have now resumed. However, domestic traffic is still well below pre-crisis levels and will take several months to fully recover.

As of the beginning of June, almost all international flights remained suspended and more than half of the CAREC passenger aircraft fleet was still grounded.

There are about 25 airlines based in CAREC offering scheduled passenger services. There are a few domestic only airlines but most airlines in CAREC rely mainly or entirely on the international market for generating revenues.

Some CAREC countries have started reopening their international markets but with restrictions that significantly limit demand. For example, Pakistan permitted scheduled international flights to resume on 31 May but these flights can only carry passengers leaving Pakistan. Flights arriving in Pakistan are allowed to carry cargo but no passengers.

All CAREC countries are expected to reopen their international markets over the next few months. However, demand for international travel will initially be soft as travel restrictions remain in place for some destinations, including quarantine requirements. Most CAREC citizens will also likely be wary of travelling abroad for some time and may choose to take holidays, if any, domestically.

The recovery of international passenger traffic will be very slow. Traffic is expected to still be at small fraction of pre-crisis levels at the end of this year and may not fully recover to 2019 levels until 2023.

The important reduction in international passenger traffic for 2020 and associated reduction in tourism will have a huge economic impact. This study assesses the impact of COVID-19 on aviation and tourism in CAREC and provides some recommendations on how to potentially mitigate this impact and achieve a recovery rate that is faster than the global average.

This will be a very challenging year for aviation and tourism. However, there are opportunities to use this crisis to improve CAREC's long-term position.

This crisis provides an opportunity to reset CAREC's aviation industry through reforms, new strategies and restructurings. This study looks briefly at some of these opportunities and makes some initial recommendations. It also provides a broad level assessment of the impact on CAREC with the objective of highlighting the gravity of the current situation and starting a dialogue.

This study is intended as a first step in a wider project to more fully assess the impact of COVID-19 and identify a comprehensive list of recommended measures and policies to help CAREC countries mitigate the impact and recover. As part of the next phase in this project ADB aims to engage with CAREC's aviation community and hold virtual meetings in member countries to discuss the impact, the initial recommendations and the potential recovery.

Impact Assessment Summary

Estimated airline traffic reduction for CAREC in 2020:

34 million passengers

Estimated airport traffic reduction for CAREC in 2020:

39 million passengers

Estimated passenger revenue impact for CAREC in 2020:

USD5 billion

Estimated travel and tourism jobs in CAREC that are at risk in 2020:

700,000 jobs

Estimated reduction in international visitor spend for CAREC in 2020:

USD9 billion

Estimated reduction in visitor numbers for CAREC in 2020:

24 million visitors

Estimated reduction in visitor arrivals by air for CAREC in 2020:

5 million visitors

Estimated required financial support for CAREC airlines in 2020:

USD2 billion

Summary of Recommendations

1. CAREC should promote domestic tourism in the second half 2020 to help facilitate a recovery of the aviation and tourism sectors during a period of much lower international traffic.
2. CAREC countries should consider opening green lanes to facilitate and stimulate travel and tourism within CAREC.
3. CAREC countries should consider implementing a visa free policy to further facilitate travel and tourism within CAREC.
4. CAREC should promote improved air connectivity between CAREC countries during the pandemic and after this crisis.
5. CAREC should consider providing incentives to support the launch of new routes connecting major cities with tourist destinations in other CAREC countries
6. CAREC should invest in boosting air cargo capabilities, leveraging its strategic location between Asia and Europe and driving increased cargo revenues for the aviation industry during a period of passenger declines.
7. CAREC should promote contactless air travel and invest in technologies to support digital procedures at airports.
8. CAREC should adopt uniform standards and regulations for air travel in the COVID-19 environment.
9. CAREC should consider providing financial support to airlines through loans and loan guarantees
10. CAREC should consider providing general support packages to the aviation and tourism industries through benefits such as wage subsidies, tax reductions and fee waivers.
11. CAREC should consider alternative funding options to offset the impact of reduced overflight revenues.

COVID-19 impact on air transport globally and how CAREC stacks up

CAREC's aviation industry is proportionately more impacted by COVID-19 than the global aviation industry due to a heavy dependence on the international market.

Prior to the COVID-19 pandemic, the domestic market accounted for 59% of global passenger traffic compared to 41% for international. However, in CAREC the domestic market accounted for only 27% of passenger traffic compared to 73% for international.

Traffic between the 10 CAREC member countries excluding China accounted for only about 3% of total traffic CAREC traffic. Therefore, when including the 27% portion of total traffic that is domestic, only 30% of CAREC traffic consisted of passengers heading within CAREC compared to 70% outside. This is much lower ratio of internal traffic than other regional groupings such as ASEAN.

Globally passenger traffic is expected to decline by around 50% in 2020. A full recovery to 2019 levels is not expected until at least 2022 – and more likely 2023 or 2024.

Domestic traffic will recover faster, albeit gradually. Domestic traffic will likely decline by 30% to 40% in 2020 at a global level. The rate of decline will vary depending on the country.

Domestic markets that rely heavily on international tourists will decline by more given the sharp drop in international traffic. Domestic markets that rely mainly on local residents and have a population that is eager to resume travelling – but will generally not be able to go abroad due to all the international restrictions – could recover more rapidly. These types of domestic markets, which include some CAREC countries such as Kazakhstan, could be back at 2019 levels in 2021.

At a global level, international passenger traffic will likely decline by 60% to 70% in 2020 and is expected to remain well below 2019 levels in 2021. Some countries will have smaller declines than others but there are very few if any counties that will be able to resume growth earlier than 2022. The return of international traffic to 2019 levels likely hinges on vaccination.

This study projects a 58% decline in total CAREC passenger traffic for 2020. This is higher than the global average due mainly to CAREC's small domestic market, which is projected to decline by 32%. Domestic air travel is already starting to recover in many CAREC countries. However, the benefit of resumed domestic travel is somewhat limited given the small size of the domestic air transport markets in most CAREC countries.

This study projects a 67% decline in CAREC international passenger traffic for 2020. This is also slightly higher than the global average as most CAREC countries have a high degree of seasonality with significantly higher passenger traffic in summer months.

Some CAREC countries still hope to salvage the peak summer season by attracting some international tourists in July and August. However, travel to and from CAREC this summer will be very low due to limited demand and lingering travel restrictions. More international travel is expected globally in the fourth quarter of 2020 but as these are off-peak months for most CAREC countries the total decline for the year will be higher than the global average.

January and February, which this year experienced normal volumes of traffic globally except for China, are also off-peak months for most CAREC countries. Traffic started declining in March and by the end of March virtually all scheduled international passenger services were suspended. Several domestic markets closed entirely and those that remained open a very limited number of flights continued to operate. Domestic markets began reopening in May and by early June almost all domestic markets – in CAREC as well as globally – were open again albeit with reduced schedules.

This study does not project CAREC traffic for 2021 or beyond. It is too early to make accurate predictions as there are a lot of unknown variables. However, there is an opportunity for CAREC to recover faster in 2021 than the global average. How this can be achieved is discussed later in this study.

CAREC impact: 34 million fewer airline passengers in 2020

Prior to the pandemic the CAREC aviation market (excluding China) consisted of nearly 60 million annual passengers. This represents about 1.3% of global passenger traffic and includes both local and foreign airlines.

The largest aviation market in CAREC is Pakistan, which accounts for a third of all passenger traffic in CAREC. This is not surprising given Pakistan is by far the most populated, although the size of Pakistan's air transport sector is very small given its large population (over 200 million).

Kazakhstan is the second largest aviation market in CAREC, accounting for a fifth of all passenger traffic. Pakistan and Kazakhstan are the only CAREC countries with sizeable domestic air transport markets. Combined they account for nearly three-quarters of all domestic passenger traffic in CAREC.

Azerbaijan, Georgia and Uzbekistan have similarly sized aviation markets, each accounting for about 9% of total CAREC passenger traffic. The remaining five CAREC countries – Afghanistan, Kyrgyz Republic, Mongolia, Tajikistan and Turkmenistan – have smaller markets that each account for between 3% and 5% of the total CAREC air transport market.

This study projects that CAREC countries will experience a passenger traffic reduction of 45% to 70% in 2020. Countries relying heavily on international traffic, and particularly international tourism, will have a bigger decline than countries with bigger domestic markets and smaller tourism industries.

Afghanistan and Turkmenistan have the smallest tourism sectors in CAREC and the size of their domestic markets are relatively large compared to their international markets Therefore, they are proportionately less impacted.

Georgia, Tajikistan and Uzbekistan are proportionately the most impacted. Georgia and Tajikistan have virtually no domestic air travel. Uzbekistan has a small domestic market that relies heavily on international visitors.

While the level impact varies by country, all CAREC countries will be significantly impacted by COVID-19. The overall 58% decline in passenger traffic projected by this study for 2020 equates to 34 million fewer passengers than 2019. Such a significant reduction has a huge impact on CAREC’s aviation sector as well as the overall economy.

These figures assume a reopening of some international routes in the coming months. If there is a second wave of COVID-19 cases, resulting in borders closing again in the second half of this year, an even higher reduction is likely. It is also possible there will be a lower reduction than projected here if borders reopen and international travel demand recovers faster than expected. This forecast represents the most likely scenario.

2019 passenger traffic (in millions) for CAREC countries and 2020 projections

Country	Domestic 2019	Intern'l 2019	Total 2019	Domestic 2020 est	Intern'l 2020 est	Total 2020 est	Y-o-Y drop
Afghanistan*	0.7	1.5	2.2	0.5	0.7	1.2	45%
Azerbaijan	0.6	4.4	5	0.3	1.5	1.8	64%
Georgia	N/A	5.2	5.2	N/A	1.6	1.6	69%
Kazakhstan	5.4	6.3	11.7	4.0	1.9	5.9	50%
Kyrgyz Republic	0.6	2.5	3.1	0.3	0.8	1.1	65%
Mongolia	0.4	1.2	1.6	0.3	0.4	0.7	56%
Pakistan	6.0	14.0	20.0	4.0	4.9	8.9	56%
Tajikistan	N/A	2.1	2.1	N/A	0.7	0.7	67%
Turkmenistan*	1.3	0.9	2.2	0.9	0.3	1.2	45%
Uzbekistan*	0.7	4.7	5.4	0.3	1.4	1.7	69%
TOTAL	15.7	42.8	58.5	10.6	14.2	24.8	58%

Source: author

Notes: Georgia and Tajikistan domestic markets have less than 100,000 annual passengers.

Afghanistan and Turkmenistan 2019 figures are estimated based on seat capacity.

Uzbekistan 2019 figures are estimated based on seat capacity and Tashkent traffic.

Pakistan 2019 figures are based on Pakistan fiscal year ending June. All other 2019 figures are based on calendar year.

CAREC impact: 39 million fewer airport passengers in 2020

For CAREC airports the projected reduction is 39 million passengers. The higher figure is due to each domestic passenger being counted twice (for embarking and disembarking).

In 2019, airport traffic in CAREC was 74 million. This study projects that due to COVID-19 CAREC airports will handle a combined 35 million passengers in 2020.

This study projects a 52% decline in airport passenger traffic compared to 2019. This reduction is less than the 58% decline for airline passenger traffic due to the higher emphasis on the less impacted domestic market.

2019 airport traffic (in millions) for CAREC countries and 2020 projections

Country	Domestic 2019	International 2019	Total 2019	Total 2020 estimated	Y-o-Y Drop
Afghanistan*	1.4	1.5	2.9	1.7	41%
Azerbaijan	1.2	4.4	5.6	2.1	63%
Georgia	N/A	5.2	5.2	1.6	69%
Kazakhstan	10.7	6.3	17	9.9	42%
Kyrgyz Republic	1.2	2.5	3.7	1.4	62%
Mongolia	0.9	1.2	2.1	1.0	52%
Pakistan	12	14.0	26.0	12.9	50%
Tajikistan	N/A	2.1	2.1	0.7	67%
Turkmenistan*	2.6	0.9	3.5	2.1	40%
Uzbekistan*	1.4	4.7	6.1	2.0	67%
TOTAL	30.4	42.8	74.2	35.4	52%

Source: author

Notes: Georgia and Tajikistan have limited domestic markets.

Afghanistan and Turkmenistan 2019 figures are estimated based on seat capacity.

Uzbekistan 2019 figures are estimated based on seat capacity and Tashkent traffic.

Pakistan 2019 figures are based on Pakistan fiscal year ending June. All other 2019 figures are based on calendar year.

Almaty overtook Karachi in 2019 to become the largest airport in CAREC. Two other airports in the main two markets of Kazakhstan and Pakistan, Nur-Sultan and Islamabad, are the third and fourth largest airports in CAREC.

Almaty, Karachi, Nur-Sultan and Islamabad are the only airports in CAREC with over 5 million annual passengers prior to pandemic. There are another three airports with over 4 million annual passengers – Baku, Tashkent and Lahore. Tbilisi is the eighth largest airport in CAREC with 3.7 million passengers handled in 2019.

Prior to the pandemic there were 14 airports in CAREC with more than 1 million annual passengers. The other six airports with at least 1 million passengers are Ashgabat, Kabul, Bishkek, Ulaanbaatar, Dushanbe and Peshawar. Ashgabat and Kabul are not listed in the table below as they do not report passenger traffic; they both are slightly smaller than Bishkek but larger than Ulaanbaatar.

2019 passenger traffic (in millions) for leading airports in CAREC

Airport	Country	domestic	international	total
Almaty	Kazakhstan	3.4	3.0	6.4
Karachi	Pakistan	2.5	3.7	6.2
Nur-Sultan	Kazakhstan	3.2	1.8	5.1
Islamabad	Pakistan	1.4	3.7	5.1
Baku	Azerbaijan	0.6	4.1	4.7
Tashkent*	Uzbekistan	0.6	3.9	4.5
Lahore	Pakistan	1.0	3.5	4.5
Tbilisi	Georgia	N/A	3.7	3.7
Bishkek	Kyrgyz Republic	0.6	1.6	2.2
Ulaanbaatar	Mongolia	0.4	1.2	1.6
Dushanbe	Tajikistan	N/A	1.4	1.4
Peshawar	Pakistan	0.2	1.2	1.4
TOTAL		13.9	32.8	46.8

Source: author

Notes: Dushanbe and Tbilisi have limited domestic flights and do not report domestic traffic.

Tashkent's domestic/international breakdown is estimated.

Pakistan data is for fiscal year ending June 2019; all other data is for calendar year ending December 2019.

The top 14 airports in CAREC handled nearly 51 million passengers in 2019 (includes 46.8 million for the 12 airports listed above and an estimated 4 million for Ashgabat and Kabul combined). This represents 70% of total airport traffic in CAREC, including 52% of total domestic traffic and 82% of total international traffic. There are about another 40 airports in CAREC with scheduled international services but they are all small in size.

Almaty, Nur-Sultan, Tashkent and Ulaanbaatar were the only major CAREC airports to achieve double digit passenger growth in 2019.

Tbilisi has been the fastest growing major CAREC airport over the last decade, increasing passenger traffic more than five-fold from only 700,000 in 2009 to 3.7 million in 2019. However, Tbilisi's traffic declined by 3% in 2019 as it was impacted by a suspension of services to Russia.

Nur-Sultan is the second fastest growing of the main CAREC airport over the last decade, increasing passenger traffic nearly four-fold from 1.3 million in 2009 to 5.1 million in 2019.

Nur-Sultan has emerged over the last decade as a hub for CAREC with services to seven destinations in other CAREC countries (excluding China) prior to the pandemic. Almaty is also a hub with services to six destinations in other CAREC countries. Tashkent is a smaller hub in terms of overall passenger volumes but has eight destinations to other CAREC countries, giving it the distinction of having the most CAREC connections.

Kazakhstan has more transit traffic (passengers connecting from one flight to another without leaving the airport) than any other CAREC country. Kazakhstan had about 1 million annual transit passengers prior to the pandemic while Uzbekistan had about 500,000. Most of this

traffic consists of passengers that are not heading to or from other CAREC countries; primarily it is traffic from East Asia or India to Europe (including Russia).

Azerbaijan, Pakistan and Turkmenistan also handle a small amount of transit traffic. Overall CAREC (excluding China) has about 2 million annual international transit passengers. This represents about 5% of total international passenger traffic in CAREC – a small figure compared to other regions, particularly the Gulf, which have large airports that rely primarily on transit traffic.

There is an opportunity for CAREC countries to capture more transit traffic in future. However, transit traffic at CAREC airports will decline significantly in 2020 due to the global drop in international traffic. CAREC airports will likely handle less than 1 million international transit passengers in 2020.

CAREC impact: USD5 billion reduction in passenger revenues

Each transit passenger is counted twice in the CAREC traffic figures as transit passengers need to take two flights to reach their final destination. However, transit passengers are not counted at all in origin and destination traffic unless they are heading to or from a CAREC country, in which case they are counted once.

In 2018, there were just over 50 million origin and destination passengers in CAREC. Pakistan is by far the largest market, accounting for 38% of all CAREC origin and destination traffic. Kazakhstan is the second largest market but its share of origin and destination traffic is less than its share of total traffic as Kazakhstan has more transit traffic than any other CAREC country.

Origin and destination passenger traffic (in millions) for CAREC countries, 2018

Country	2018	Growth compared to 2017
Afghanistan	2.101	-1%
Azerbaijan	3.894	+10%
Georgia	4.773	+29%
Kazakhstan	8.155	+1%
Kyrgyz Republic	2.594	-7%
Mongolia*	1.423	+14%
Pakistan	19.129	-1%
Tajikistan	2.064	+1%
Turkmenistan	1.929	-7%
Uzbekistan	4.086	+22%
TOTAL	50.148	

Source: IATA PAXIS

Note: Mongolia figure is total passenger traffic in Mongolia as PAXIS figure is not available. However, this figure should be close to origin and destination traffic given there is virtually no transit traffic in Mongolia.

The International Air Transport Association (IATA) is expecting origin and destination passenger traffic to decline globally in 2020 by 50%. IATA has projected a 52% or 9.866 million reduction in origin and destination traffic for Pakistan. IATA has not provided estimates for other CAREC countries but assuming a 52% average reduction for CAREC overall the decline would be 26 million passengers.

IATA is projecting USD1.829 billion decline in passenger revenues for Pakistan due to the 9.866 million reduction in passengers. IATA has not provided revenue projections for other CAREC countries but a passenger revenue decline of around USD5 billion can be estimated by calculating CAREC's portion of the global and regional figures.

CAREC impact: 700,000 jobs at risk

IATA also stated that 259,400 jobs in Pakistan are at risk as a result of the expected decline in passenger traffic. IATA has not provided jobs at risk projections for other CAREC countries but using the IATA methodology this study estimates that 700,000 travel and tourism jobs are at risk in CAREC.

Globally IATA estimates there are 65.5 million jobs in aviation or dependent on aviation. This includes 2.7 million jobs at airlines and nearly 63 million jobs at other types of companies in the aviation sector (such as airport jobs) as well in other segments of the travel and tourism industry. IATA warns about 25 million of the total 65.5 million aviation dependent jobs are at risk due to the decline in passenger traffic.

This study estimates 1.5 million jobs of the 65.5 million global jobs are in CAREC countries and 700,000 of these are at risk. Pakistan has the most jobs at risk followed by Georgia. Azerbaijan, Mongolia, Kazakhstan and Uzbekistan have a roughly similar number of jobs at risk. Kyrgyz Republic, Turkmenistan and Afghanistan have the least number of impacted jobs.

The number of jobs in travel (includes aviation) and tourism can vary significantly by country depending on popularity as a tourist destination and workforce efficiency. For example, Pakistan and some other CAREC countries have a disproportionately high level of airline and aviation employees given the size of their air transport markets due to inefficiencies. Some CAREC countries such as Mongolia, Azerbaijan, Uzbekistan and particularly Georgia have big tourism industries compared to their overall economies.

The number of jobs in travel and tourism also vary depending on the methodology used. Based on World Travel and Tourism Council (WTTC) data, there were 330 million travel and tourism jobs globally in 2019. WTTC is projecting that 31% of these jobs, or 101 million, will be lost in 2020 due to COVID-19.

The World Tourism Organization (UNWTO) has a similar projection and has stated that 100 million to 120 million travel and tourism jobs are at risk in 2020 due to the pandemic.

WTTC data indicates that in 2018 there were over 6.2 million travel and tourism jobs in CAREC excluding Afghanistan and Turkmenistan. Data for Afghanistan and Turkmenistan is not available but these are very small markets with limited tourism. Afghanistan and Turkmenistan combined likely have less than 100,000 travel and tourism jobs.

WTTC travel and tourism jobs in CAREC by country: 2018

Country	Number of Jobs	% of total employment
Azerbaijan	378,000	7.7%
Georgia	488,200	27.7%
Kazakhstan	429,800	4.9%
Kyrgyz Republic	209,100	8.5%
Mongolia	88,700	7.6%
Pakistan	3,881,900	6.2%
Tajikistan	164,100	6.6%
Uzbekistan	601,700	4.6%
TOTAL	6,241,500	

Source: World Travel and Tourism Council (WTTC)

WTTC employment data for CAREC countries is significantly higher than figures provided by some of the countries and other data sources. WTTC uses a different methodology for calculating jobs and often estimates employment figures based on tourism expenditures. However, the data is still useful for comparison purposes, particularly given that several CAREC countries do not provide travel and tourism employment data.

Based on the WTTC estimates for global job losses and the proportion of total travel and tourism jobs that are in CAREC countries, there are about 2 million jobs at risk in CAREC. However, this figure seems too high given the other data sources.

Conservatively, 700,000 jobs are at risk. Many of these jobs should return in 2021 or 2022 as international tourism recovers. However, even the temporary loss of 700,000 jobs will have a profound impact on the overall CAREC economy.

CAREC impact: USD9 billion reduction in international visitor spend

Travel (including aviation) and tourism are important components of the CAREC economy. Travel and tourism accounted for approximately 5% of CAREC's combined GDP (excludes China) prior to the pandemic.

There are several different ways to measure economic contribution. Based on WTTC data for travel and tourism GDP, the main eight CAREC tourism markets generated a combined USD38.2

billion in 2019. Based on WTTC figures for international visitor spend, the same eight countries generated USD11.9 billion. WTTC does not report data for Afghanistan and Turkmenistan.

Georgia has the highest international visitor spend but the third highest overall travel and tourism spend after Pakistan and Kazakhstan. This is due to Georgia’s relatively small domestic tourism market compared to the much larger overall countries of Pakistan and Kazakhstan.

Of all CAREC countries Georgia relies the most on travel and tourism, with travel and tourism accounting for an estimated 26% of GDP in 2019. No other country in CAREC is above the 10% global average for travel and tourism contribution to GDP. Georgia is one of the top 25 countries globally for travel and tourism portion of GDP. (Most of the other top 25 countries globally are small island countries with an even higher a portion of travel and tourism GDP to total GDP than Georgia.)

In 2019, international visitor spend accounted for 39% of Georgia’s total exports. Kyrgyz Republic, Tajikistan and Uzbekistan also have relatively high international visitor spend to total export ratios, indicating a high reliance on international tourism. These countries are therefore proportionally more impacted by the decline in international tourism in 2020 although the dollar value impact is relatively small in Kyrgyz Republic and particularly Tajikistan given these are small economies overall.

Travel and tourism contribution to GDP for CAREC countries in 2019 (WTTC)

Country	Travel and Tourism GDP (USD million)	% of GDP	International Visitor Spend (USD million)	% of total exports
Azerbaijan	3,539.2	7.2%	1,727.2	6.5%
Georgia	4,487.9	26.3%	3,578.1	39.0%
Kazakhstan	8,866.1	5.2%	2,883.5	4.1%
Kyrgyz Republic	722.5	8.3%	515.1	18.6%
Mongolia	989.2	7.2%	605.5	6.8%
Pakistan	16,576.5	5.9%	852.2	3.1%
Tajikistan	503.7	6.4%	165.3	28.4%
Uzbekistan	2473.5	4.5%	1,550.9	21.1%
TOTAL	38,158.60		11,877.80	

Source: WTTC

The World Bank has similar figures for international visitor spend, which is often referred to as international tourist receipts. The World Bank includes Afghanistan and Turkmenistan in its data, providing a more complete picture of CAREC overall. The latest available World Bank data is for 2018. The World Bank mainly relies on UNWTO for this data.

International travel and tourism contribution for CAREC countries in 2018 (World Bank)

Country	International Tourism Receipts (USD million)	% of exports	% of GDP	Total GDP (USD million)
Afghanistan	50	3.1%	0.3%	19,363
Azerbaijan	2,830	11.1%	6.0%	46,940
Georgia	3,518	39.5%	20.0%	17,600
Kazakhstan	2,651	3.9%	1.5%	179,340
Kyrgyz Republic	487	18.7%	6.0%	8,093
Mongolia	526	6.8%	4.0%	13,067
Pakistan	818	2.7%	0.3%	314,588
Tajikistan	171	15.3%	2.3%	7,523
Turkmenistan	46	N/A	0.1%	40,761
Uzbekistan	1,314	3.8%	2.6%	50,500
TOTAL	12,411	N/A	1.8%	697,775

Source: World Bank

WTTC estimates that travel and tourism global GDP will decline by 30% or USD2.7 trillion in 2020. Total travel and tourism global GDP amounted to USD8.9 trillion in 2019, representing 10.3% of the global economy.

CAREC accounted for only 0.4% of global travel and tourism GDP in 2019. This relatively low figure is due to a much lower average contribution to GDP (approximately 5% compared to the global average of 10%).

Based on the projected 30% global decline, travel and tourism contribution to GDP in CAREC would decline by about USD12 billion in 2020. However, CAREC will likely experience a higher than average decline due to a higher than average international visitor spend portion. Global visitor exports amounted to USD1.7 trillion in 2019 with CAREC accounting for a 0.7% share.

This study estimates that international visitor spend in CAREC will decline by 70% in 2020, resulting in a reduction of around USD9 billion compared to 2019.

This study estimates that total travel and tourism contribution to GDP in CAREC will decline by 35% in 2020, resulting in a reduction of around USD13.5 billion. A higher decline than the global average is projected due to the huge impact from the decline in international tourism.

The projected USD13.5 billion reduction for 2020 is applied on a base of USD38.5 billion in 2019. The USD38.5 billion is calculated using the WTCC figures for the seven countries plus an estimated USD230 million for Afghanistan and Turkmenistan.

The figures in this section are approximate as there are different methodologies for calculating travel and tourism contribution to GDP and international tourism receipts. Some countries that report their own data use different methodology than WTTC.

CAREC impact: 24 million fewer visitor arrivals in 2020

Tourism in CAREC has been growing rapidly, helping drive overall economic growth as well as growth in the air transport sector.

There were over 36 million visitors to CAREC countries (excluding China) in 2018. Data for 2019 is not yet available for all countries but visitor arrivals likely exceeded 40 million based on the growth reported by several of the countries.

Uzbekistan had the fastest visitor growth among CAREC countries in 2019, reporting a 26% increase to 6.749 million visitor arrivals. Uzbekistan visitor numbers have tripled in three years, from only 2.027 million in 2016, driven by liberalization and visa reform.

Azerbaijan visitor numbers grew last year by 11%, Mongolia by 9% and Georgia by 7%. Azerbaijan and Mongolia have grown rapidly the last four years but Georgia has achieved by far the fastest visitor growth among CAREC countries over the last decade. Georgia had 7.726 million visitors in 2019 compared to only 5 million in 2014, 2 million in 2010 and 1 million in 2007.

Kazakhstan and Kyrgyz Republic have not reported total visitor arrival numbers yet for 2019. However, Kyrgyz Republic reported 6.947 million visitors in 2018 and 7.8 million in the first 11 months of 2019, ensuring a double-digit growth rate for the full year. Kazakhstan reported 8.2 million visitors in the first nine months of 2019, equaling the amount from the first nine months of 2018 and therefore likely had flat visitor numbers for the full year.

Pakistan and Tajikistan also have not yet reported visitor arrival data for 2019. These are smaller markets, reporting 3.2 million and 1 million visitor arrivals respectively in 2018.

Afghanistan and Turkmenistan do not report visitor data. They have not typically attracted a significant number of visitors and therefore their exclusion does not significantly distort the overall data.

Visitor arrivals (in millions) for CAREC countries: 2018 and 2019*

Country	2018	2019	Y-o-Y- Growth
Azerbaijan	2.849	3.17	11.3%
Georgia	7.203	7.726	7.3%
Kazakhstan	8.789		
Kyrgyz Republic	6.947		
Mongolia	0.529	0.577	9.1%
Pakistan	3.2		
Tajikistan	1.035		
Uzbekistan	5.346	6.749	26.2%
<i>TOTAL</i>	<i>35.898</i>		

*Source: author (using data and reports from tourism authorities)
Note: *2019 data is not yet available for all countries.*

This study assumes a 60% decline in visitor numbers, resulting in a 24 million drop compared to the approximately 40 million visitors in 2019.

CAREC impact: 5 million fewer visitor arrivals by air in 2020

UNWTO is forecasting tourist arrivals globally to decline by 60% to 80% in 2020. Arrivals declined by 22% in the first quarter of 2020, including a 57% drop in March as COVID-19 spread globally.

The 80% projection is based on a worst case scenario with borders remaining closed for the entire year and therefore almost all of the visitors for 2020 being confined to the first quarter. The 60% projection assumes a reopening of borders in the third quarter and visitor numbers starting to recover as early as July. Most likely tourist arrival numbers globally will drop by around 70% with some but not all borders gradually reopening in the second half of 2020. UNWTO and other organizations such as WTTC use different methodologies for counting visitors than most CAREC governments. The UNWTO and WTTC use a definition that only counts a visitor if they stay overnight.

The term tourist arrival rather than visitor is often used for visitors staying overnight. However, tourist arrivals are not limited to tourists but counts all visitors staying at least one night and less than one year. For example, business visitors and students are counted as long as they stay less than a year (if they stay longer than a year they are considered residents).

The availability of overnight visitor data is limited for CAREC countries. Most CAREC countries do not provide a breakdown in their own tourism data of overnight and same day visitors.

For some CAREC countries UNWTO or WTTC data for overnight visitors seems inaccurate. For example, UNWTO reported 423,000 overnight visitors to Kyrgyz Republic in 2018 but the National Statistical Committee of the Kyrgyz Republic reported 1.38 million overnight visitors in 2018, growing to 1.78 million in 2019.

UNWTO does not report a breakdown between overnight and same day visitors for Tajikistan and Uzbekistan. It has not reported a breakdown for Kazakhstan since 2014, when there were 4.56 million overnight visitors compared to 1.77 million same day visitors. For Mongolia the number of overnight visitors reported by UNWTO equals what the Mongolian government reports for total visitors.

For Azerbaijan, the number of overnight visitors reported by UNWTO for 2018 represented 92% of total visitors, which does not seem accurate given the large number of visitors crossing the land borders with Georgia and Iran. For Georgia, the number of reported overnight visitors was a more realistic 66% given that 38% of its visitors are from neighboring Azerbaijan or Armenia.

While some visitors that cross by land stay overnight most visitors using land crossings are on day trips for shopping or visiting friends and relatives on the other side of the border. Some CAREC borders have large volumes of day trippers. This type of visitor obviously has less impact on the economy than visitors staying overnight.

The decline in same day visitors will be less in 2020 than the decline in overnight visitors. Once borders reopen the day trip segment will recover faster than overnight visitors. However, there will still be a significant reduction in day visitors (likely over 50%) given the closure of borders for at least two months due to COVID-19 and the likely continued restrictions on border crossings over the next several months.

Another important statistic in trying to assess the impact of COVID-19 on the CAREC aviation and tourism sectors is visitor numbers by air. Visitors by air is a key statistical indicator for aviation given that in some CAREC countries most passengers are foreigners rather than local residents. It is also an important economic indicator given that visitors by air on average stay longer and spend a lot more than visitors that arrive by land.

Visitors by air data is only available for a few CAREC countries, namely Azerbaijan, Georgia and Kyrgyz Republic. Kazakhstan data is also available from 2014 but not in recent years.

Visitors by air (in thousands) for select CAREC countries: 2014 and 2018

Country	2014	2015	2016	2017	2018
Azerbaijan	1,089	969	1,165	1,152	1,184
Georgia	640	738	990	1,440	1,788
Kazakhstan	874				
Kyrgyz Republic	388	386	308	408	408

Source: UNWTO

For CAREC overall, this study estimates there were 7 million visitors by air in 2019. This segment of traffic therefore accounted for 14 million passengers in 2019, which is around one third of total international passenger traffic in CAREC.

Visitors by air is also referred to as inbound traffic while local residents departing the country by air is known as outbound traffic. The inbound segment will likely decline to around 4 million passengers in 2020, or 2 million visitors by air, impacting airlines as well as CAREC's tourism industry.

Of all CAREC countries Georgia's aviation market is most heavily dependent on inbound traffic. In 2018, visitors accounted for 72% of Georgia's total passenger traffic. Azerbaijan's aviation market also relies heavily on inbound traffic with visitors accounting for 58% of total international passenger traffic in 2018.

In all the other CAREC countries the inbound segment accounts for less than half of total international passengers. In Mongolia the inbound visitor portion of international traffic is only slightly less than 50% (based on Mongolian government data for 2019). In Kyrgyz Republic, visitors accounted for 35% of total international passenger traffic in 2018.

For Kazakhstan and Uzbekistan, inbound visitors account for roughly 30% of international traffic. The Kazakhstan figure is an estimate using the 2014 data and the number of visitors in 2018 from countries that typically arrive by air. The Uzbekistan figure is an estimate based on traffic for Uzbekistan Airways, which has previously disclosed the portion of its passengers which are foreigners.

For Afghanistan, Pakistan, Tajikistan and Turkmenistan the visitor numbers by air are small. Afghanistan, Tajikistan and Turkmenistan are small aviation markets overall (around 2 million passengers per annum as previously discussed) and have limited tourism. Pakistan has a large aviation market but of the 3.2 million visitors for 2018 only 17,000 arrived on tourist visa. Pakistan has more significant business visitor volumes that arrive by air but international flights in Pakistan cater mainly to the outbound segment, particularly Pakistanis heading overseas for work.

CAREC opportunity: growing domestic and regional tourism

Outbound worker traffic accounts for a large portion of airline revenues throughout CAREC. The Middle East, Russia and Turkey are particular popular destinations for migrant workers. For Russia some of the traffic travels by land, particularly to cities in Far Eastern Russia, but air travel is common to the main eastern cities.

Worker traffic will likely recover more quickly than tourism traffic once borders reopen. However, the number of migrant workers flying to and from CAREC countries will still decline significantly in 2020.

Outbound tourism traffic is also important. Fewer CAREC residents will travel overseas for holidays this year, driving an overall sharp decline in outbound passenger traffic.

More CAREC residents will take holidays closer to home due to the restrictions on international travel. This can be seen as an opportunity for several countries to grow domestic tourism, enabling hotels, restaurants and tourist attractions that normally mainly cater to foreign visitors to recover some of their lost revenues.

Pakistan has the largest domestic tourism market in CAREC with around 50 million domestic trips per annum. This is not surprising given Pakistan's large population and geographic size and relatively low volume of outbound international travelers. Based on 2019 WTTC data, 93% of Pakistan's travel and tourism spend was domestic.

Domestic tourism is also bigger than international tourism in Kazakhstan and Tajikistan. Based on 2019 WTTC data, domestic accounted for 54% of total travel and tourism spend in Kazakhstan and 64% in Tajikistan. Kazakhstan reported 5 million domestic tourists for the first nine months of 2019.

Domestic tourism is also prevalent in other CAREC countries but international tourism is generally bigger in terms of revenue. Based on 2019 WTTC data, domestic accounted for 43% of travel and tourism spend in Azerbaijan, 35% in Kyrgyz Republic, 31% in Mongolia, 30% in Uzbekistan and 22% in Georgia. Data is not available for Afghanistan or Turkmenistan.

The low figure for Georgia reflects its small population and high number of international visitors. Georgia still has a sizeable domestic market, which has reopened and is generating some revenues for the battered tourism sector.

While there was virtually no domestic tourism from late March to the middle of May it has since resumed in most CAREC countries. In some countries domestic tourism levels could be at or close to normal levels in July and August.

While overall hotel occupancy rates will still be down due to the decline in international tourism, a quick recovery in domestic tourism will help mitigate the impact to the overall tourism sector. Tourism companies (and their employees) that rely mainly on domestic market will be less impacted than companies (and their employees) which rely on international visitors. However, some international focused companies should be able to shift focus and attract more domestic visitors.

Aviation will also benefit somewhat from a rapid recovery in domestic tourism, particularly in the main domestic markets of Kazakhstan and Pakistan. In the other CAREC countries, airlines are not generally used for domestic holidays although there are some opportunities to stimulate domestic demand. Airlines and governments should promote domestic air travel as it will help boost utilization of aircraft and crew that have been impacted by the decline in international travel. All CAREC countries have at least a few domestic routes where air travel is an option although Kazakhstan and Pakistan have the advantage of significantly more domestic routes, including several where air travel is only practical option given the distances involved.

While some are wary of travelling by air during the pandemic, aircraft are considered relatively safe given their modern hospital grade filters. Buses and trains could be viewed as riskier. Older passenger trains that rumble on for several hours or even days before being serviced are common in CAREC.

Kazakhstan is particularly well positioned to attract domestic air travelers this summer due to low fares and a young population that is eager to travel again. Kazakhstan's domestic market grew rapidly in the second half of 2019 and the first two months of 2020 driven by new low-cost airline FlyArystan, which commenced operations in May 2019. While Kazakhstan's domestic market will take a few months to recover it could be back at pre-crisis levels by the

end of 2020 with promotional rates for both flights and hotels stimulating the budget segment of the market.

Recommendation: CAREC should promote domestic tourism in the second half 2020 to help facilitate a recovery of the aviation and tourism sectors during a period of much lower international traffic.

CAREC opportunity: creating green lanes between CAREC countries

There is also an opportunity to promote regional tourism within CAREC in the second half of 2020 and 2021 as an alternative to travelling outside the region, which could remain restrictive or challenging until there is a vaccination.

While CAREC residents frequently cross the border to neighboring countries, particularly those living near a border, these typically are short excursions for shopping, business or visiting friends and family rather than tourism. Most CAREC residents have never fully explored tourism destinations in neighboring CAREC countries. Travel to another CAREC country that does not share a border is even less common.

For example, Mongolia attracted only 18,000 visitors from other CAREC countries (excluding China) in 2019. This includes just over 16,000 residents from Kazakhstan, which is Mongolia's closest CAREC neighbor although they do not share a border. Visitors to Mongolia from the eight CAREC countries combined totaled less than 1,700, led by 700 from Kyrgyz Republic.

Mongolia has gained notoriety in recent years as a tourist destination but is not well known among residents in other CAREC countries. This would be an ideal time for CAREC residents to consider visiting Mongolia as its open spaces, pristine countryside and ecotourism attractions provide a low risk environment during the pandemic.

Azerbaijan and Georgia have similarly emerged as popular tourist destinations but should be able to attract more visitors from other CAREC countries. While Azerbaijan and Georgia have a lot of traffic between them the number of visitors from other CAREC countries is low, particularly compared to the number of visitors from European countries.

In 2018, Azerbaijan attracted 41,000 visitors from Pakistan, 38,000 visitors from Kazakhstan, 28,000 from Turkmenistan, 18,000 from Uzbekistan, 3,000 from the Kyrgyz Republic, 2,000 from Tajikistan, 1,000 from Afghanistan and less than 200 from Mongolia. Georgia attracted the same year 59,000 visitors from Kazakhstan, 10,000 from Turkmenistan, 8,000 from Pakistan, 7,000 from Kyrgyz Republic, 2,000 from Tajikistan, 400 from Afghanistan and 200 from Mongolia.

Pakistan has the potential to become a large source market for several CAREC countries. Pakistan is by far the most populated CAREC country but there are only around 60,000 Pakistani visitors per annum to all other CAREC countries combined (excludes China).

Azerbaijan is the largest CAREC destination for Pakistan residents with 41,000 visitors in 2018 while Georgia is the second largest with only 8,000 visitors (as mentioned above). Kazakhstan reported only 1,500 Pakistan visitors in 2018 while Tajikistan reported less than 500 and Mongolia less than 300. Data on Pakistan visitors to the other three countries is not available but likely totaled less than 10,000.

CAREC countries have been looking at lifting border restrictions and quarantine regulations, which have been in place the last few months due to COVID-19 and resuming tourism. Countries in other regions are also planning to gradually reopen by establishing green lanes – also known as bubbles or air bridges – with select countries.

The green lane concept provides an option for countries that have been relatively successful in containing the virus to reopen to each other with certain guidelines or requirements. The requirements for travelling in the green lane vary by country but can include testing negative for COVID-19 prior to travel. There can also be daily limits on the number of travelers.

The focus by CAREC countries so far have been almost entirely on creating green lanes with countries outside CAREC. For example, Georgia has been targeting several countries in Eastern Europe and Israel. Mongolia has been targeting South Korea and Japan.

The external focus is understandable given the biggest source markets for CAREC tourism are outside, particularly Europe and North Asia. However, establishing green lanes with European or North Asian countries may prove challenging given that European and North Asian countries seem to be initially prioritizing tie-ups within their own regions.

For example, Europe has started reopening borders but the focus seems to be on the 26 countries within Schengen. It may be difficult for a CAREC country to forge an agreement with any Schengen country as there is no way to control movement within Schengen once arrives.

Several green lanes are also being established in Asia Pacific. For example, China has opened a green lane with South Korea and Singapore. A green lane is also planned for Australia and New Zealand.

The initial phase of the international recovery is therefore expected to focus mainly on regional travel with tourists taking short flights rather than long flights. For CAREC, this is an opportunity to promote tourism within CAREC.

With restrictions likely to remain in place for travel from CAREC to Asia and Europe intra-CAREC tourism could flourish. However, the right strategies and policies need to be put in place.

CAREC countries should consider forming their own green lanes, facilitating tourism as well as economic activity. CAREC could potentially be used as a platform for bilateral and multilateral agreements.

The CAREC green lane concept would be for those CAREC countries which are ready to start opening up to work with other like-minded CAREC countries. This could result in several green lanes between CAREC countries being introduced in July or August, boosting summer tourism.

The CAREC green lane concept does not preclude CAREC countries also establishing green lanes outside CAREC. The idea is for CAREC countries that are ready to have green lanes with select countries to use CAREC as a platform for establishing green lanes with CAREC.

Travel between all CAREC countries would not be feasible in the initial phase. However, green lanes for all of CAREC could become an objective after a few months.

CAREC countries should also consider establishing visa free policies to further facilitate travel within CAREC. While visa-free options have increased in recent years, most CAREC countries still require visas from some other CAREC countries.

For example, almost all CAREC countries still require visas for Pakistan residents. As outlined earlier in this section, Pakistan is a large potential source market for other CAREC countries. Green lanes will help but if they are not accompanied with a visa free travel policy the impact will be muted and there will likely not be sufficient demand to support direct flights.

Promoting intra-CAREC tourism during these difficult times will help kick start the aviation and tourism sectors by providing much needed revenue for airlines, hotels, restaurants and tourist attractions. While the objective would be to facilitate tourism in the short term there could also be a positive long-term impact as citizens of CAREC countries get more familiar with destinations in other CAREC countries, particularly Silk Road UNESCO heritage sites.

Recommendation: CAREC countries should consider opening green lanes to facilitate and stimulate travel and tourism within CAREC.

Recommendation: CAREC countries should consider implementing a visa free policy to further facilitate travel and tourism within CAREC.

CAREC opportunity: improving air connectivity within CAREC

Promoting intra-CAREC tourism would also help boost connectivity within CAREC. Routes within CAREC could potentially be resumed quickly and even expanded if tourism flows increase.

A lack of connectivity has long been a major impediment to travel between CAREC countries. In 2017, when ADB examined CAREC connectivity as part of an aviation study, there were 31,000 weekly seats between CAREC countries (excluding China).

Capacity within CAREC has since declined further. Total weekly capacity between CAREC countries (excluding China) was only around 14,000 weekly one-way seats in the first two months of 2020 or 28,000 weekly return seats.

Intra-CAREC one-way weekly seat capacity: before COVID 19

	AFG	AZE	GEO	KAZ	KGZ	MON	PAK	TAJ	TUR	UZB
Afghanistan		0	0	0	0	0	500	300	0	300
Azerbaijan	0		1,500	1,500	0	0	0	0	0	500
Georgia	0	1,500		1,000	0	0	0	0	500	300
Kazakhstan	0	1,500	1,000		1,200	200	0	1,000	0	3,500
Kyrgyz Republic	0	0	0	1,200		0	0	200	0	500
Mongolia	0	0	0	200	0	0	0	0	0	0
Pakistan	500	0	0	0	0	0		0	0	300
Tajikistan	300	0	0	1,000	200	0	0		300	500
Turkmenistan	0	0	0	500	0	0	0	300		0
Uzbekistan	300	500	300	3,500	500	0	300	500	0	
TOTAL	1,100	3,500	2,800	8,900	1,900	200	800	2,300	800	5,900

*Notes: based on OAG schedules for first two months of 2020
Seat figures are approximate*

Prior to COVID-19, only 18 or 44% of all CAREC country pairs (excluding China) were connected with nonstop flights. The number of country pairs with nonstop services has improved slightly, increasing from 16 in 2017. However, a reduction in frequencies from an already low base has resulted in capacity declines on many country pairs.

Of the 18 country pairs served prior to the pandemic, only six or one third had at least seven weekly frequencies (equivalent of a daily service). In 2017, eight country pairs had at least seven weekly frequencies.

The lack of nonstop frequencies makes it difficult to travel around the region for business or leisure. Weekend getaways or one day business trips, which are common in other regions such as Europe or Southeast Asia, have been impossible between most CAREC countries due to limited flight frequencies.

Under normal circumstances it could take a few years to rebuild the limited connectivity between CAREC countries that existed pre-COVID 19, setting back by several years CAREC aspirations for improving connectivity. However, it could be feasible to re-establish the air connections that existed before COVID-19 within just a few months if green lanes between CAREC countries are quickly established.

Green lanes would stimulate demand for air travel within CAREC, enabling airlines to resume intra-CAREC routes quicker than routes with countries outside CAREC. On some routes, a surge in air traffic could even result in more flights than previously.

Below is a list of routes which could potentially support daily services if supported by green lanes and stimulated with promotions. Most of these routes were only operated by one airline prior to the pandemic but could potentially support more airlines as frequencies are added.

Examples of underserved intra-CAREC routes that can support more frequencies

Route	Frequencies prior to COVID-19	Potential frequencies	Operating airline(s) prior to COVID-19
Aktau-Tbilisi	5 per week	1 daily	SCAT Airlines
Almaty-Ashgabat	3 per week	1 daily	Turkmenistan Airlines
Almaty-Baku	5 per week	1 daily	Air Astana, Buta Airways
Baku-Nur Sultan	4 per week	1 daily	Air Astana
Baku-Tashkent	5 per week	1 daily	Buta Airways, Uzbekistan Airways
Batumi-Nur Sultan	2 per week	1 daily	SCAT Airlines
Bishkek-Dushanbe	1 per week	1 daily	Somon Air
Bishkek-Nur Sultan	3 per week	1 daily	Air Astana
Dushanbe-Tashkent	3 per week	1 daily	Somon Air, Uzbekistan Airways
Kabul-Tbilisi	2 per week	1 daily	Kam Air
Lahore-Tashkent	2 per week	1 daily	Uzbekistan Airways
Nur Sultan-Ulaanbaatar	2 per week	1 daily	SCAT Airlines
Tashkent-Tbilisi	2 per week	1 daily	Uzbekistan Airways

Source: Author

Governments should consider supporting the resumption of international routes within CAREC that have been suspended due to COVID-19 by implementing various initiatives and schemes. For example, waiving or reducing taxes and fees would help stimulate demand as airlines would be able to reduce the total price of a ticket (potentially by over 50%) and offer short international flights at all-inclusive fares similar to domestic flights. As outlined in the last section, implementing visa free travel where there are still restrictions would also help facilitate travel between CAREC countries.

CAREC countries should consider similar schemes as well as incentives to support the launch of new routes within CAREC. New route incentives are typical around the world but have not been used effectively to facilitate new air services within CAREC.

Several new routes connecting major CAREC cities with tourist destinations in other CAREC countries could be stimulated with a combination of green lanes, the right policies and promotions. Bukhara and Samarkand in Uzbekistan, Osh in Kyrgyz Republic and Batumi in Georgia are examples of tourist destinations that could potentially attract several routes from CAREC countries. As highlighted in the last section, there are particularly new route

opportunities from Pakistan, which prior to the pandemic had only two routes to other CAREC countries.

Below is a sampling of 20 potential new routes within CAREC that could potentially be launched in the second half of 2020 by establishing green lanes and with the right policies, incentives and promotions. It will not be realistic to quickly launch so many routes but those that do not get the green light this year could be supported in 2021.

Examples of unserved routes within CAREC

Route	Initial frequency
Almaty-Batumi	3 per week
Almaty-Bukhara	2 per week
Almaty-Karachi	3 per week
Almaty-Osh	3 per week
Almaty-Samarkand	2 per week
Almaty-Khovd-Ulaanbaatar	2 per week
Ashgabat-Baku	2 per week
Baku-Bishkek	2 per week
Baku-Dushanbe	2 per week
Bishkek-Karachi	2 per week
Bishkek-Tbilisi	3 per week
Dushanbe-Tbilisi	2 per week
Kabul-Samarkand	2 per week
Karachi-Osh	2 per week
Karachi-Samarkand	2 per week
Karachi-Tashkent	3 per week
Lahore-Bukhara	2 per week
Lahore-Samarkand	2 per week
Nur Sultan-Issy Kul	2 per week
Tbilisi-Ulaanbaatar	2 per week

Source: Author

With more travel within CAREC during this initial recovery phase the building blocks could be put in place for further connectivity improvements over the next few years. This in turn will support growth aspirations for CAREC tourism as visitors from outside CAREC, once they return, will be able to more easily visit multiple countries.

The lack of connectivity within CAREC has made it difficult for tourists to pursue multi-country itineraries and combine Silk Road tourist attractions. Improved air connectivity is essential for CAREC to achieve long term tourism growth targets. Without better connectivity, CAREC will lose potential tourists from outside the region to other easier to access destinations.

In this respect better connectivity within CAREC will ultimately lead to improved connectivity to and from CAREC. While CAREC's connectivity with Europe and Asia will suffer in the short term due to COVID-19 there will be an opportunity in 2021 to start rebuilding connectivity with other regions.

Offering improved connections within the region will help attract more long-haul flights and visitors. Air transport in CAREC could potentially recover faster than air transport globally. Promoting intra-CAREC travel and connectivity could prove to be the first step towards achieving this.

An uptick in intra-CAREC travel would also help drive improved coordination between CAREC tourism authorities and governments. This in turn could lead to improvements in areas that have previously been identified by ADB as impediments to intra-CAREC travel such as visa facilitation and airline partnerships.

Recommendation: CAREC should promote improved air connectivity between CAREC countries during the pandemic and after this crisis.

Recommendation: CAREC should consider providing incentives to support the launch of new routes connecting major cities with tourist destinations in other CAREC countries.

CAREC opportunity: expand cargo capabilities

Cargo is an important source of revenues for airlines and airports throughout CAREC. The sharp decline in passenger traffic during the pandemic has further increased the importance of cargo and led to some airlines increasing their cargo capacity. This is an opportunity for CAREC's aviation industry to further invest in cargo capabilities, providing a foundation for long-term growth.

Prior to the COVID-19 a majority of air cargo flew in the bellies of passenger aircraft. The steep reduction in passenger flights has led to a significant decrease in overall cargo capacity globally as well as in CAREC. Total air cargo volumes will therefore decline in 2020. IATA reported a 28% reduction in cargo tonne kilometers for the month of April.

However, the decline in cargo traffic so far this year is much less than the decline in passenger numbers due to a significant increase in cargo flights. Much higher air cargo yields are also helping boost cargo revenues.

CAREC is fortunate to have a relatively large number of freighters compared to other regions and several cargo airlines. CAREC also boasts several modern air cargo facilities that handle the local freighter fleet and cargo heading to and from the region as well as freighters and transshipment cargo heading between Asia and Europe that stop in CAREC countries.

While global cargo volumes are down this year, some CAREC airports have experienced a significant increase in cargo flights in recent months due to their strategic location. As cargo flights between Asia and Europe has increased more aircraft have been stopping in CAREC countries to refuel and change crews.

Prior to the pandemic, CAREC airports handled around 800,000 tonnes of air cargo. This represents about 1.3% of global cargo traffic.

Azerbaijan and Pakistan particularly have large cargo markets. Pakistan reported handling 330,350 tonnes of air cargo in the fiscal year ending June 2019 while Azerbaijan handled 206,400 tonnes in calendar 2019.

Kazakhstan is the third largest cargo market in CAREC with at least 80,000 tonnes handled in 2019 (based on the 69,000 tonnes reported by Almaty and the 11,000 tonnes reported by Nur-Sultan). Uzbekistan is the fourth largest market with an estimated 70,000 tonnes handled in 2019.

Kyrgyz Republic (33,000 tonnes in 2018), Georgia (25,000 tonnes in 2019), Mongolia (6,000 tonnes in 2019) and Tajikistan (3,000 tonnes 2019) have much smaller cargo markets. Afghanistan and Turkmenistan are also small cargo market but no traffic data is available.

Azerbaijan reported an impressive 53% increase in air cargo volumes for the first quarter of 2020 to 69,500 tonnes. During the pandemic, Azerbaijan and neighboring Georgia have both been popular for handling cargo flights with medical equipment heading from China to Europe and the CIS.

Air Astana and Uzbekistan Airways recently removed seats from 767 passenger aircraft to generate additional cargo capacity. Several airlines have also seen using passenger aircraft to carry cargo by placing cargo on top of seats and in the overhead bins as well as in the belly.

CAREC airports and governments should look at further investing in cargo facilities to help attract more transit cargo and support exports. Cargo is generating critical revenues for airports and airlines during this difficult time. With the right strategies cargo could become an even bigger revenue generator for CAREC's aviation industry and help stimulate trade.

Recommendation: CAREC should invest in boosting air cargo capabilities, leveraging its strategic location between Asia and Europe and driving increased cargo revenues for the aviation industry during a period of passenger declines.

CAREC opportunity: upgrade airports with touchless technologies

COVID-19 has led to major changes in the air travel experience in order to minimize risk of the virus spreading. Airlines and airports around the world are now accelerating adoption of new technologies to support contactless travel.

While digitalization was already a major global trend in the aviation industry prior to the pandemic, CAREC was generally behind in implementing new digital technologies and procedures. This crisis provides an opportunity for CAREC to catch up with other regions from a digitalization perspective while also meeting new expectations for contactless air travel.

Many airports in CAREC rely mainly on manual check-in and boarding processes. Significant investment will be required to support new digital and contactless procedures. Capacity constraints also have to be carefully managed in order to meet social distancing requirements, particularly in airport terminals that mainly cater to domestic travel as domestic traffic will recover much faster than international traffic.

Investment by CAREC airlines will also be required to facilitate online or mobile check-in and document checks. Using new technologies, passengers can bypass the check-in desk and drop their bags on a belt without needing to interact with any staff. Contactless security and immigration are also possible with the right investments from airports and governments.

This crisis also presents a potential opportunity for CAREC countries to accelerate airport capacity expansion projects. Several airports in CAREC were congested and operating well above design capacity prior to the pandemic. Construction can be pursued now, using safe distancing measures to protect workers and minimizing disruptions to existing operations given the lower than normal levels of passenger traffic. Airport construction projects would help boost the CAREC economy and create new jobs during this challenging period.

CAREC countries also should consider adopting uniform regulations and standards for air travel during the pandemic. Globally there is a lack of harmonization which the aviation industry is now trying to address with new guidelines and recommendations for mitigating the risk of virus transmission during the travel process.

CAREC countries should look at adopting the new guidelines and recommendations issued by the International Civil Aviation Organization (ICAO). By conforming to new global standards CAREC countries will facilitate the resumption of international travel and eliminate differences in regulations from country to country which are now creating challenges and confusion for airlines and passengers.

Recommendation: CAREC should promote contactless air travel and invest in technologies to support digital procedures at airports.

Recommendation: CAREC should adopt uniform standards and regulations for air travel in the COVID-19 environment.

CAREC need: government support for aviation and tourism

CAREC countries should consider providing support packages to help airlines, airports and other aviation industry companies survive a period of significantly reduced revenues.

Government support packages for the aviation industry have become common globally but so far in CAREC they are limited in number and scope.

Airlines in over 40 countries have secured financial support packages from their governments. These packages typically include loans or loan guarantees from government banks. In some cases, governments are providing capital directly, particularly with airlines that are already 100% government owned. In other cases, government investment firms are used to back rights issues or increase equity stakes.

Countries which have provided financial support to airlines since the start of the pandemic in March include: Australia, Austria, Belgium, Brazil, Canada, China, Croatia, Denmark, Finland, France, Germany, Indonesia, Italy, Japan, Latvia, Myanmar, the Netherlands, Norway, Portugal, Romania, Rwanda, Qatar, Saudi Arabia, Senegal, Singapore, South Korea, Spain, Sweden, Switzerland, Taiwan, United Arab Emirates, the United Kingdom, the United States and Uzbekistan.

The total amount of financial support committed so far is over USD80 billion with France (USD8 billion), Germany (USD12 billion), Singapore (USD10 billion) and the United States (USD29 billion) providing the largest individual packages. The USD80 billion figure excludes several countries such as the UAE which have announced financial support packages for airlines without disclosing specific amounts. When including the countries that have not provided specific figures and countries which are expected to provide packages in the coming weeks the total value of government financial support packages for airlines could reach USD200 billion.

Both government and privately-owned airlines have benefitted from the government financial support packages globally. In countries where there are both government and privately-owned airlines it is important to treat both equally although some countries have opted to only support government owned airlines, creating potentially unlevel playing fields. In countries where there are only privately-owned airlines, support is not necessarily provided to all airlines but it is also important to treat all airlines equally. In some of these countries not all airlines apply for government loans or not all airlines meet the terms and conditions.

This study estimates that CAREC airlines may need USD2 billion in financial support in order to survive this crisis. CAREC countries should consider providing financial support to airlines through soft loans or loan guarantees.

Without this support, several airlines may collapse, resulting in reduced connectivity and higher air fares. This in turn would inhibit a recovery in international tourism and impact the overall economy.

CAREC countries should also keep in mind that their airlines could be at a competitive disadvantage as most of their main foreign airline competitors have been able to secure government financial support. Several CAREC airlines already struggle to compete with foreign airlines and there is a risk the gap between CAREC airlines and their generally stronger foreign competitors will widen.

Any financial support provided should have terms and conditions to ensure the capital is used to cover operations, including labor costs, during the pandemic. Loans should be paid back over time under normal commercial terms but with low or no interest. This should not be viewed simply as grants or aid without any requirements for disclosing how the funds are used.

So far it appears that only one airline in CAREC, Uzbekistan Airways, has secured government financial support since the start of the pandemic. However, it is possible other airlines in CAREC countries, particularly government owned airlines, have secured support without any formal announcements.

Uzbekistan reportedly provided USD50 million in interest free grants to Uzbekistan Airways and Uzbekistan Airports. An extension on USD122 million in prior loans was also granted as well as USD6 million in tax concessions.

The tax concessions are an example of general support for all businesses rather than airline specific financial support. Tax reductions and waivers for companies impacted by COVID-19 is common in CAREC and globally as part of general economic stimulus packages announced by governments.

The two biggest examples of COVID-19 economic stimulus packages in CAREC are Kazakhstan and Pakistan. Kazakhstan has so far announced packages valued at USD10 billion while Pakistan has so far announced packages valued at USD5 billion. However, there are no aviation specific benefits in these packages.

In Pakistan, the relief provided is aimed mainly at laborers, low income families, agriculture, medical equipment and small companies. While some small companies in the aviation and tourism sectors may be eligible for some of the benefits the value is not significant.

In Kazakhstan, the stimulus measures have focused on creating hundreds of thousands of temporary jobs by launching infrastructure, maintenance and construction projects. Small companies are eligible for deferrals in loan payments and soft loans. While some of the measures could help companies in the aviation and tourism sectors the value of benefits are not yet significant.

Several other CAREC countries are providing tax exemptions, soft loans for small businesses, and reduction in utility fees. Companies from all industries, including aviation and tourism, are eligible to receive some of these benefits. However, the value of these benefits for any individual company in tourism and aviation has so far not been that significant.

Some CAREC countries have promised certain benefits to companies in the travel and tourism sectors but have yet to provide them or come up with concrete plans. There is a risk that many companies will go bankrupt over the next few months without government support. Hotels and some airlines are particularly vulnerable.

CAREC's travel and tourism sectors, including aviation, rely on the summer months to generate revenues to cover costs incurred throughout the year. If borders do not reopen in time to salvage at least some of the 2020 summer season companies may not have enough in the bank to survive until 2021. Loans from government banks may be required to avoid mass bankruptcies, which could have a long-term impact on the economy and ability of the travel and tourism sectors to recover.

Wage subsidies are also common globally as part of general economic stimulus packages. However, this is not a common benefit in CAREC countries.

Wage subsidy or job protection schemes are now in place in over 30 countries – mainly in Europe. In most countries the subsidies constitute a significant benefit in that they cover the majority of wages at impacted companies for employees that are temporarily not working or are working reduced hours. For airlines often most or all employees are covered given the huge reduction in flying has led to most employees working less or being temporarily furloughed. Airports and other companies in the aviation industry as well as companies in the tourism sector are similarly benefitting from these schemes.

CAREC countries should consider implementing wage subsidy schemes to help protect jobs in the aviation and tourism sectors. Some CAREC countries are aiding workers impacted by the crisis by providing social benefits. While this aid is critical and should continue, wage subsidy schemes are critical to preserving jobs and mitigating the economic impact. Without wage subsidy schemes, companies may struggle to rehire workers once the downturn ends. There is also a risk that workers trained in aviation and tourism will take jobs in other sectors, inhibiting the ability of the aviation and tourism sectors to recover once demand returns.

Finally, CAREC countries should consider aviation specific support measures such as reductions in ticket taxes, airport fees, licensing fees and air navigation charges. Some CAREC countries have already implemented some of these measures but the amount of relief provided is generally small. Several CAREC countries have not provided any relief for aviation companies at all.

It is important for all CAREC countries to offer relief in aviation related fees, charges and taxes during these incredibly challenging times. Airlines need as much support as possible to get through this period. Other aviation industry companies including airports, ground handlers and aircraft maintenance providers would also benefit from reductions in charges, concession fees and rentals.

Recommendation: CAREC should consider providing financial support packages to airlines through loans and loan guarantees.

Recommendation: CAREC should consider providing general support packages to the aviation and tourism industries through benefits such as wage subsidies, tax reductions and fee waivers.

CAREC need: ANSP funding to offset loss of overflight revenues

Overflight revenues are relatively high in CAREC countries as CAREC airspace is used for a large portion of flights heading between Europe and Asia. There are significantly more flights using CAREC airspace that overfly the region rather than land or depart in CAREC countries.

For example, Mongolia handled 134,000 overflights in 2019 compared to only 18,000 local flights. The number of overflights has doubled in Mongolia since 2010 while the number of local flights has increased by around 50%.

Azerbaijan handled 95,000 overflights in 2018 and Georgia handled 145,000 overflights in 2017. Overflight data is not available for most other CAREC countries. However, CAREC countries combined likely handled roughly one million annual overflights prior to COVID-19. The number of overflights will likely reduce by over 50% in 2020, resulting in a revenue reduction of several hundred million dollars.

While air navigation service providers (ANSP) have costs associated with overflights, the revenues generated in a normal year are far greater than their costs, resulting in a surplus. Due to the sharp decline in Asia-Europe passenger flights, there will likely be a deficit in 2020 rather than surplus. This will create budgetary pressures on ANSPs as well as other entities that rely on overflight revenues.

Some CAREC countries rely on overflight revenues to help fund their aviation authorities. Overflight revenues are also sometimes used to help fund government owned airlines and cross-subsidize other government entities outside aviation.

CAREC countries will need to find other options for funding those entities and functions that rely on overflight fees. CAREC countries could consider loans to bridge the gap until overflights return to their normal levels.

Air navigation upgrade projects may also be impacted by the reduction in overflight revenues. These projects are important for increasing capacity and improving safety. CAREC should look at other funding options to ensure air navigation modernization and upgrade projects remain on track.

Recommendation: CAREC should consider alternative funding options to offset the impact of reduced overflight revenues.

Addendum: Mongolia Case Study

Mongolia: Impact Assessment

Estimated decline in passenger traffic for 2020: 915,000

Estimated decline in revenues for all Mongolian airlines for 2020: USD100 million

Estimated decline in overflights for 2020: 80,000

Estimated decline in visitor numbers for 2020: 460,000

Estimated economic impact on GDP for 2020: USD1 billion

Jobs at risk: 60,000

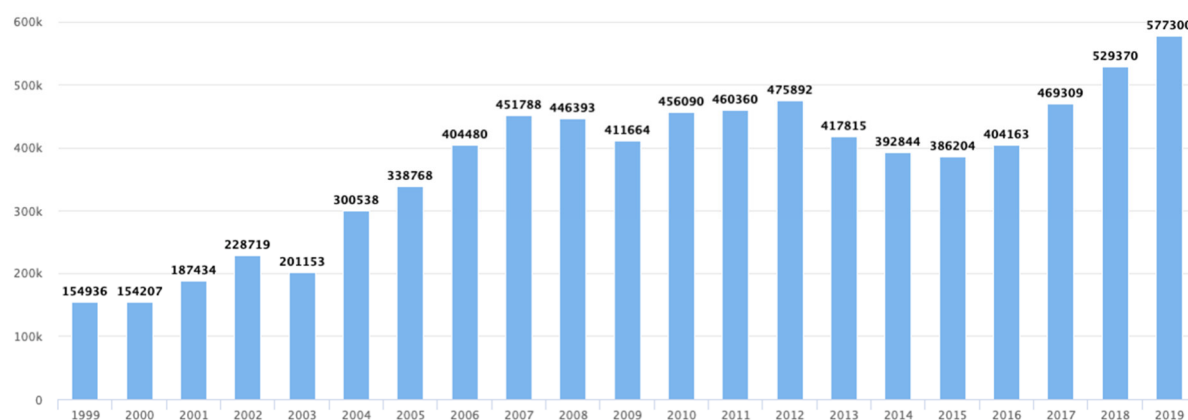
Mongolia: before the pandemic

Travel and tourism accounted for around 12% of Mongolia's GDP prior to the COVID-19 crisis, generating over USD1.5 billion (based on Mongolia government data). Mongolia's GDP was MNT36.9 trillion in 2019 (USD14.4 billion), an increase of 5.1% compared to 2018.

Mongolia reported a 6.2% GDP increase in 2018, marking the first time GDP growth exceeded 5% since 2014. The tourism and aviation sectors were key drivers in the acceleration of GDP growth in 2018 and 2019.

Visitor numbers to Mongolia increased by 13% in 2018 and 9% in 2019. Tourism in Mongolia started picking up in 2017, when visitor numbers increased by 16%, ending several years of flattish growth. The 404,000 visitors from 2016 equaled the 404,000 visitors from a decade earlier in 2006, but in the subsequent three years surged by 43% to 577,000.

Mongolia annual visitor numbers: 1999 to 2019



Source: Mongolian Statistical Information Service

The last growth spurt occurred in 2003 to 2006, when visitor numbers doubled. Mongolia's tourism industry subsequently underperformed for several years while other emerging markets

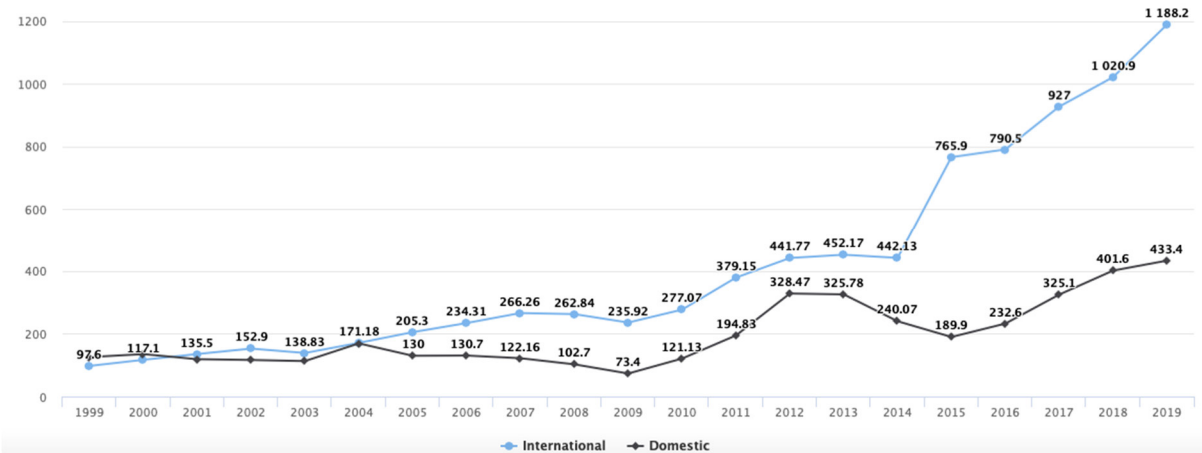
grew rapidly. Limited air access, due in part to protectionist policies, contributed to the lackluster growth rates.

Mongolia has liberalized its air transport sector over the last three years, resulting in improved air access that has driven faster international passenger growth and enabled the recent surge in visitor numbers.

International passenger traffic grew by 50% from 2016 to 2019, including 16% in 2019. International passenger traffic exceeded 1 million for the first time in 2018 and reached 1.2 million in 2019.

Domestic passenger traffic has grown at an even faster 86% clip from 2016 to 2019. Mongolia’s domestic air transport market exceeded 400,000 passengers for the first time in 2018 and reached 433,000 in 2019.

Mongolia annual domestic and international passenger traffic: 1999 to 2019



Source: Mongolian Statistical Information Service

While visitor numbers were stagnant from 2006 to 2016 international passenger traffic more than tripled over this period due to rapid growth of the outbound segment as more Mongolians travelled overseas. The portion of the Mongolian population that travelled overseas has continued to grow the last three years, helping drive the overall growth in international passenger traffic along with the surge in visitor numbers.

The number of Mongolians departing Ulaanbaatar’s Chinggis Khaan International Airport increased by 46% from 2016 to 2019. In 2019, Mongolians accounted for slightly over half of total international passenger traffic.

Mongolia’s domestic air transport market relies mainly on visitors and workers, including foreigners working in mining sites. The biggest domestic route is Ulaanbaatar to Oyu Tolgoi, a Rio Tinto mining site that has one of the world’s largest copper and gold deposits. This route

accounted for 275,000 or 64% of total domestic passenger traffic in 2019. Mining accounted for 24% of Mongolia's GDP in 2019. A major expansion is underway at Oyu Tolgoi, which is expected to quadruple production over the next five years and should lead to further domestic air transport growth.

While mining is a bigger economic contributor, tourism is important and prior to the pandemic was expected to assume an expanding role in Mongolia's economy. Mongolia had been projecting that by the end of this decade annual visitor numbers would surpass 1 million with tourism contributing over USD2 billion to GDP and supporting about 150,000 jobs.

The impact of the pandemic

COVID-19 has significantly impacted Mongolia's tourism growth aspirations – as it has in other CAREC countries and globally. Mongolia was impacted by COVID-19 earlier than other countries due to its proximity to China. Mongolia closed all its borders with China on 1 February and flights to China, including Hong Kong, were suspended.

Flights to South Korea and Japan were suspended on 26 February. All other international flights were suspended on 11 March as Mongolia also closed all its borders with Russia.

The land borders with Russia and China are critical for trade and also support outbound and inbound tourism flows. In 2019 nearly 2.5 million people (foreigners and locals) entered Mongolia using the land borders with China and Russia.

China, Russia, South Korea and Japan are Mongolia's four largest source market for tourism, accounting for 75% of all visitors in 2019. They are also Mongolia's four largest air transport markets, accounting for over 90% of international passenger traffic in 2019.

The closure of all borders and suspension of all flights has been extended several times since March and is now in place until at least 30 June. Only charter flights organized to repatriate foreign nationals that were stuck in Mongolia and Mongolians that were stuck overseas have been excluded from these bans.

The impact on tourism and aviation is potentially devastating. As with other CAREC countries, there is still a hope that some of the summer tourist season can be salvaged by establishing green lanes with certain countries. However, even if some green lanes are successfully opened, visitor numbers are likely to plummet by over 70% this year.

A 90% decline is possible if Mongolia is unable to open up in time for the peak summer months. This study projects an 80% drop in visitors (460,000 fewer visitors than 2019) based on a scenario of very limited tourism this summer as well as a significant decline on a low base for the off-season months of October, November and December.

This study projects a slightly less steep decline of 70% for international passenger traffic (830,000 fewer passengers) as it assumes a partial recovery in the outbound market as some

Mongolians could be eager to travel overseas later in the year. A decline of 80% or more is possible if the main markets for overseas travel remain closed.

South Korea could be the first green lane for Mongolia, providing a boost for the inbound and outbound segments. In 2019, South Korea attracted 114,000 Mongolian visitors in 2019 while Mongolia attracted 101,000 South Korean visitors. Both segments have been growing fast; South Korean visitor numbers to Mongolia have more than doubled since 2015 while Mongolian visitor numbers to South Korea have increased by nearly 70% in the same period. A green lane between Mongolia and South Korea could be established as early as July given both countries successful COVID-19 containment efforts and close ties.

While China (168,000 visitors in 2019) and Russia (142,000 visitors) are larger source markets for Mongolia, Korea has a bigger impact on aviation given that a large portion of Chinese and Russian visitors cross by land.

Seoul is Ulaanbaatar's largest international route with 388,000 passengers in 2019. Busan in South Korea is the sixth largest route with 65,000 passengers.

Beijing was the second largest (214,000 passengers in 2019) followed by Moscow (95,000 passengers), Hong Kong (89,000 passengers) and Tokyo (79,000 passengers). In addition to catering to local traffic, Seoul, Beijing, Moscow, Hong Kong and Tokyo are the most popular transit points for travel between Mongolia and countries that are not served nonstop.

Germany, Kazakhstan, Thailand and Turkey are the only countries served nonstop from Ulaanbaatar in addition to the main four markets of South Korea, China, Russia and Japan. Nur Sultan in Kazakhstan is a new route that was launched in 2019. Istanbul was upgraded in January 2020 to nonstop and was previously served one-stop service via Bishkek in the Kyrgyz Republic.

Domestic flights within Mongolia have continued during the pandemic. Domestic traffic will be impacted this year by the decline in tourism and the overall economy but the impact is mitigated by continued activity at Oyu Tolgoi. This study assumes a 20% decline in domestic passenger traffic (85,000 fewer passengers), driven mainly by declines at small regional airports near tourist attractions such as the Gobi Desert and Khuvsgul Lake.

Ulaanbaatar's new airport

Mongolia was planning to open a new international airport outside Ulaanbaatar this summer. However, the new airport's private operator NUBIA has informed the government it will not be able to open the airport by 1 July as initially required due to the pandemic, citing a force majeure clause in the contract.

The airport was initially slated to open in 2018, when most construction was completed, but was set back by multiple delays as it took longer than expected to finalize a concession agreement. A 15-year concession agreement was finally concluded in 2019 with NUBIA, a

Japanese Mongolian joint venture company. Mitsubishi, Narita International Airport, Japan Airport Terminal and Jalux are the Japanese companies participating in the consortium.

An opening date has not been set but the government is hopeful it will still occur later this year. The New Ulaanbaatar International Airport is an important component of Mongolia's aspirations to grow passenger traffic and tourism. A recovery from COVID-19 is now critical in order for Mongolia to benefit from this major investment and the additional capacity.

The new airport will have initial capacity for 3 million passenger per annum and provides ample space for further expansion to meet future demand. It also provides 24-hour all-weather access which will help attract more foreign airlines that have been reluctant to launch services to Mongolia due to the limitations at the current airport.

Ulaanbaatar's current airport, which is located closer to the city, has a single runway which can only be used in one direction for takeoffs and one direction for landings due to the proximity of mountains. These limitations often result in delays and cancellations as the airport has to be closed in poor weather or strong winds. A lack of alternative airports in Mongolia capable of handling large aircraft has been a further impediment, forcing diversions outside the country when the existing airport's unidirectional runway is not useable.

Prior to COVID-19, the New Ulaanbaatar International Airport would likely have reached 2 million annual passengers in 2021 and 3 million passengers by 2025. It is now likely the Mongolian market will not return to pre-COVID 19 level until 2022. Therefore, the new airport may not be able to reach 2 million passengers until 2024 or 2025 and 3 million passengers until 2028 or 2029.

The economic impact

The economic impact of COVID-19 will also be significant. For the first quarter of 2020 Mongolia reported a 10.7% decline in GDP to 7.4 trillion (USD2.7 billion). A double-digit GDP decline is likely for the full year, essentially erasing two years of economic growth.

Tourism's contribution to GDP could decline by USD1 billion, which alone would drive a 7% drop in GDP. The impact on tourism businesses and the over 120,000 jobs they generate (based on Mongolia government data) will have a ripple effect on the overall economy. This study estimates that 60,000 jobs in the travel and tourism sectors are at risk in 2020.

Tourism in Mongolia is highly seasonal with businesses relying on a relatively short summer season to cover their year-round costs and wages. Without a typical summer, businesses will essentially have to weather an exceptionally long 20-month off season and could struggle to stay in business.

Domestic tourism will be important and could increase as border restrictions will make it difficult or impossible for Mongolians to travel abroad this summer. However, for most businesses a potential increase in domestic tourism will not be enough to overcome the huge

loss of revenues from overseas visitors. Domestic tourists spend less on average and some resorts and hotels rely almost entirely on foreigners.

The impact on airlines

For aviation a potential uptick in domestic tourism will not help as Mongolians typically drive rather than fly when holidaying within the country. Two of Mongolia's airlines, MIAT Mongolian Airlines and Eznis Airways, also only operate international services.

Privately owned Eznis is particularly vulnerable as they are new, having launched operations in 2019. Eznis has only one aircraft, a Boeing 737-700, and only one scheduled route (Hong Kong). As Mongolia's first low cost carrier, Eznis had ambitious plans for international expansion and were intending to start a domestic operation in 2020 with a second aircraft type. However, expansion has been put on hold due to COVID-19 and the airline may struggle to survive the crisis.

MIAT is a government-owned flag carrier and Mongolia's largest airline. It will require additional financial support from the government to make up for a revenue shortfall. MIAT already reported a revenue shortfall of MNT50 billion (USD18 million) in the first quarter of 2020 as its first quarter revenues declined by over 50%. A larger shortfall is likely in the second and third quarters due to a much weaker than normal summer season, when MIAT typically ramps up its operation and generates profits that are used to cover losses the rest of the year.

MIAT's expansion plan, which includes the delivery of new Boeing 737 MAX 8 and 787-9 aircraft, may also be impacted by COVID-19 although its long-term strategy will likely remain intact. MIAT's expansion is an important component of the government's overall plan to grow tourism and position Ulaanbaatar's new airport as a hub.

MIAT's first Boeing 787 is still slated to arrive in May 2021 and could be used to launch services to North America. Four Boeing 737 MAX 8, which offers improved range over the 737-800, will be used to expand in Eastern Europe and Asia. MIAT had one Boeing 737 MAX when the type was grounded globally in March 2019 and has commitments for another three which were initially slated to be delivered in 2019 and 2020.

MIAT's fleet is currently limited to three Boeing 737-800s and two 767s. The 737-800s have hardly been used over the last few months due to the suspension of scheduled flights. The 767s have been used to fly cargo during the crisis, providing some revenue although the aircraft are not configured as freighters.

Privately owned Aero Mongolia and Hunnu Air mainly operate in the domestic market so are less impacted. However, both had international expansion plans using newly acquired regional jets. Their domestic traffic will also decline this summer due the reduction in tourism.

Aero Mongolia and Hunnu were significantly impacted by Mongolia's decision to ban from early 2019 Fokker 50s, which had been the workhorse in Mongolia's domestic market for decades.

Aero Mongolia now operates Embraer ERJ-145s and Hunnu operates ATR 72s as well as Embraer E190s. While Fokker 50s were ageing and expensive to maintain, they had the ability to operate into small airstrips that have since lost air service.

Mongolia's four airlines combined generated MNT499billion (USD194 million) in 2019. Mongolian airline revenues have nearly doubled since 2015, when they generated a combined MND254 billion. Airline revenues in 2020 will revert back to roughly 2015 levels. This study estimates a USD100 million decline in airline revenues for 2020 with MIAT accounting for almost all of the shortfall.

Government support

As MIAT is 100% government owned it should be able to secure the financial support to survive the crisis. The airline will likely require at least USD100 million to cover losses during the pandemic and will need more capital to cover future investments that are needed to support growth aspirations.

Allocating funds for the airline could be challenging given the budgetary pressures and social requirements that have resulted from the pandemic. The government will also need to make up for a shortfall in overflight fees.

Mongolia handled 134,000 overflights in 2019. The number of overflights has doubled since 2010 as global air traffic has increased rapidly. Mongolian airspace is often used for flights between Asia and Europe as well as polar flights heading between Asia and eastern North America. Due to the huge reduction in international flights due to COVID-19, this study estimates a 60% reduction in overflights and overflight revenues in 2020.

The revenues generated from other aviation related fees and taxes will also be reduced due to the decline in flights to, from and within Mongolia. It is unclear how Mongolia and other CAREC countries will cover these shortfalls but likely they will result in further budgetary pressures during what is a very challenging time.

Mongolia may also need to support private companies in the aviation and tourism sectors in order to ensure their survival. Such support is justified given the importance of these sectors to the overall economy.

Mongolia should consider soft loans to help small aviation and tourism businesses. The government could also consider employee support schemes to help cover wages and protect jobs.

Without government support the impact on aviation and tourism could be devastating and irreversible. A recovery in 2021 and 2022 is not possible if the businesses and employees are no longer in place.

Opportunities and needs

ADB has funded several transport and tourism related projects in Mongolia in recent years. ADB also announced in May 2020 a USD100 million loan to the Mongolian government to help mitigate the health and economic impact of the COVID-19 pandemic. These funds are aimed at helping out vulnerable businesses as well as individuals. Small businesses that rely heavily on tourism should be able to benefit from this program.

Support for aviation could be considered given its critical role in the overall economy and tourism. Mongolia's aviation industry needs to survive this crisis and be developed to support the tourism strategy.

ADB can provide technical assistance by funding an air transport liberalization study, which was initially planned for 2019. Mongolia has been liberalizing its air transport market and could use assistance in developing the right strategies to identify impediments and unlock growth. This is even more important given the impact of COVID-19 and the upcoming opening of Ulaanbaatar's new airport.

It is a critical time for aviation and tourism. With the right strategies and investments, Mongolia can recover fast and resume growth.

Until the end of the pandemic, Mongolia could position itself as a safe destination given its successful COVID-19 containment efforts and remoteness. Holidaying in Mongolia is about enjoying open spaces, breathtaking scenery and nature. It is an ideal destination for the current social distancing environment.

Ecotourism is also a focus of Mongolia's long-term tourism growth strategy. ADB has already invested in two ecotourism projects in Mongolia as part of ADB's initiative to promote and invest in sustainable tourism.

Both of ADB's ecotourism projects in Mongolia would benefit from improved air access. The first project is at Khuvsgul Lake National Park, one of Mongolia's most popular tourist destinations, and the second project is at less visited Onon-Balj National Park, the birthplace of Chinggis Khan. A new airport has been under consideration for Onon-Balj while Khuvsgul Lake is accessed by using the existing airport at Moron, the capital of Khuvsgul province. An upgrade for Moron Airport is planned to accommodate jets, which would allow more regular domestic services from Ulaanbaatar as well seasonal international charters from South Korea.

Khuvsgul Lake is a popular destination, particularly for Koreans, and could experience a significant increase in visitors with improved air access, which is only possible by upgrading the airport. IFC has decided not to proceed with financing the Moron Airport upgrade project. ADB could consider stepping in given Moron Airport's importance in developing the Khuvsgul Lake region and Mongolia as an ecotourism destination. There are several other regional airport upgrade projects under consideration that would help support Mongolia's position as an ecotourism destination and tourism growth aspirations.

Now is the time to invest in the future and put in place the right strategies to facilitate Mongolia's development. Mongolia has huge aviation and tourism potential but this can only be unlocked with closely coordinated and implemented strategies for both sectors. COVID-19 is creating a host of challenges but this crisis is also an opportunity to reset the strategy and pursue reforms.

Similar tourism and related aviation investments are needed throughout CAREC as member countries try to recover from COVID-19. In this initial impact study, Mongolia is highlighted as just one example. Other examples can be outlined in future phases of this project.