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Highlights

- Tourism data provides a useful EM snapshot
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How can investors identify promising Emerging Markets?

Watch where the tourists go

When investing in Emerging Markets, consider going where the tourists go.

That's the message from Paul Wimborne, who co-manages JOHCM's Emerging Markets Opportunities Fund.

For Paul and his EM team, investing starts at country-level – which means a lot of time spent sifting through national data before deciding where to invest.

One of the best indicators of the health of a country is its tourism levels, he says.

A strong tourism sector creates jobs, boosts local economies, adds to government revenue and foreign exchange earnings, as well as improving the cultural exchange between countries. It signals opportunities for investors in emerging markets.

This is borne out by comparing the tourism sectors in Mexico, one of the better performing emerging economies, and Thailand, says Wimborne.

Both countries rely on tourism and facing similar challenges – reduced capacity among airlines, airport chaos as operations ramp up again, and rising oil prices.

But there is pent-up demand internally and externally, post-Covid lockdowns.

The outlook for the two countries is very different.

"The best tourism news is coming out of Latin America, and particularly Mexico," Wimborne says. "Passenger traffic is already back to pre-COVID levels in Mexico. That is not really a surprise when you consider that tourism in Mexico depends on the United States consumer.

"In the US, consumer confidence is pretty good along with employment conditions. Extrapolating the tourism sector, Mexico is the bright light within emerging markets."

In contrast, many Asian economies, reliant on China, are struggling to re-emerge from the COVID pandemic.

"If you take Thailand, there were just over 3 million visitors in June 2019, before the pandemic. Pre-COVD tourism contributed about ten percent of GDP. In June this year, there were just 800,000 overseas tourists," Wimborne says.

"The missing tourists are mostly from China and other Asian countries. That's because many Asian countries, including China, are trying to minimize the effects of COVID, and are following zero-COVID strategies. Outbound tourism from China is essentially zero."

There are emerging economies between Mexico and Thailand whose tourism markets fall in the middle.

"In Turkey, visitor numbers are just below the record level set in 2019. In Dubai, numbers are at 85 per cent of pre-COVID levels," Wimborne says. There is a geographic trend in the health of emerging economies' tourism markets.

"As you move east from Latin America through the middle east, and then into Asia, tourism markets worsen. In essence, Chinese tourists are the key lagging factor in international tourism recovery.

"Countries like the Philippines, Malaysia and particularly Thailand because of its reliance on tourism, are going to lag emerging markets in other regions. It's going to take longer for some countries in Asia to recover, than in other parts of the world."

Source for all data JOHCM/Bloomberg (unless otherwise stated)

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