

EE460: Tourism industry
Vulnerability and resilience

Bhanupong

Lecture 21

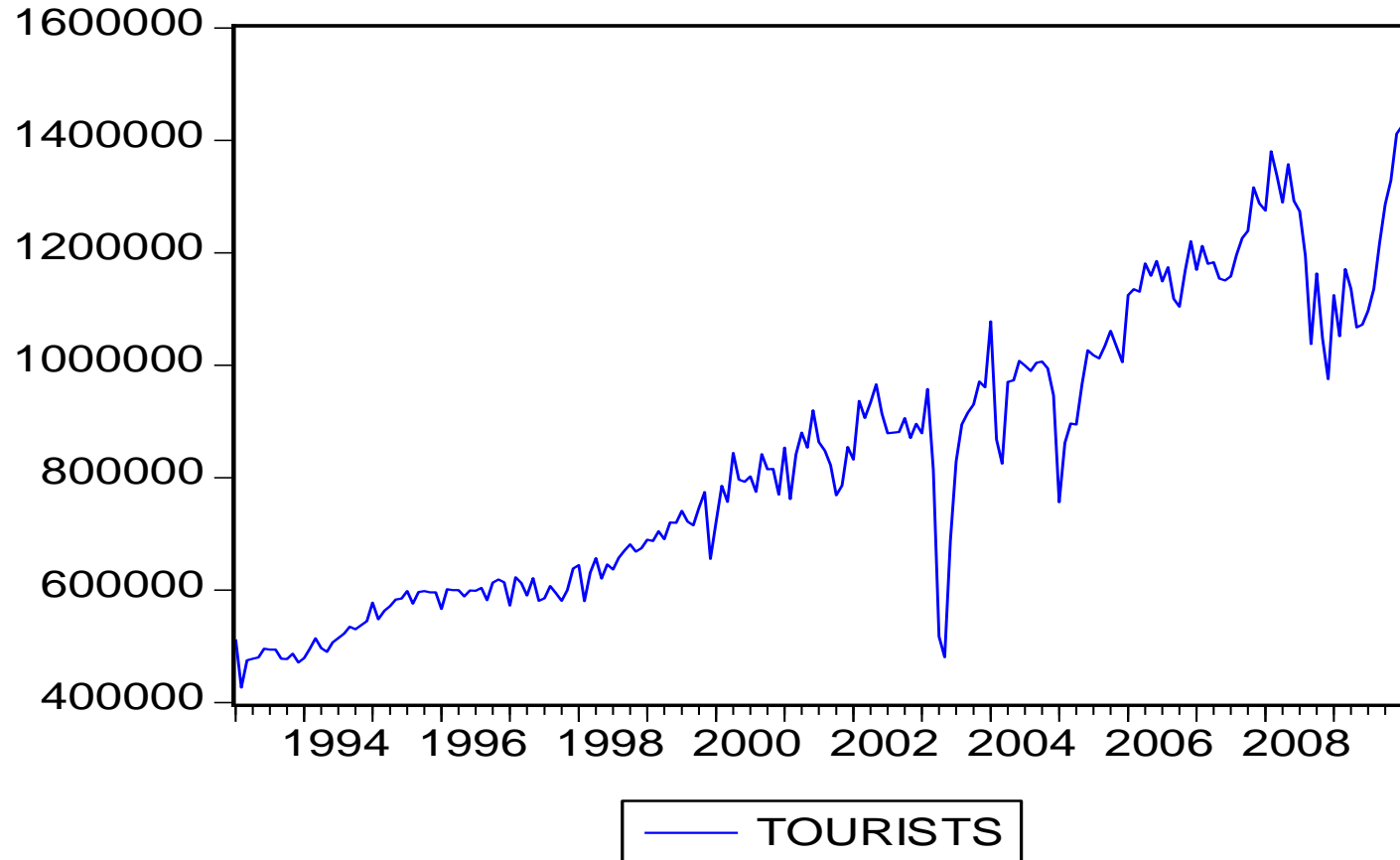
Outline

- Background
- Shocks and vulnerability
- Coping with disasters
- The tsunami disaster, SARS, avian flue,
- Impact of global recession and political instability
- The great deluge of 2011

Characteristics of the tourism industry

- Overall tourism income of the country is approximately 16 % of GDP.
- Cultural capital and natural capital stock
- Highly labor intensive: employment and migration.
- Strong linkages.
- Net foreign exchanges.

Number of foreign tourists: Jan 1993 to Feb 2010



Average spending by tourists baht/day/person

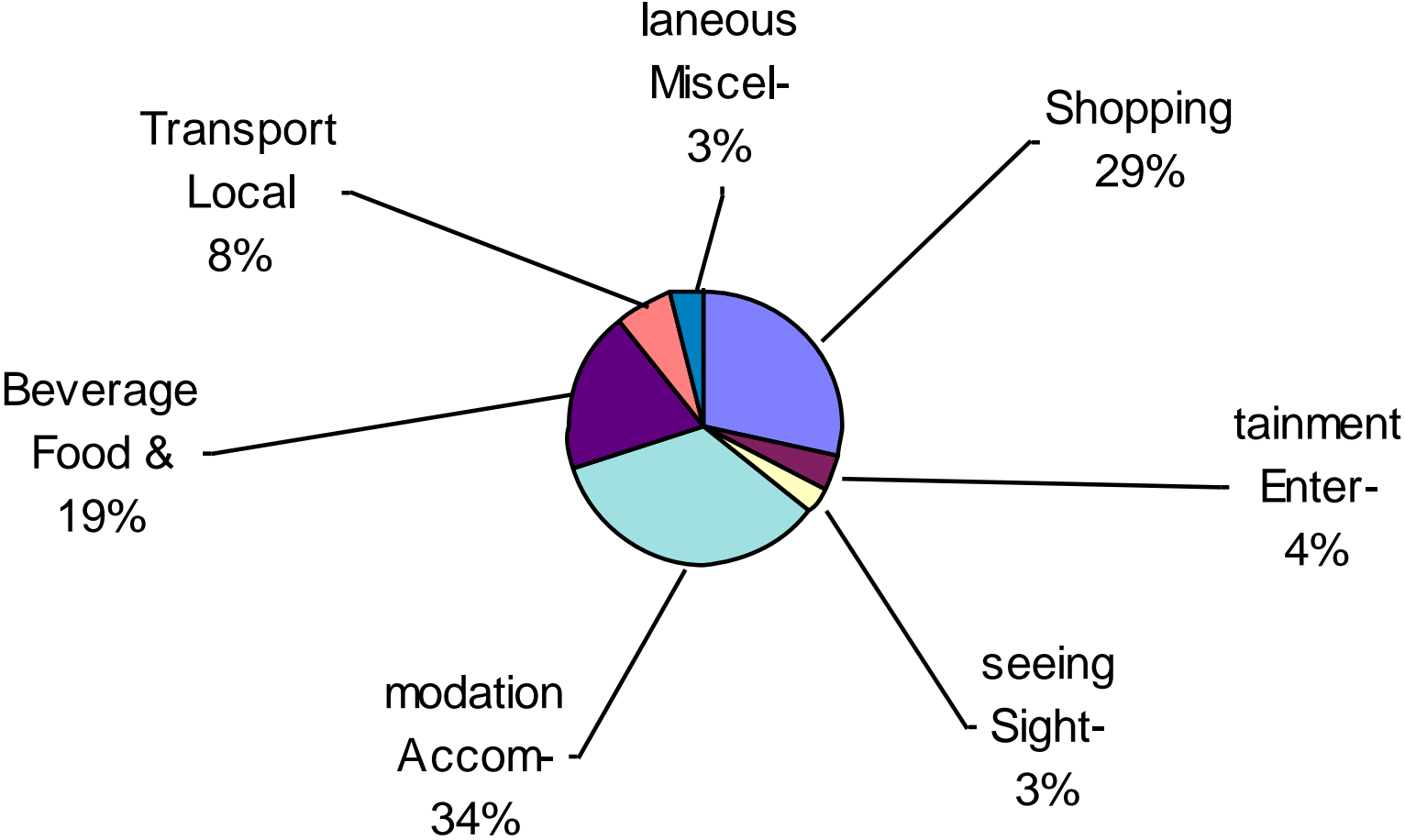


◆ International ■ Thai ▲ International (real terms) × Thai (real terms)

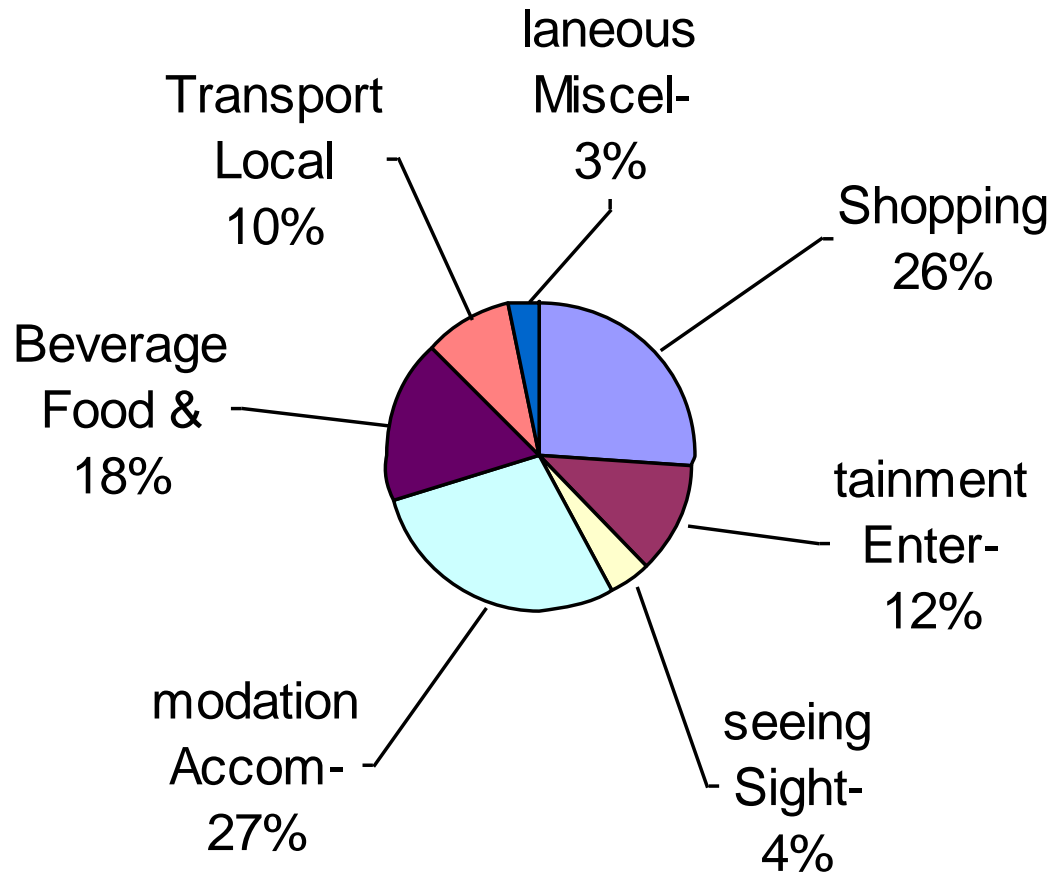
Nature of the Thai tourists

- In 2009, there were 87 million domestic trips made by Thais, creating 407 billion baht tourism revenue.
- TOT target for 2010 was set at 90 million trips by Thais, an increase of 3.4%, which would generate 430 billion baht.
- On the average, the Thai spend two nights for domestic holiday and spend 1,900 baht per day.
- Total tourism spending is Bt400 billion per year.
- It is expected there would be 500,000 Thais take the long Songkran holiday abroad by spending 15 billion baht

Thai tourists' spending pattern in 2007

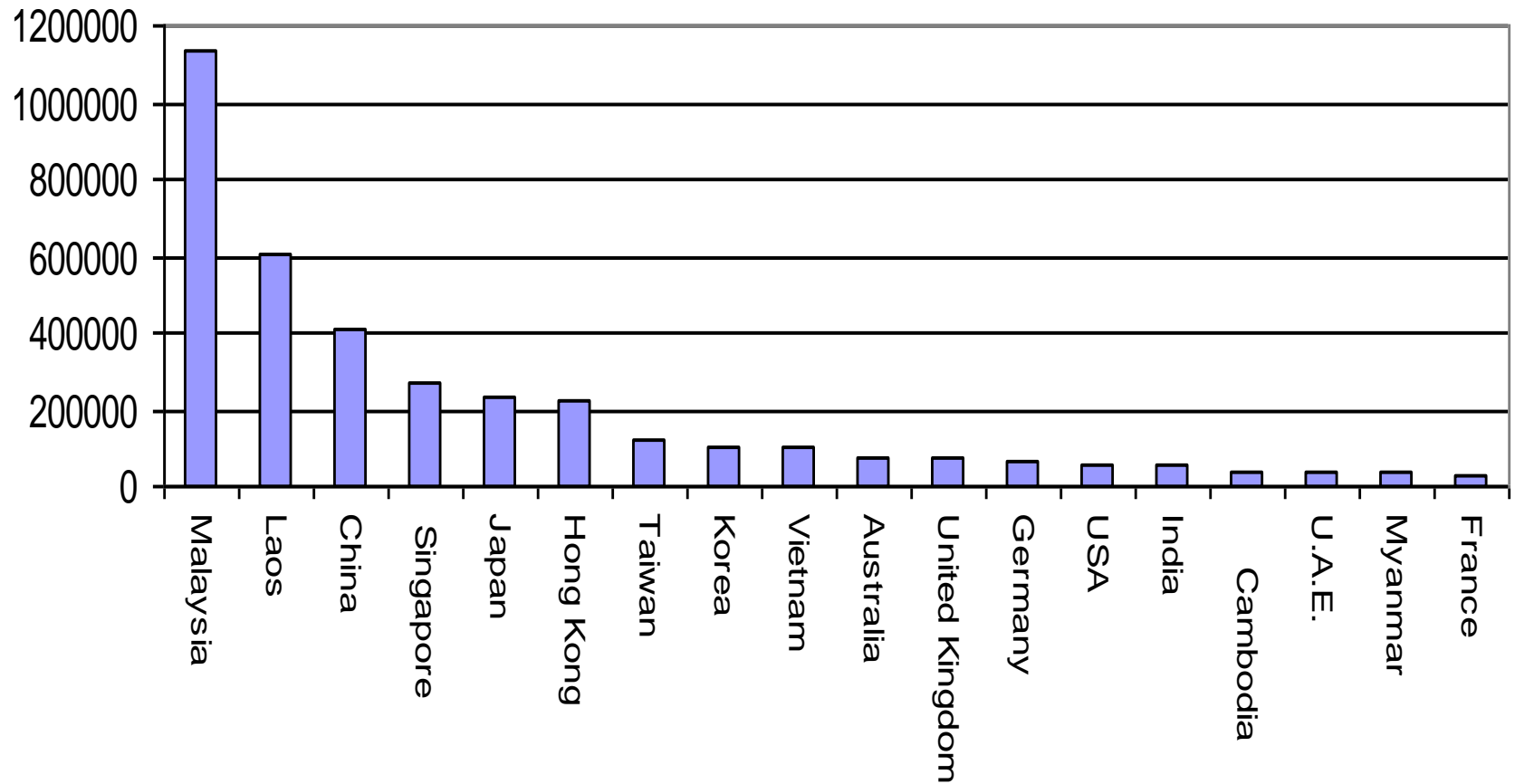


Pattern of international tourist spending in 2007



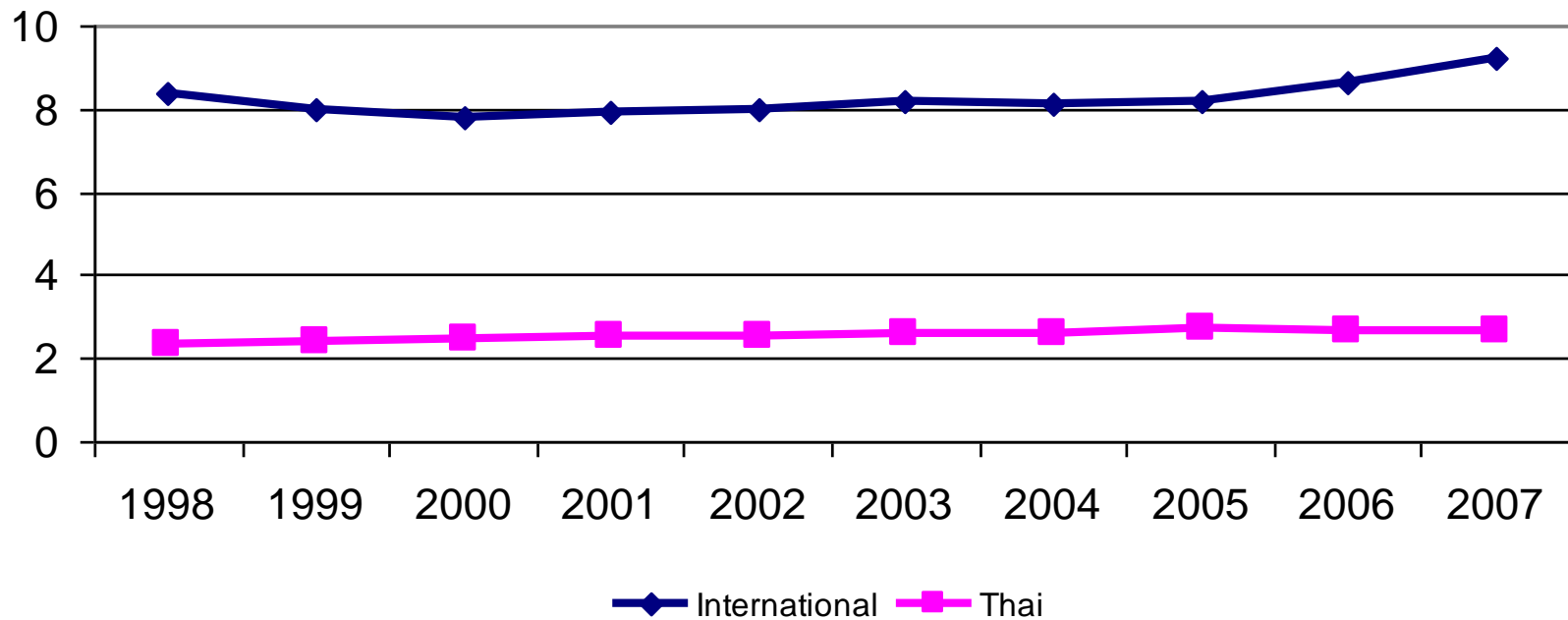
Where were Thais on their holidays?

Outgoing Thai tourist (number of person) in 2007



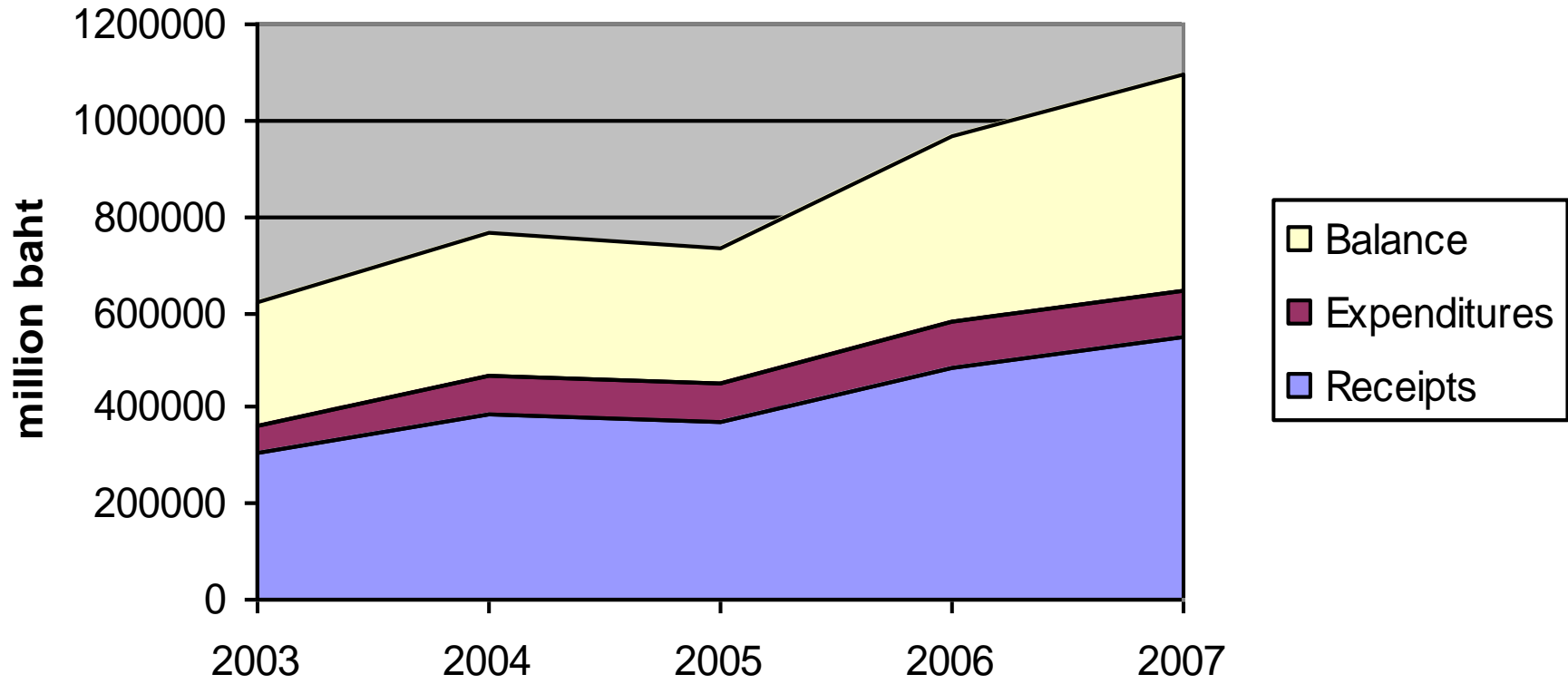
Long stay

**Average length of stay by visitors
(number of day)**



Surplus tourism balance

Tourism balance (stacked area)



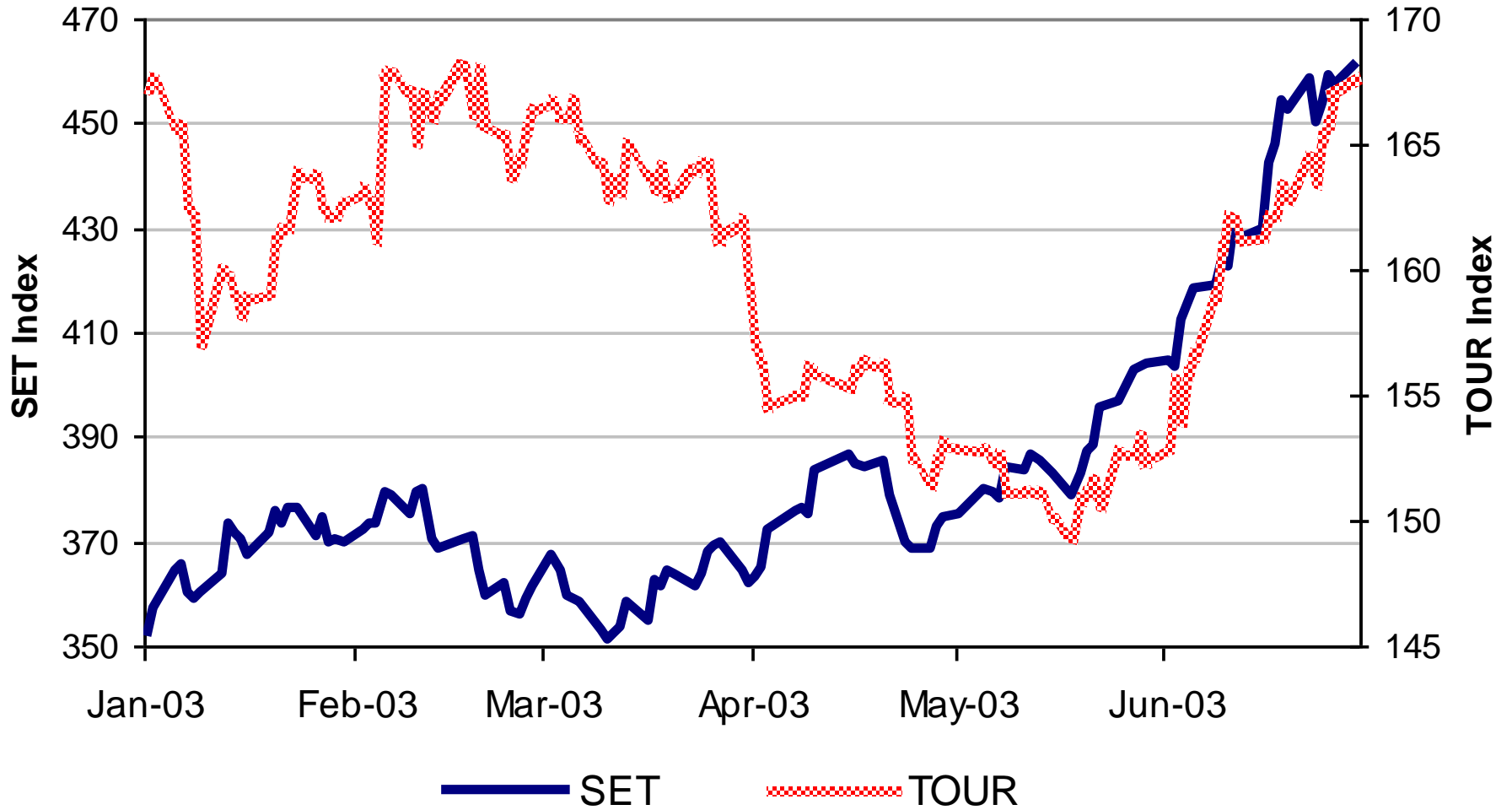
Determinants of tourism demand

- Income
- Relative prices
- Exchange rates
- Transportation cost (oil prices)
- Perception of safety
- Preferences
- Shocks

When SARS attacked in 2003

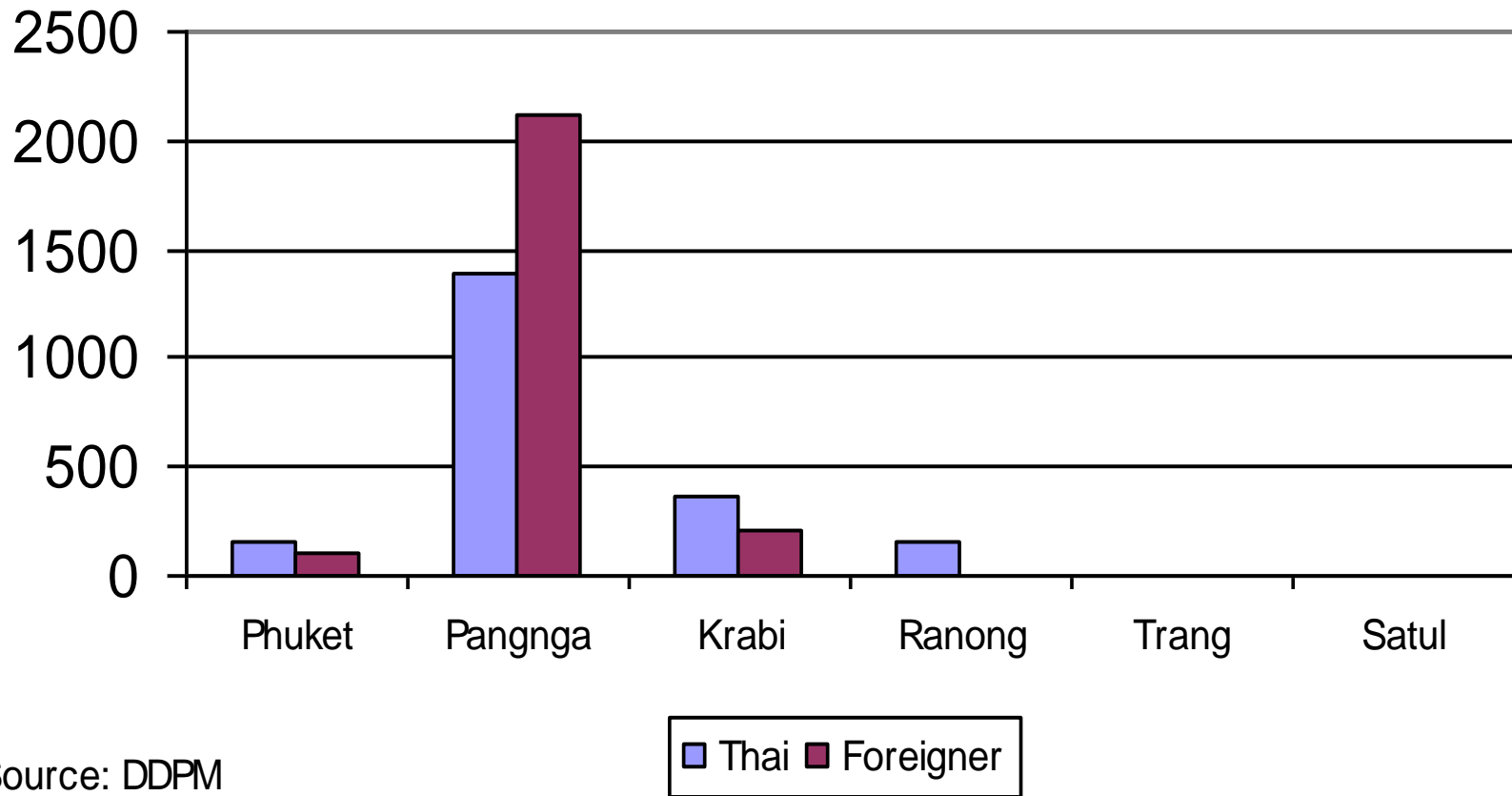
- Tourism industry suffered considerably from **travel restrictions**.
- The plunge in hotel share prices in April 2003 was more severe.
- The patterns of recovery in share prices are similar for the tsunami and SARS.
- How did the shock affect the stock market?
- Avian Influenza pandemic

SARS Impact on the Stock Market



Source: Stock Exchange of Thailand (SET)

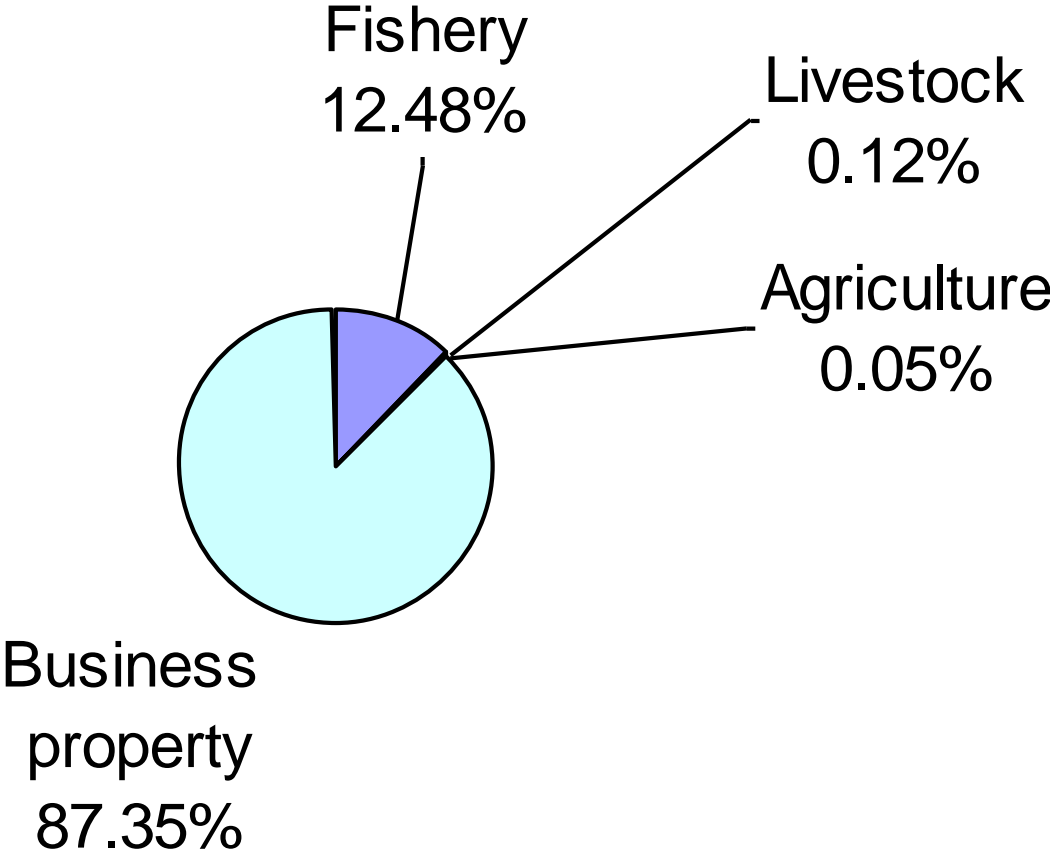
Figure 2: Thai and Foreign Death Toll



Six provinces were affected by the 2004 Tsunami

- Combined output of the six provinces is 2.7 % of total GDP.
- Combined income from tourism in six provinces is 30% of the total tourism industry.
- The adverse impact of the tsunami was not substantial.

Figure 5: Damage to livelihoods



■ Fishery ■ Livestock ■ Agriculture ■ Business property

Source: DDPM

Table 2: Immediate tsunami impact on hotels

	Krabi	Phangnga	Phuket
Total rooms * (before tsunami)	9,867	6369	33,587
Remaining# (after tsunami)	8,979	1063	26,298
% remaining rooms	91.6	16.7	78.3

Source: Tourism Authority of Thailand

Notes: *Total number of available rooms in September 2004

#Number of available rooms on January 12, 2005

The road to recovery

- Physical destruction by the tsunami still left some facilities to serve visitors after the disaster.
- The survival of the industry heavily relied on the demand side.
- International visitors dropped by 10 % in 2005Q1, reducing income by 7.8%
- How did the industry survive?

Phuket

- Physical damage was less than **20** percent, but the negative image was more difficult to revive.
- The tsunami destroyed the Phuket tourism industry by **40 billion** baht, due to a **40%** reduction in number of tourists.

Krabi: Phi phi island

- Number of tourists dropped from 1.9 million in 2004 to 0.7 million in 2005, causing a decline in revenue from **18** billion to **6** billion.
- However, the hotel occupancy rate rose to 80% as airlines resumed their direct flights to Krabi.

Phanga: khao lak

- The most severely hit province
- The number of hotel rooms was reduced from 6,000 rooms to 1,200 rooms.
- Revenue declined from **8 billion to just 200 million** baht in 2005.
- High season started in November.
- November 2005 witnessed a recovery by 100 % fully booked hotels, but the number of rooms was reduced more than half in Khao lak.

Media coverage

- Tsunami struck during the peak holiday season and destroyed some of the most popular tourist resorts.
- Initial concerns over the impact on the tourism industry were ***over stressed***.
- International media aggravated the depressive tourism industry through fears.
- But Thailand does have other sandy beaches aside from Phuket, Phangna, and Krabi

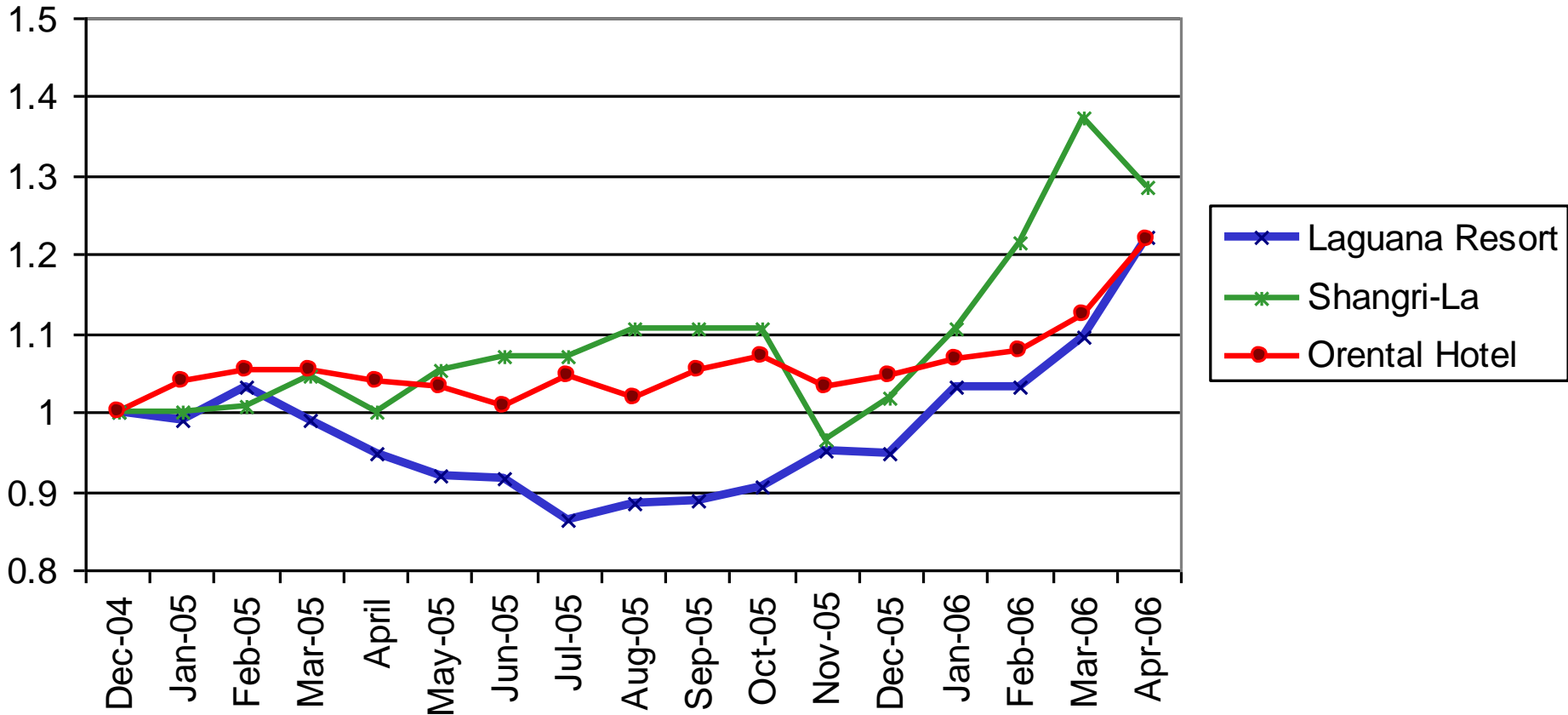
Impact on the stock market

- The Securities Exchange of Thailand (SET) index fell by **one** percent, while the hotel index fell by 2.5 % on December 27, 2004.
- It took the SET index **four days** to rebound to pre-tsunami level.
- It took the overall **hotel** stock for **one month** to regain its ground.

Andaman exposure

- Hotels with Andaman beach exposure (Laguna resort) suffered,
- But other hotels (Oriental and Shangri-la) benefited from migration of visitors from the three southern provinces.
- Hotel concentrating their operation in these provinces suffered losses, while other hotels with diversified locations were able to maintain their revenues.
- **Diversification** is the key to resilience.

Asymmetric impact of tsunami on hotel stocks



Policy responses to the tsunami

Tax exemption to tsunami victims

28 billion budget allocation for reconstruction

20 billion baht of soft loans by the Bank of Thailand.

Bank of Agriculture provides three-year interest-free credit to affected farmers.

Government Saving Bank and SME Bank have become more active in lending.

Consumption smoothing hypothesis

Demand matters most

- With massive capital injection, supply constraint is not a problem in the long run.
- A sustainable recovery requires a demand pull from private and public sectors.
- There was a shortage of labor supply in the hotel business, pushing higher wage rates as the industry slowly recovered.

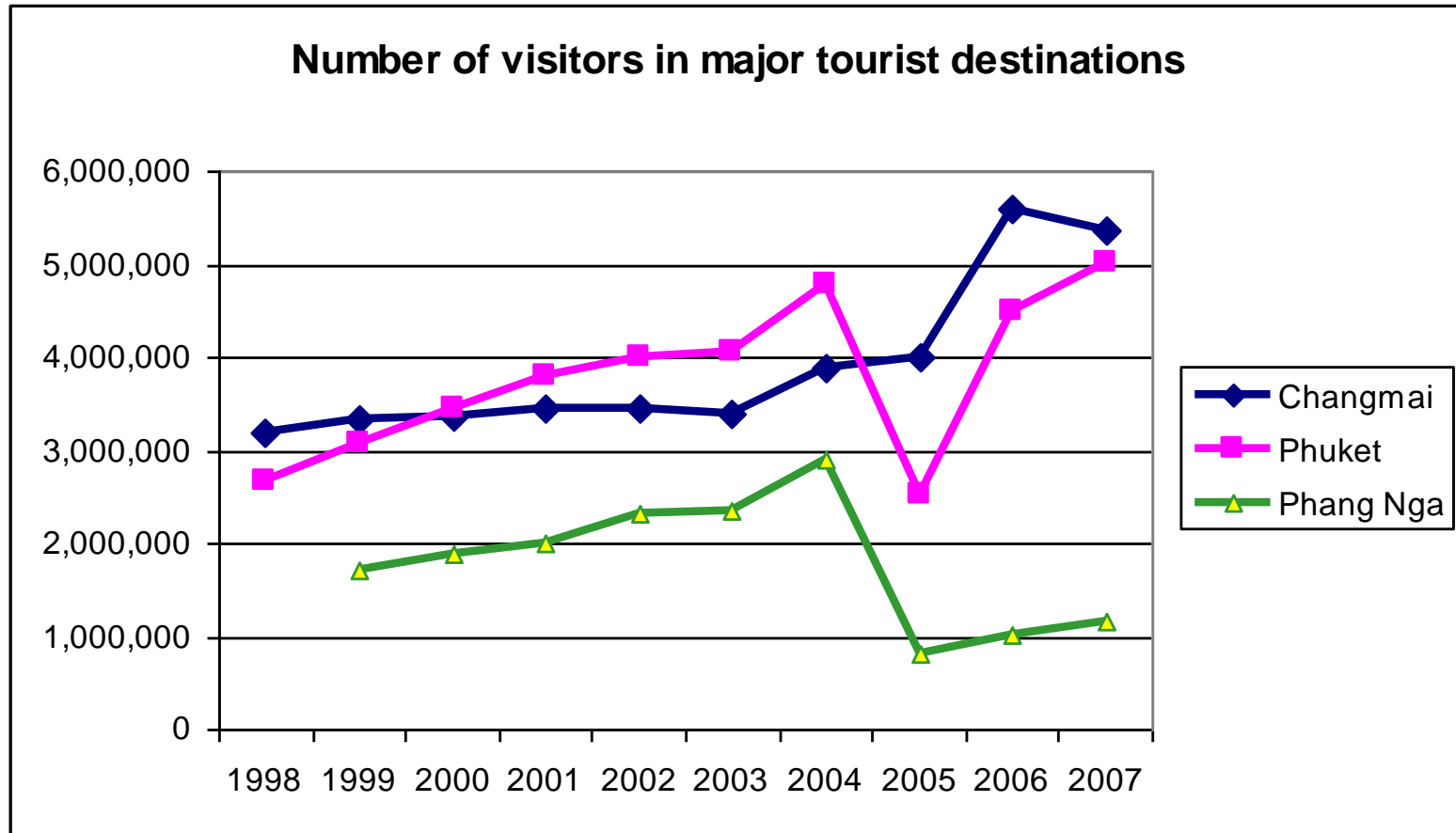
The right way to help

- Thailand can handle the finance of tsunami disaster by her own resources.
- **International assistance** should be directed to other countries with greater needs for help.
- But Thailand asked for one thing:
- A reduction to tariff barriers and ***greater market access*** to Thai products.

A friend in need, is a friend indeed

- The EU cut down the tariff rates on imported shrimp from Thailand.
- The tariff declines from 12 to 4.2 percent for fresh shrimp, from 20 to 7 percent for processed shrimp. (The return of the GSP for another three years)
- There is ***no limit*** to imports of shrimp from Thailand into the EU (as the share of Thai shrimp in the EU is small).
- Japan offered to help by cutting the tariff rates of 20 agricultural products to **zero** to help Thai farmers hit by drought and the tsunami.

Shocks and rebounds



The high cost of airport shutdown

- The shutdown of the two airports by People's Alliance for Democracy (PAD) protesters from Nov 25 to Dec 4, 2008 Thailand **290** billion baht in lost revenue in tourism, service and transportation sectors, according to a report by the central bank.
- The cabinet endorsed a one-billion-baht budget to be used for reviving and stimulating the tourism industry.
- Association of Thai Travel Agency called on the government to weaken the baht to **37** to the US dollar, in order to ensure the sector's growth and efficient competitiveness.

- Suvarnabhumi Airport currently serviced less than 600 flights a day, against more than 700 prior to the airport crisis.
- Thai Hotel Association called on the government to issue an **airport-closure guarantee**, which would certify a payment of Bt350,000 per person next time international visitors were left stranded in circumstances similar to those in 2008.

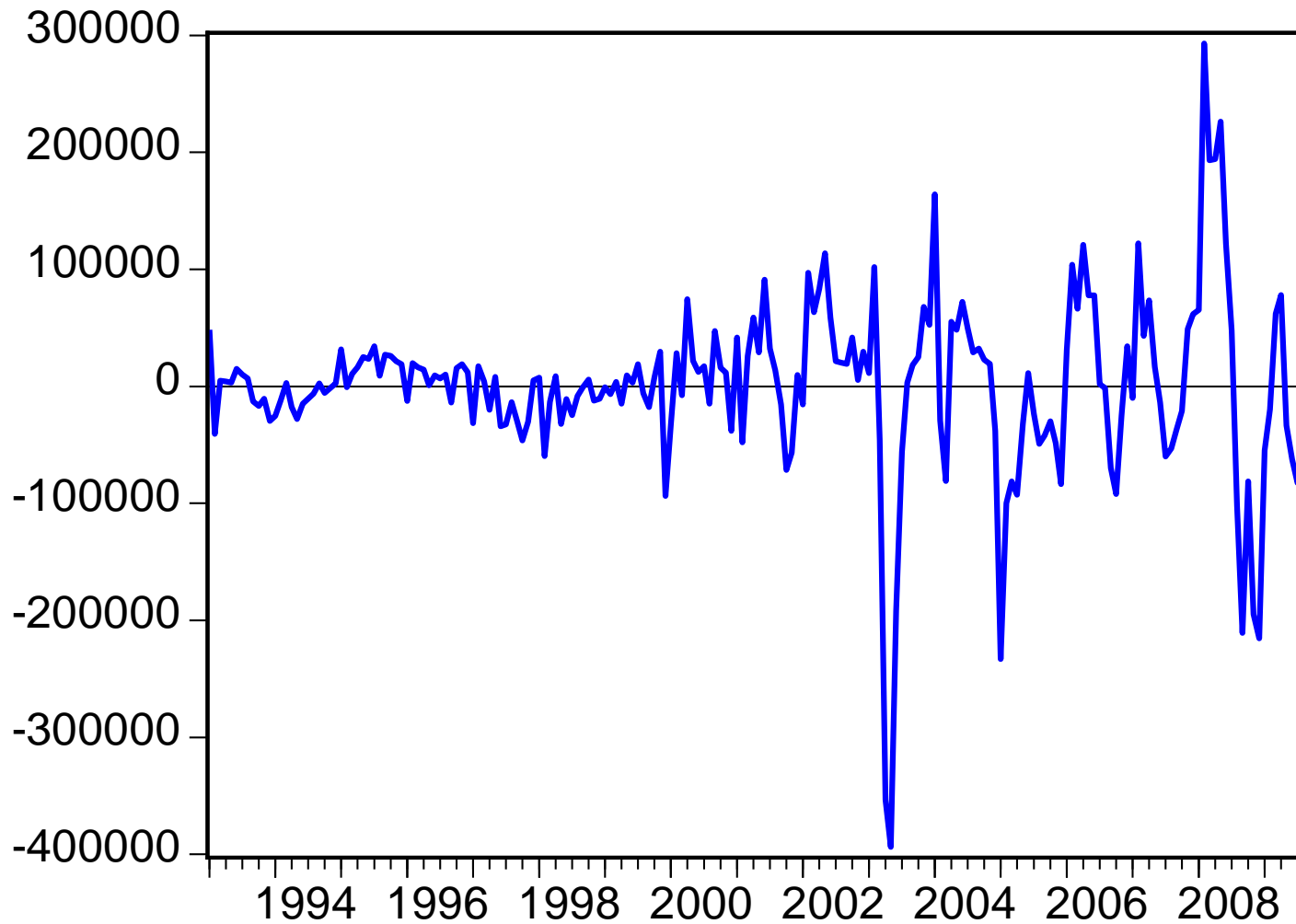
Global recession impact on tourism industry

- Tourists from Thailand's main markets had fallen gradually since 2008Q4.
- The number of travelers from Scandinavia has declined 10 per cent, from other European countries, such as Germany, the Netherlands and England, 30-40 per cent and 90 % from China.

What drove tourists away

- Added to the flu pandemic was the effect of the seizure of Suvarnabhumi and Don Mueang airports by supporters of the People's Alliance for Democracy late last year.
- The Songkran riots (April 2009)
- The disruption and cancellation of the Pattaya Asean summit.
- Federation of Thai **Tourism** Associations (FETTA), believed that arrivals to Thailand would be well below the government's target of 15 million in 2009; the 11 million figure was more likely.

Number of foreign tourists: deviation from trend



Jan 1993 - Aug 2009

What have we learned from experiencing various shocks?

- Random shocks perturb the steady growth path of the economy.
- A random shock can turn a *mild* recession into a *severe* recession if confidence is lost.
- As a part of confidence-building public investment, the tsunami warning system, with cooperation among countries to share and maintain the system, can serve as an invaluable public goods in the Andaman region.
- Don't forget about transparency (who is afraid of the swine flue?)

An Old Arab proverb: He who forecast lies

- UTCC forecast center predicts that the one-month protest by the *Red Shirts* would cost 38 billion baht if the champagne lasts for one month, 100 billion baht if it lasts for three months.
- The tourism industry would take the severe blow for income loss of 20 billion and 50 billion respectively.
- *The first “reaction” forecast generally overestimates the shock impact.*

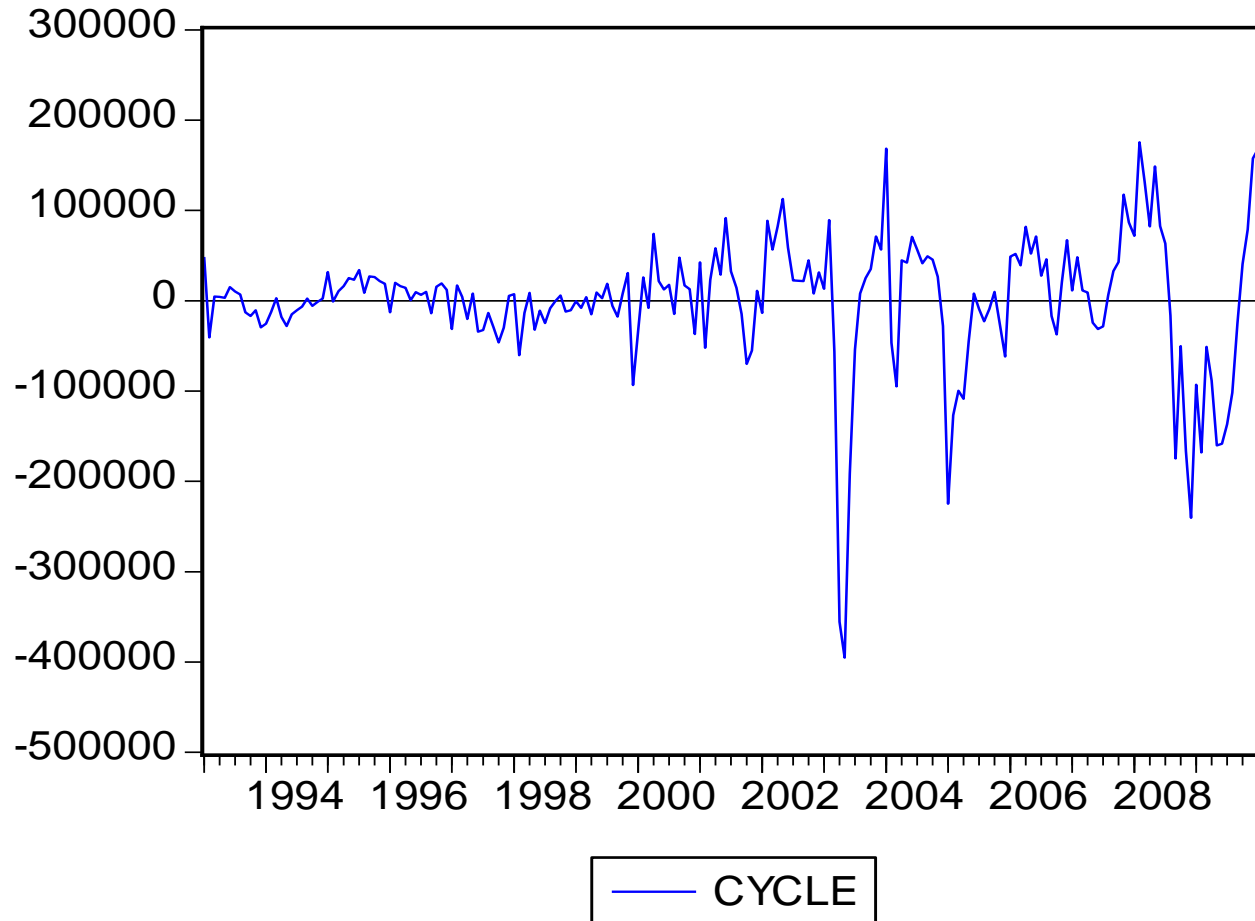
What hotel operators say

- The hotel industry has been hit hard by the heated political conflict of the past couple of months, with occupancy rates at an extraordinarily low level.
- Average occupancy in central Bangkok, including the Khao San Road and Rajdamneon Avenue areas, have plunged a whopping **70** per cent year on year, while other parts of the capital are experiencing a **20-30** percent decline.

Thailand is not just about Bangkok

- Although hotels in some main destinations, including Phuket, Koh Samui and Krabi, are actually maintaining **high** occupancy despite the unrest,
- New bookings for the Songkran festival were down from this time last year, because tourists feared more violence.
- According to Dusit International CEO, average occupancy was down by 10 per cent in March 2010.

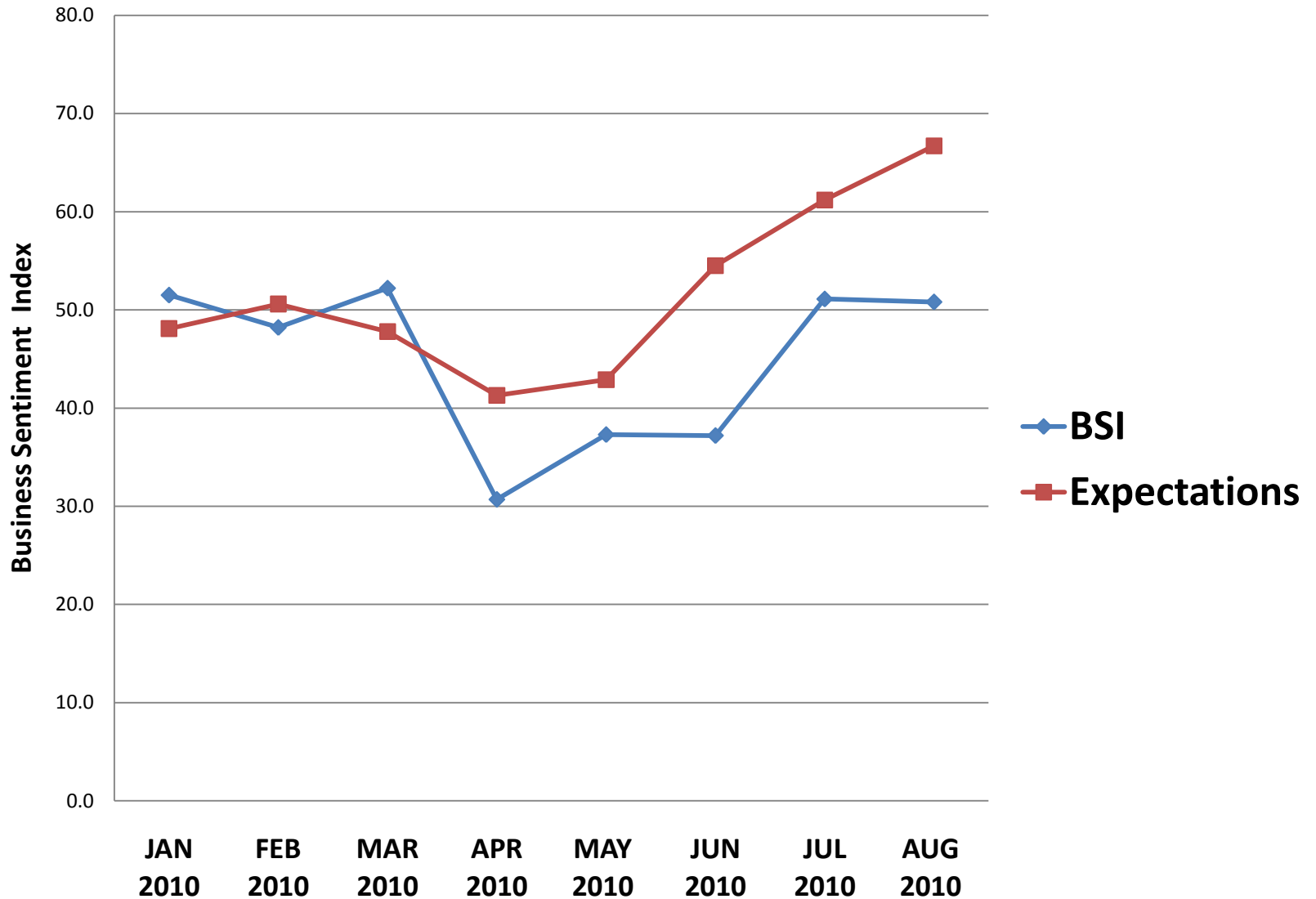
Deviation from trend: number of foreign visitors



Vulnerable but resilient

- Tourism industry is constantly bombarded by both external and internal shocks: SARS, Avian Influenza, oil price shocks, tsunami, terrorist bombing, military coups, and political violence.
- The industry is vulnerable to loss of confidence that induces negative spiral.
- Give it time, the industry will rebound after experiencing new unexpected shocks.

Business Sentiment in the Service Sector



An update

- Improving prospects for tourist arrivals have prompted the **Tourism Council of Thailand** to revise up its projection for the year 2010 to between 15.2 million and 15.6 million foreign visitors.
- The council earlier projected a bleak outlook following the Bangkok riots on May 19, saying the impact on tourism would be even worse than the fallout from the airports seizure by the People's Alliance for Democracy in late 2008.
- The council in late May forecast that the country would attract just 13 million foreign tourists this year, a sharp drop from its earlier projection of 16 million.
- "A sharp recovery is clearly visible in the second half due to the world economic recovery and the government's active measures to boost the industry,"



STEADY IMPROVEMENT

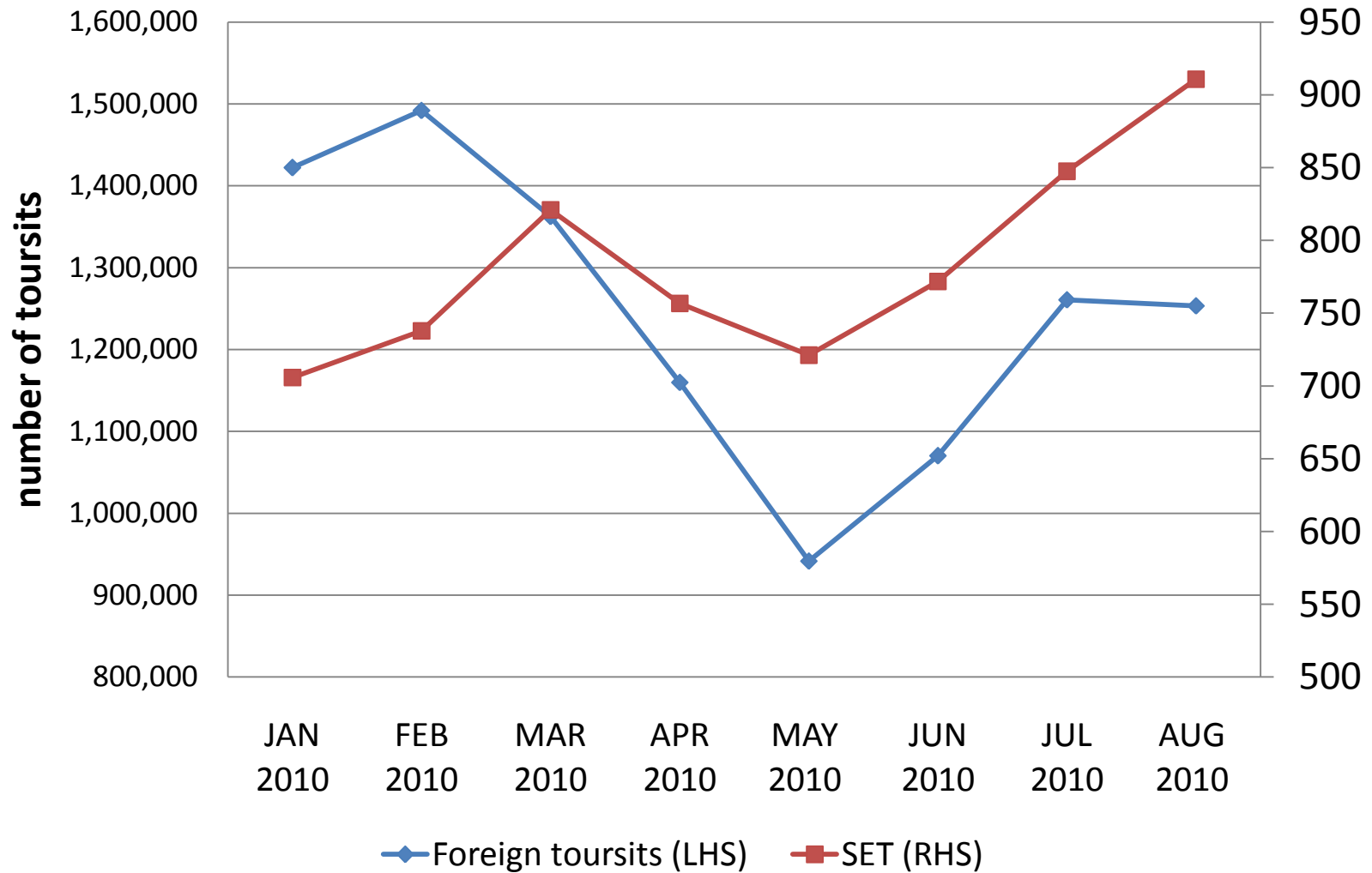
International arrivals by origin, Jan-June
2010 vs Jan-June 2009

Origin	2010	2009	Change
East Asia	3,670,667	3,250,420	12.93%
Europe	2,279,937	1,967,920	15.86%
The Americas	431,381	416,228	3.64%
South Asia	446,935	385,377	15.99%
Oceania	367,540	328,538	11.87%
Middle East	261,657	214,114	22.10%
Africa	56,908	46,756	21.71%
Total	7,515,025	6,609,313	13.70%

Source: Ministry of Tourism and Sports

POSTgraphics

Toursim and stock market sentiment



Concluding remarks

- If the tourism industry is flexible and resilient, it would regain its steady state growth path in time after encountering a shock, provided that appropriate policy responses are applied.
- How can we make the tourism industry competitive and resilient under regular shocks?
- What are appropriate policy responses to global recession?
- How long will it take before the tourism industry recover from the great deluge?