

Tourism industry

Vulnerability and resilience

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Lecture 20

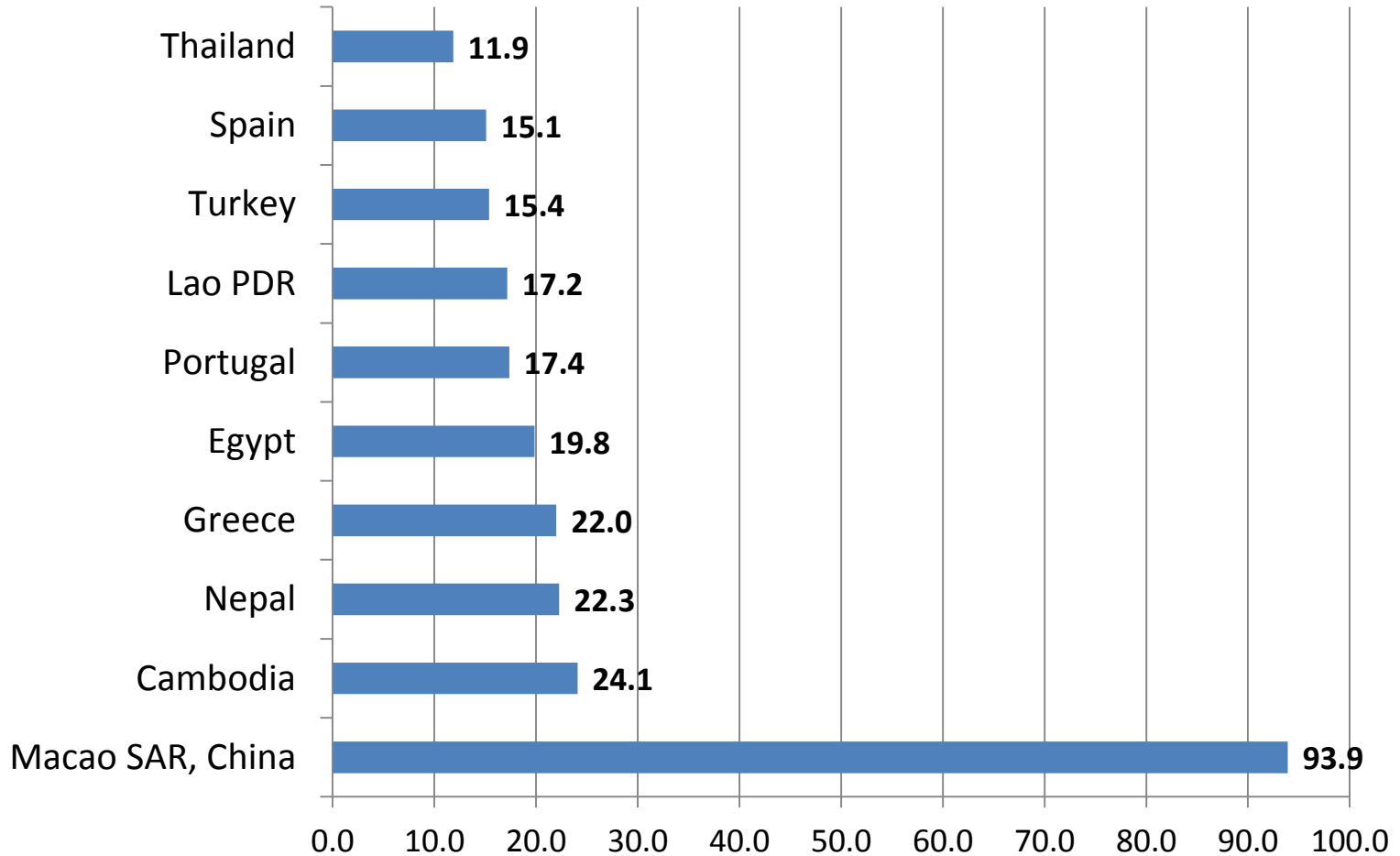
Outline

- Background
- Shocks and vulnerability
- Coping with disasters
- SARS, Avian flu, the 2004 tsunami disaster
- Impact of global recession and political instability
- The great deluge of 2011
- Microeconomics of hotel business

Characteristics of the tourism industry

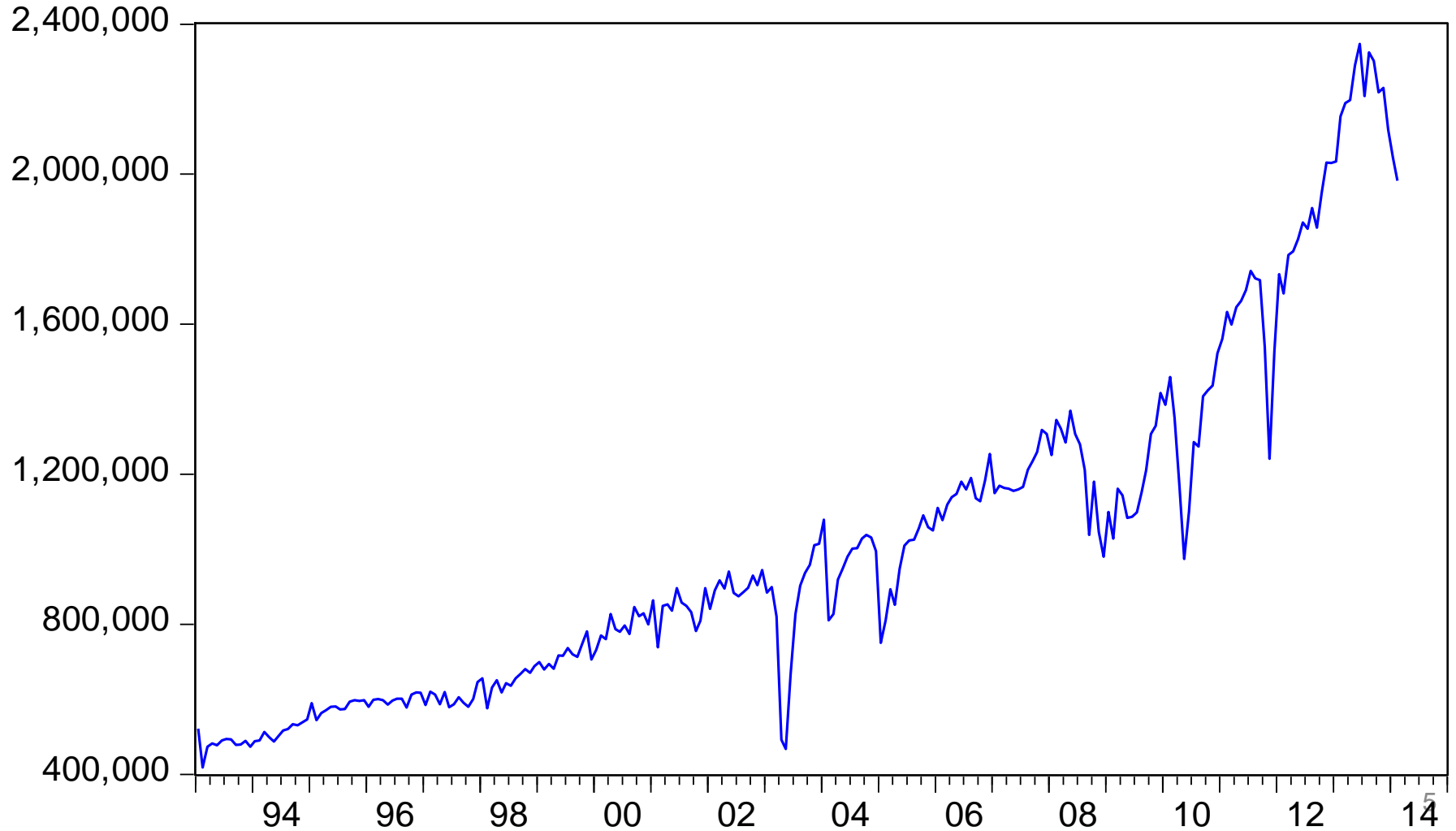
- Overall tourism income of the country is approximately 16 % of GDP.
- ***Cultural capital*** and natural capital stock
- Highly labor intensive: employment and migration.
- Strong linkages to other sectors.
- Net foreign exchanges.

International Tourism, receipts (% exports)



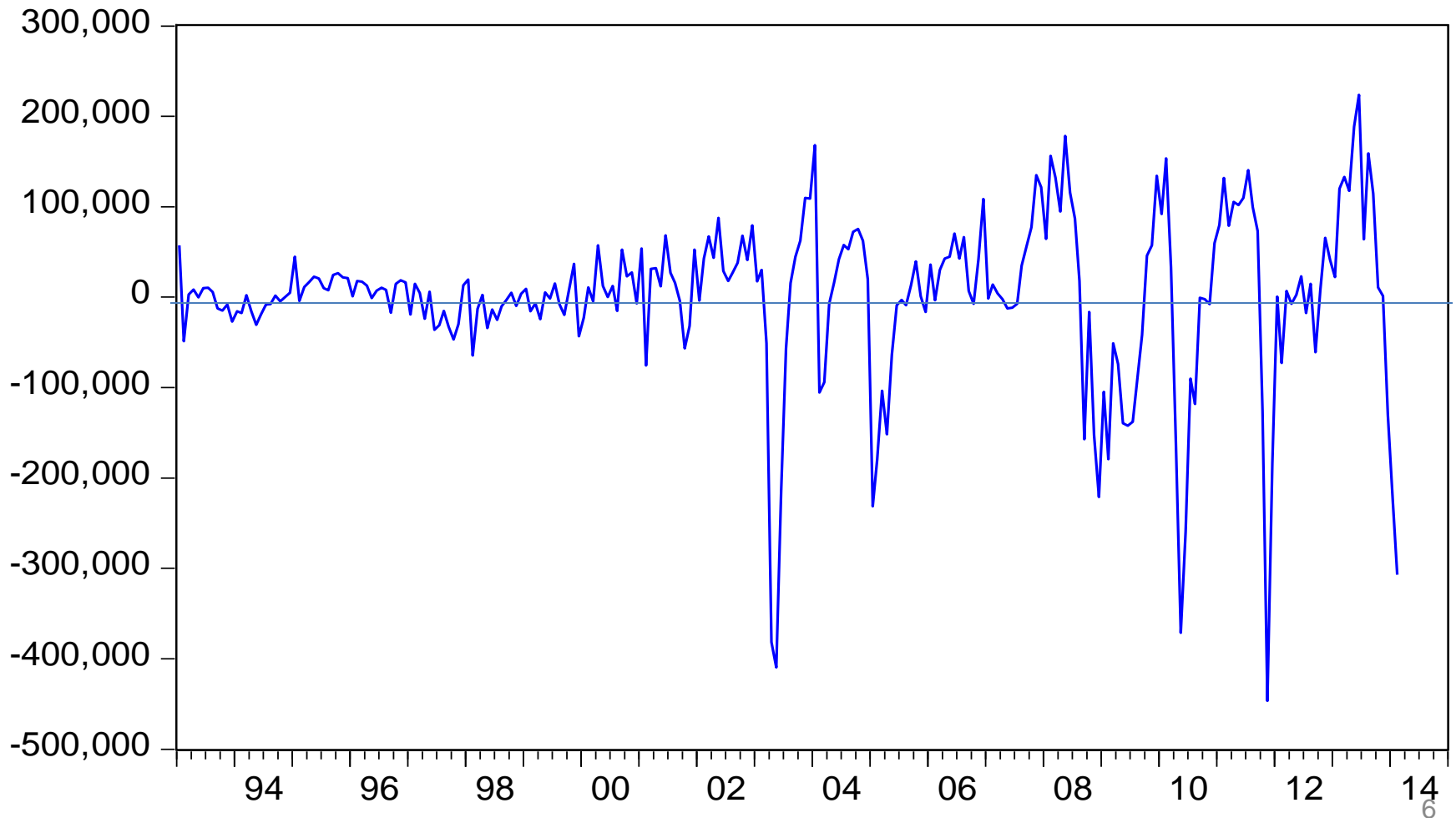
Number of foreign tourists

TOURIST

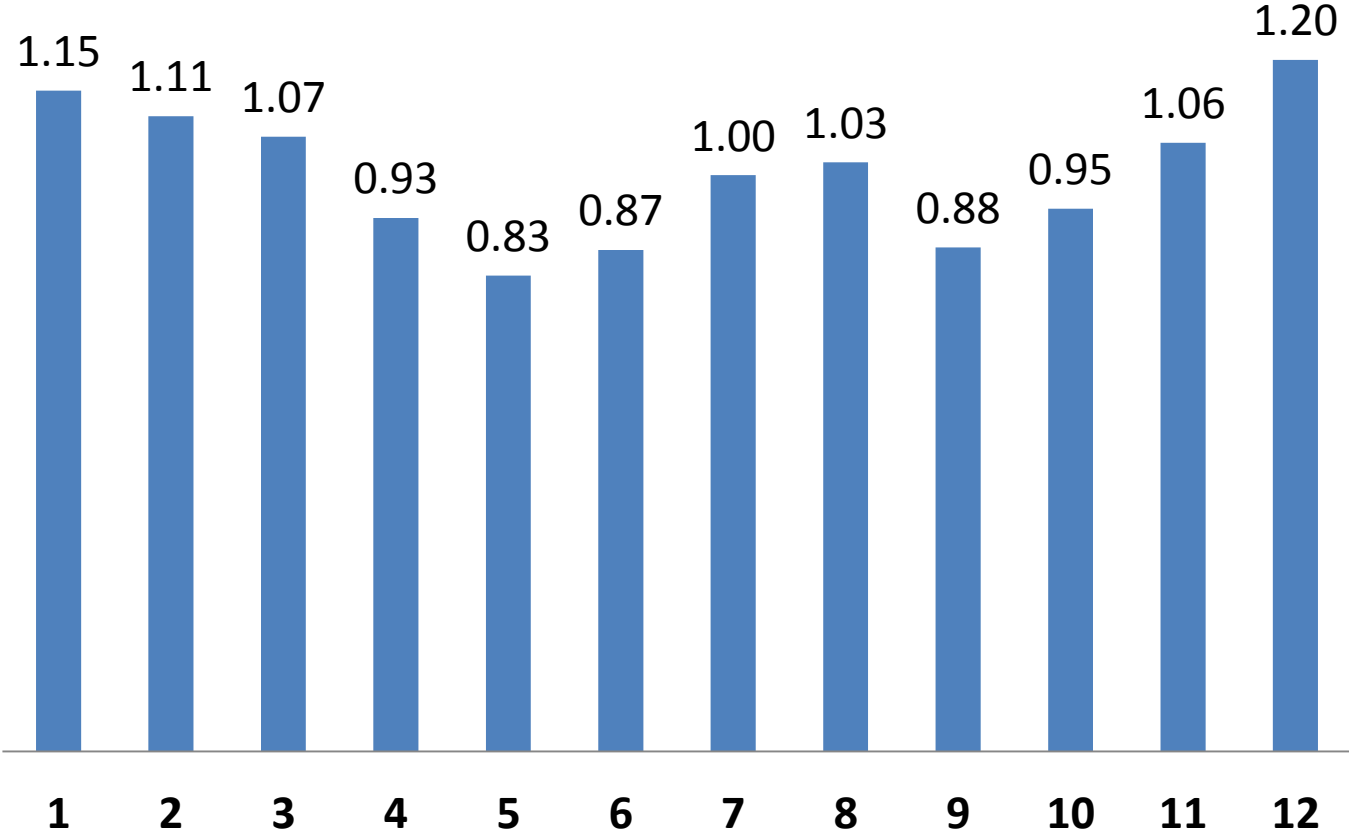


Deviation from long term trend: Intensifying shocks

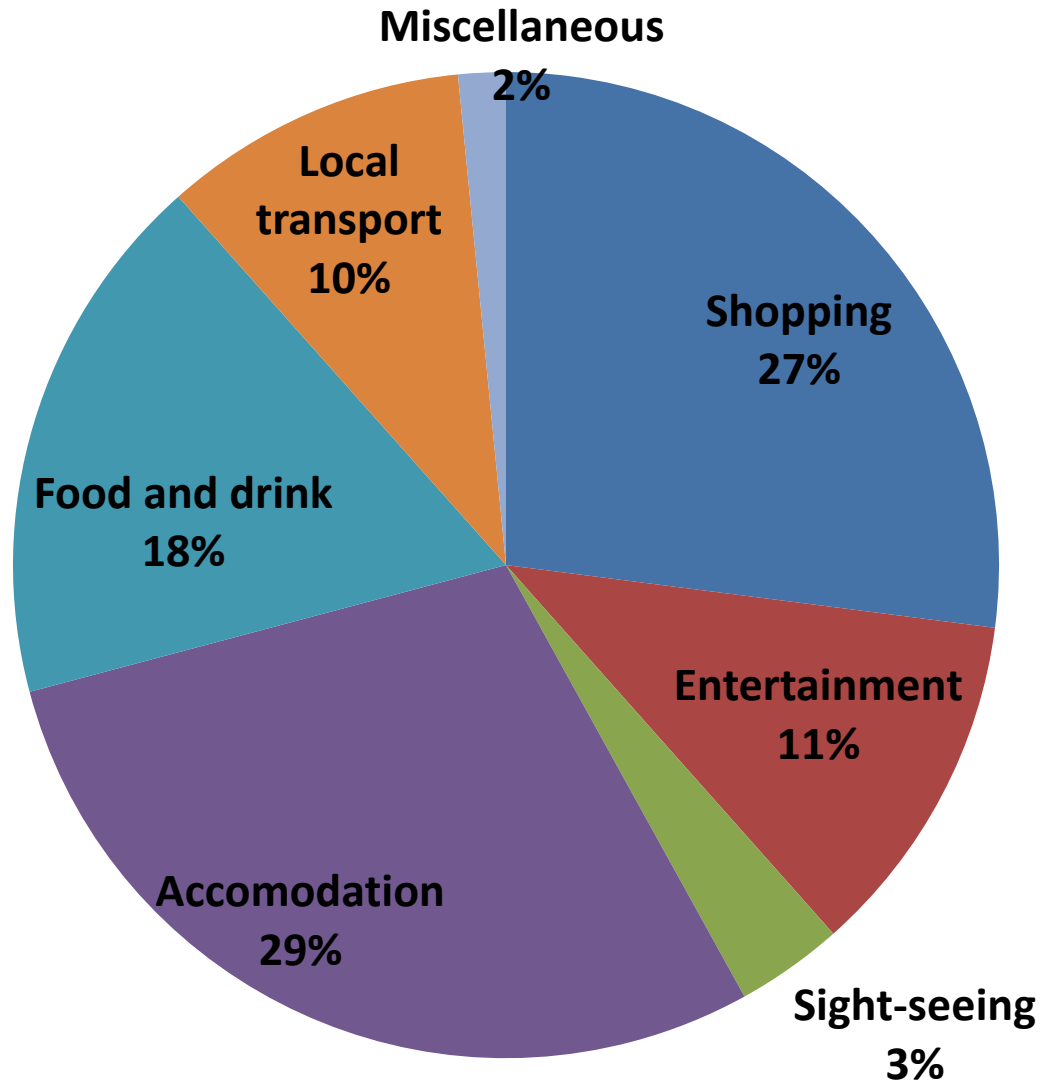
DEVIATION



Monthly number of tourists: Ratio to moving average

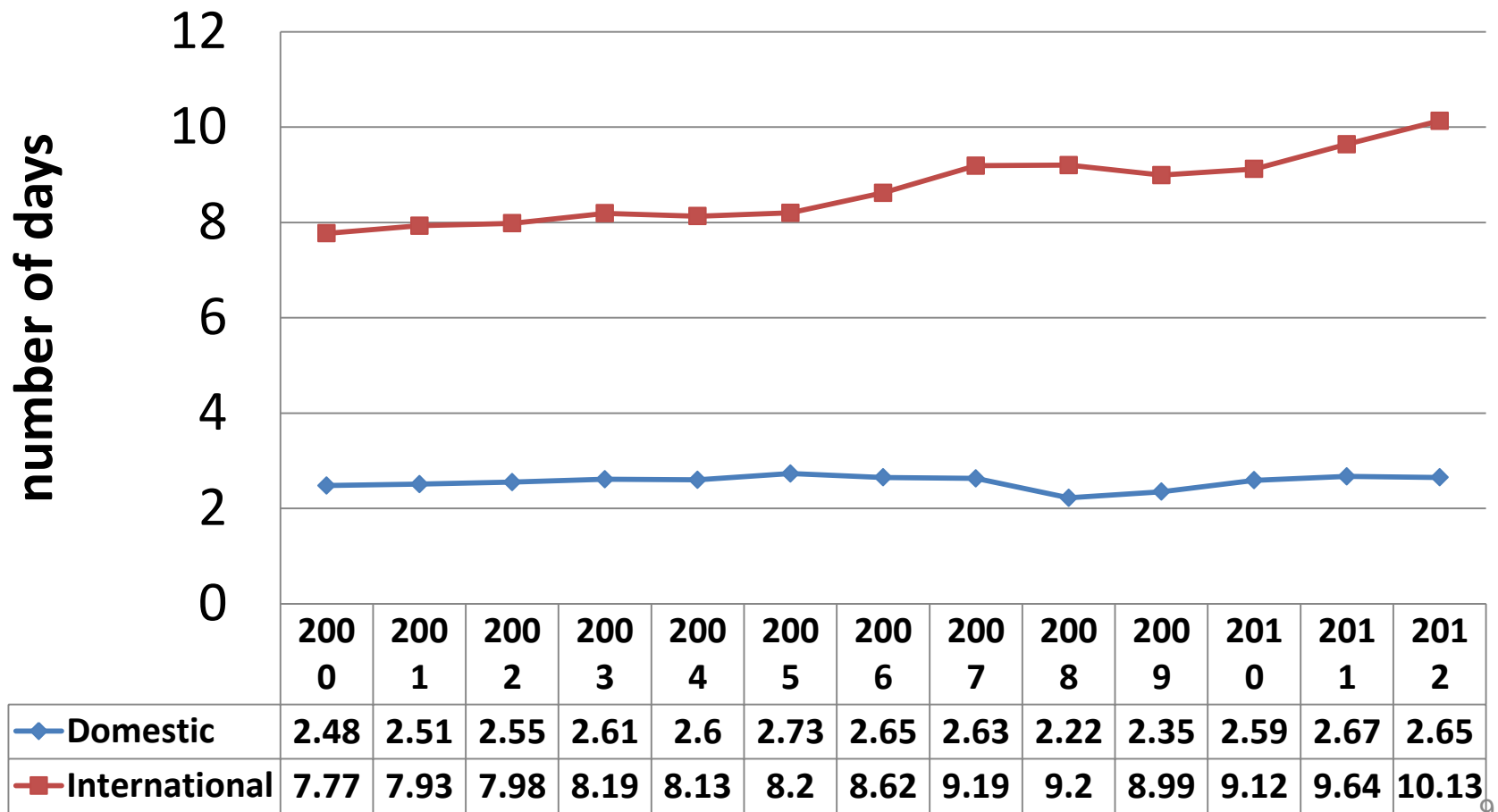


Pattern of international tourists' spending in 2011



How long will you stay in Thailand?

Average length of stay



The World's Lowest Cost of Living for Retirement

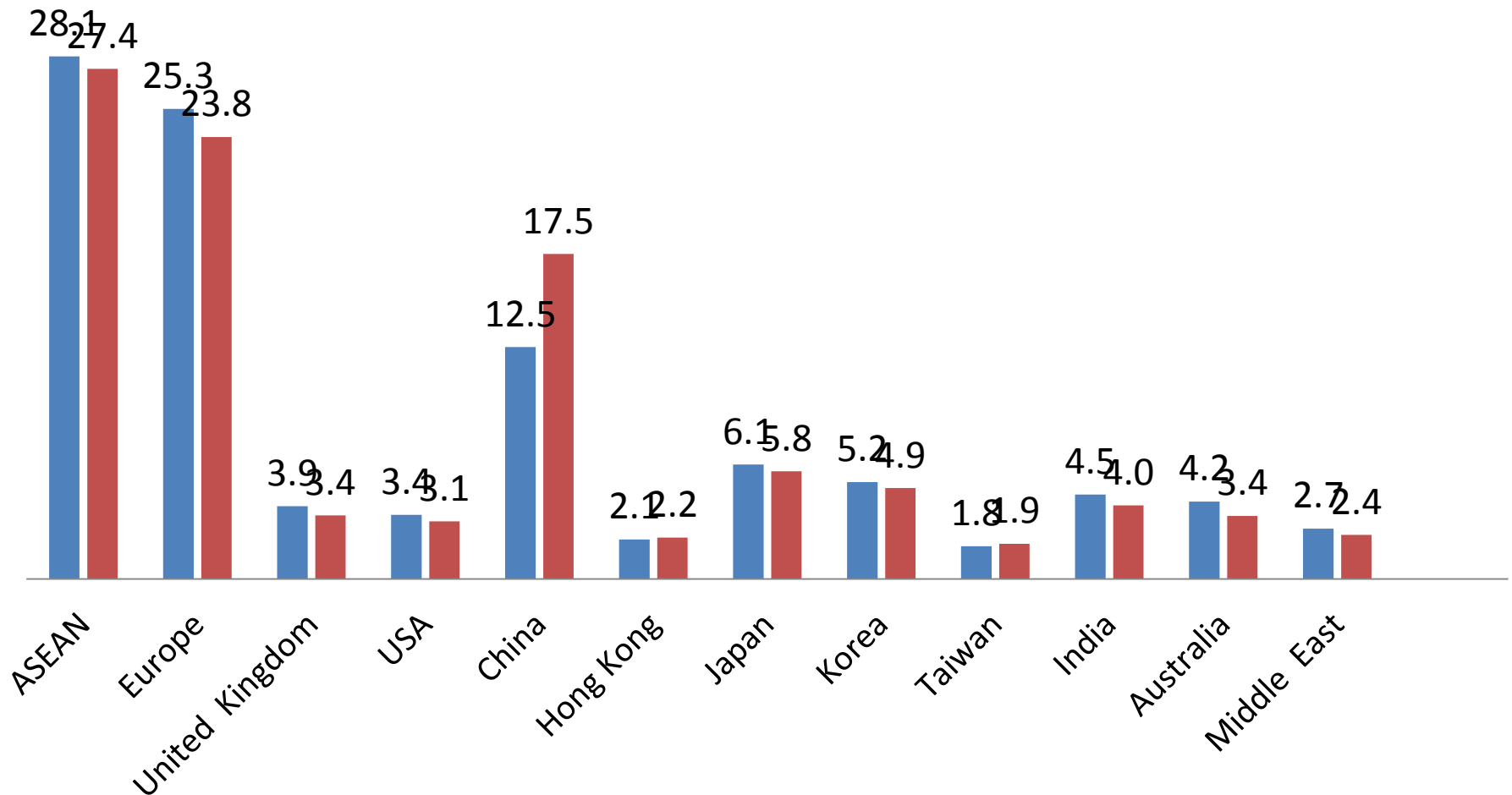
- **Philippines:** The majority of the people speak English, the climate is generally warm and tropical, and you can live quite comfortably on as little as \$1,000 per month.
- Perhaps that's why **36,000** Americans have chosen to immigrate to the Philippines.
- There is ample, quality healthcare here, with a high percentage of the doctors trained in the US. Cultural and leisure activities abound, including snorkeling, whale watching and theater.
- If you are over 50 and have a pension of at least **\$1,000** per month, you can apply for a permanent retiree visa, making it easy to settle down.

Aside from Malaysia, Ecuador, Panama, and Costa Rica

- **Thailand:** Often called “The Land of Smiles,” Thailand is home to approximately **4,000** US retirees.
- With stunning beaches, tropical climate and exotic culture, there’s a lot to smile about.
- Although the Thai language is challenging, many Thais speak English, especially in the larger cities.
- Medical care is excellent, and the crime rate is low. Best of all, for just **\$1,800 a month**, you can live very comfortably, even luxuriously in many parts of the country.
- To qualify for a long-stay visa, you’ll need to be over 50, have no criminal record, be in good health and be able to show that you receive income of at least \$2,000 per month.

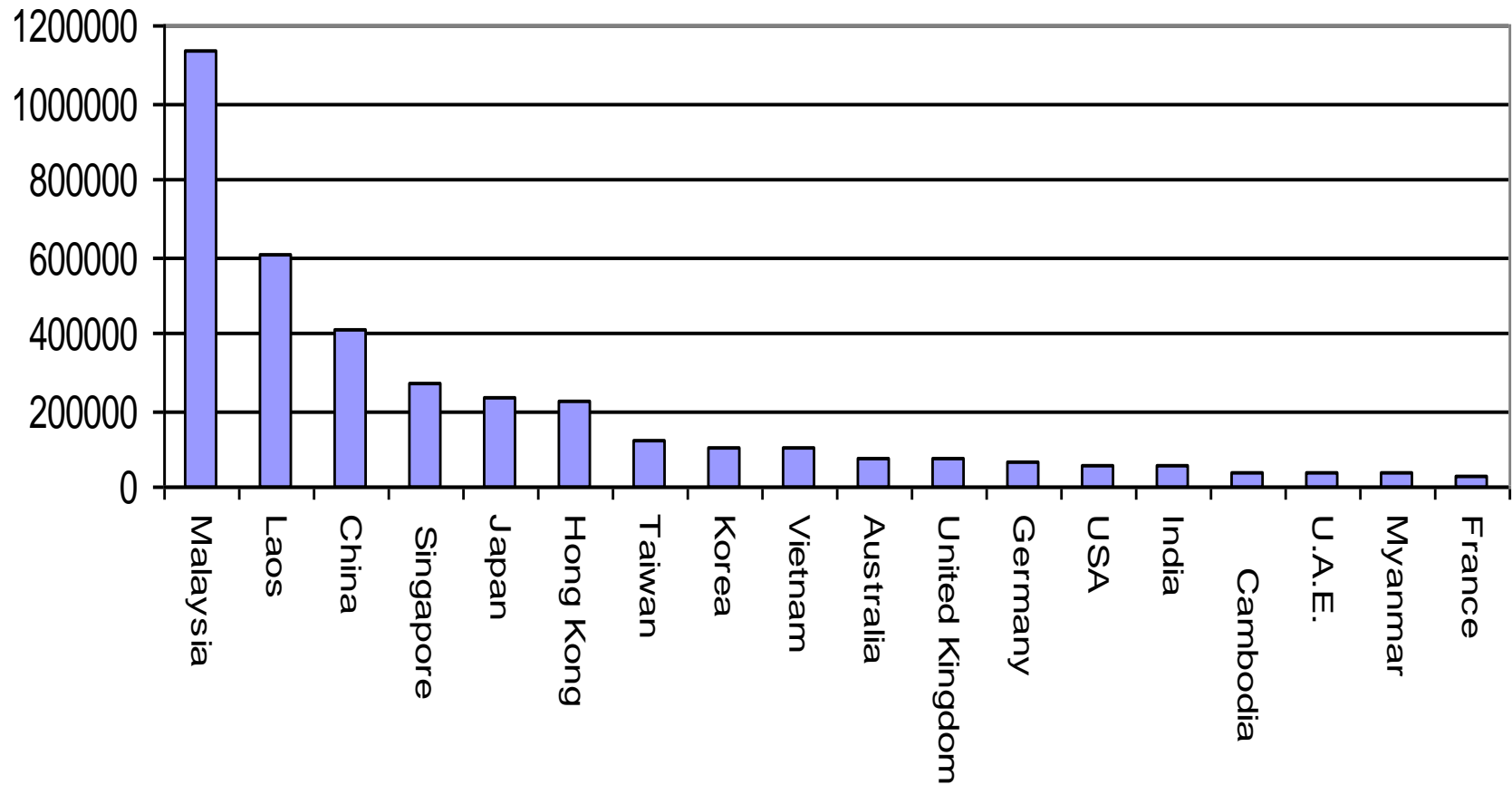
Share of international tourists

■ 2012 ■ 2013

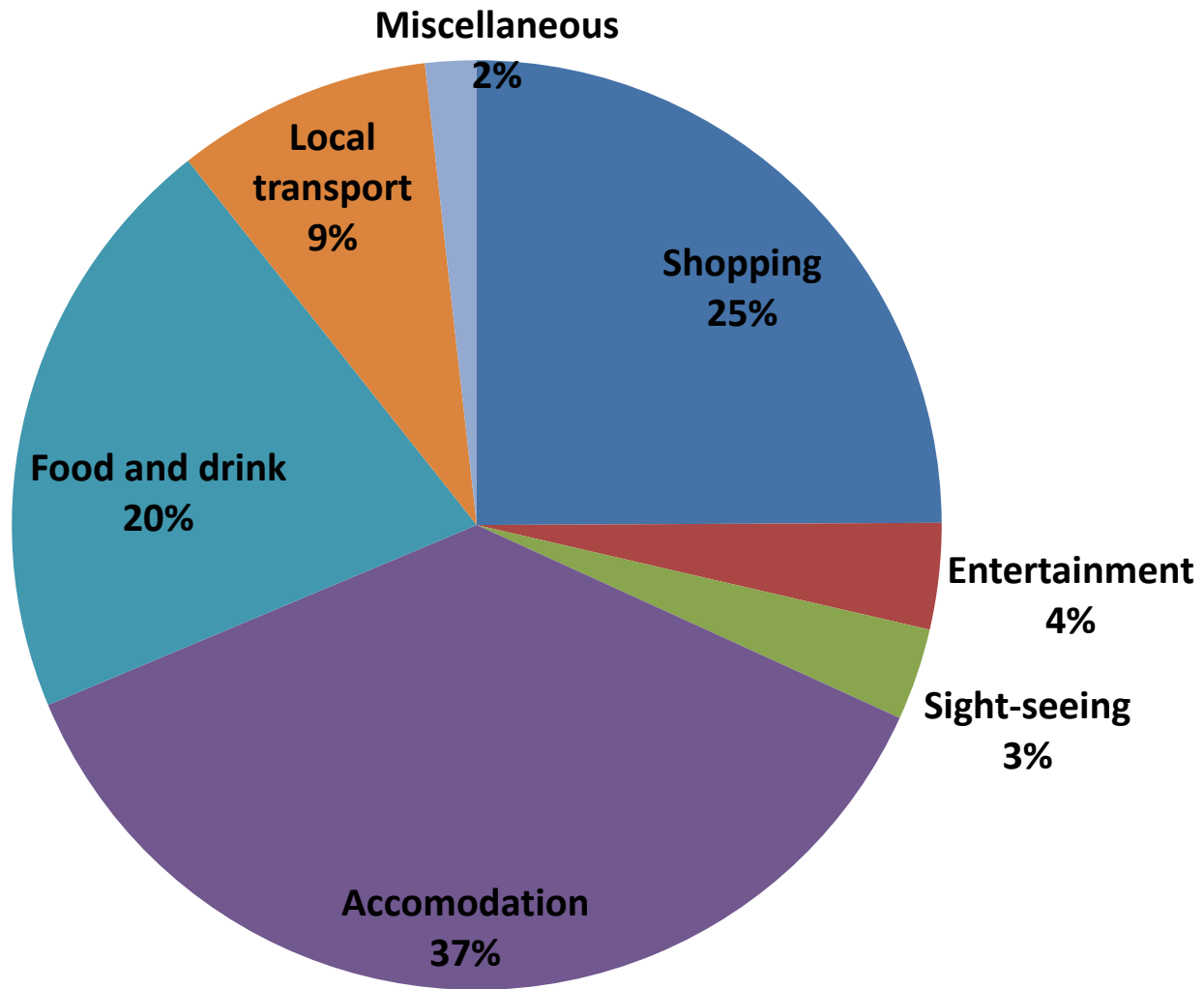


Where were Thais on their holidays?

Outgoing Thai tourist (number of person) in 2007



Thai tourists' spending pattern in 2011



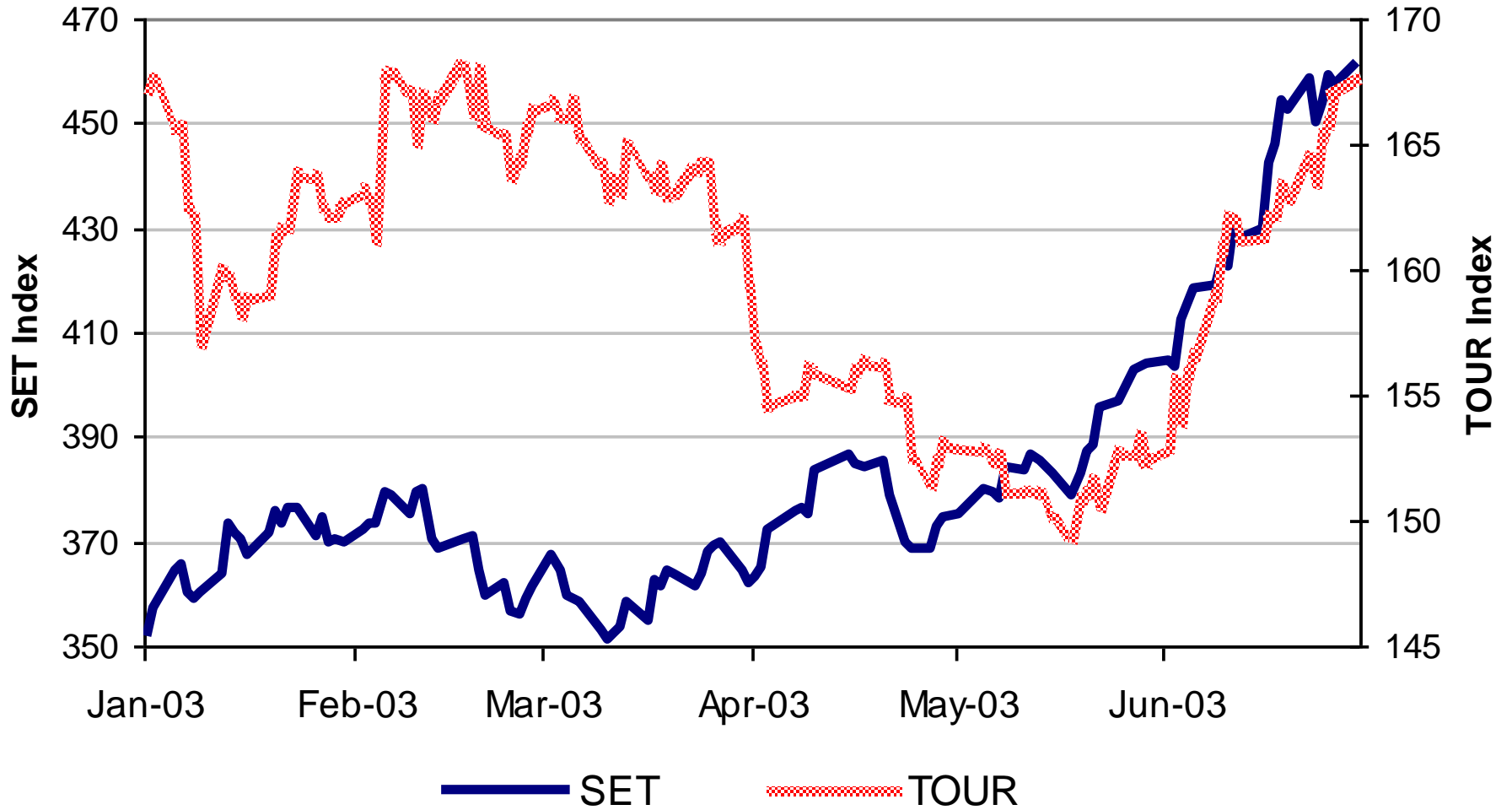
Determinants of tourism demand

- 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

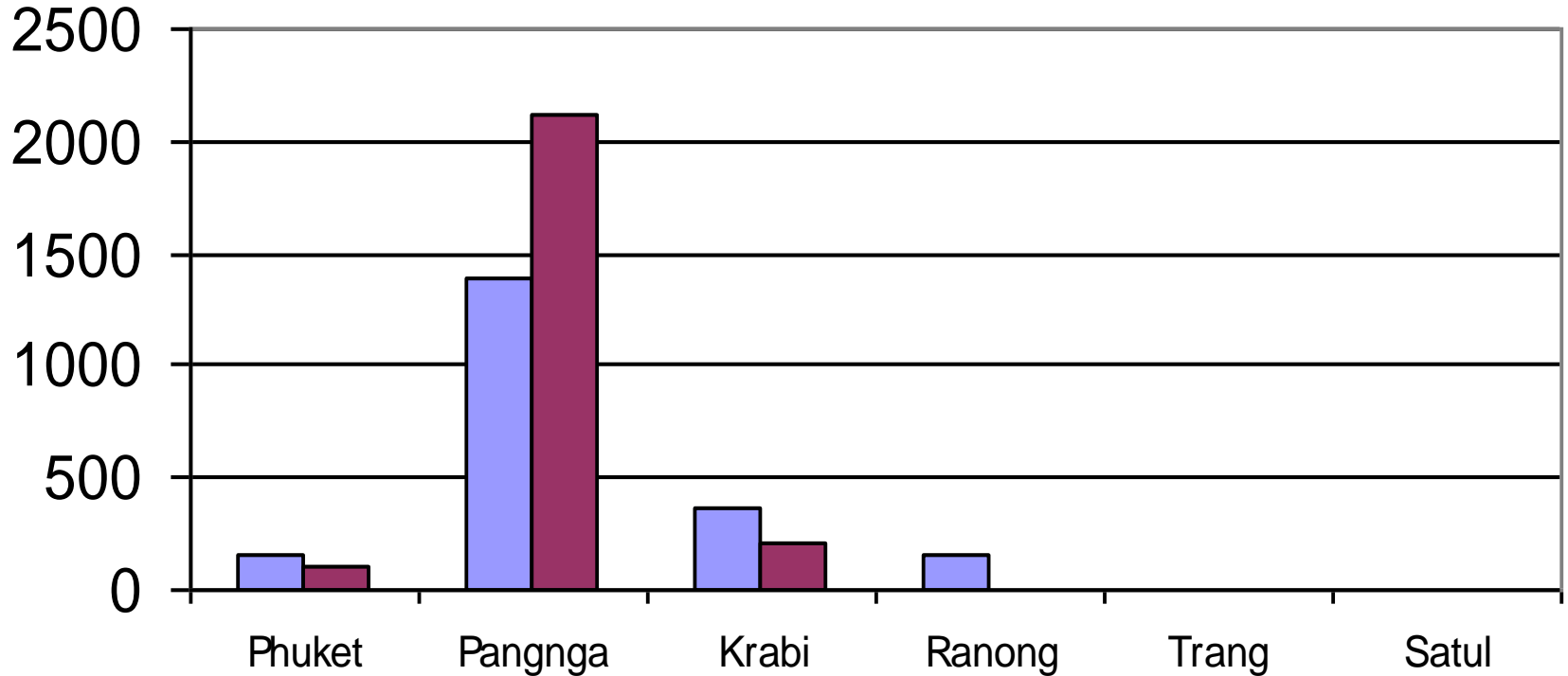


Source: Stock Exchange of Thailand (SET)

On December 26, 2004

Phangnga 78.3%, Karabi 13.4, Phuket 5.2, Ranong 2.9%

Figure 2: Thai and Foreigner Death Toll



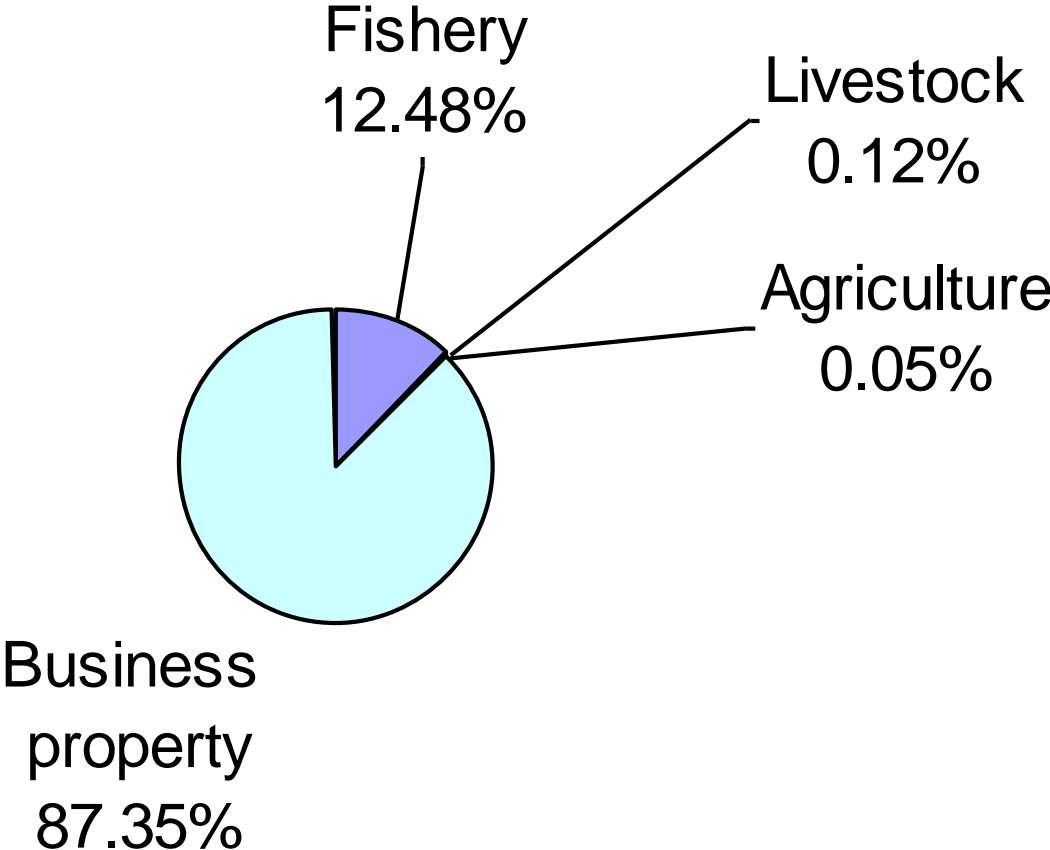
Source: DDPM

Thai Foreigner

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



Source: DDPM

At 9:50 am
Sunday 26th of December 2004



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

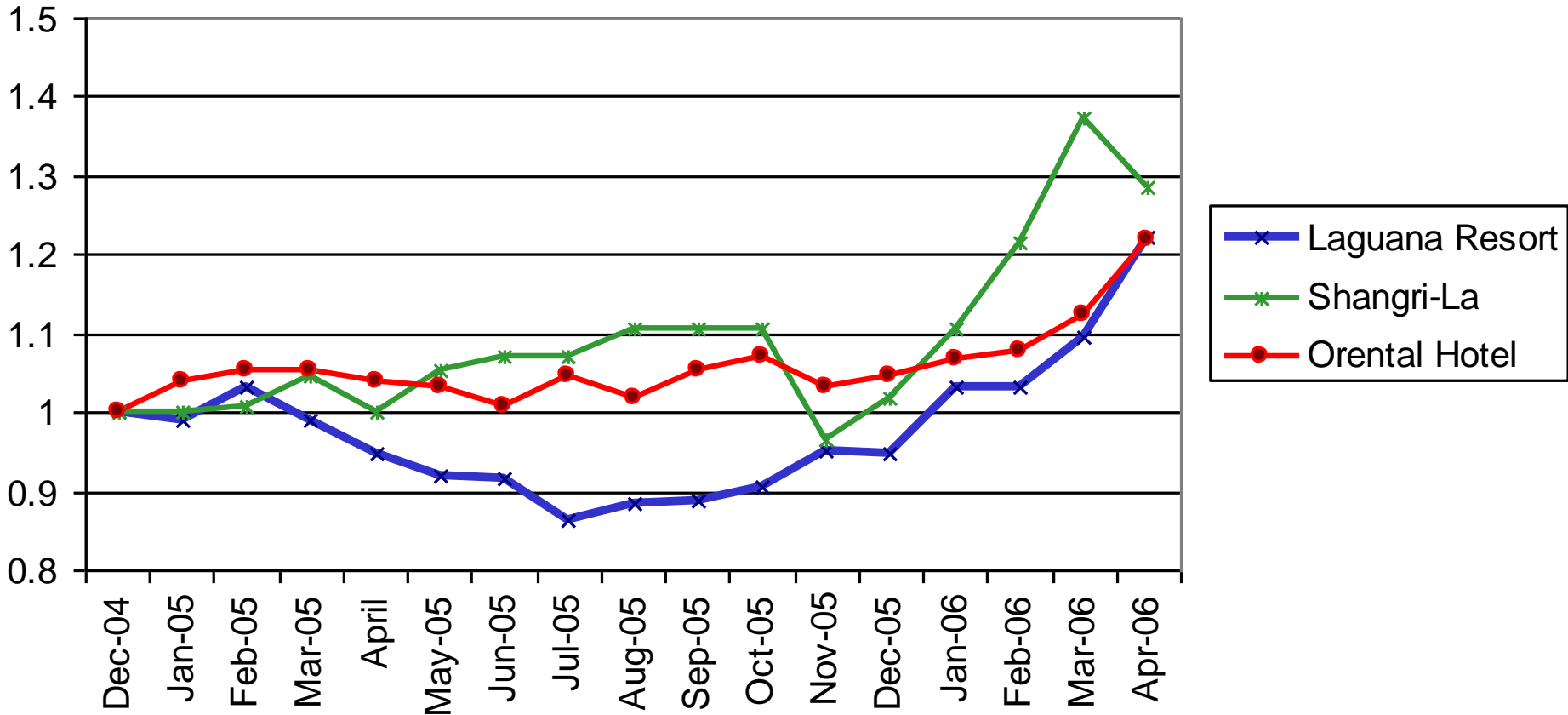
Impact on the stock market

- 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.

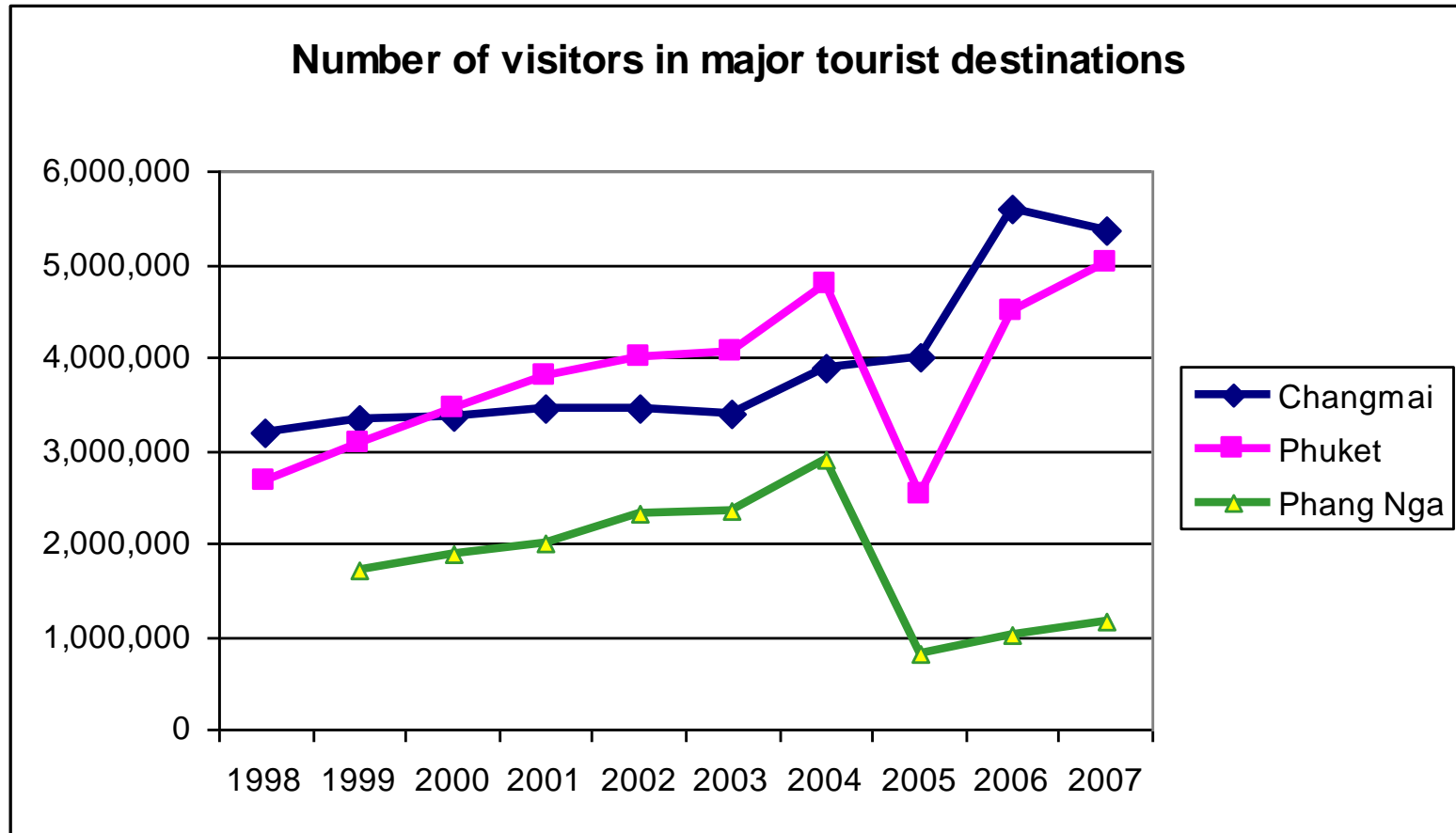
The right way to help

- 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 the airport shutdown in 2008

- 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.

The Cost of Bangkok Shutdown in 2014

- Using the framework applied earlier to the tsunami disaster, can you examine the impact of the 2014 Bangkok shutdown on stock market and tourism industry?
- Is there any similarity to the impact of the 2014 coup?

What have we learned from experiencing various shocks?

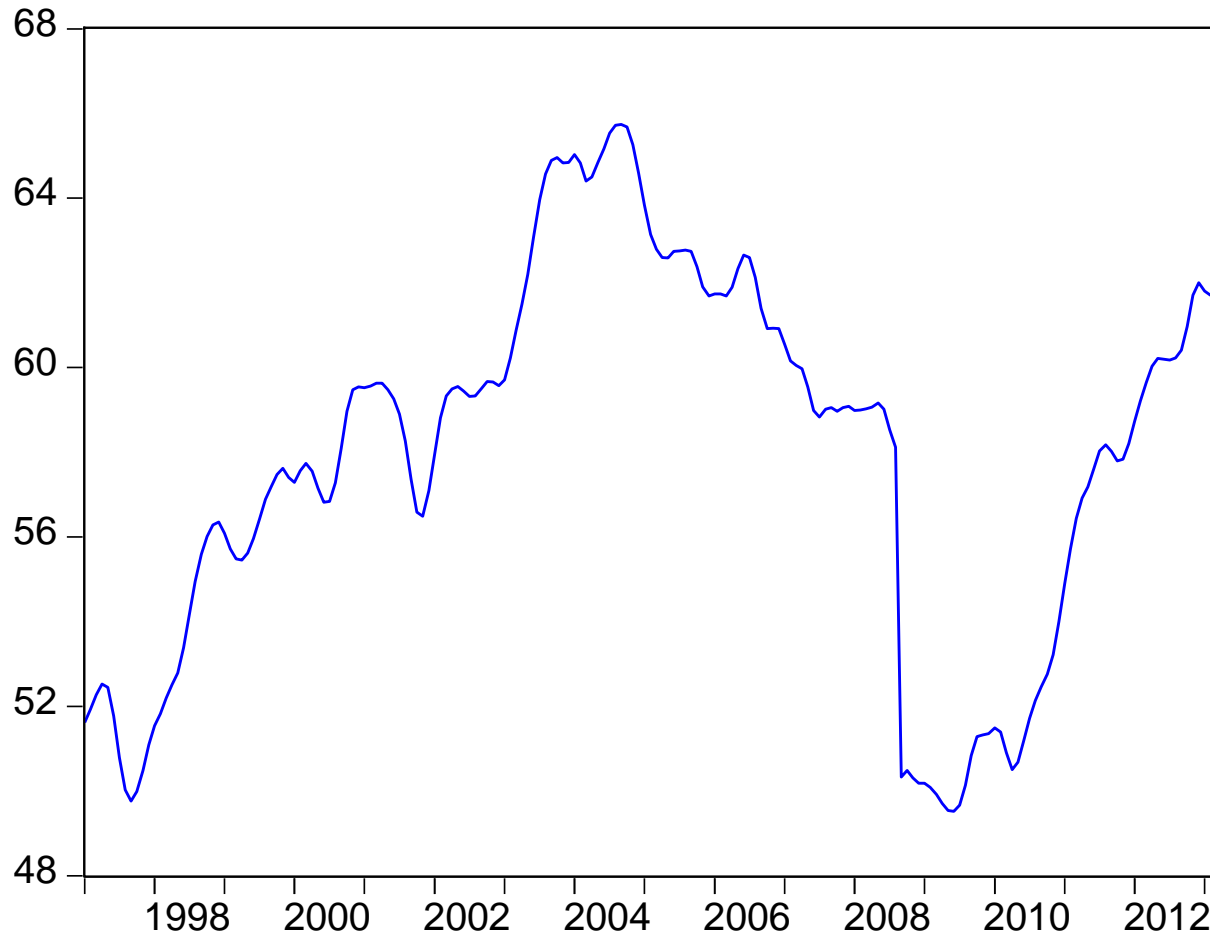
- Random shocks perturb the steady growth path of the economy.
- A random shock can turn a *mild* recession into a *severe* recession if confidence is lost.
- As a part of confidence-building public investment, the tsunami warning system, with cooperation among countries to share and maintain the system,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

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.

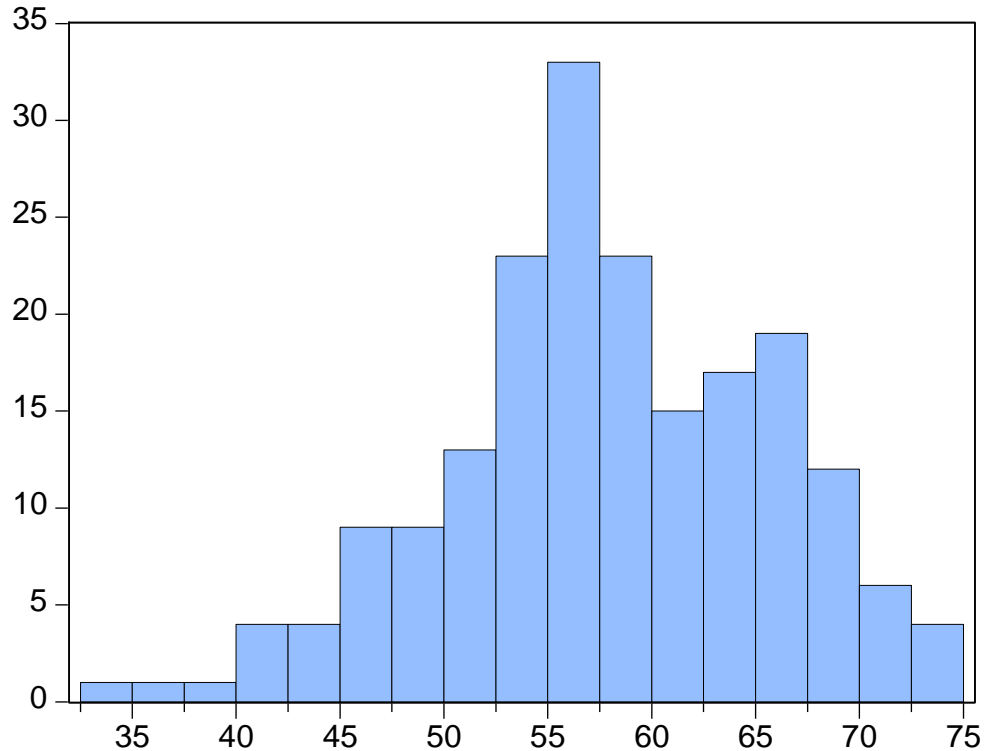
Hotel occupancy rate

Final trend-cycle



- The average occupancy of hotels in key tourism areas, especially in southern and northern Thailand, was close to the normal low-season rate of about 55% to 60%.
- A notable revival in Asian visitors is being seen this quarter.
- The council has also forecast trips by Thai tourists at 90.72 million this year, a rise of 5% from last year, with revenue of 390 billion baht.

Hotel Occupancy Rate (percent of total rooms)

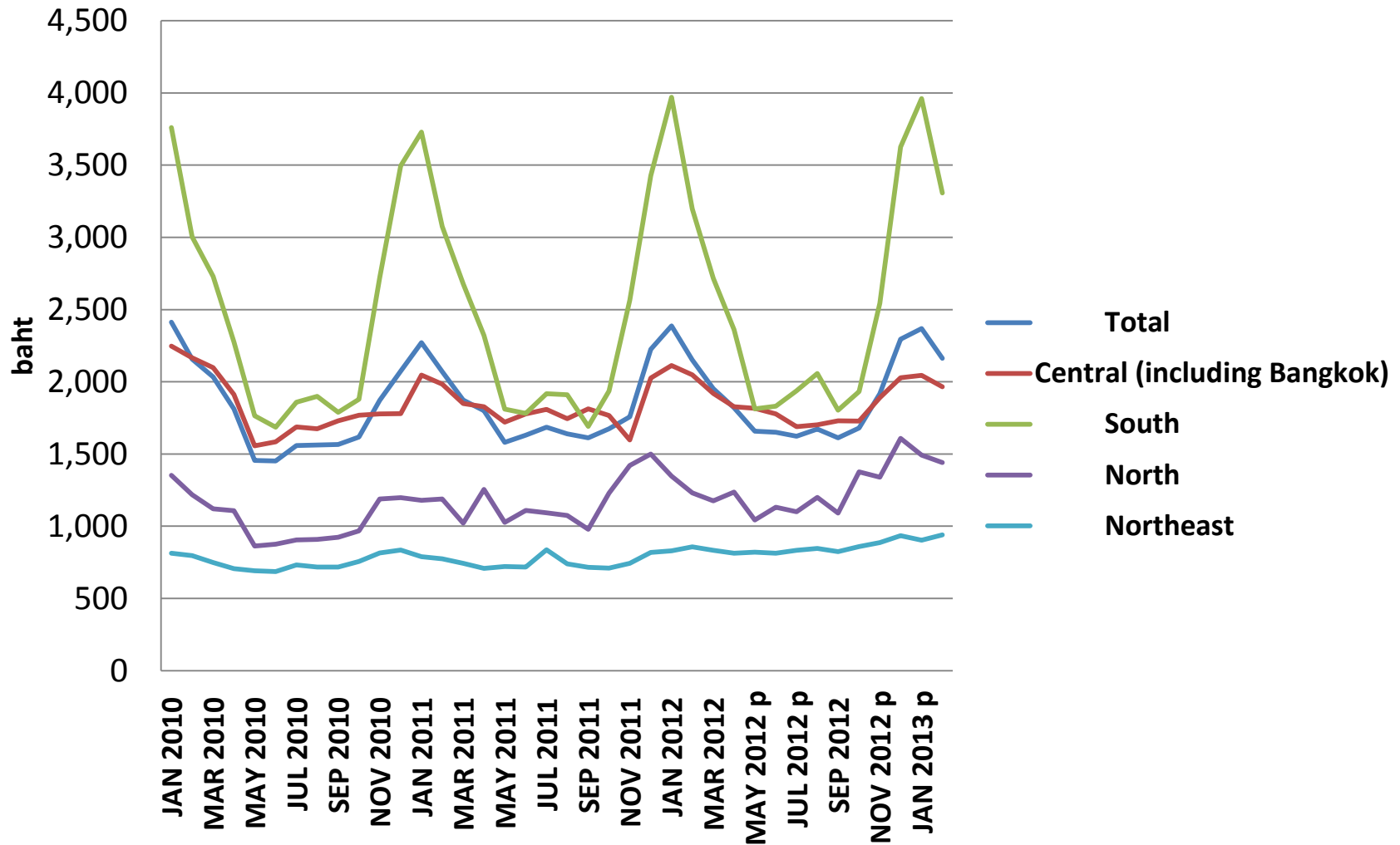


Series: HOCR
Sample 1997M01 2013M03
Observations 194

Mean	57.80778
Median	57.46000
Maximum	74.20000
Minimum	34.40000
Std. Dev.	7.837095
Skewness	-0.273485
Kurtosis	2.908174

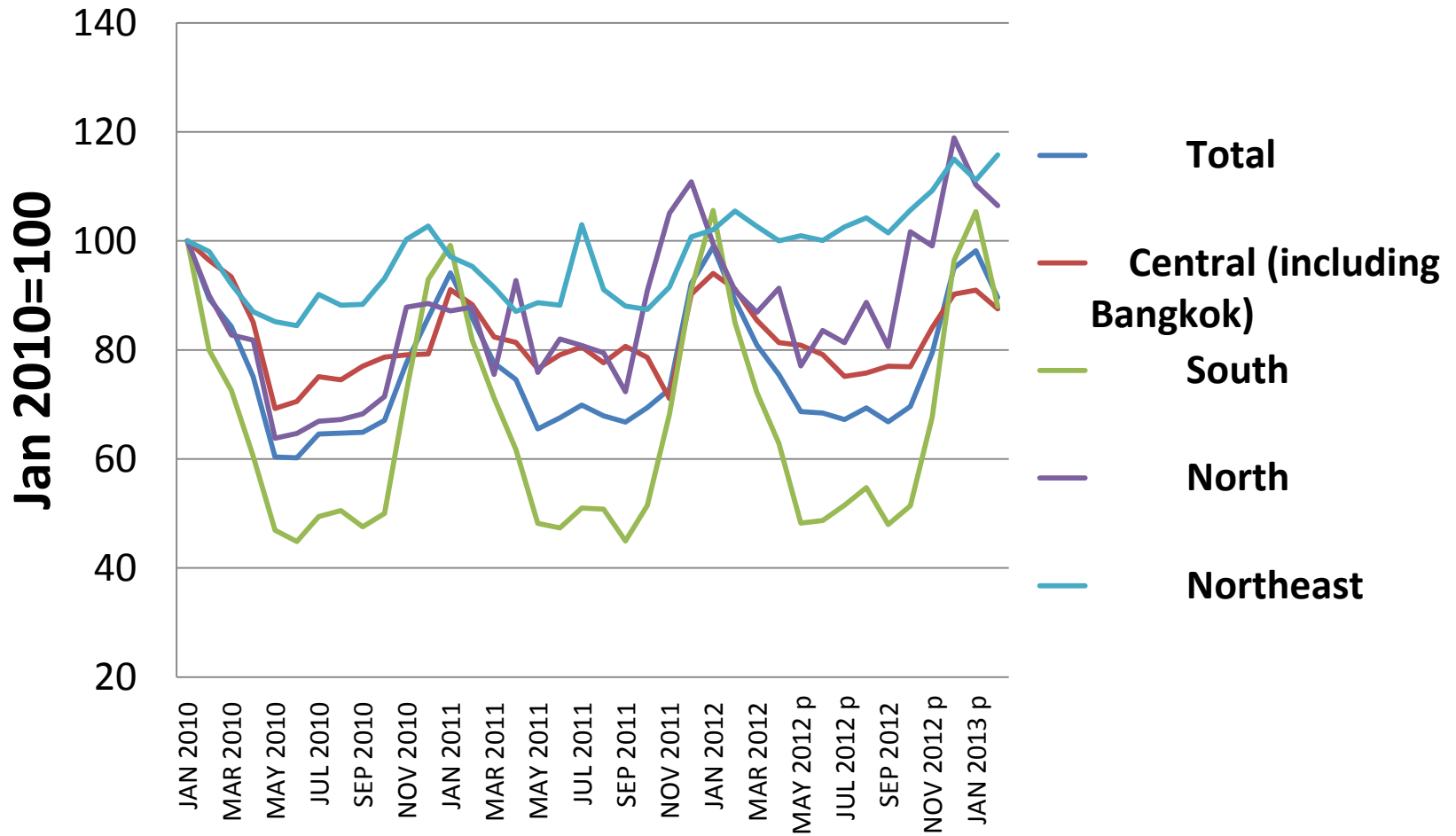
Jarque-Bera	2.486492
Probability	0.288446

Average room rate

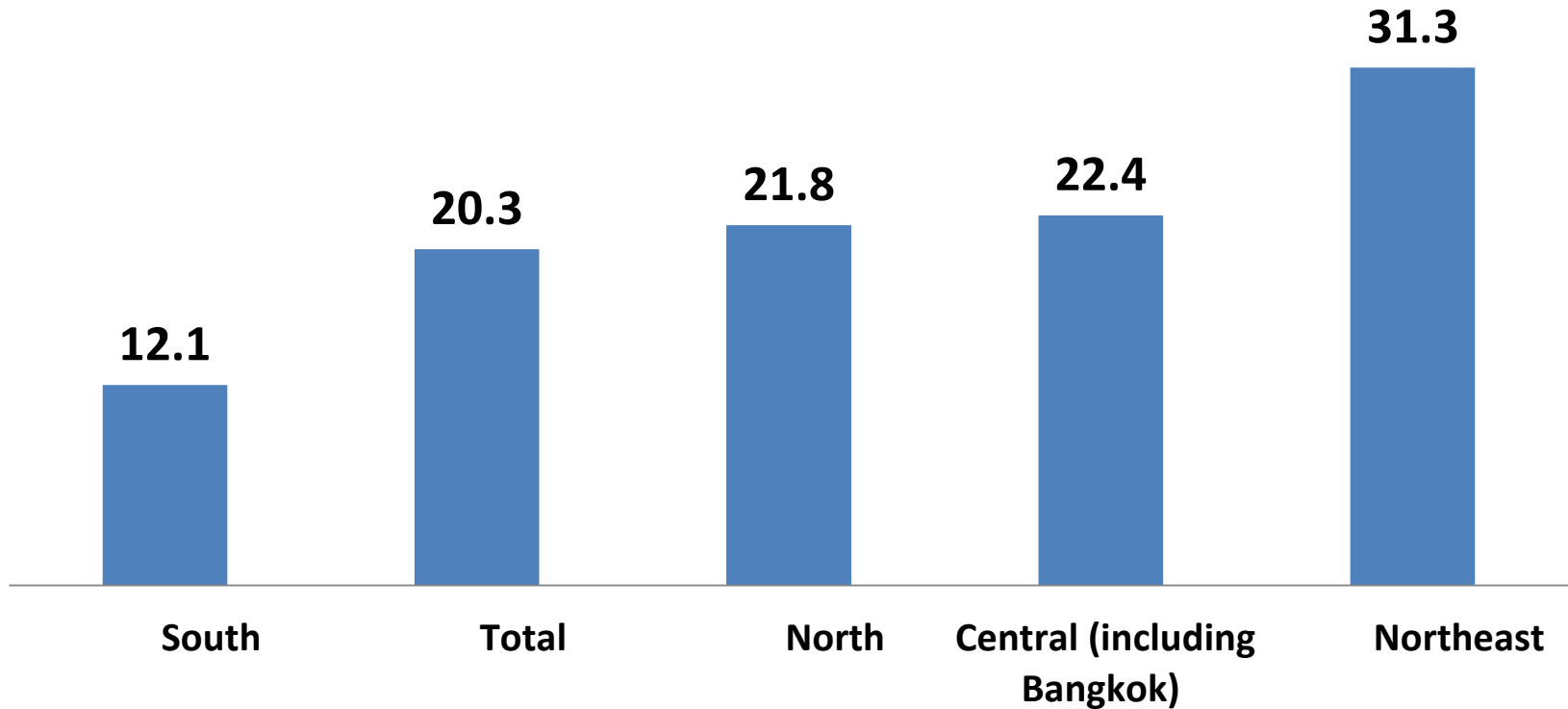


Source: Bank of Thailand

Price adjustments



**Revenues generated by meeting,
incentives, conferences, and exhibitions
(MICE)
average share: 2010-2012**



Points to ponder

- 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 more flexible?
- What is an appropriate policy response to a triple-dip recession?
- How can industry respond to the MCT (not MIT) and marshal law?