

Tourism Industry

Vulnerability and resilience

Mr. Bhanupong

Lecture 20

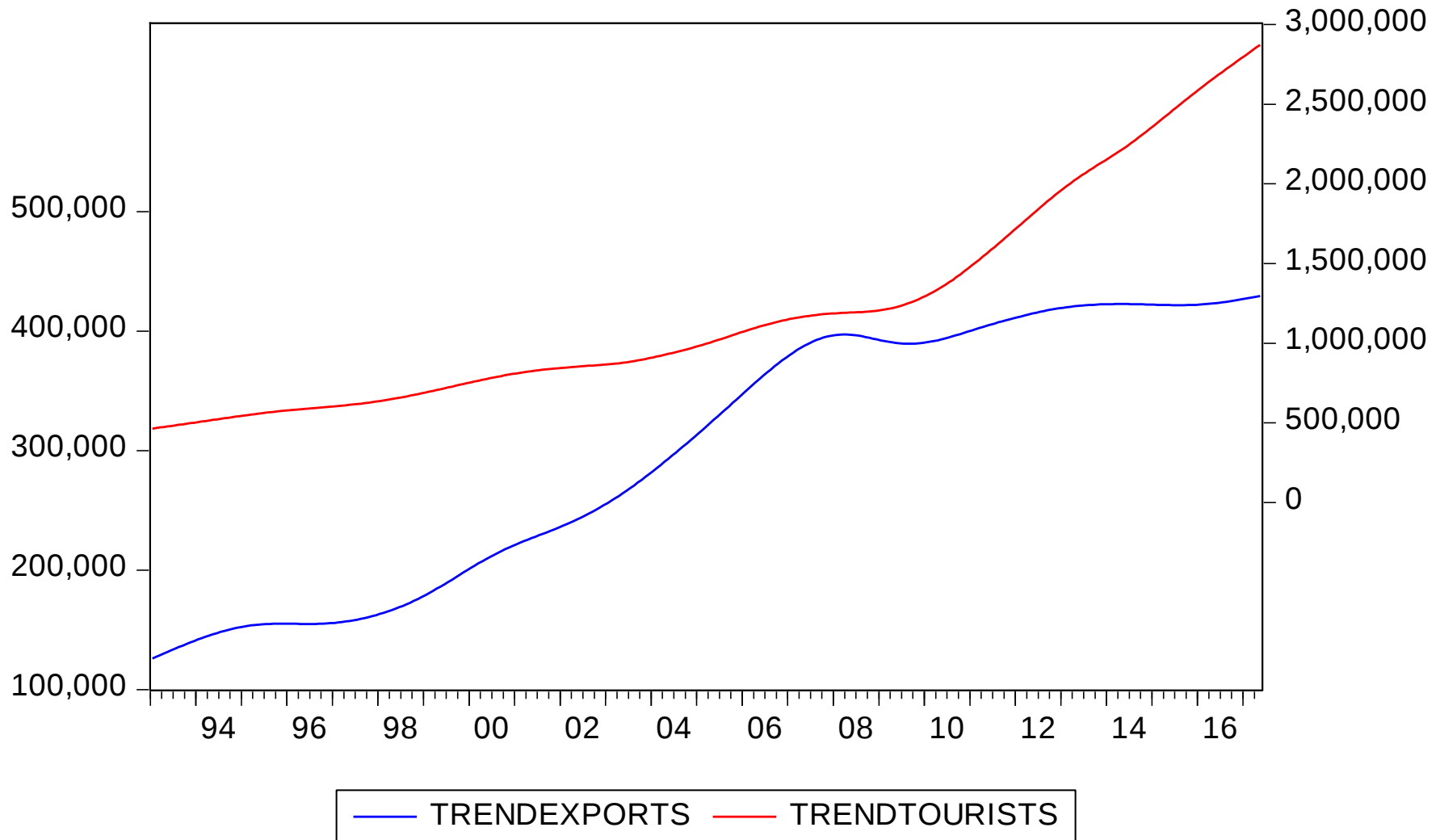
Outline

1. Background of tourism industry
2. Shocks, vulnerability, and resilience: SARS, Avian flu, the 2004 tsunami disaster
3. Impact of global recession and political instability
4. Microeconomics of hotel business
5. Medical tourism
6. China Factor

1. Characteristics of Thailand's tourism industry

- Overall tourism income of the country is approximately 16 % of GDP.
- ***Cultural capital*** and natural capital stock
- Visiting heritage buildings creates jobs in the wider economy as well as in the local economy.
- Highly labor intensive: employment and migration.
- Strong linkages to other sectors.
- Positive net foreign exchanges.
- Service-led growth strategy

Saved by international travelers



Background of the industry

January 30, 2017

Source: The Associate Press

- BANGKOK (AP) — Thailand received a record 32.59 million foreign visitors last year, with revenue beating expectations and likely to exceed previous forecasts this year by growing 10 percent or more.
- Thailand is proving popular even as terror scares, including a series of bombings in resorts towns killing four people, and the death of King Bhumibol Adulyadej had hotels and tour guides across the country on edge.
- Tourism fared better than expected after a bloodless coup deposed Thailand's elected government in 2014 as well.

2.5 Trillion baht Industry

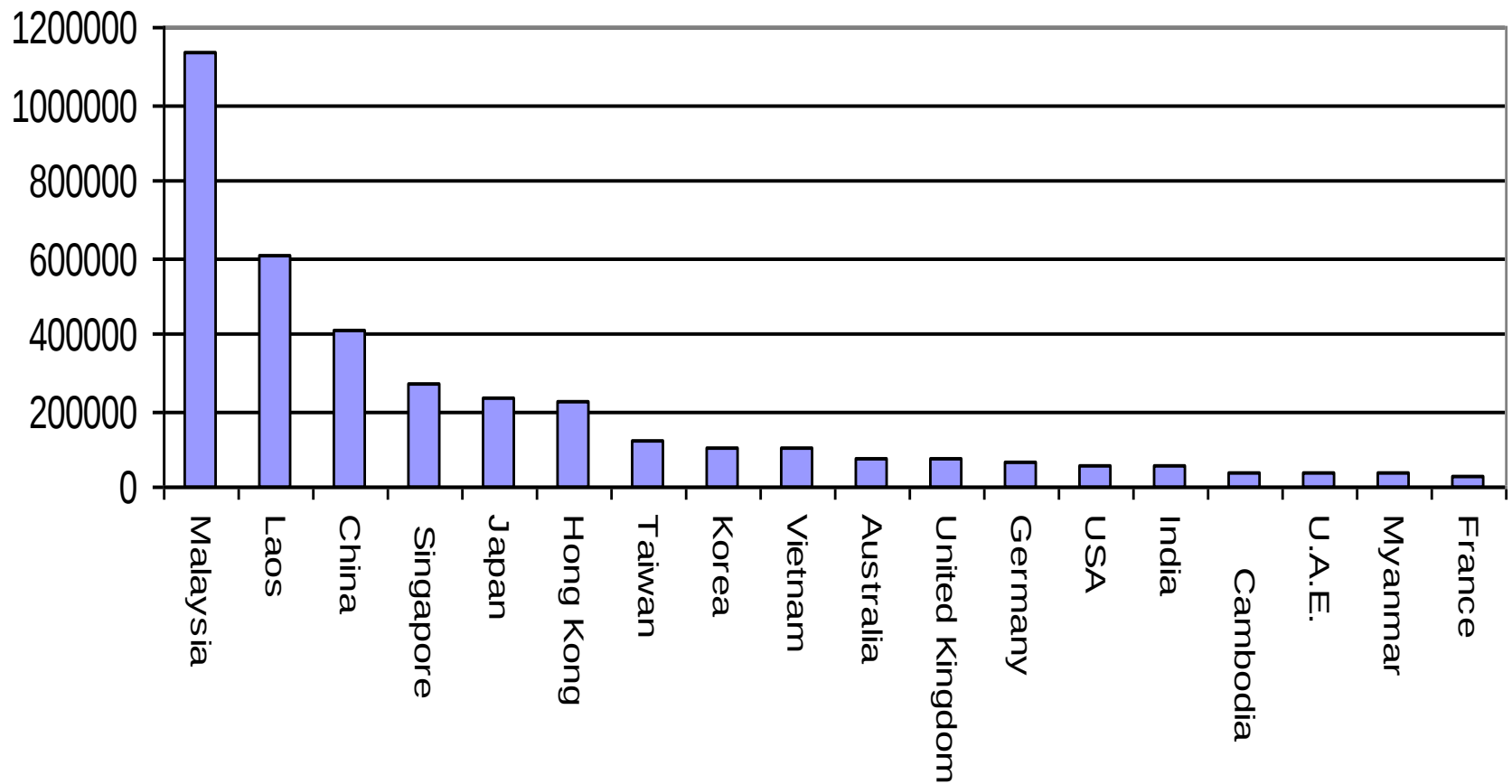
- The Tourism Authority of Thailand reported that the tourist industry earned 2.52 trillion baht (\$71.4 billion) last year, up 11 percent from 2015.
- It said the country's tourism industry is projected to bring in 733 billion baht (\$20.8 billion) in the first quarter of this year, up 8 percent from the first quarter of 2016.
- Officials said their estimates, covering foreign and domestic tourists combined, indicate tourism revenue for all of 2017 may surpass earlier forecasts of 2.77 trillion baht (\$78.5 billion).

The world sixth largest Tourism industry

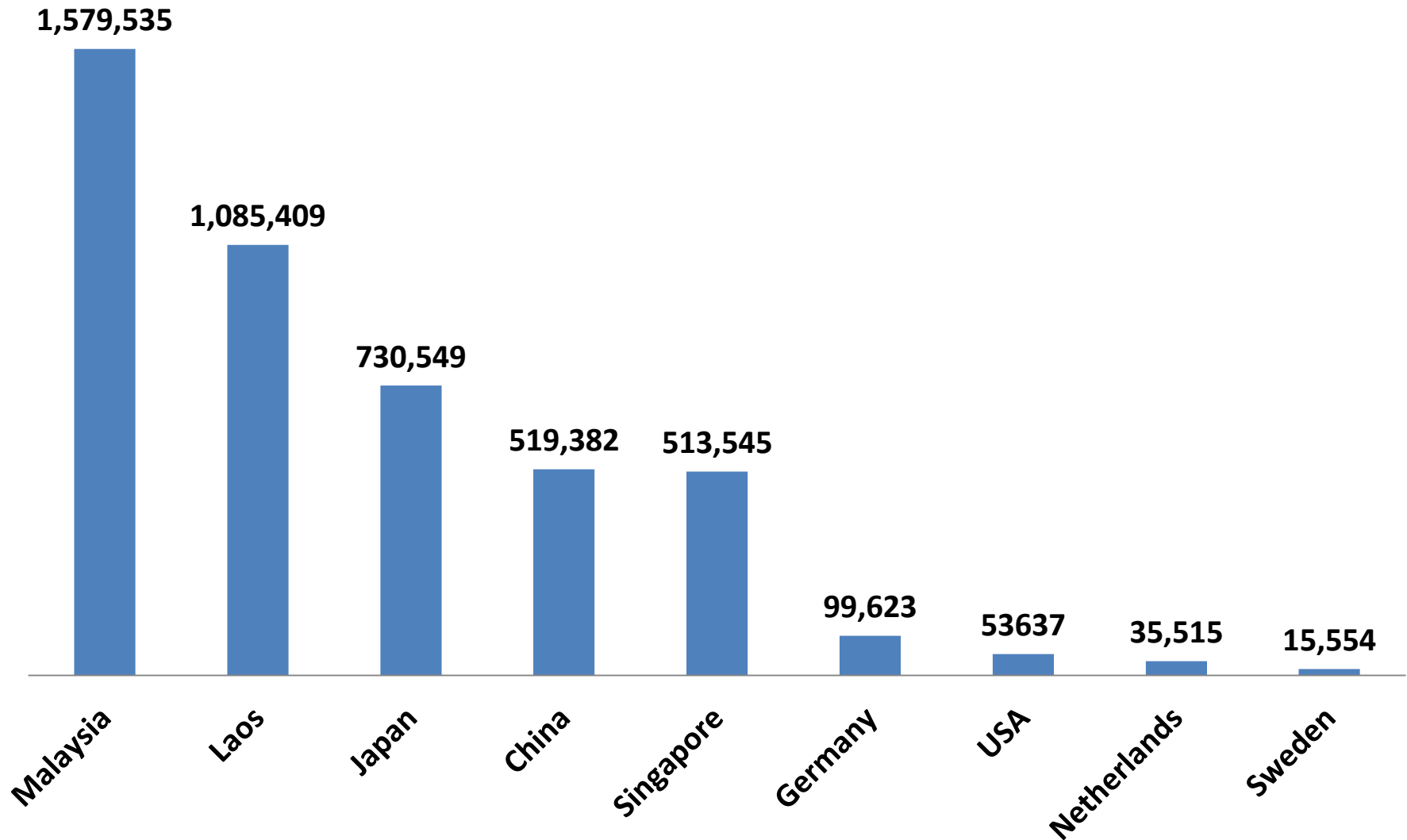
- Thailand is the eleventh most-visited country in the world and boasted the sixth largest tourism industry by revenue in 2015, according to a U.N. report.
- Most travelers come from China, South Korea, and Japan, lured by Thailand's year-round warm weather, as well as Western countries and Thailand's neighbors in Southeast Asia.
- Foreign tourists are by far the most lucrative for the economy.
- Foreign arrivals are projected to total 9.3 million in the first quarter of this year, accounting for 490 billion baht (\$13.9 billion) in revenue.
- In the same period, some 32.5 million Thai travelers accounted for 240 billion baht (\$6.8 billion).

Where were Thais on their holidays in 2007

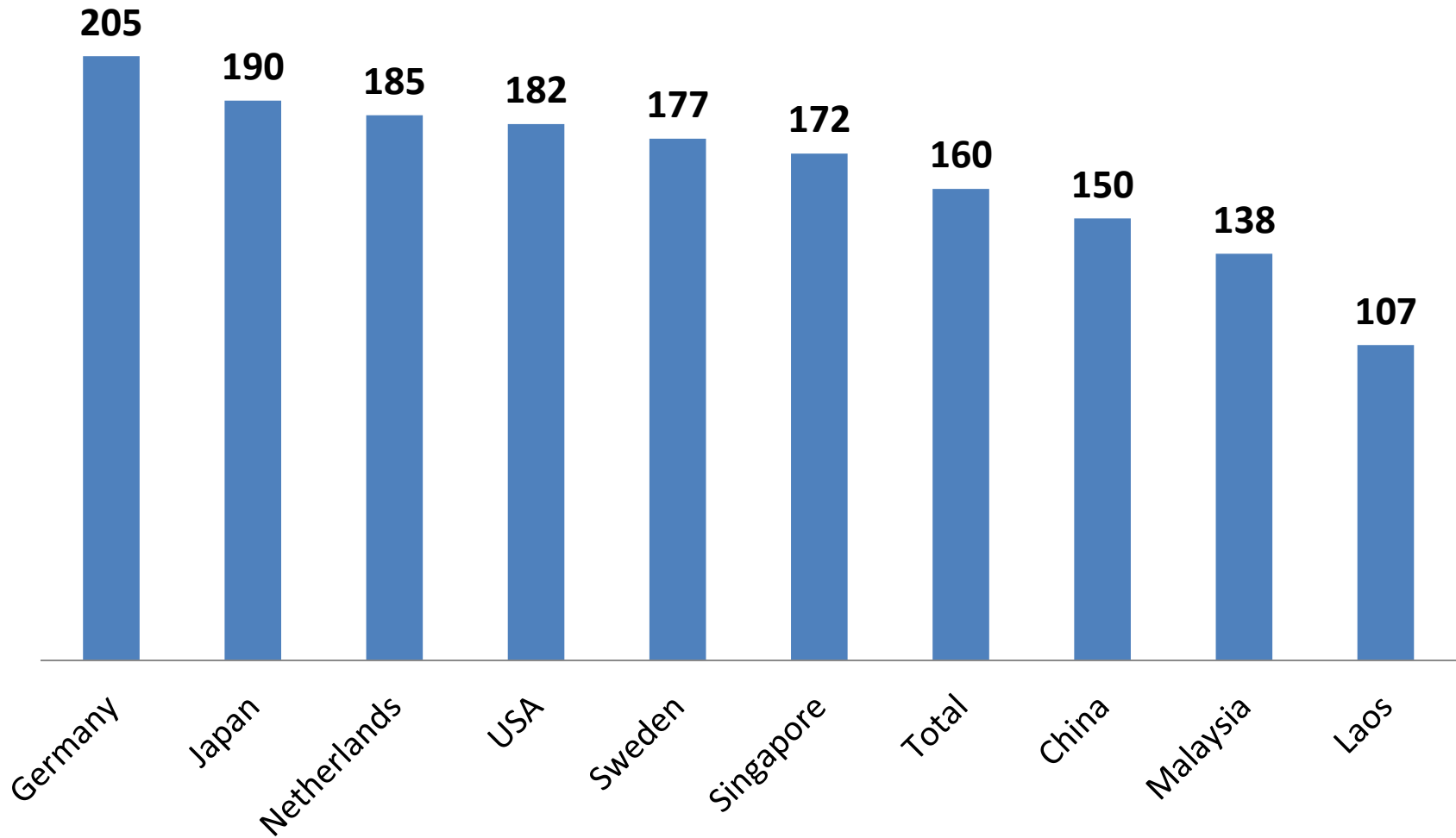
Outgoing Thai tourist (number of person) in 2007



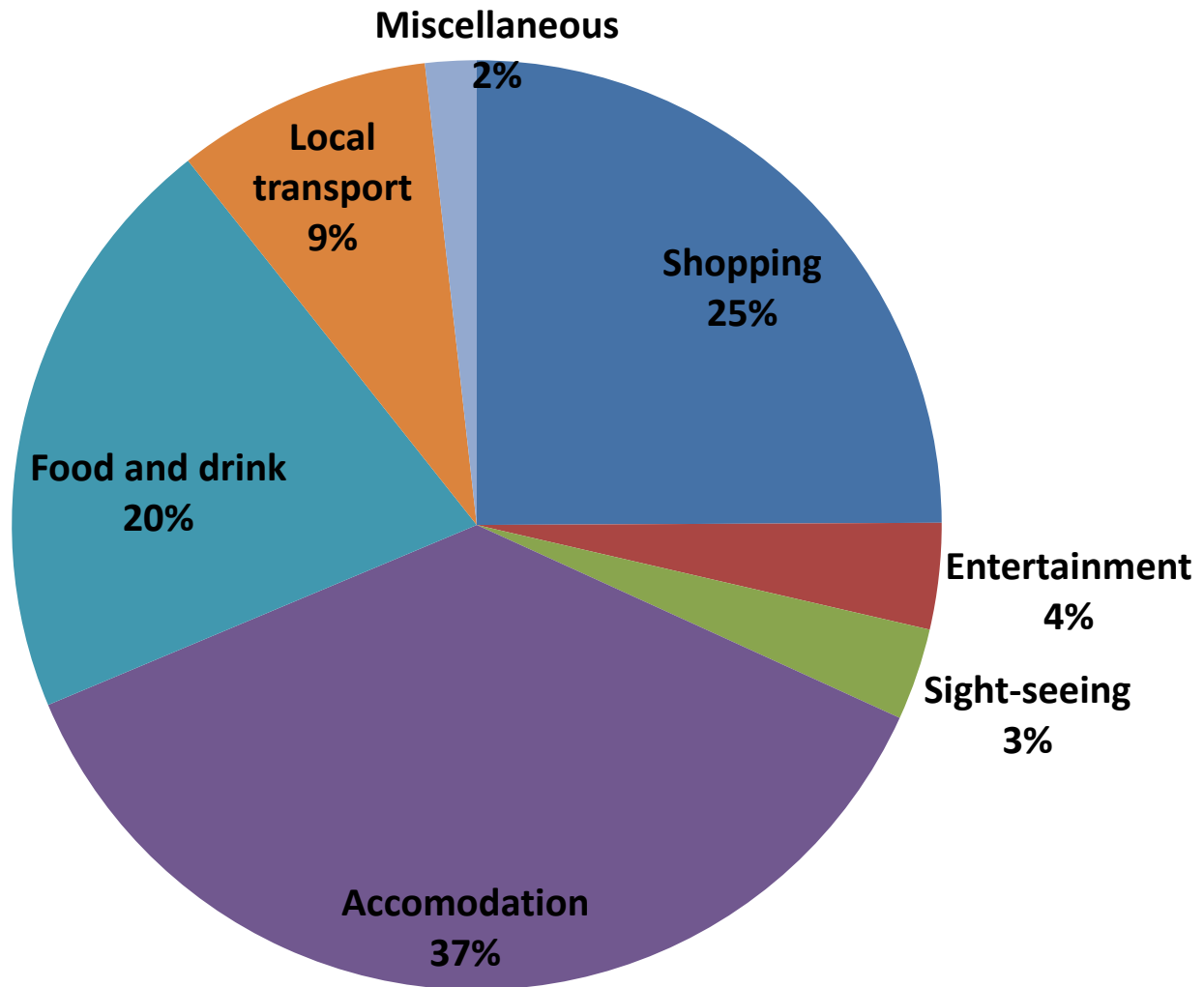
Number of Outbound Thai Tourists in 2015



Thai Tourists' average spending: 2015 (\$/day)



Thai tourists' spending pattern



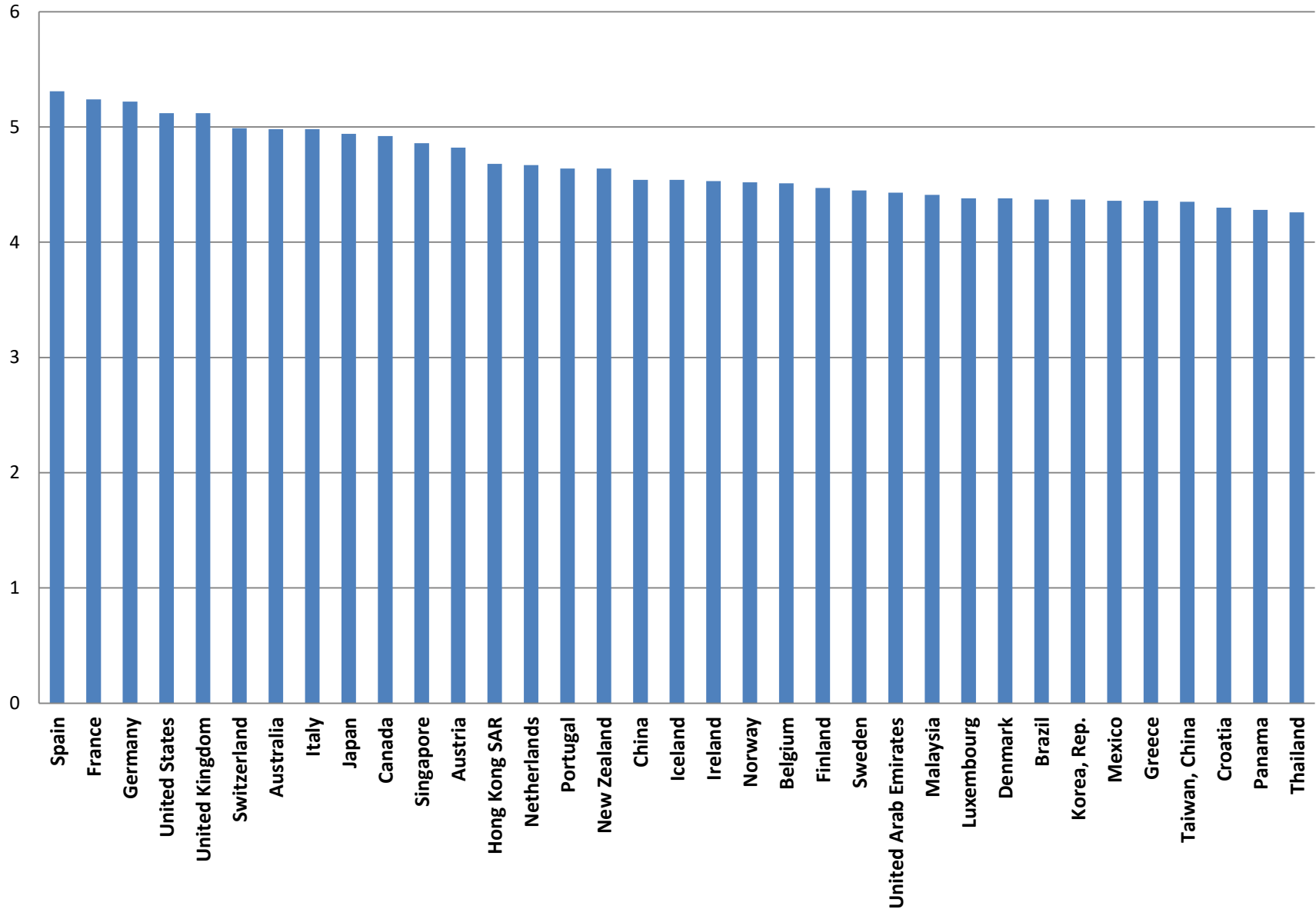
Travel and Tourism Industry

- The rise of travel and tourism has shown significant resilience globally.
- Despite slow economic growth in advanced economies and geopolitical tensions in some regions, the T&T sector still accounts for a large part of the global economy (estimated to be approximately 9% of global GDP or US\$ 7 trillion) and employment, while the number of international travelers continues to increase.
- According to the World Travel & Tourism Council (WTTC), the T&T sector is forecast to continue ***growing at 4% annually—faster than financial services, transport and manufacturing.***

Travel and Tourism Sector: Resilience

- The T&T sector has shown surprising resilience to geopolitical tensions, threats of terrorism, global pandemics and sluggish economic growth in advanced economies.
- While international tourist arrivals are correlated with economic fluctuations and sensitive to security issues, these tend to impact specific countries or regions;
- If one country is hit by instability, others will receive more tourists.
- Globally, the trend for growth seems unstoppable.

Travel and Toursim Competitiveness Index 2015 Ranking

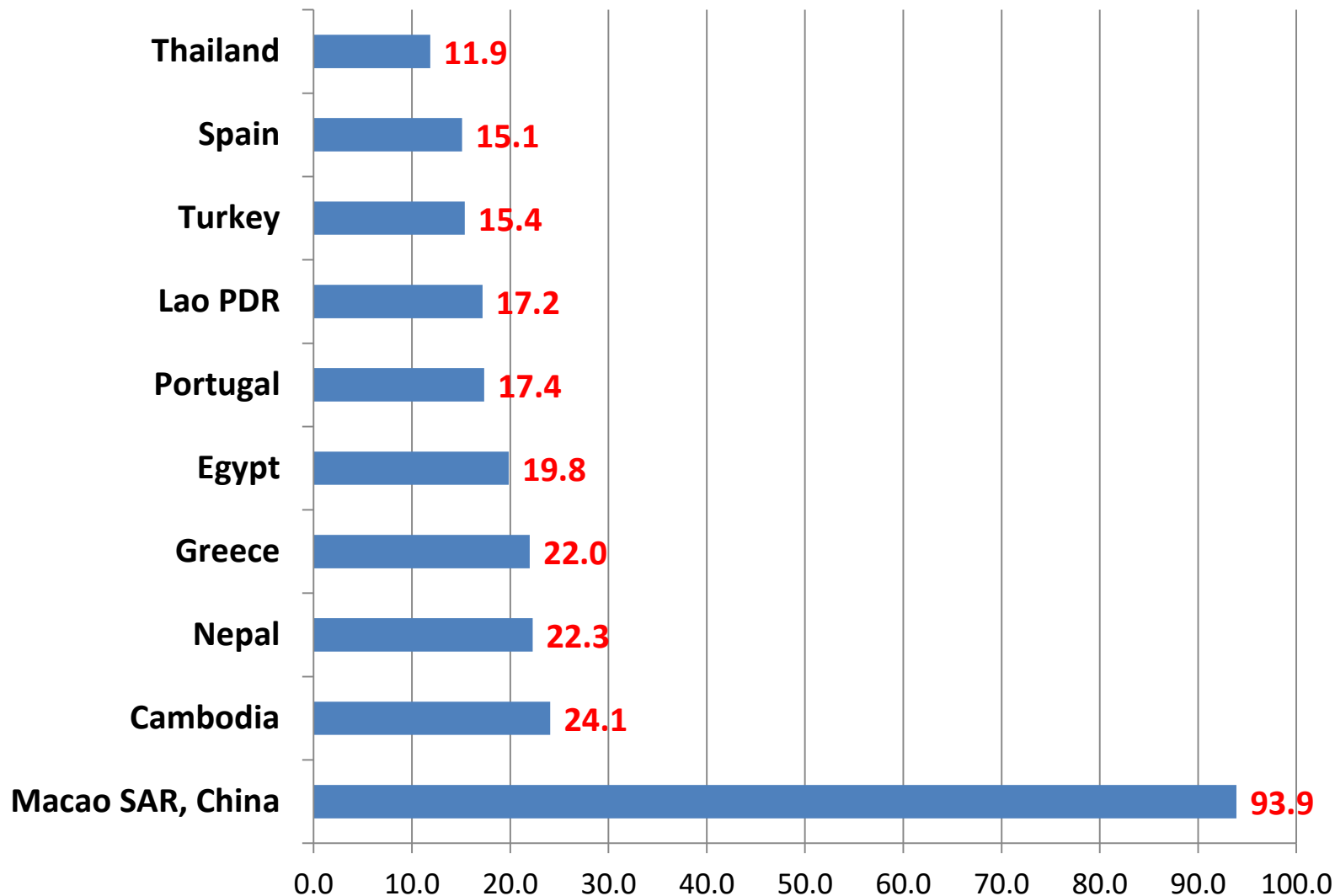


Travel and Tourism Competitiveness

Six European Countries in the top 10

- Europe—with a total of six countries in the top 10—is confirmed as the region with the most T&T-competitive economies
- **France** ranks 2nd overall and continues to attract the most tourists, with over 84 million arrivals.
- With its combination of rich history and attractions, ski resorts and coastlines, France ranks high in cultural (2nd) and natural (8th) resources.
- These are complemented by its emphasis on environmental sustainability (23rd), strongly enforced environmental regulation (29th) and a sustainable approach to developing the T&T industry (48th).
- France is well connected, ranking in the top 10 on infrastructure for air transport, ground transport and tourism services facilities, and 13th for international openness.

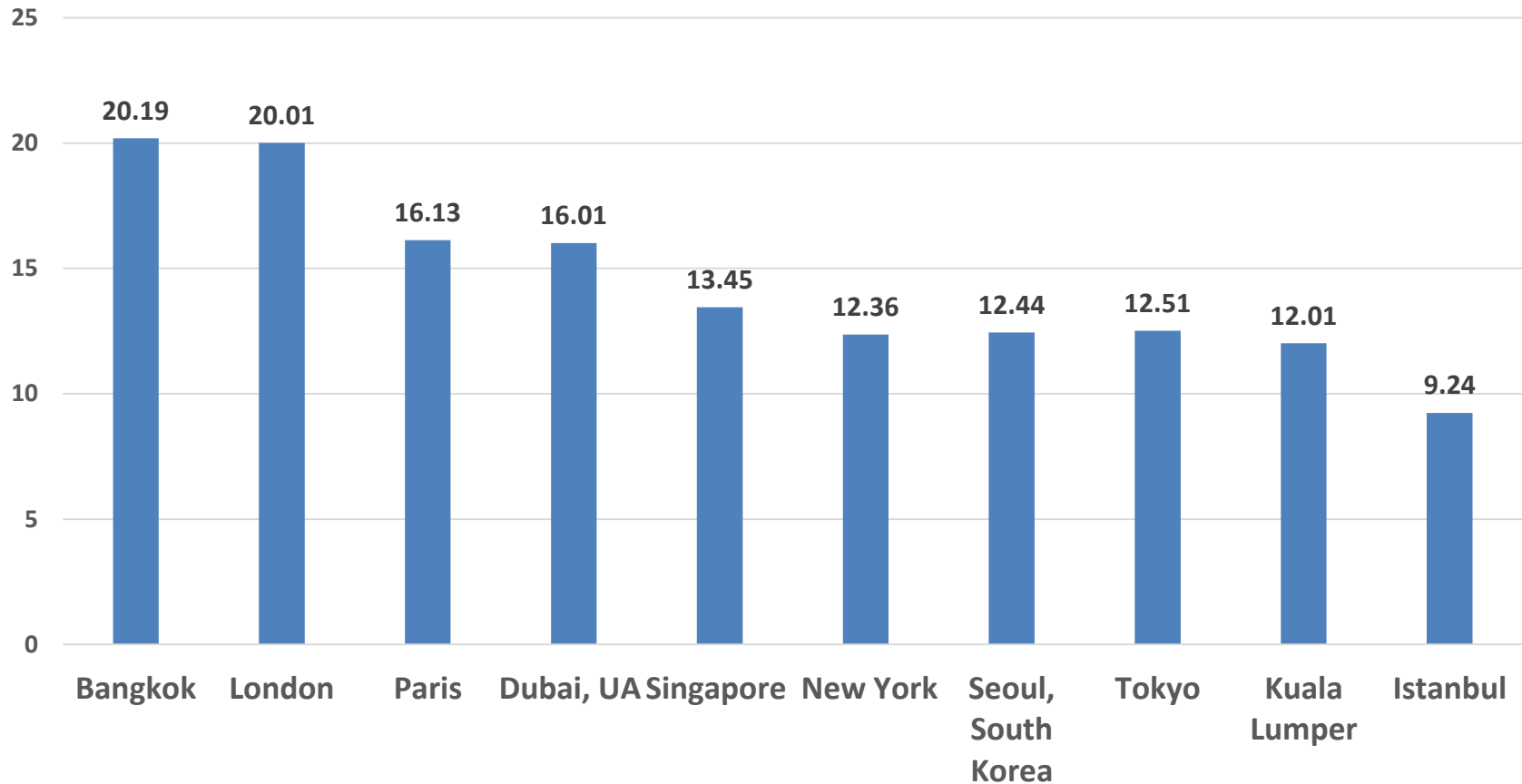
The relative importance of tourism industry: receipts (% exports)



Most popular cities for international visitors

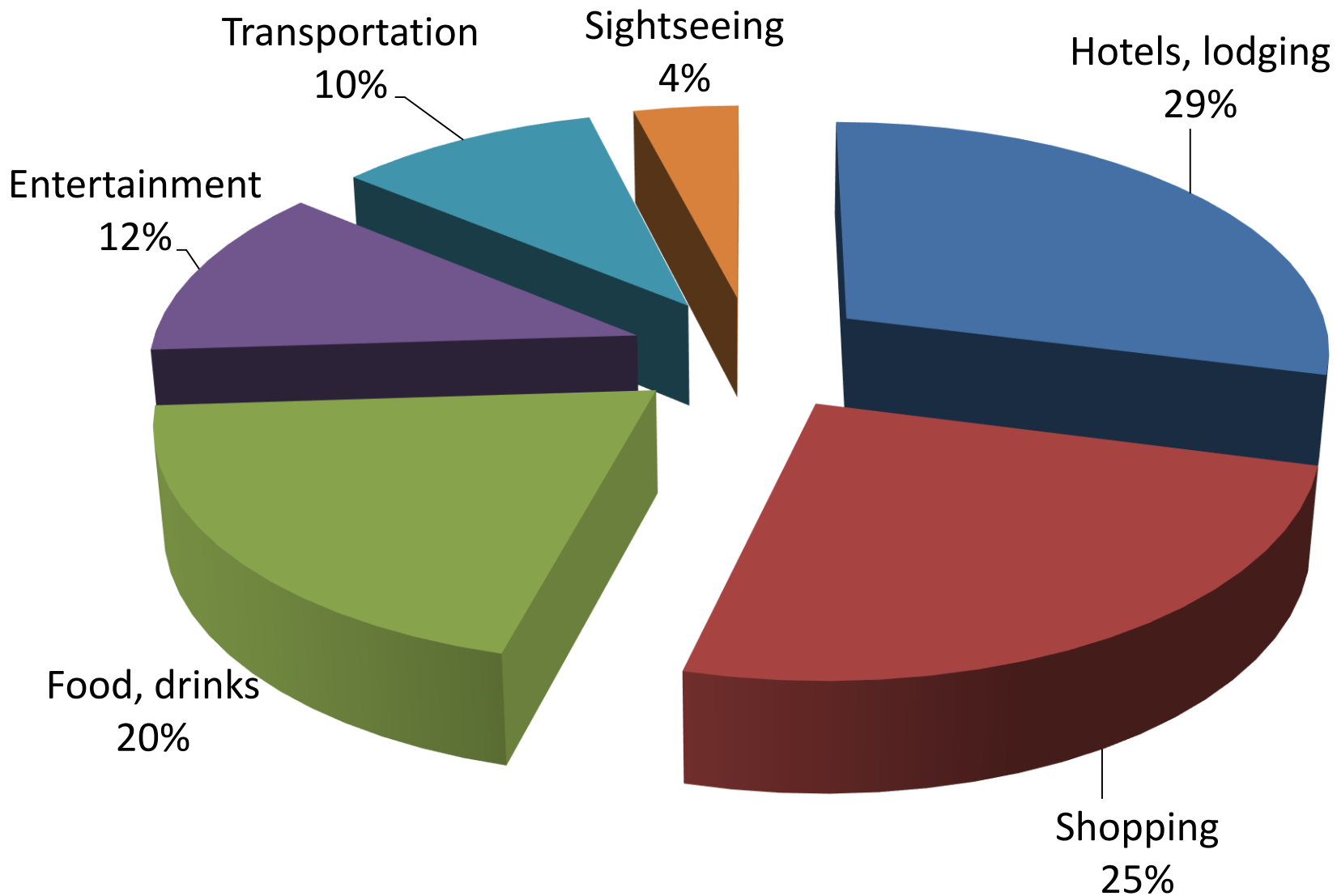
Number of visitors in 2017

Source: Mastercard's 2017 Global Destination Cities Index

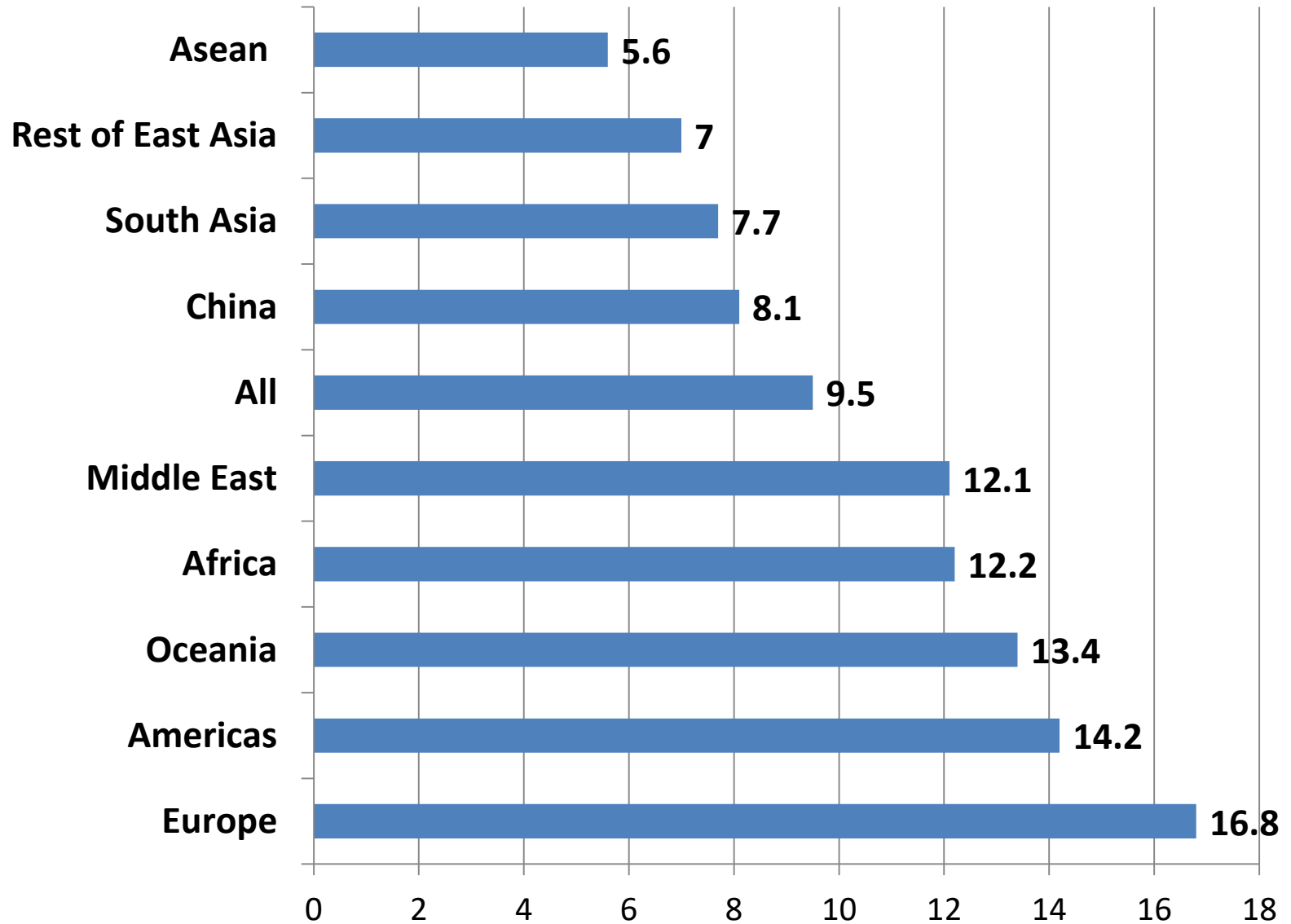


Source: Mastercard's 2017 Global Destination Cities Index

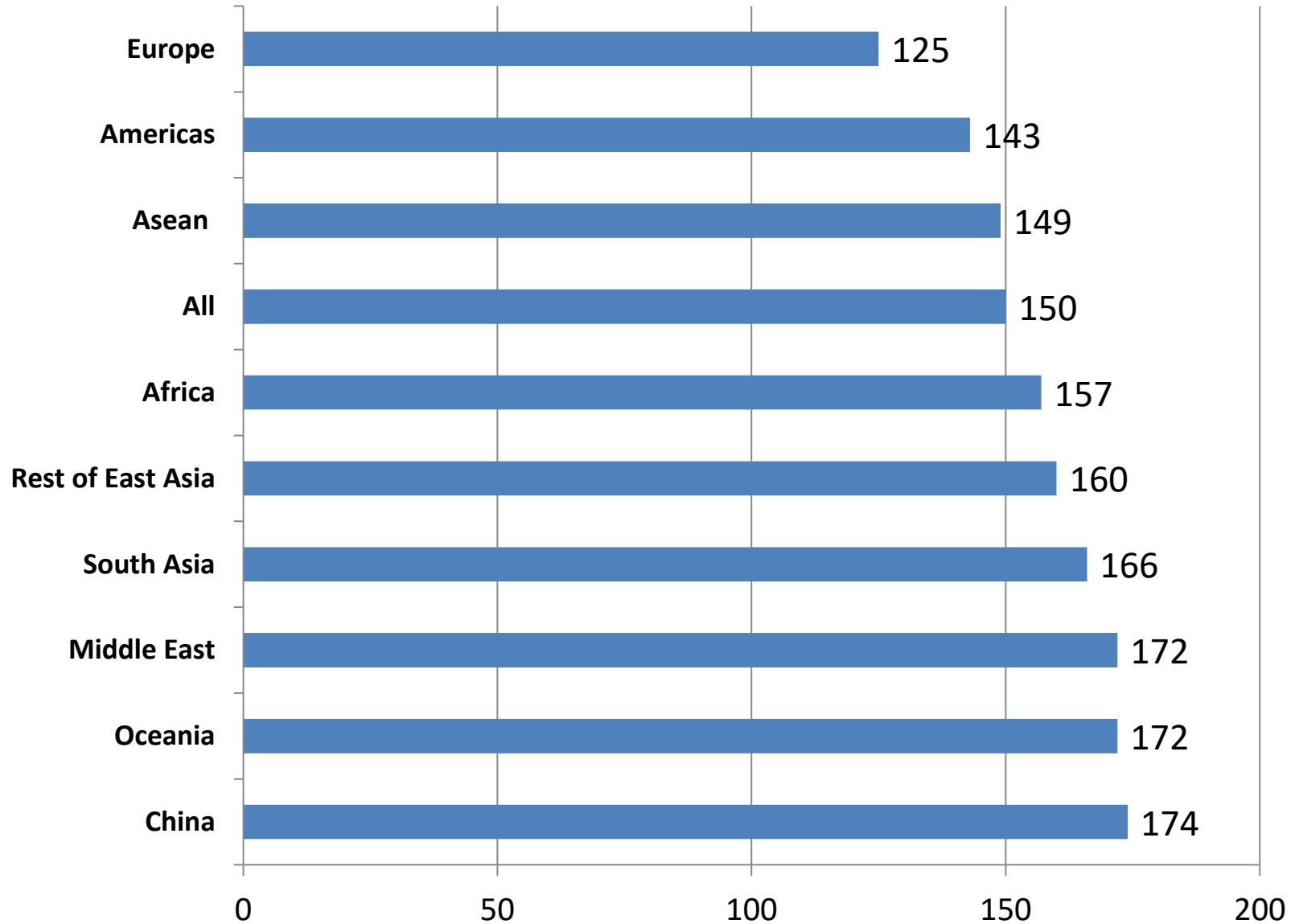
Daily Expenditure of international tourists: 2015



Average length of stay (number of days)

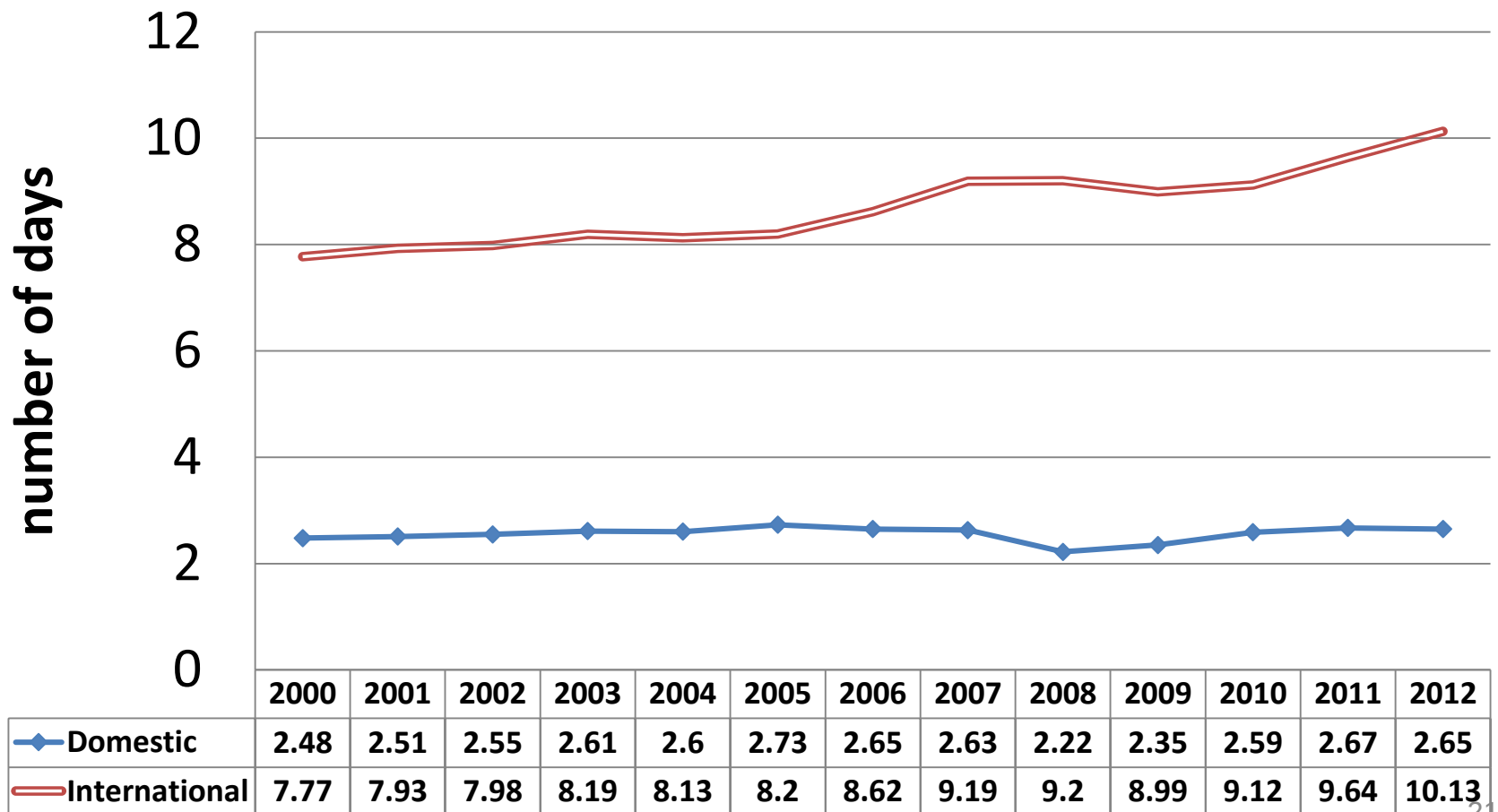


Average spending per day, per tourist(\$/ day)



How long will you stay?

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.
- Malaysia, Ecuador, Panama, and Costa Rica are other lowest cost of living.

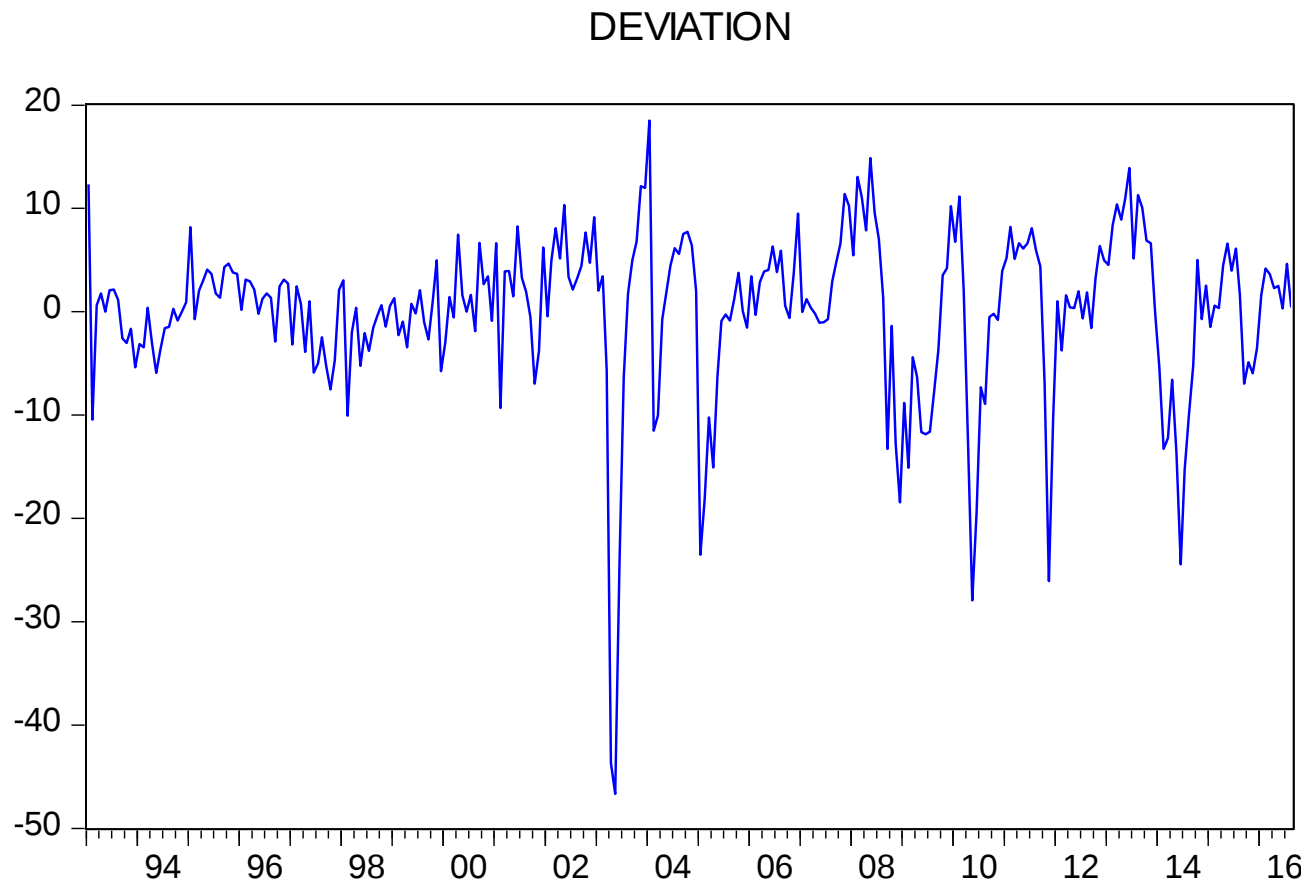
The land of smiles

- **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.
- 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.

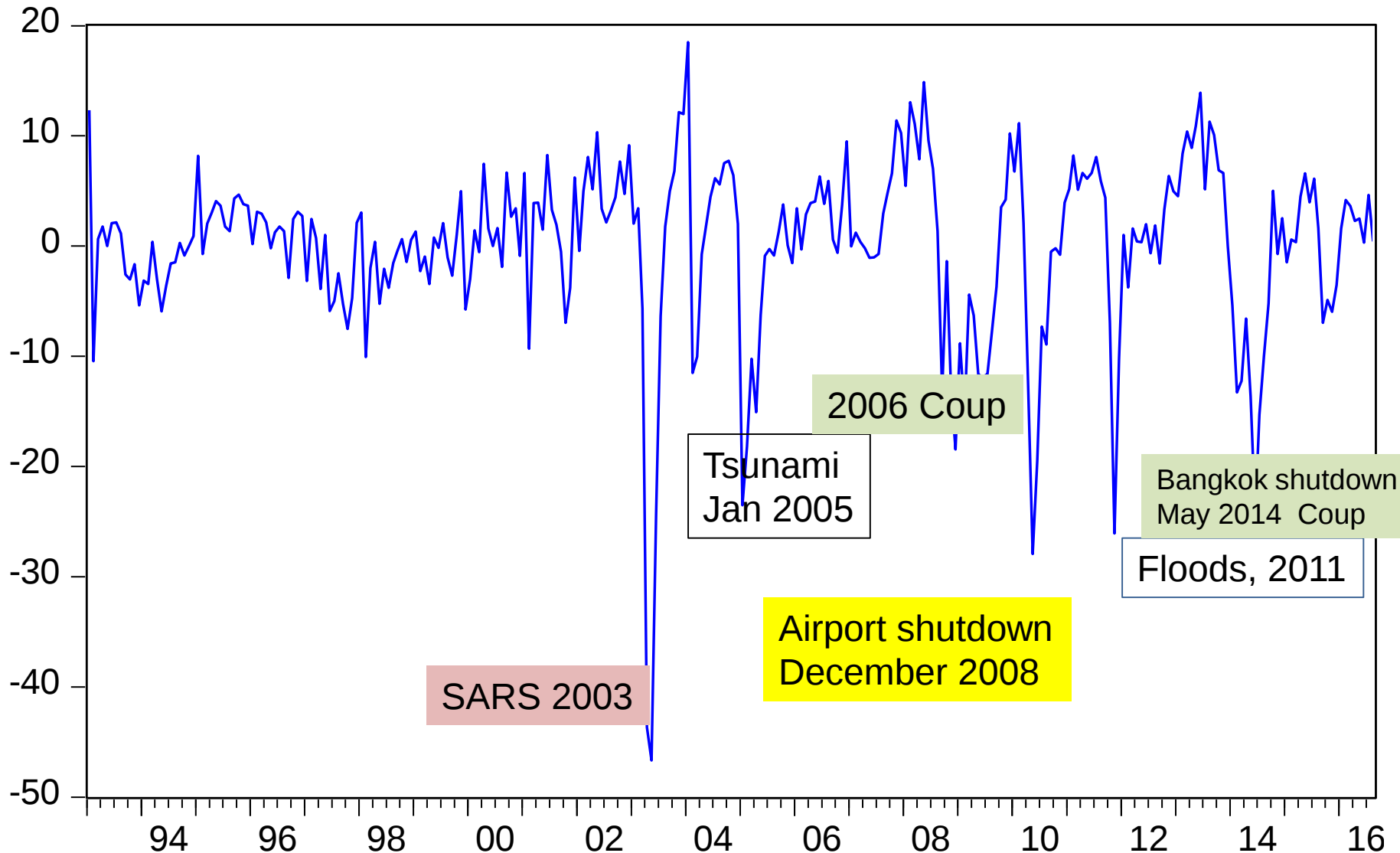
Determinants of tourism demand (inbound and outbound)

- Income (income elastic demand: luxurious service)
- Relative prices (plenty supply of hotel rooms)
- Exchange rates (weak baht is favorable to the industry)
- Transportation and transaction costs (airfare, oil prices, visa)
- Perception of safety (Erawan shrine bombing)
- Preferences (They keep on coming back)
- Shocks (transitory disturbances)

2. Shocks, vulnerability, and resilience: SARS, Avian flu, the 2004 tsunami disaster



Number of tourists: Deviation from the trend

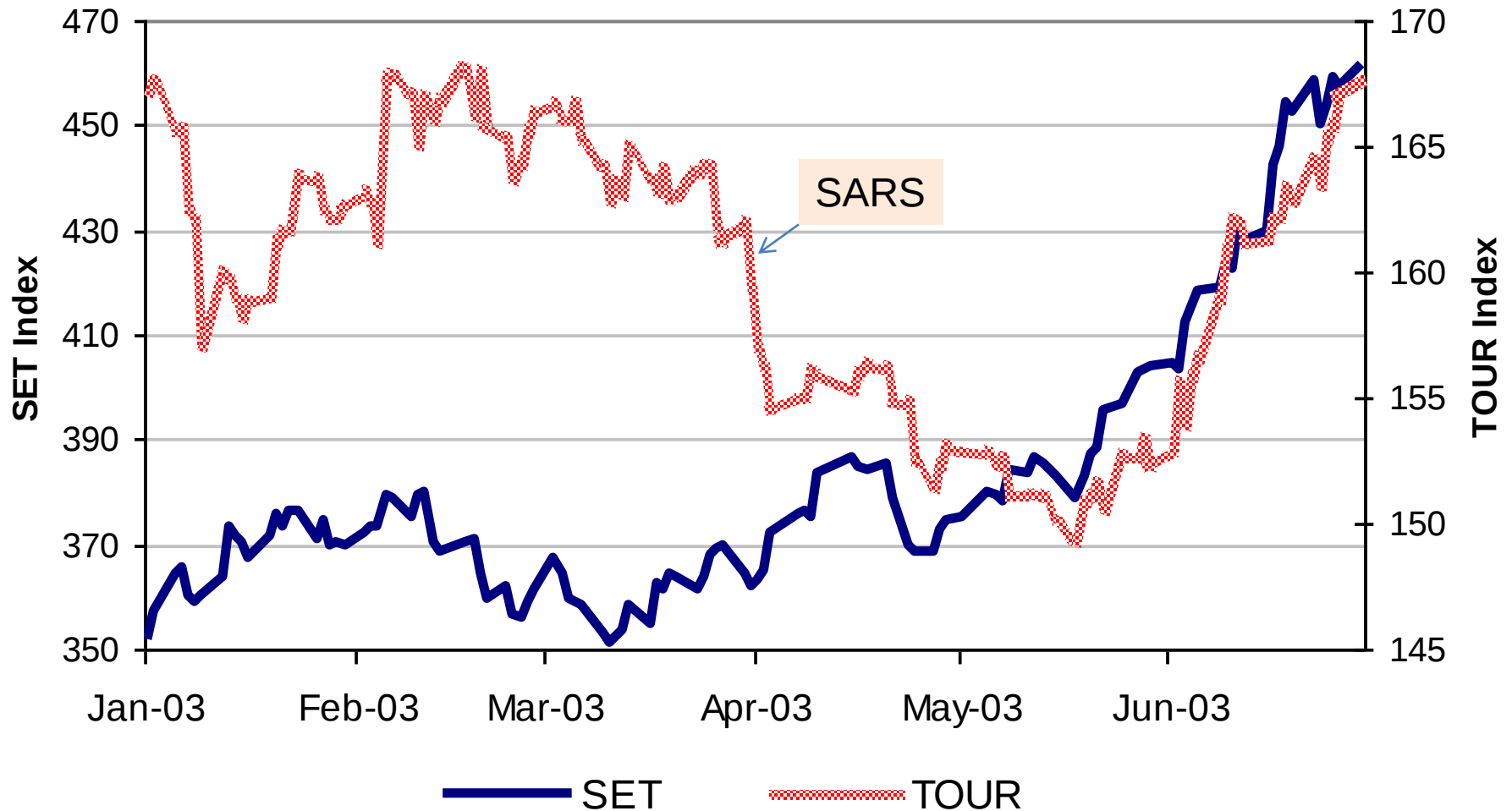


Increasing gyration of the disturbances: moving up and down in an uncontrolled way

When SARS attacked in 2003

- SARS, or [Severe Acute Respiratory Syndrome](#), is the disease caused by SARS coronavirus.
- It causes an often severe illness marked initially by systemic symptoms of muscle pain, headache, and fever, followed in 2–14 days by the onset of respiratory symptoms,¹ mainly cough, dyspnea, and pneumonia
- Tourism industry suffered considerably from **travel restrictions**.
- The patterns of recovery in share prices are similar for the case of tsunami and SARS shocks.

SARS Impact on the Stock Market



Source: Stock Exchange of Thailand (SET)

Tourism and hotel industry were hit temporarily

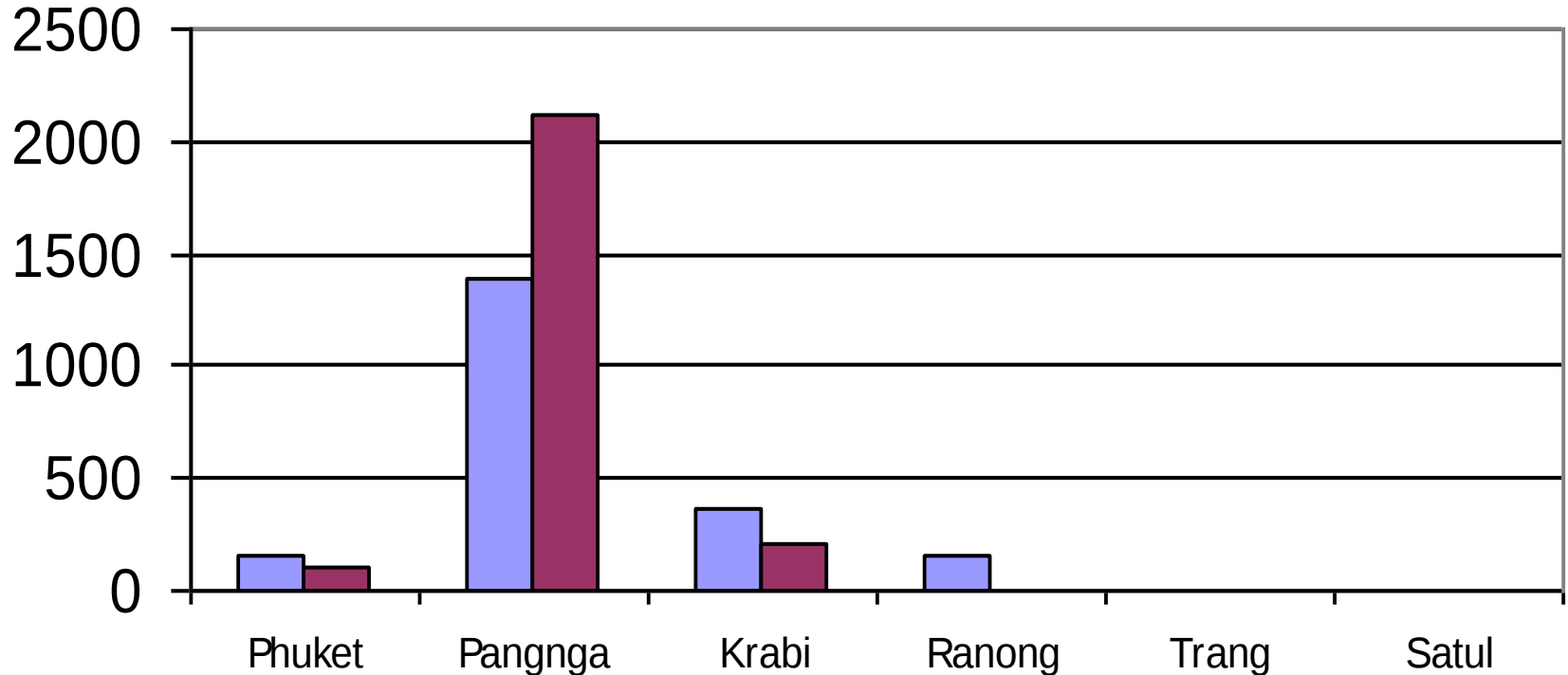
At 9:50 am
Sunday 26th of December 2004



Death toll (percent of total)

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

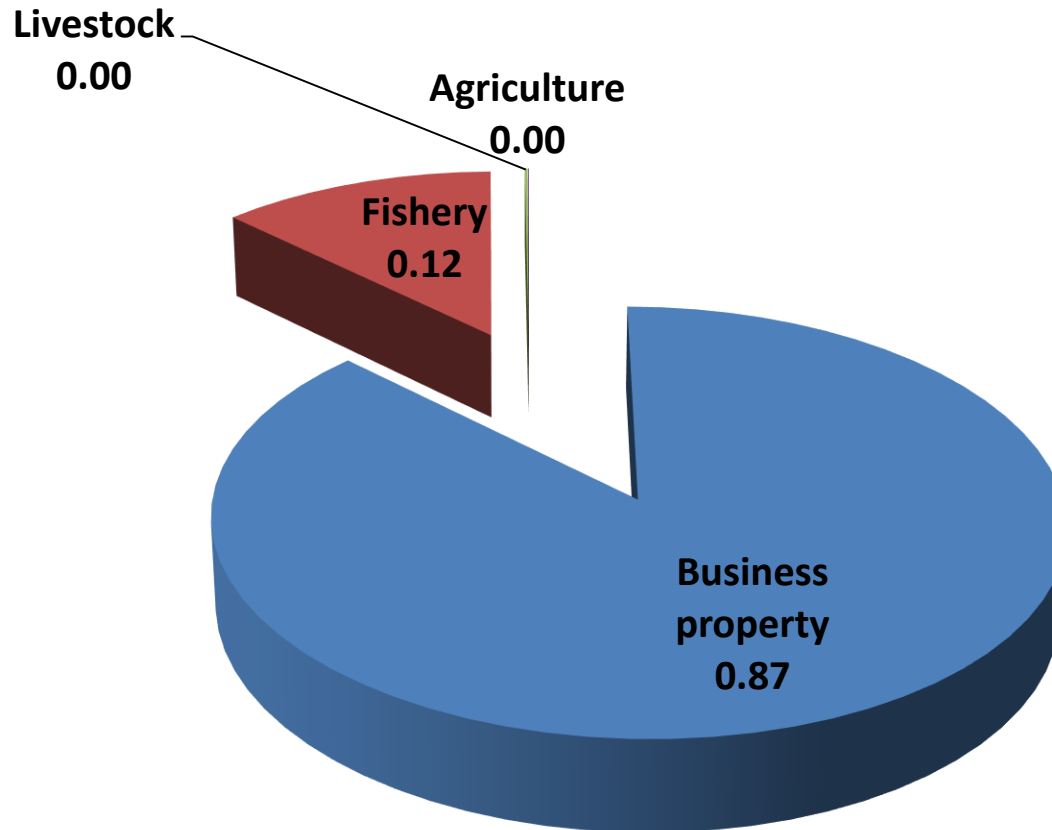
Figure 2: Thai and Foreign Death Toll



Source: DDPM

Thai Foreigner

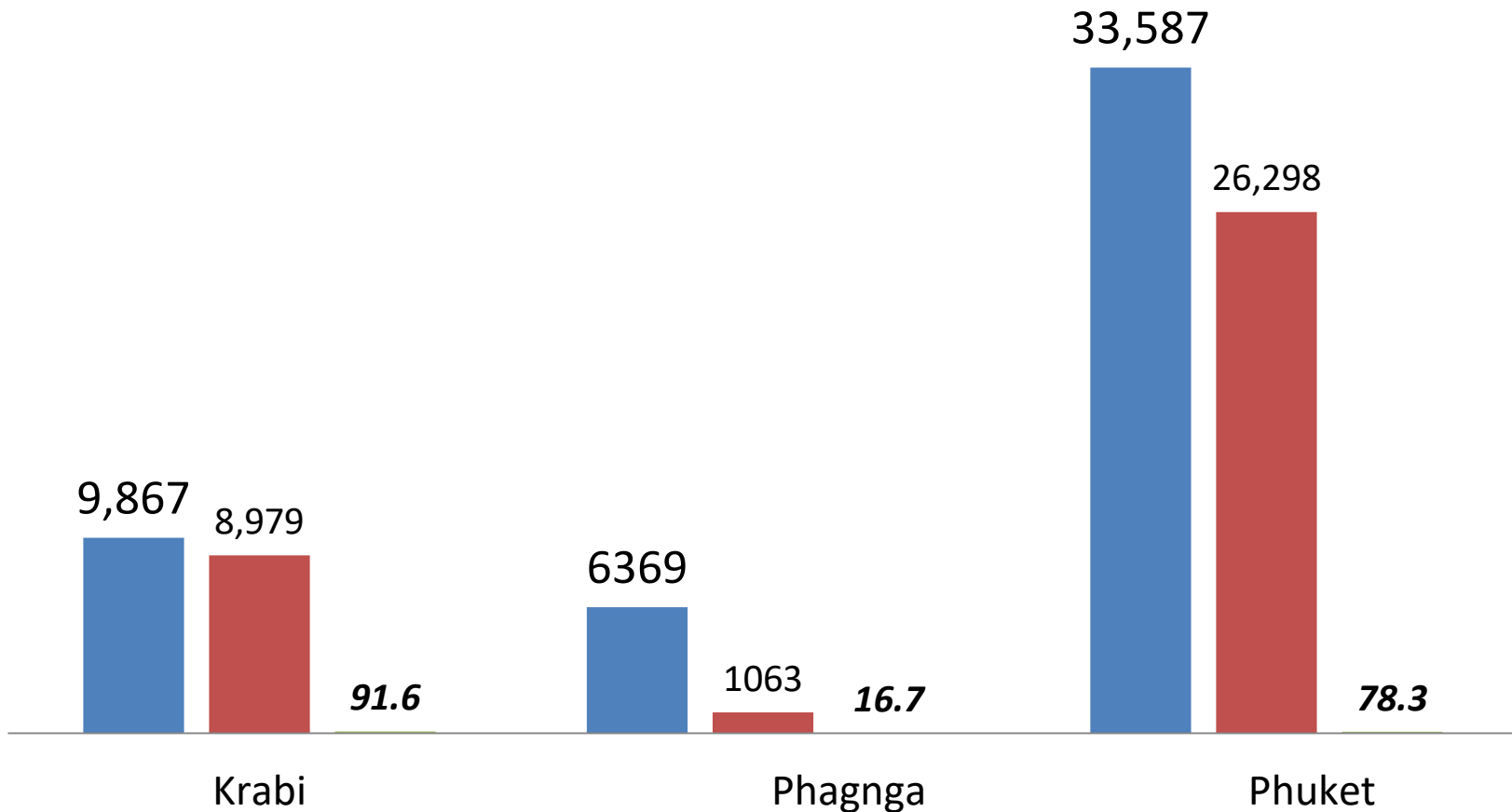
Tsunami and livelihood damages in 2005



Source: Department of Disaster Prevention and Mitigation

Immediate impact on hotel rooms: January 12, 2005

■ Before ■ After ■ percent left



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 and Krabi

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

- 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

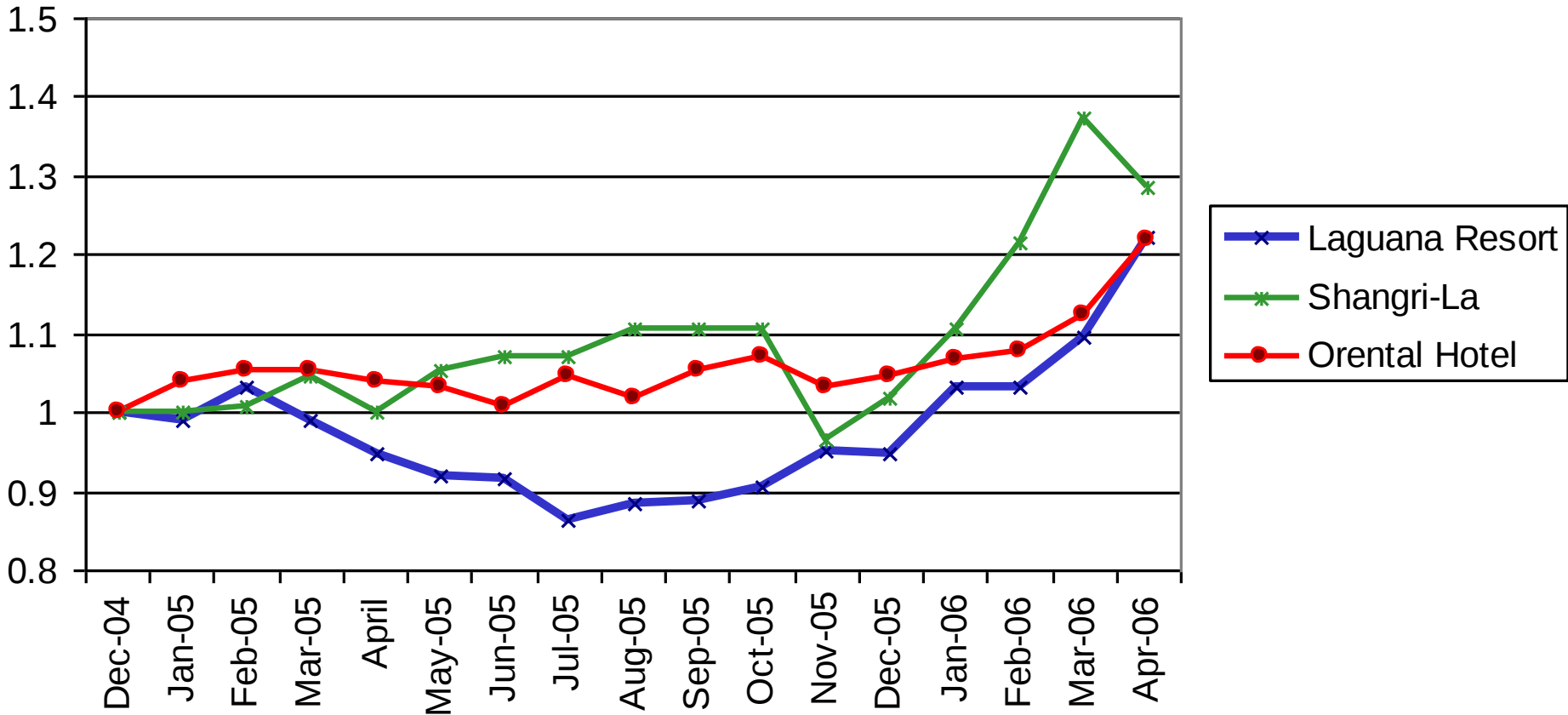
Impact on the stock market: minimal and short-lived

- 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.

Asymmetric impact of tsunami on hotel stocks



Diversification is the key to resilience.

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.

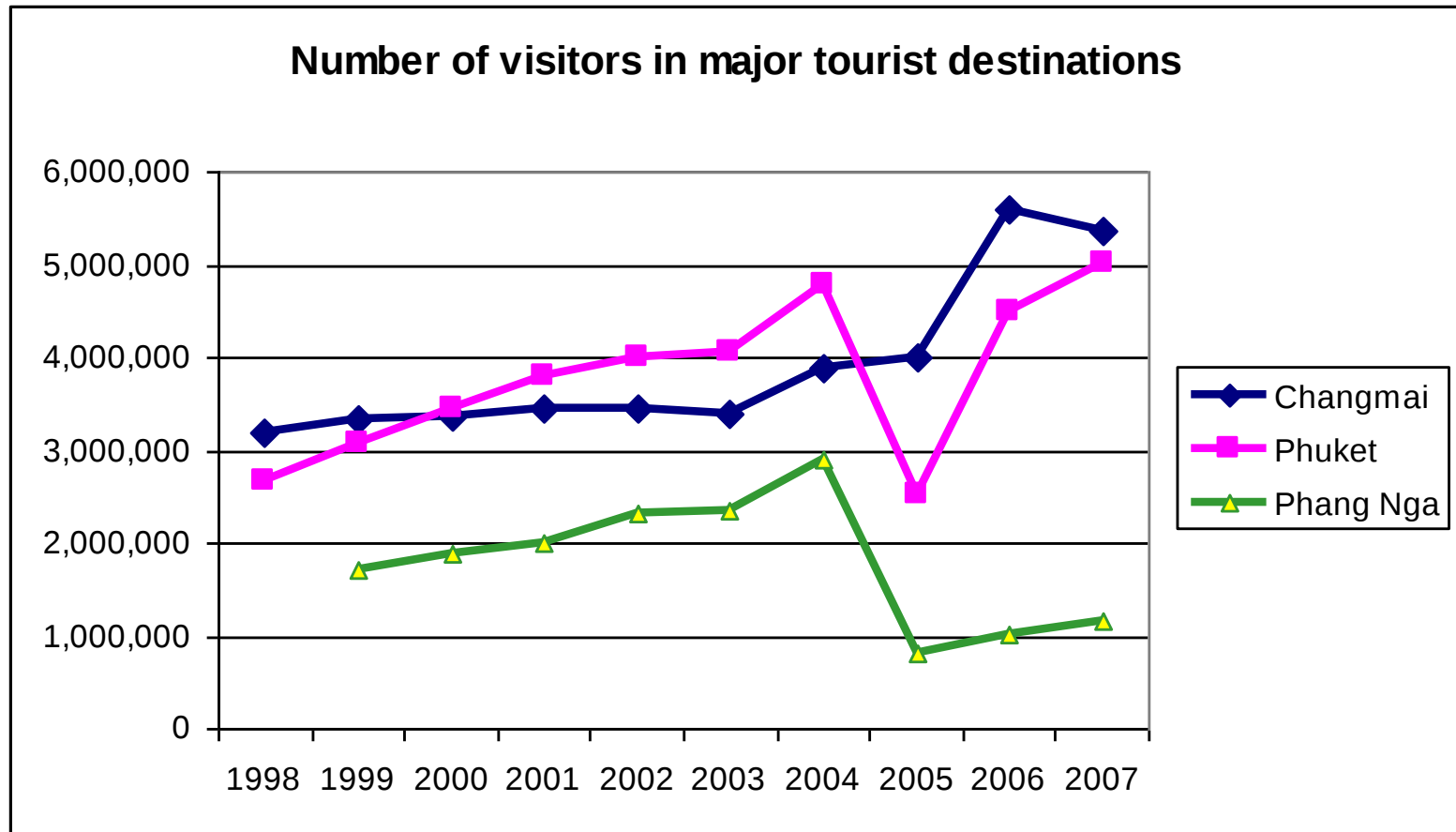
The right way to help

- 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: give it time



To prevent future disasters

- 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.

3. Impact of political instability

- Countries affected by political unrest inevitably experience a decline in the number of international tourists and in tourism receipts.
- No country has been able to shield its tourism sector against the impacts of insecurity.
- In an era of growing political turmoil, the tourism sector is facing a significant test.

Impact of Political Instability on Performance of the Tourism Sector

- Political stability and safety are prerequisites for tourism; even the mere threat of events such as civil unrest and terrorism can cause tourists to rethink their decision to visit a destination.
- The impact of political instability on a destination's tourism sector is both immediate and potentially long-lasting.

The high cost (290 billion baht) 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.

Gains in neighboring countries

- Thailand experienced a decline in tourists' confidence beginning in December 2008 when international airports started closing and many foreign tour agents quit the country.
- This led to a 3% year-on-year decrease in foreign tourist arrivals and a 12% decrease in foreign tourism receipts in 2009.
- The effects continued into 2010, with nearby countries benefitting from an increase in visitors.

Bangkok Airport Shutdown in 2008



Once is more than enough

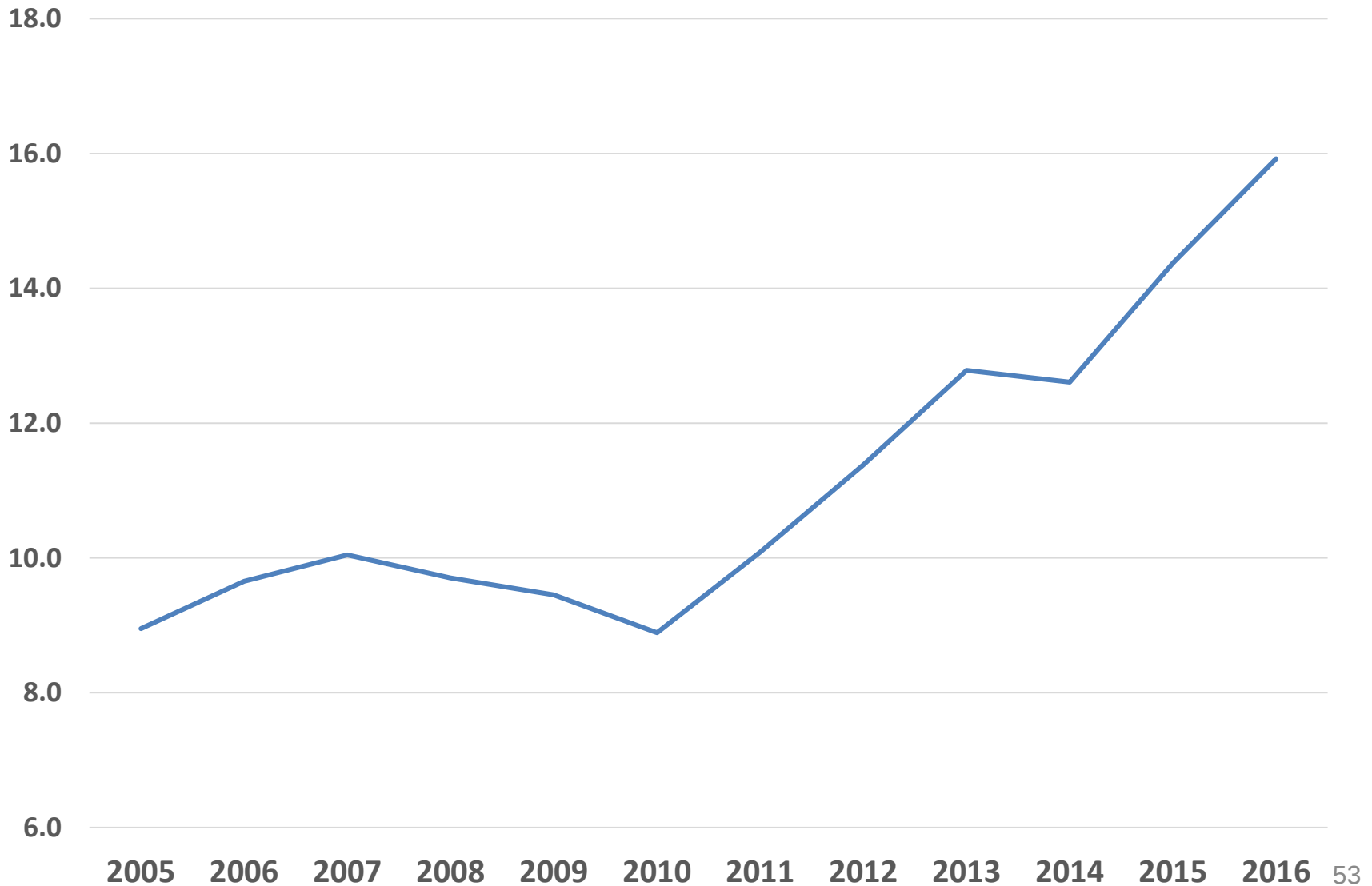


**Anti-gov't protesters occupy key sites, roads and ministries on the
first day of the PDRC-led urban siege campaign:
January 2014**



Income from Tourism Industry (%GDP)

Source: Compiled from data provided by Bank of Thailand



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 investor confidence is lost.
- 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 the loss of confidence that induces negative spiral.
- Give it time, the industry will rebound after experiencing new unexpected shocks.
- Remember the Erawan shrine bombing?

4. Microeconomic Analysis of Tourism Industry

- Hotels are complex organizations, creating value for consumers and investors by combining bricks and mortar with people and technology.
- Their performance is not only affected by macroeconomic cycles and consumer trends, but is also linked to that of **parallel sectors** such as airlines and travel companies; seasonality of demand, product innovation and development pipelines also affect performance.

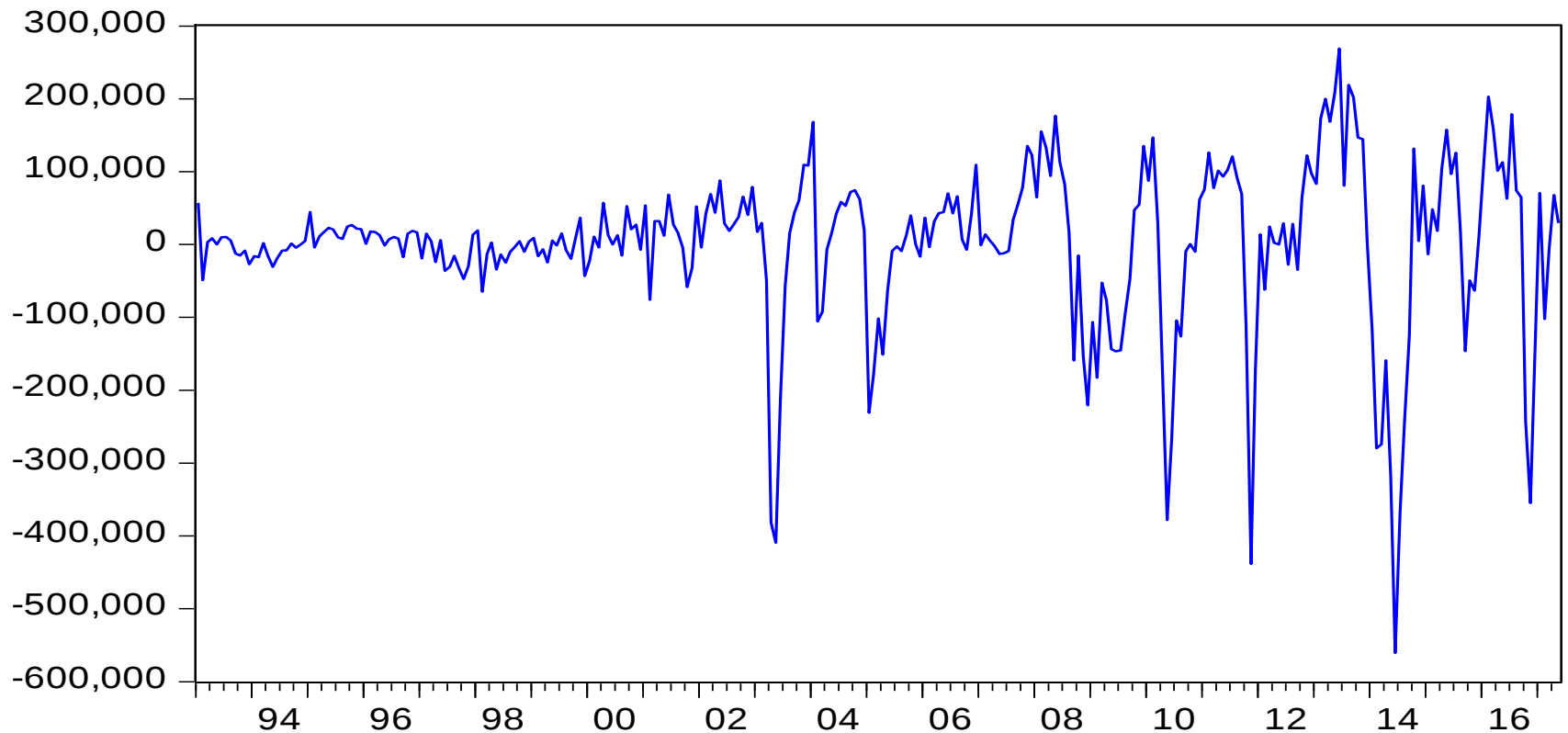
The hotel industry faces unique challenges

- Demand shocks impact the industry in differing ways.
- The travel and hospitality industry is increasingly operating through prolonged periods of uncertainty and instability.
- Effective business leaders seek to understand the impact of different shocks on their operations and to develop the tools required to manage the consequences.

Common demand shocks

- Operating in a globally inter-connected and consumer-led environment, the hotel industry is exposed to various risks of business interruption.
- Four common demand shocks:
- economic volatility, political instability, terrorism and pandemics

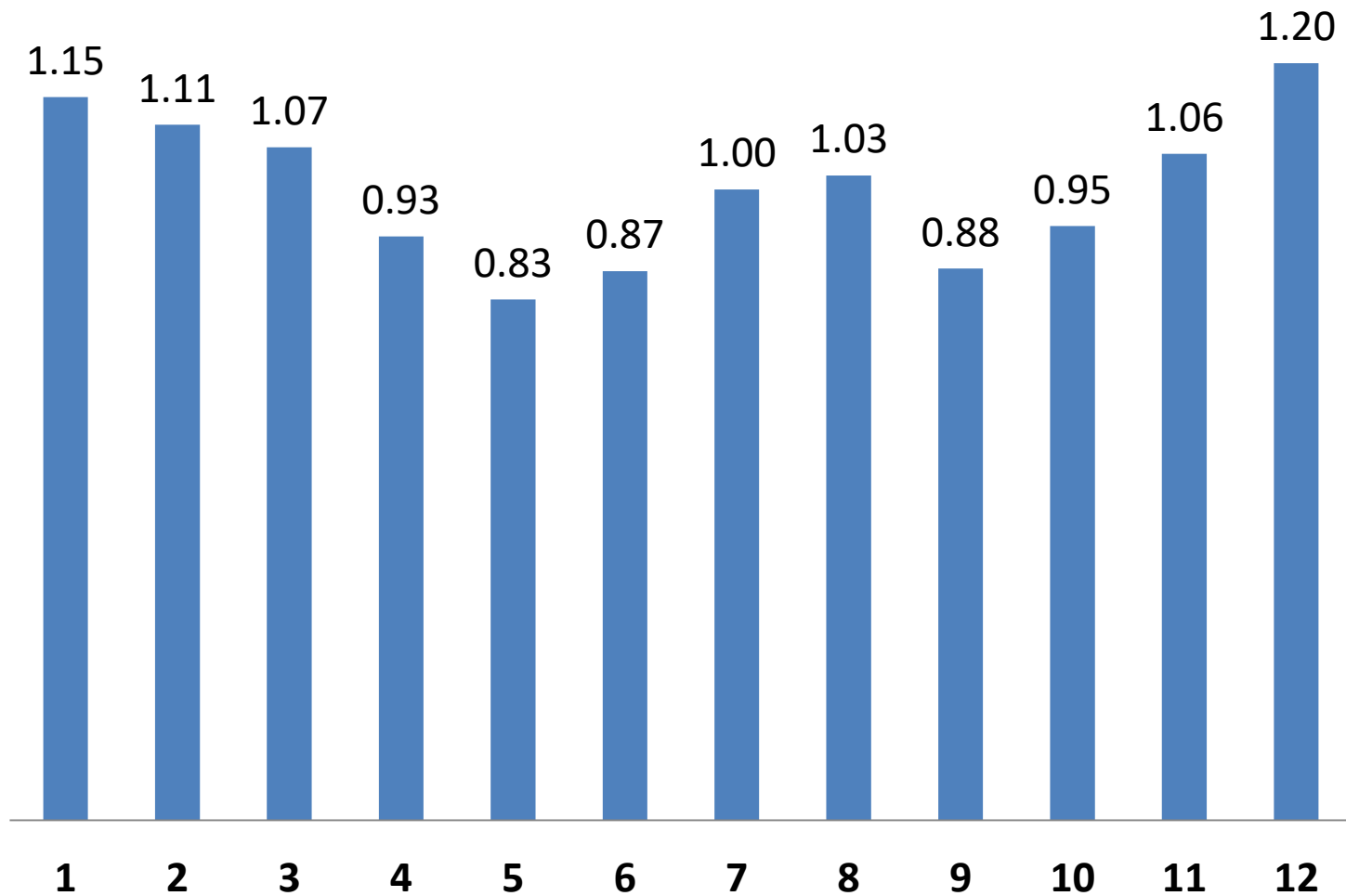
Number of international tourists (Departure from trend; Jan 1993-May 2017)



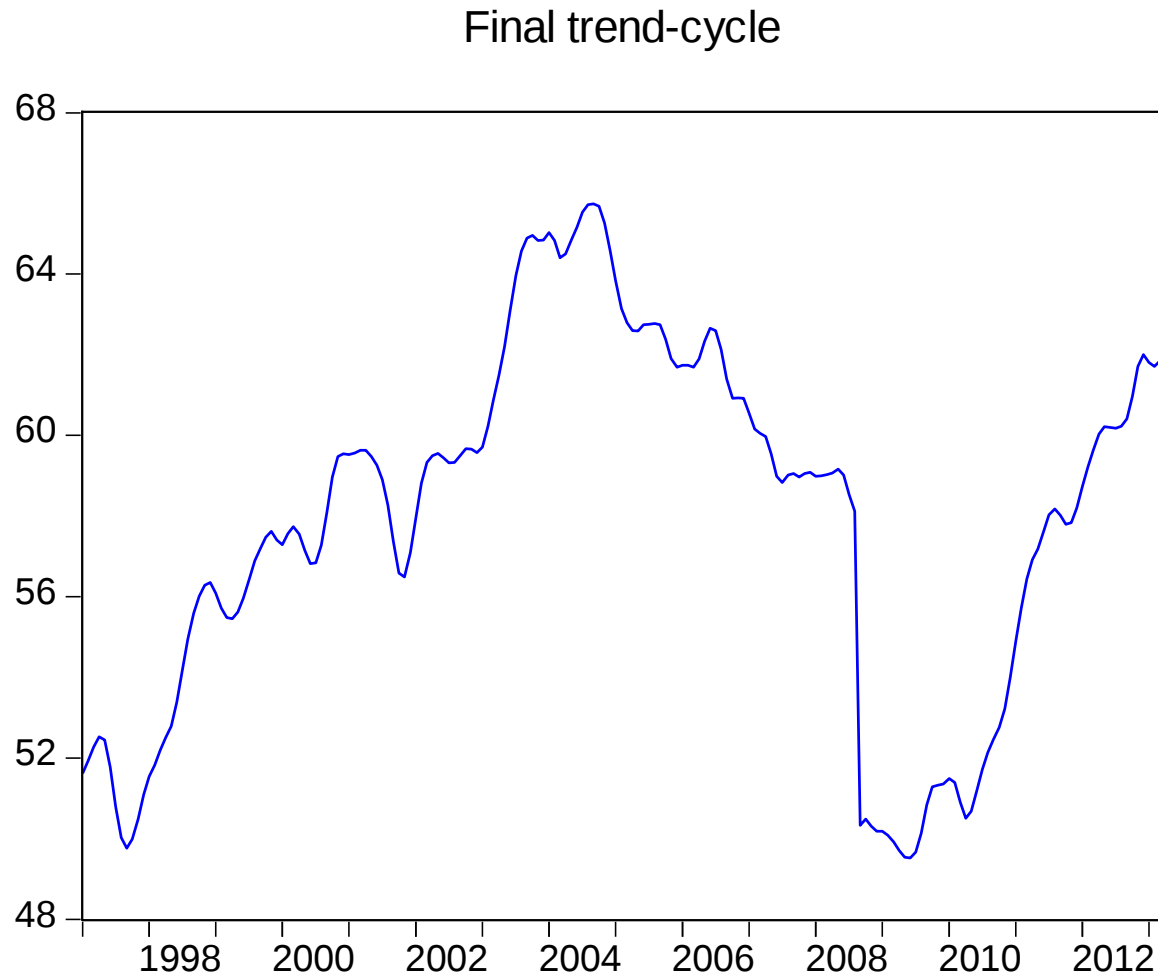
Microeconomic Analysis of hotel industry

- Seasonality and peak-load pricing
- Economies of scope: Revenues from MICE
- Uncertainty and risks

Monthly number of tourists:
Ratio to moving average



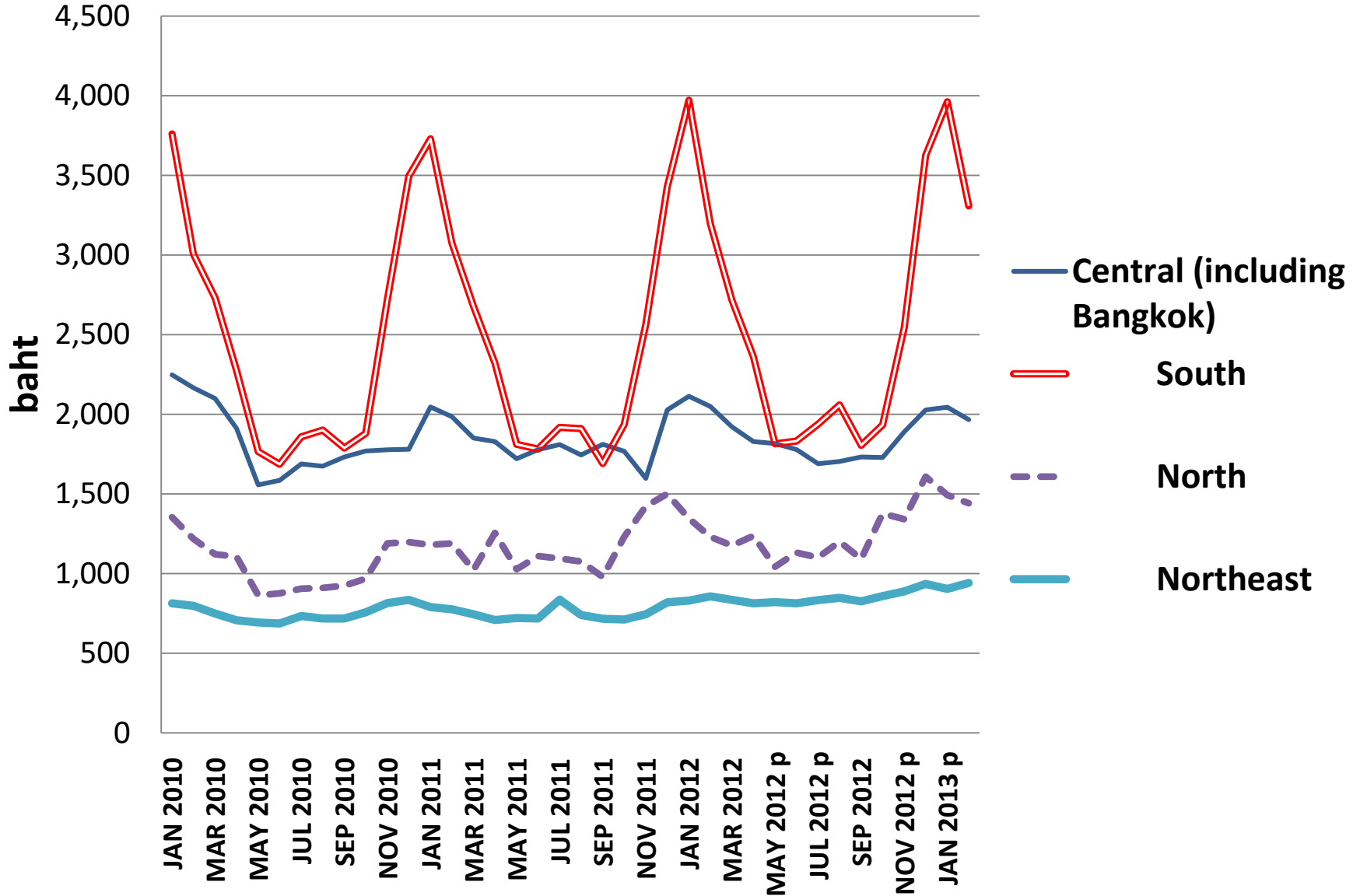
Hotel occupancy rate



A normal low-season rate: 55%

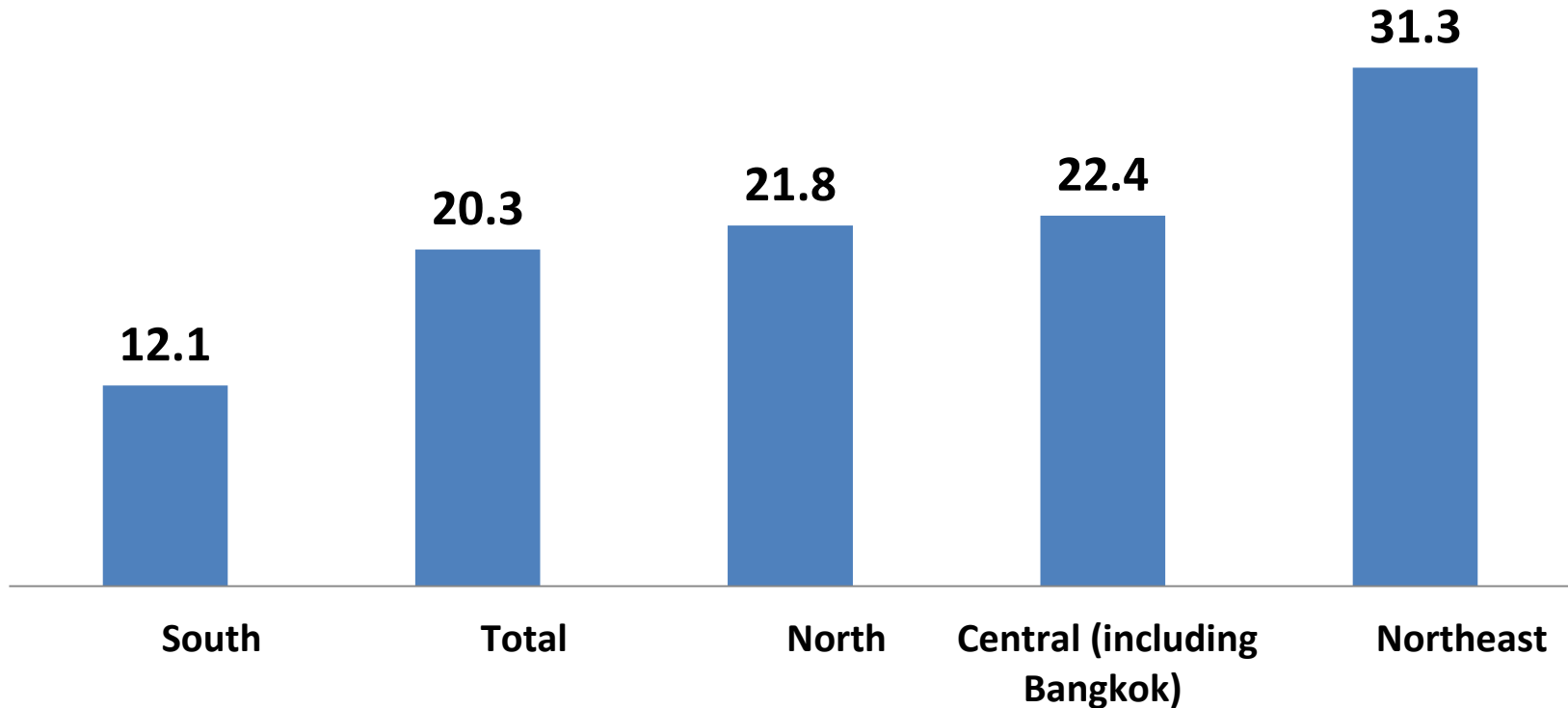
- The average occupancy of hotels in key tourism areas, especially in southern and northern Thailand, was close to the normal low-season rate of about 55% to 60%.
- The council has also forecast trips by Thai tourists at 90.72 million this year, a rise of 5% from last year, with revenue of 390 billion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

Average room rate



Source: Bank of Thailand

**Revenues generated by Meeting,
Incentives, Conferences, and Exhibitions
(MICE)
average share: 2010-2012**



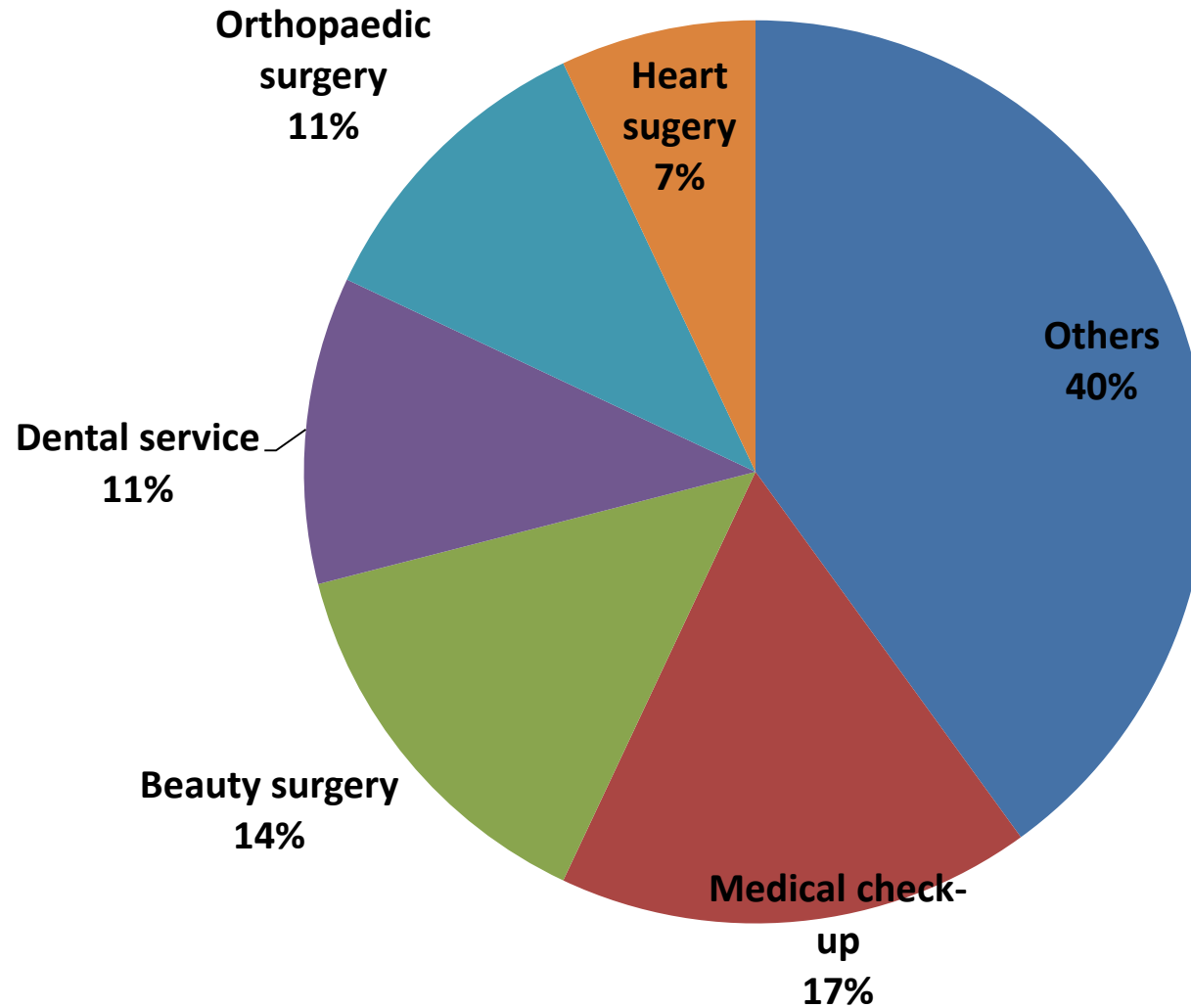
Expect the Unexpected

- The hotel industry needs to adapt to living with uncertainty.
- Preparation is key to surviving shocks, minimizing fallout and maintaining hotel performance.
- To succeed in this environment, companies will need to identify and understand the entire risk picture, to prepare for the unforeseeable and to be agile enough to respond to new opportunities.
- Winners will be prepared to emerge from a crisis in a stronger position and capitalize on the recovery.

Medical tourism

- With strong support from the government, demand for Thai medical services from foreigners is expected to rise substantially.
- The revenue generated from foreign patients in Thai private hospitals rose from 25% in 2011 to 30% in 2015. This trend is expected to continue over the next several years.
- With increasingly health- conscious foreign tourists and the integration of Asean Economic Community, the number of foreigners coming to Thailand as medical tourists is expected to rise.

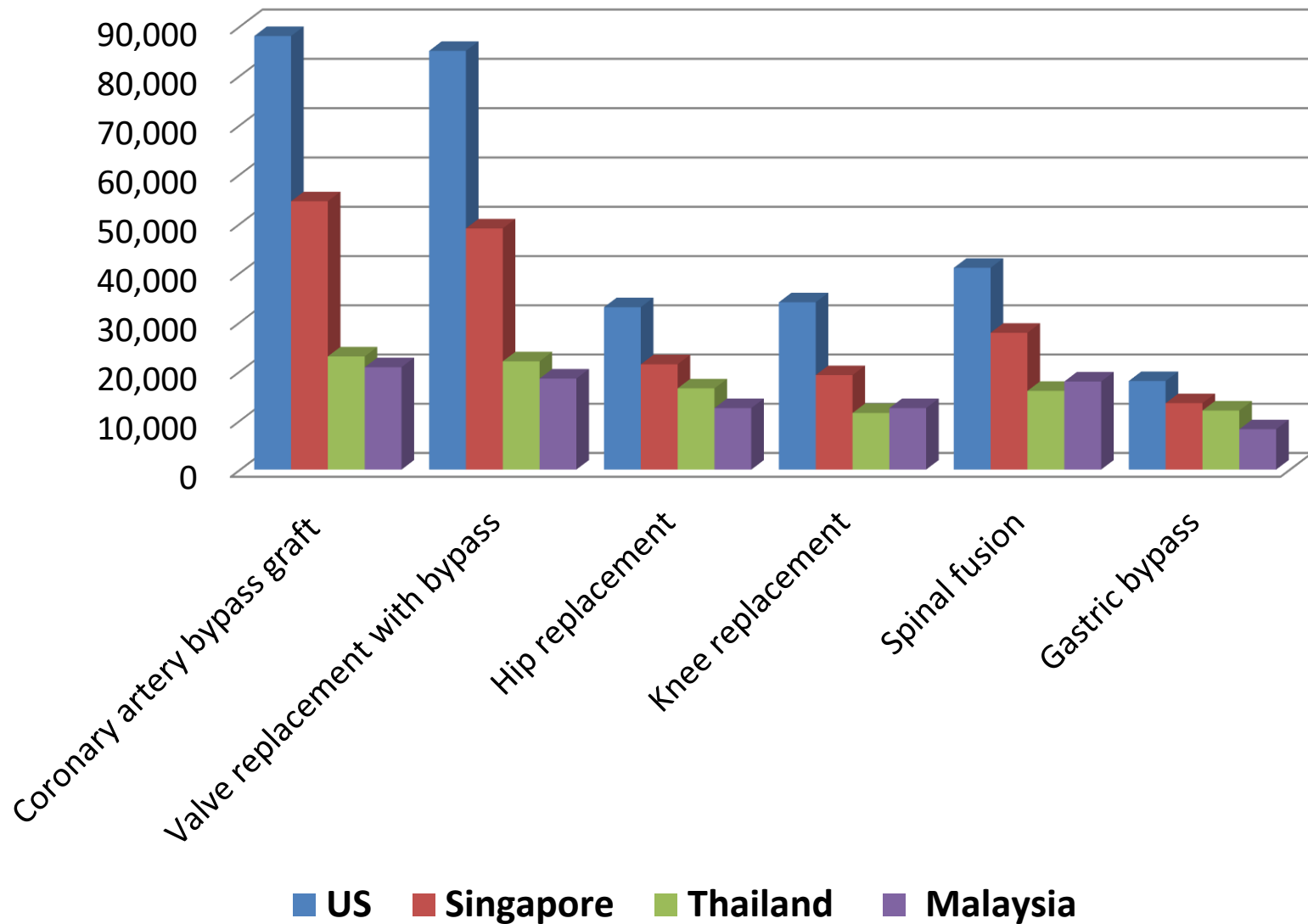
popular medical services among foreign visitors



Popular Medical Services

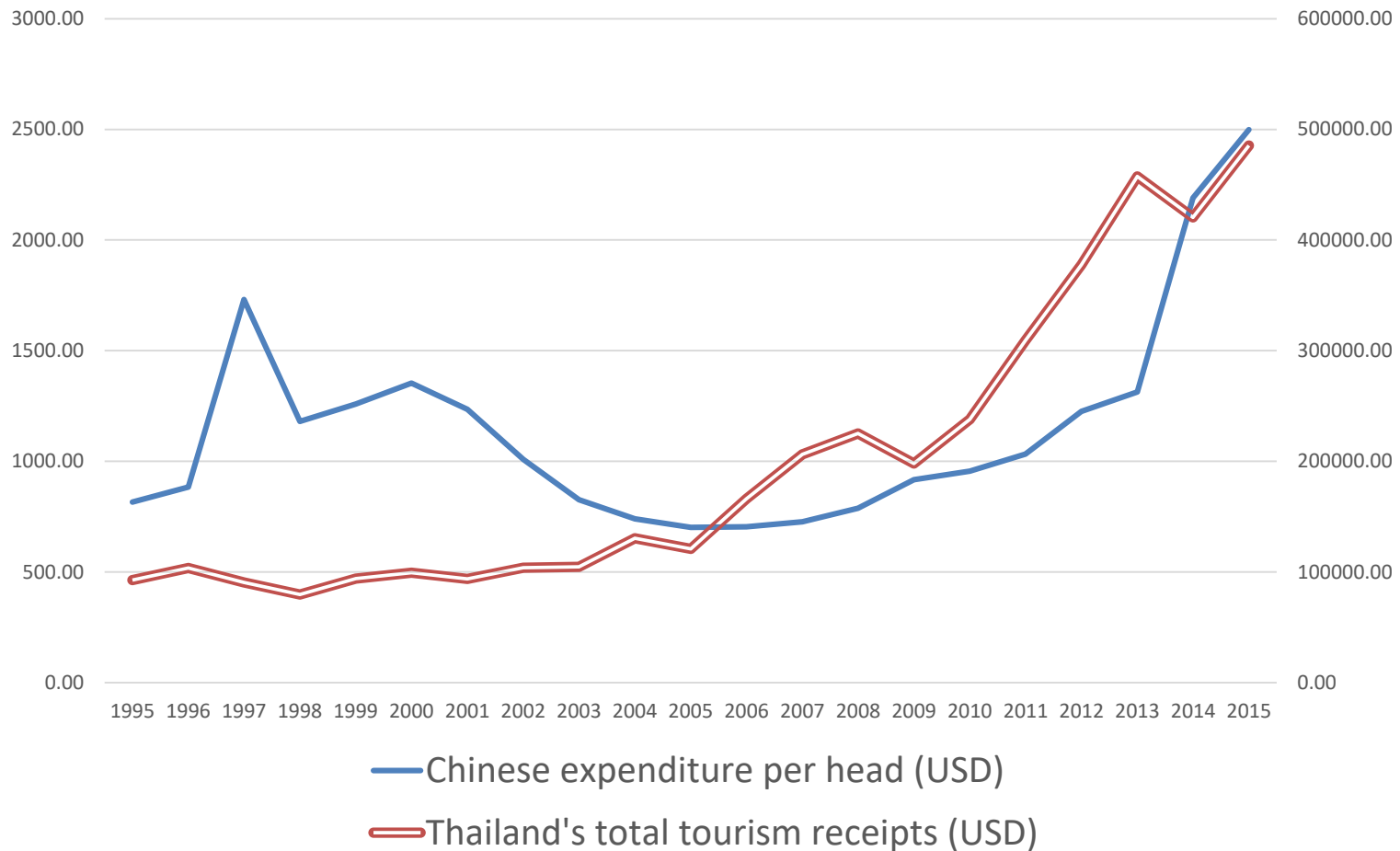
- Popular medical services among foreigners include standard checkups, cosmetic surgery, and dental services.
- Beside tourists, there are expats working in Thailand and neighboring countries where medical service standards remain relatively low, encouraging them to come to Thailand.
- Myanmar and the Middle east accounted for the largest proportion of foreign patients.
- Thai private hospitals are expanding their services to Indonesia, Vietnam, and China to offset the drop in revenue from Thai patients.

Comparison of Medical Costs USD per person

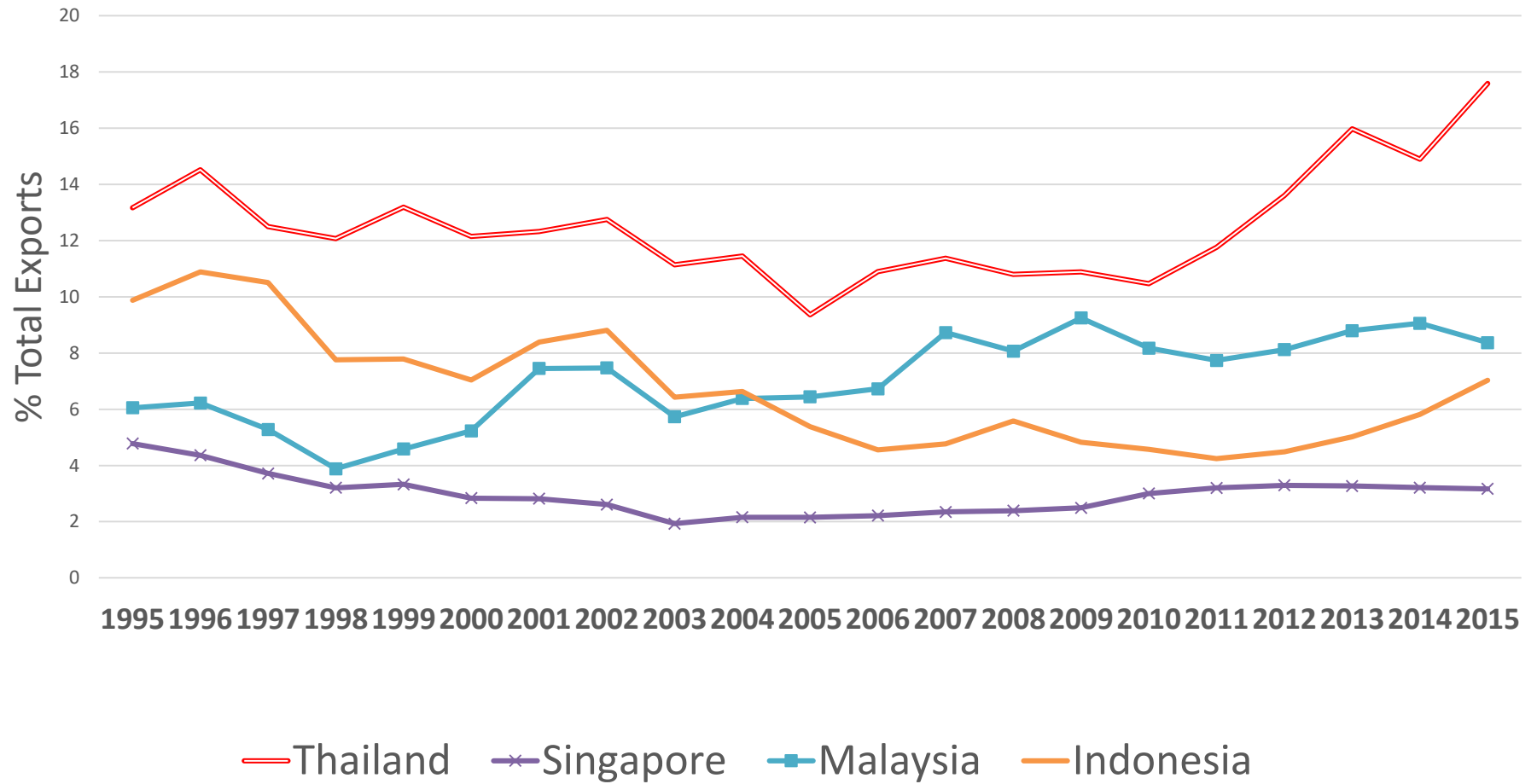


6. China Factor

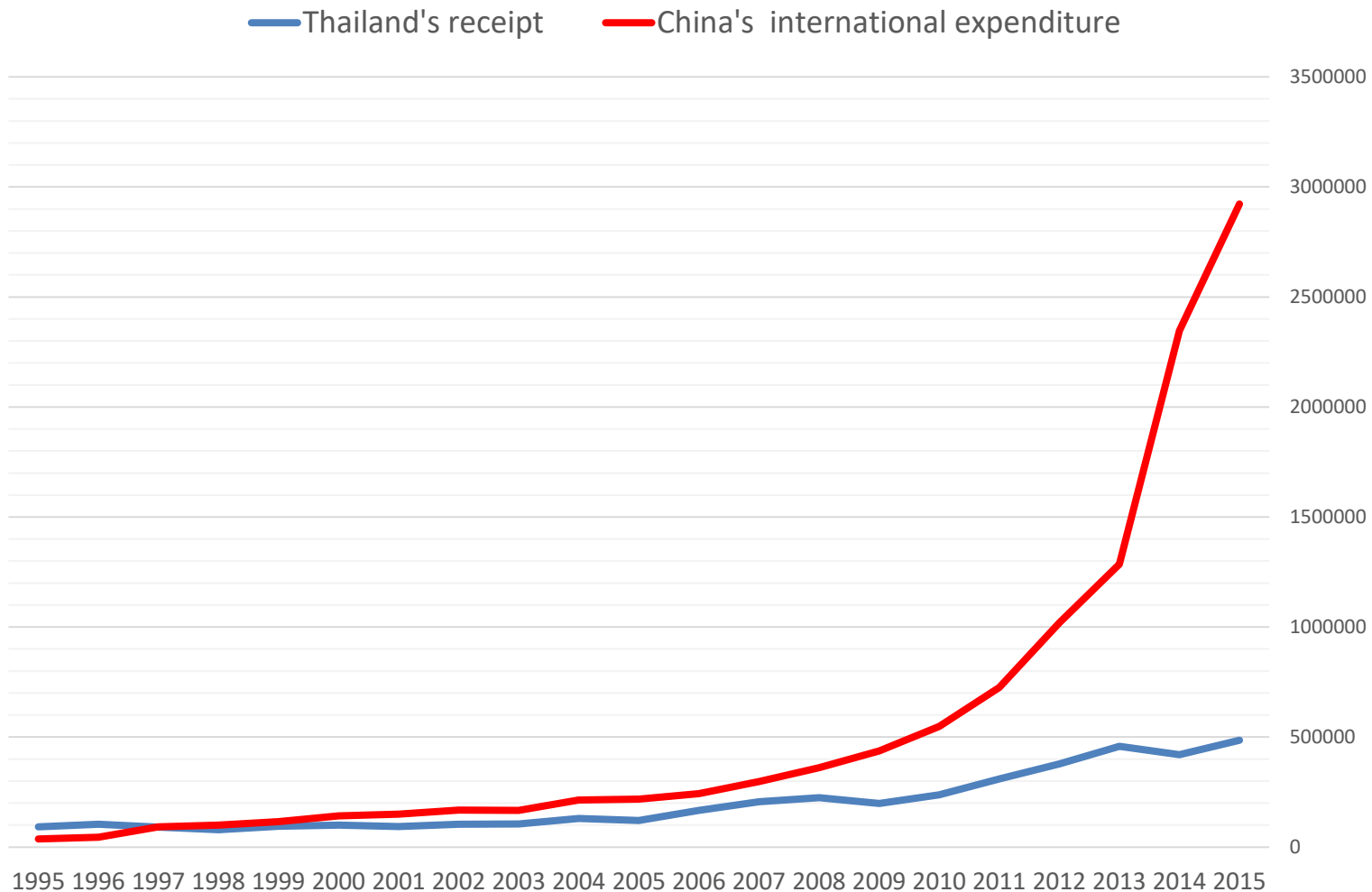
Outbound tourism



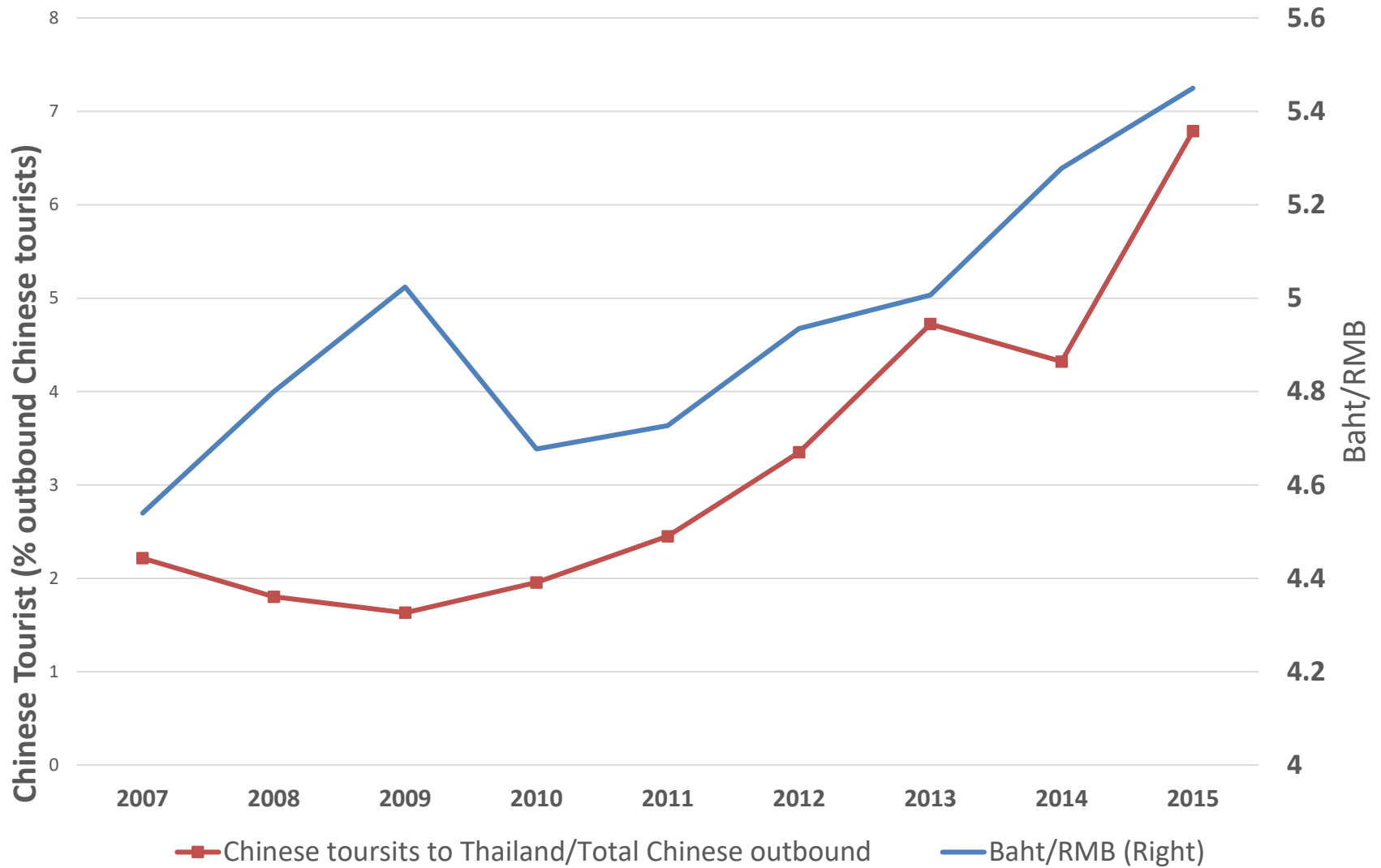
Receipts for International Tourism



International Tourism: Thailand's Revenues and Expenditures
Source: World Bank
Thousands USD



Exchange Rate Matters for Chinese Tourists



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 resilient to shocks?
- What is an appropriate policy response of the industry to internal and external shocks? How should the industry react to the two different sources of shocks

Appendix: A brief time line of some blasts

2010

- July: A suspected bomb rips through a bus stop in central Bangkok, leaving at least nine people injured and reigniting tensions two months after the end of opposition protests.
- October: A blast at a Bangkok apartment complex kills four, with the government blaming the incident on the anti-government "Red Shirt" movement, which denies any involvement.

2011

- December: A makeshift explosive device is found and defused near the government lottery office in the capital with authorities saying the perpetrators wanted to "challenge the government".

A brief timeline of some blasts in Thailand in recent years.

2012

- February: A string of botched blasts across Bangkok injure several people in an alleged plot by Iranian suspects to kill Israeli diplomats. Two Iranian men, including one whose legs were blown off, were sentenced to between 15 years and life in 2013 over the failed plot.

2013

- May: A homemade bomb hidden near rubbish bins in a busy suburban Bangkok shopping area explodes, injuring seven people.

2014

- January: Twin blasts by unknown attackers at an anti-government protest in central Bangkok leave 28 injured.
- February: A woman and a child are killed in a grenade attack during an anti-government rally in a Bangkok shopping district popular with tourists.
- That same month, a grenade explosion also in a bustling Bangkok shopping district kills three people, including two children.
- March: A string of grenade blasts rocks the northern Thai city of Chiang Mai, popular with foreign tourists, leaving four people wounded. Police say the attacks could be linked to the kingdom's deadly political crisis.

August 2015: Erawan Shrine Explosion

2015

- February: Two small bombs explode near a popular shopping mall in downtown Bangkok, injuring one man.
- April: A car bomb packed inside a pick-up truck on the Thai resort island of Samui wounds seven people, including an Italian girl.
- August: An explosion rips through the Erawan shrine in downtown Bangkok killing 20 people, mainly ethnic Chinese tourists, in the deadliest such attack in the country in recent years.

2016

- February: A car bomb detonates outside a police station in southern Thailand, injuring at least seven people.
- August: Twin blasts in the seaside resort town of Hua Hin kill one Thai woman selling papaya and wound 21, including foreign tourists.