



EE366/EE382 Economics of Services Sector

CHAPTER 2

Economic Impact of Service Sector

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Economic Impact of service sector: The case study of travel and tourism industry

1. Service in National Account




❖ Two different approaches are based on ***the National Accounts !!***

1.THE PRODUCER_SIDE APPROACH

☐ Method

- ❖ **The value added (VA) of all products** (Total sale - Total purchase)
- ❖ The summation of the VA of all productions in the private and the public sectors

☐ Classification

- 1 The primary stage**
Raw material extraction and cultivation 
- 2 The secondary stage**
Manufacturing 
- 3 The tertiary stage**
Service sector 

2.THE FINAL USER_SIDE APPROACH

☐ Method

- ❖ **Adding up all expenditures** both private and public expenditures on final products
- ❖ **$C + I + G + X - M$**

☐ Classification

- 1 Private consumption of service (C)**
- 2 Private investment of service (I)**
- 3 Gov't consumption and investment ($G_C + G_I$) related to service**
- 4 Net export of service ($X - M$)**

1. Service in National Account

❖ Two different approaches are based on *the National Accounts !!*

1.THE PRODUCER_SIDE APPROACH

2.THE FINAL USER_SIDE APPROACH

Various issues to be concerned. **For example !!**

1. Some firms produce both goods and services....shall we count those firms in service industry or manufacturing industry?

2. Will the two approaches always produce the same results?

- Depends on measurement methods and what the researchers want to measure
- C in User-side approach contains only **final services** (not include **intermediate services**), while in producer-side approach we measures value added of each firm in service industry (including firms providing **intermediate services**)
- In producer-side approach, we can measures **value added** of each service industry. In user-side approach C is from **final sales** of each firm in service industry (that means it covers value of intermediate goods and services plus compensation of factors of production of that firm)

2. Economic Impact of Travel & Tourism

In this part we look at impact or contribution to

- Gross Domestic Product (GDP)**

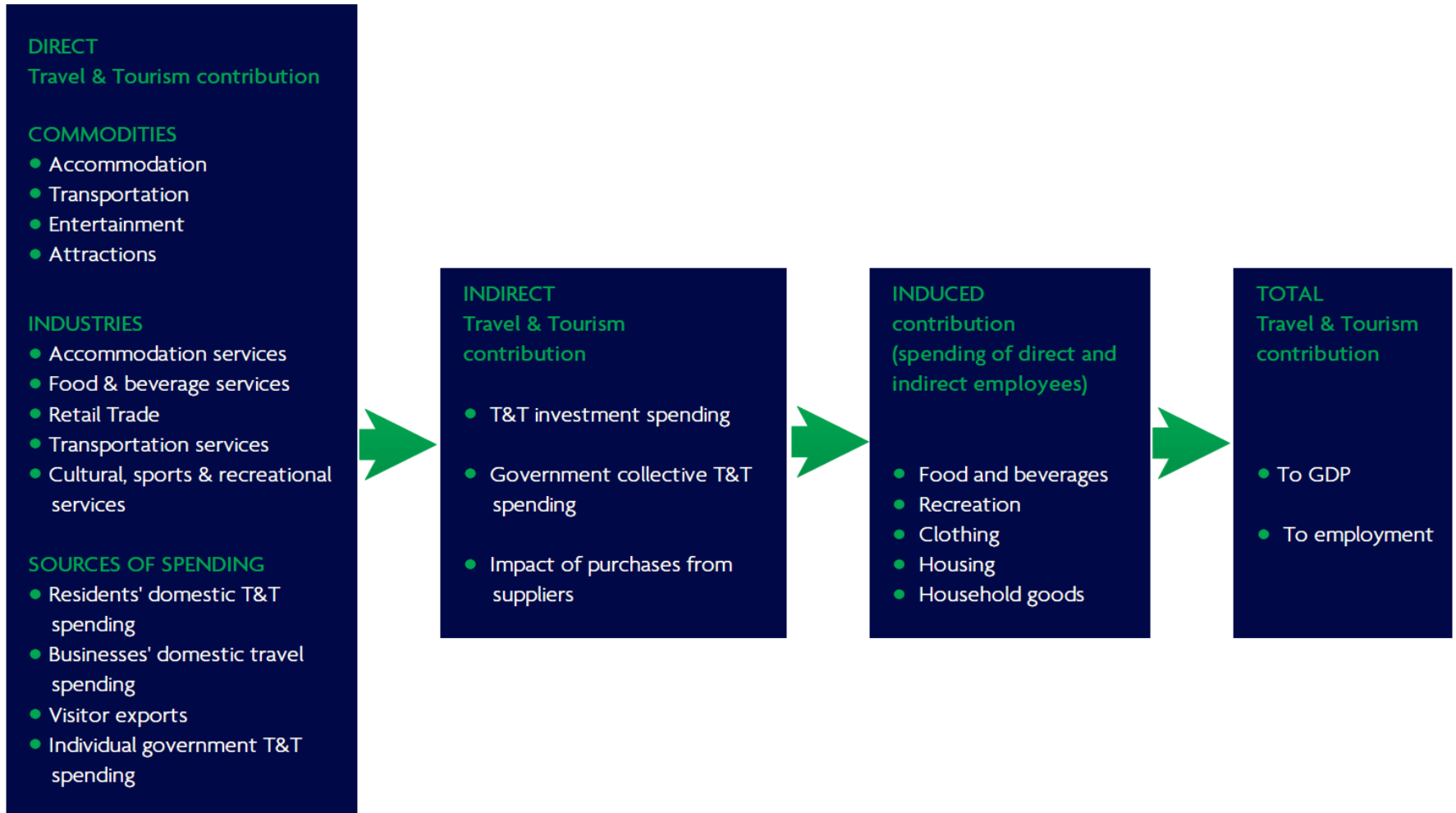
- Employment**

2. Economic Impact of Travel & Tourism

Travel & Tourism contribution to **GDP** (can also apply to **employment**)

- ❑ **Direct effects:** take into account only the **immediate effects** of the additional demand (**tourism internal consumption** or **total tourism internal demand**) on production processes and supply of goods and services in terms of **additional goods and services**, and **additional value added and its components**.
- ❑ **Indirect effects:** this measures the **supply chain impact** (also called inter-industry linkages) for each sector.
“A chain of additional demand for different factors of production (that is, inputs, labour and capital), a phenomenon that continues through several rounds until exhausted by leakages”
- ❑ **Induced effects:** the increase of income distributed to the labour force and to the owners of productive capital resulting from incremental visitor demand generates increased demand for goods and services through a rise in household consumption.

2. Economic Impact of Travel & Tourism



Source: World Travel & Tourism Council (2017), p. 2

2. Economic Impact of Travel & Tourism

Key definition

Travel & Tourism

Relates to the activity of **travellers** on **trips outside their usual environment** with a duration of **less than one year**.

2. Economic Impact of Travel & Tourism

Key definition

DIRECT CONTRIBUTION TO GDP

- ❖ **GDP generated by industries that deal directly with tourists**, including hotels, travel agents, airlines and other passenger transport services, as well as the activities of restaurant and leisure industries that deal directly with tourists.
- ❖ It is equivalent to **total internal Travel & Tourism spending** (see below) within a country **less** the **purchases made by those industries (including imports)**.

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Key definition

DIRECT CONTRIBUTION TO EMPLOYMENT

The number of direct jobs within Travel & Tourism.

TOTAL CONTRIBUTION TO GDP

GDP generated directly by the Travel & Tourism sector plus its indirect and induced impacts.

TOTAL CONTRIBUTION TO EMPLOYMENT

The number of jobs generated directly in the Travel & Tourism sector plus the indirect and induced contributions.

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Key definition (for **DIRECT SPENDING IMPACT**)

DOMESTIC TRAVEL & TOURISM SPENDING

Spending within a country by that **country's residents** for both business and leisure trips. Multi-use consumer durables are not included since they are not purchased solely for tourism purposes (**total domestic tourism expenditure** in TSA)

Outbound spending by residents abroad is not included here, but is separately identified

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Key definition (for **DIRECT SPENDING IMPACT**)

GOVERNMENT INDIVIDUAL SPENDING

Spending by government on Travel & Tourism services directly linked to visitors, such as cultural services (e.g. museums) or recreational services (e.g. national parks).

INTERNAL TOURISM CONSUMPTION

- ❖ Total revenue generated within a country by industries that deal directly with tourists **including visitor exports, domestic spending and government individual spending.**
- ❖ This does not include spending abroad by residents.

2. Economic Impact of Travel & Tourism

Key definition (for **DIRECT SPENDING IMPACT**)

BUSINESS TRAVEL & TOURISM SPENDING

Spending on **business travel** within a country by residents and international visitors.

LEISURE TRAVEL & TOURISM SPENDING

Spending on **leisure travel** within a country by residents and international visitors.

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Key definition (for INDIRECT CONTRIBUTION IMPACT)

INDIRECT CONTRIBUTION

The contribution to **GDP** and **jobs** of the following three factors:

- ❖ **capital investment**
- ❖ **government collective spending**
- ❖ **supply-chain effects**

2. Economic Impact of Travel & Tourism

Key definition (for **INDIRECT CONTRIBUTION IMPACT**)

CAPITAL INVESTMENT

- ❖ Includes **capital investment spending by all industries directly involved in Travel & Tourism.**
- ❖ This also constitutes investment **spending by other industries on specific tourism assets** such as new visitor accommodation and passenger transport equipment, as well as restaurants and leisure facilities for specific tourism use.
- ❖ This is consistent with (**total tourism gross fixed capital formation** in TSA)

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Key definition (for **INDIRECT CONTRIBUTION IMPACT**)

GOVERNMENT COLLECTIVE SPENDING

- ❖ **Government spending in support of general tourism activity.** This can include national as well as regional and local government spending.
- ❖ For example, it includes **tourism promotion, visitor information services, administrative services** and **other public services.**
- ❖ This is consistent with part of the **total collective tourism consumption** in TSA

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Key definition (for INDIRECT CONTRIBUTION IMPACT)

SUPPLY-CHAIN EFFECTS

Purchases of domestic goods and services directly by different industries within Travel & Tourism as inputs to their final tourism output.

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Key definition (for **INDUCED CONTRIBUTION IMPACT**)

INDUCED CONTRIBUTION

The broader contribution to **GDP** and **employment** of **spending by those who are directly or indirectly employed by Travel & Tourism.**

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Key definition (for **OTHER INDICATORS**)

OUTBOUND EXPENDITURE










Spending outside the country by residents on all trips abroad.
(**total outbound tourism expenditure** in TSA).

FOREIGN VISITOR ARRIVALS

The number of arrivals of foreign **visitors**, including same-day and overnight visitors (**tourists**) to the country.

2. Economic Impact of Travel & Tourism










Contribution to **GDP** of Thailand, compared to other sectors

GDP, 2014 (\$US billion, 2014 prices)				
	Direct	Indirect + Induced	Total	% Total Economy
 Agriculture	52	34	86	23.1%
 Mining	12	8	19	5.2%
 Chemicals Manufacturing	14	28	42	11.2%
 Automotive Manufacturing	33	108	142	37.9%
 Retails (without wholesale)	24	51	75	20.1%
 Financial Services	21	15	36	9.5%
 Banking	12	26	38	10.1%
 Education	18	13	31	8.3%
 Travel & Tourism	32	40	72	19.3%

Source: World Travel & Tourism Council (2015), p. 3

2. Economic Impact of Travel & Tourism

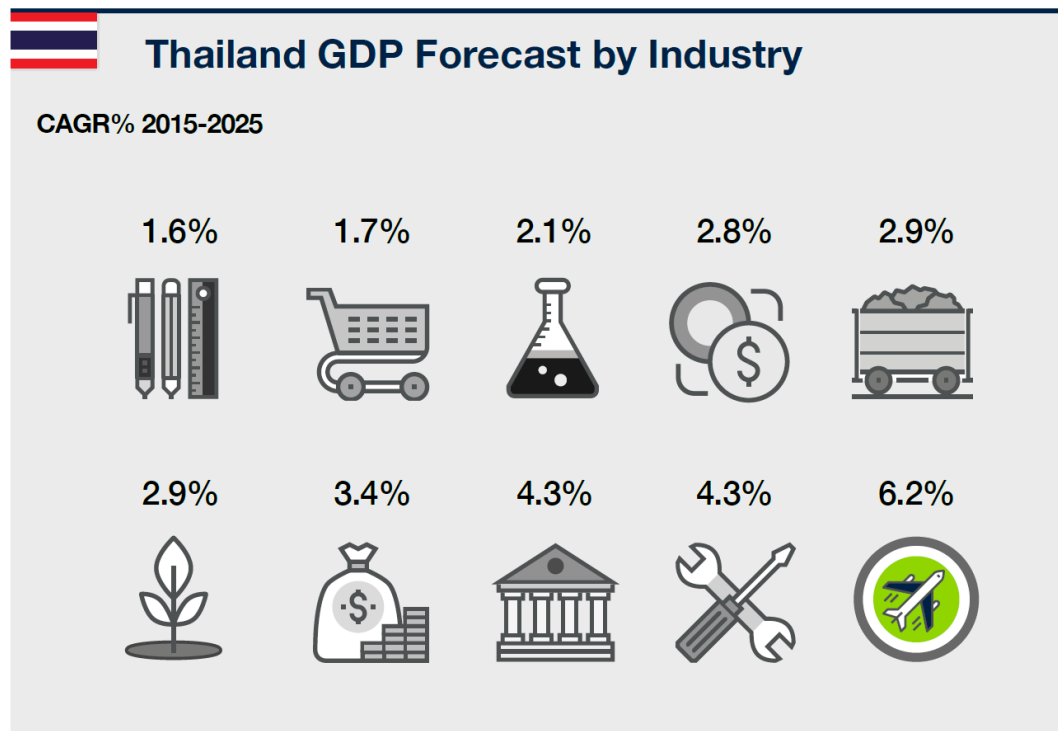
Contribution to **Employment** in Thailand, compared to other sectors

Employment, 2014		Direct, '000s	Indirect + Induced, '000s	Total, '000s	% Total Economy
	Agriculture	15,128	247	15,375	40.3%
	Mining	63	158	221	0.6%
	Chemicals Manufacturing	375	731	1,105	2.9%
	Automotive Manufacturing	803	688	1,491	3.9%
	Retails (without wholesale)	2,442	840	3,282	8.6%
	Financial Services	441	1,107	1,547	4.1%
	Banking	250	535	784	2.1%
	Education	1,179	402	1,581	4.1%
	Travel & Tourism	2,210	3,173	5,383	14.1%

Source: World Travel & Tourism Council (2015), p. 3

2. Economic Impact of Travel & Tourism

- ❑ **Travel & Tourism direct industry GDP expanded 187%** between **1995 and 2014** while the total economy expanded 6%.
- ❑ **The mining industry grew 146%** over this 19-year period.
- ❑ The **banking industry grew just 48%** over this 19-year period
- ❑ **Travel & Tourism GDP is expected to grow** at an annual average of **6.2%** over the next decade.



Source: World Travel & Tourism Council (2015), p. 2

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TRAVEL & TOURISM CONTRIBUTION TO GDP

	T&T CONTRIBUTION TO GDP, 2019 (US\$ BN)	T&T GDP GROWTH 2019 (%)**	DOMESTIC SPEND % OF TOTAL, 2019	INTERNATIONAL SPEND % OF TOTAL, 2019	LEISURE SPEND % OF TOTAL, 2019	BUSINESS SPEND % OF TOTAL, 2019
1 UNITED STATES	1,839	2.3	84	16	70	30
2 CHINA	1,585	9.3	86	14	81	19
3 JAPAN	359	1.6	81	19	69	31
4 GERMANY	347	1.8	86	14	83	17
5 ITALY	260	2.2	76	24	81	19
6 UNITED KINGDOM	254	1.3	83	17	67	33
7 FRANCE	229	1.9	66	34	80	20
8 SPAIN	198	1.8	44	56	89	11
9 MEXICO	196	1.8	85	15	94	6
10 INDIA	194	4.9	83	17	94	6
11 AUSTRALIA	150	0.8	78	22	83	17
12 BRAZIL	140	3.0	94	6	89	11
13 CANADA	108	2.7	76	24	65	35
14 THAILAND	107	1.8	29	71	90	10
15 PHILIPPINES	91	8.6	85	15	66	34

**Growth highlighted in green when it is above global T&T GDP growth of 3.5%

2. Economic Impact of Travel & Tourism

THAILAND 2019 KEY DATA



CONTRIBUTION OF
TRAVEL & TOURISM
TO GDP

19.7% OF TOTAL ECONOMY

Total T&T GDP = THB3,319.6BN
(USD107.0BN)

+1.8%

2019 Travel & Tourism GDP growth
vs **+2.3%** real economy GDP growth



CONTRIBUTION OF
TRAVEL & TOURISM TO
EMPLOYMENT

8,054.6 JOBS (000's)
(21.4% of total employment)

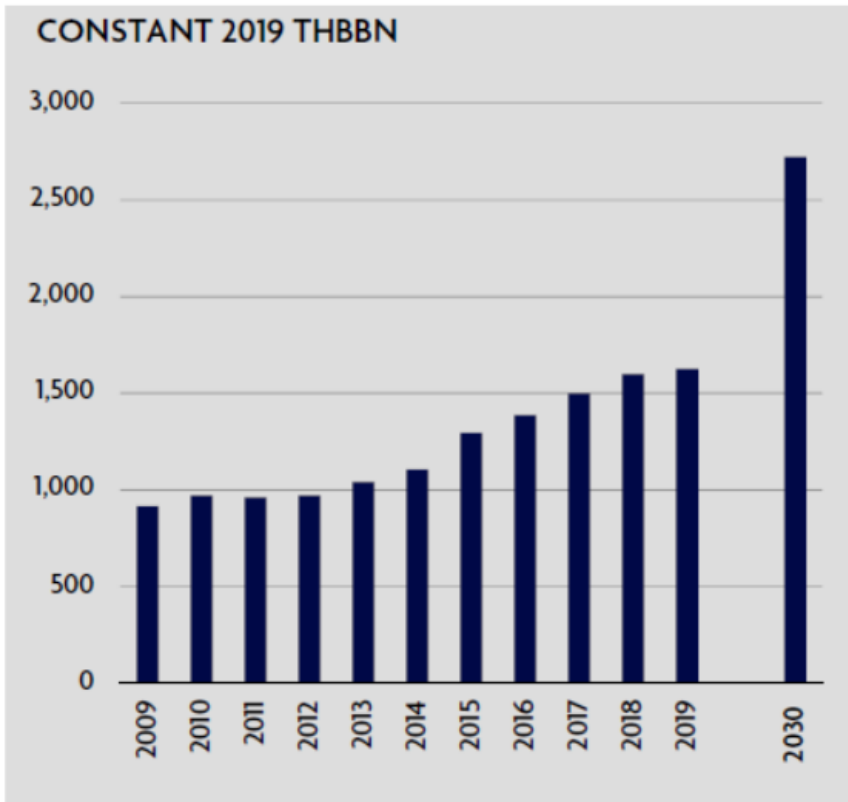


INTERNATIONAL
VISITOR IMPACT

THB2,137.5_{BN}
in visitor spend (21.1% of total exports)
(USD68.9BN)

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THAILAND: DIRECT CONTRIBUTION OF TRAVEL & TOURISM TO GDP



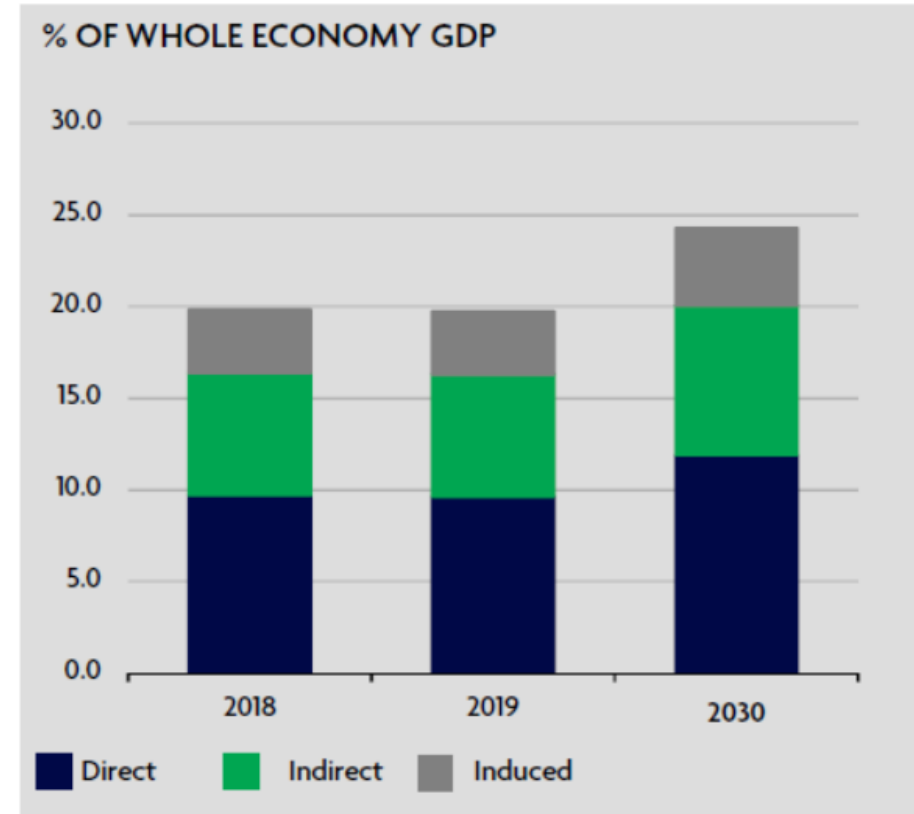
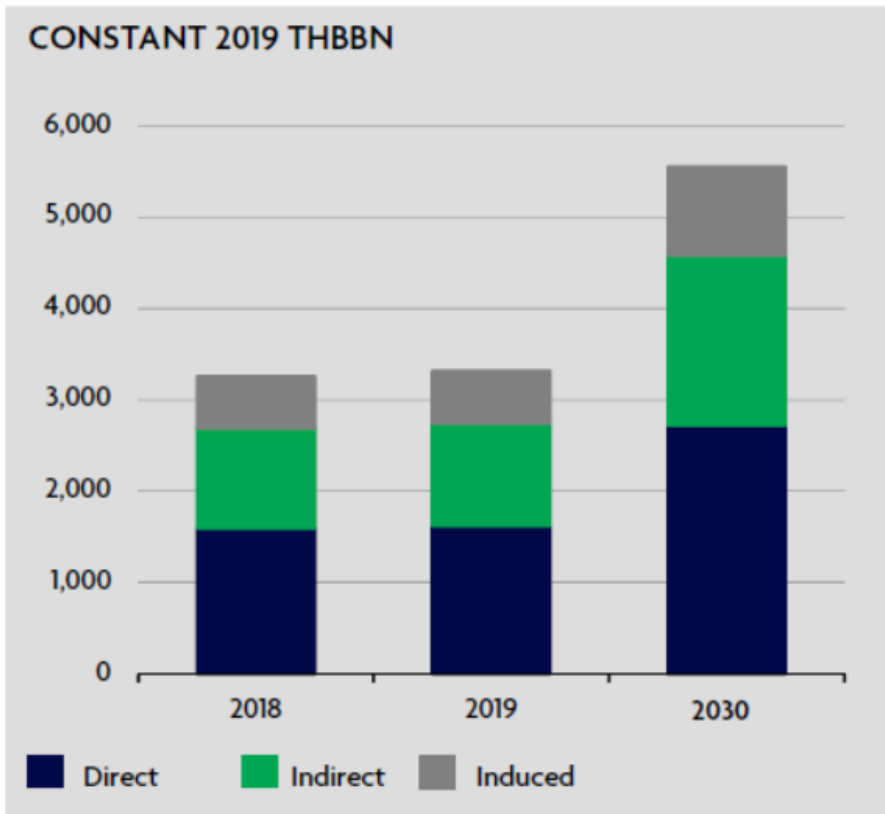
¹ All values are in constant 2019 prices & exchange rates

The direct contribution of Travel & Tourism to GDP in 2019 was THB1,625.6bn (9.7% of GDP).

Source: World Travel & Tourism Council (2020), p. 3

2. Economic Impact of Travel & Tourism

THAILAND: TOTAL CONTRIBUTION OF TRAVEL & TOURISM TO GDP



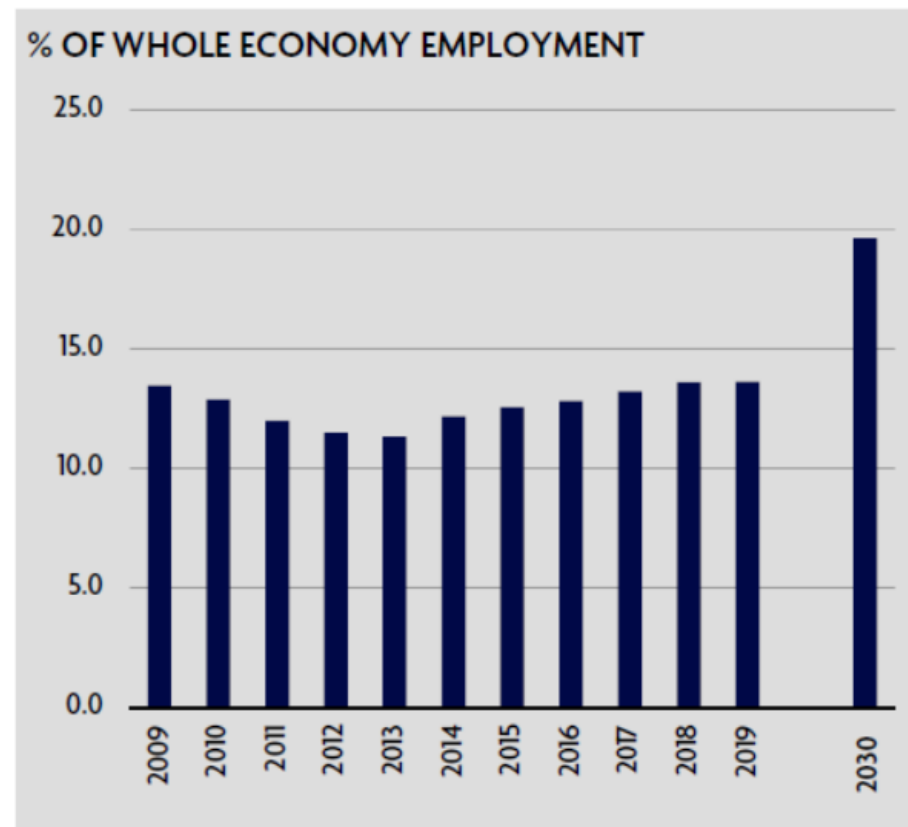
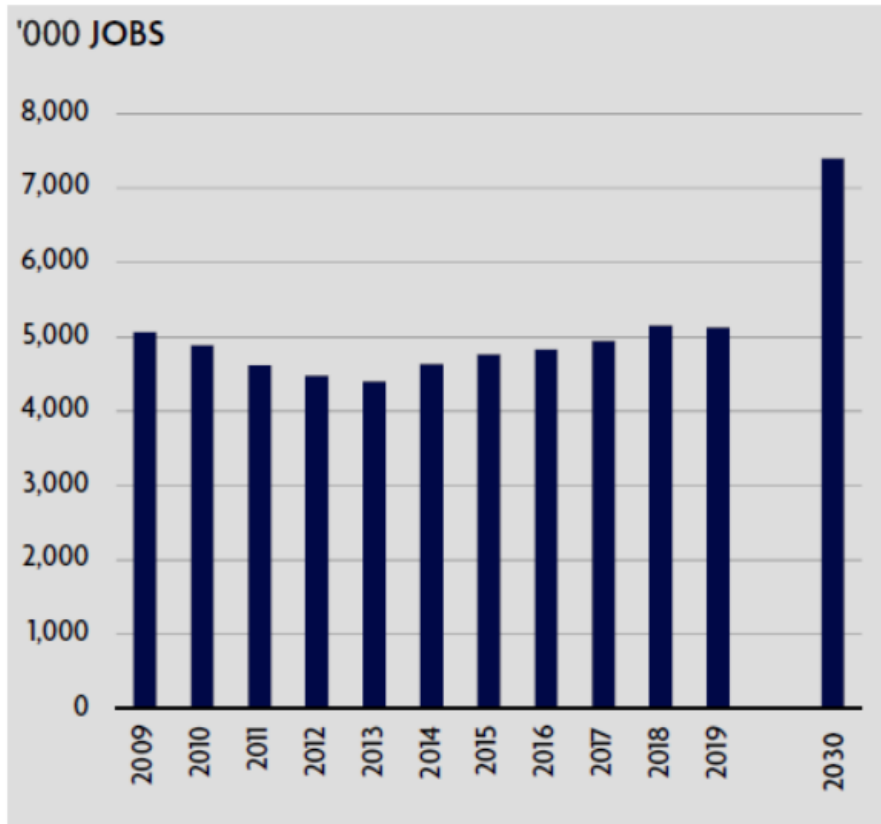
¹All values are in constant 2019 prices & exchange rates

The total contribution of Travel & Tourism to GDP was THB3,319.6bn in 2019 (19.7% of GDP).

Source: World Travel & Tourism Council (2020), p. 3

2. Economic Impact of Travel & Tourism

THAILAND: DIRECT CONTRIBUTION OF TRAVEL & TOURISM TO EMPLOYMENT

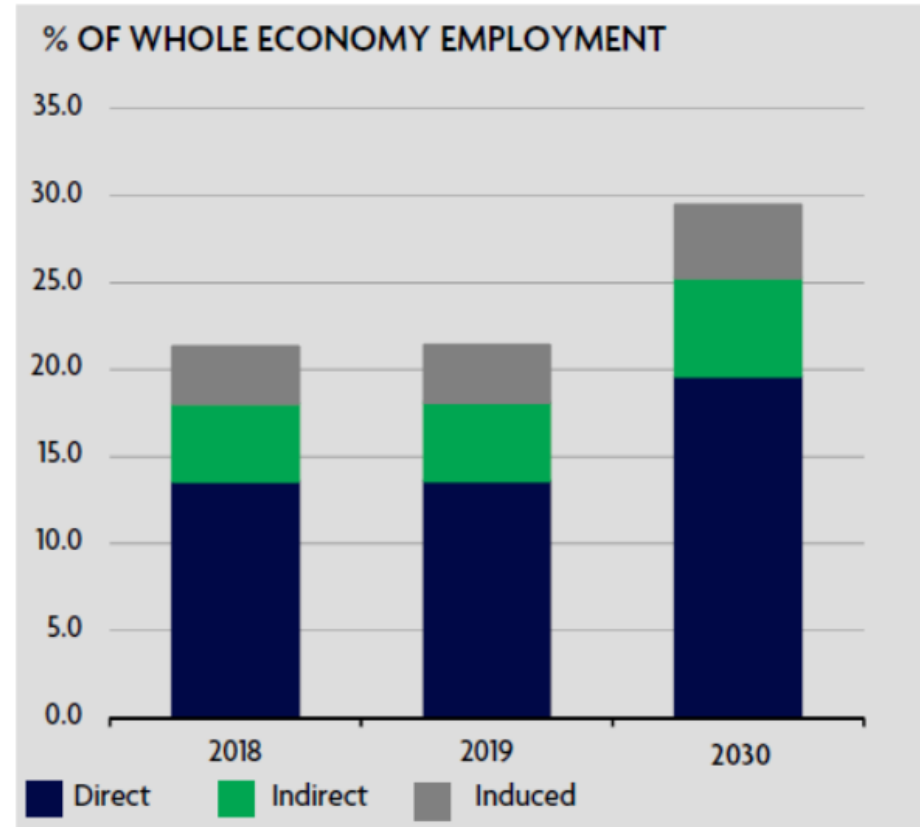
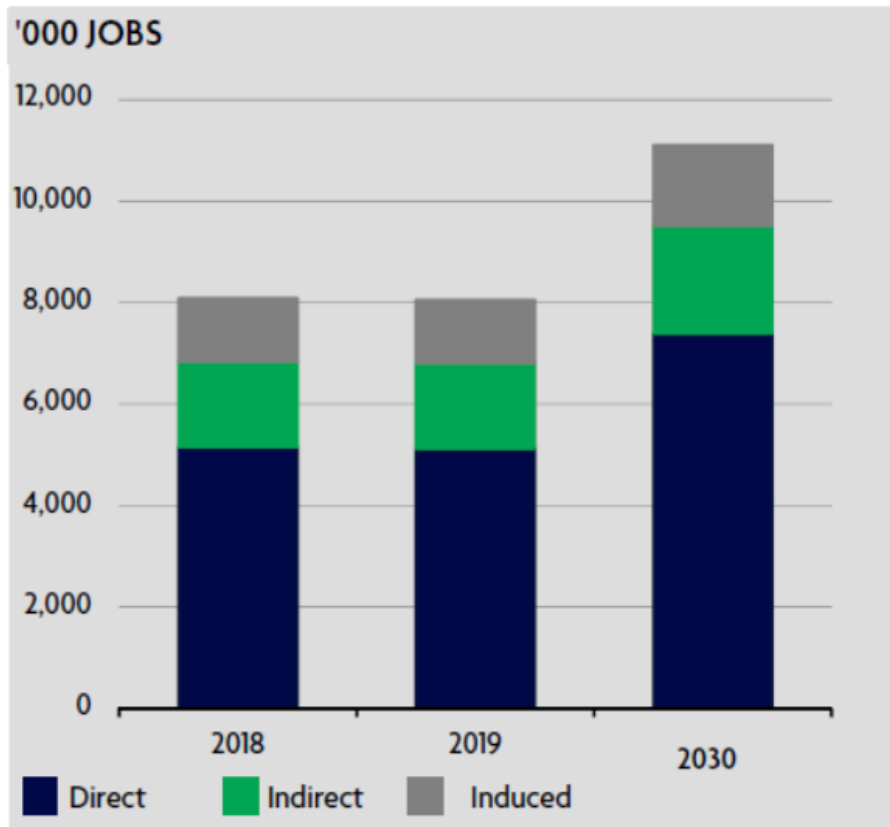


Travel & Tourism generated 5,130,000 jobs directly in 2019 (13.6% of total employment).

Source: World Travel & Tourism Council (2020), p. 4

2. Economic Impact of Travel & Tourism

THAILAND: TOTAL CONTRIBUTION OF TRAVEL & TOURISM TO EMPLOYMENT

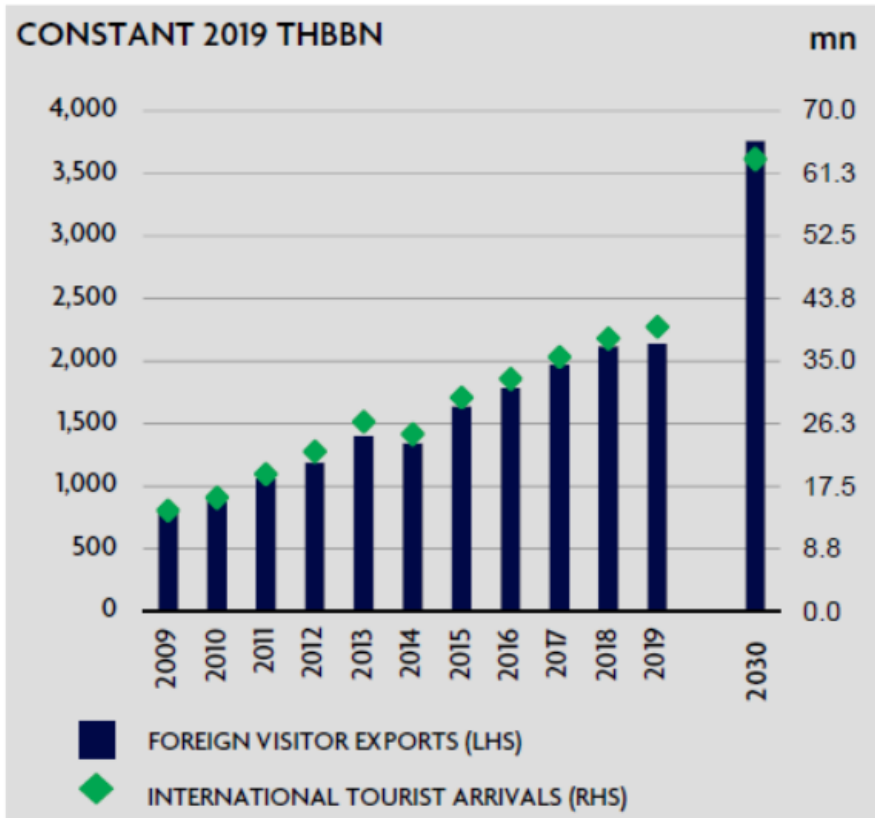


The total contribution of Travel & Tourism to employment was 8,054,500 jobs in 2019 (21.4% of total employment).

Source: World Travel & Tourism Council (2020), p. 4

2. Economic Impact of Travel & Tourism

THAILAND: VISITOR EXPORTS AND INTERNATIONAL TOURIST ARRIVALS



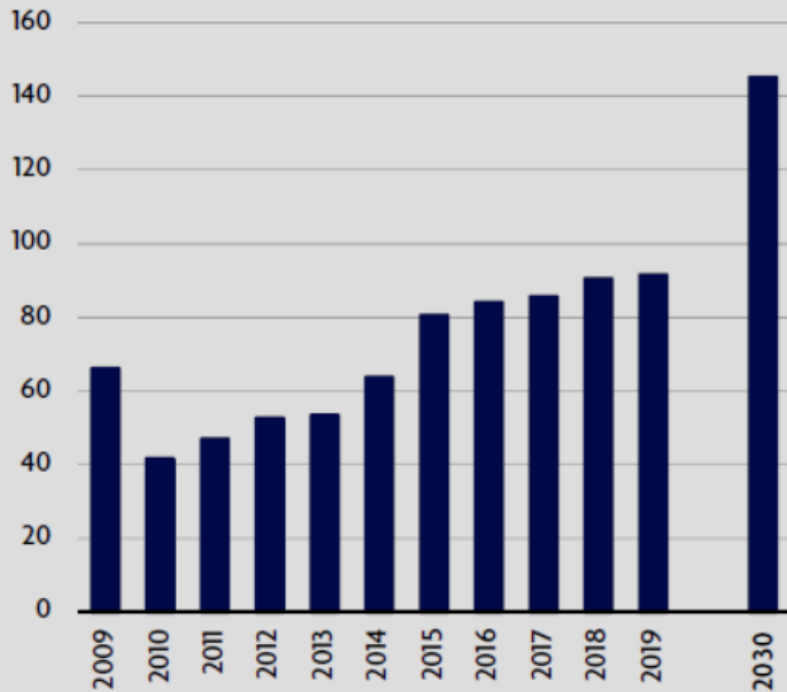
Visitor exports are a key component of the direct contribution of Travel & Tourism. In 2019, Thailand generated THB2,137.5bn in visitor exports.

Source: World Travel & Tourism Council (2020), p. 5

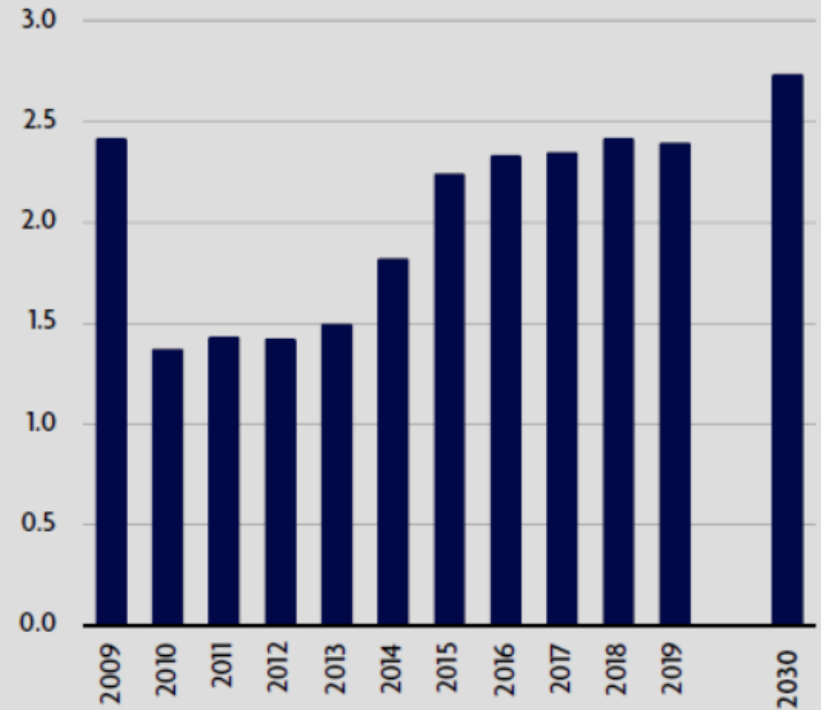
2. Economic Impact of Travel & Tourism

THAILAND: CAPITAL INVESTMENT IN TRAVEL & TOURISM

CONSTANT 2019 THBBN

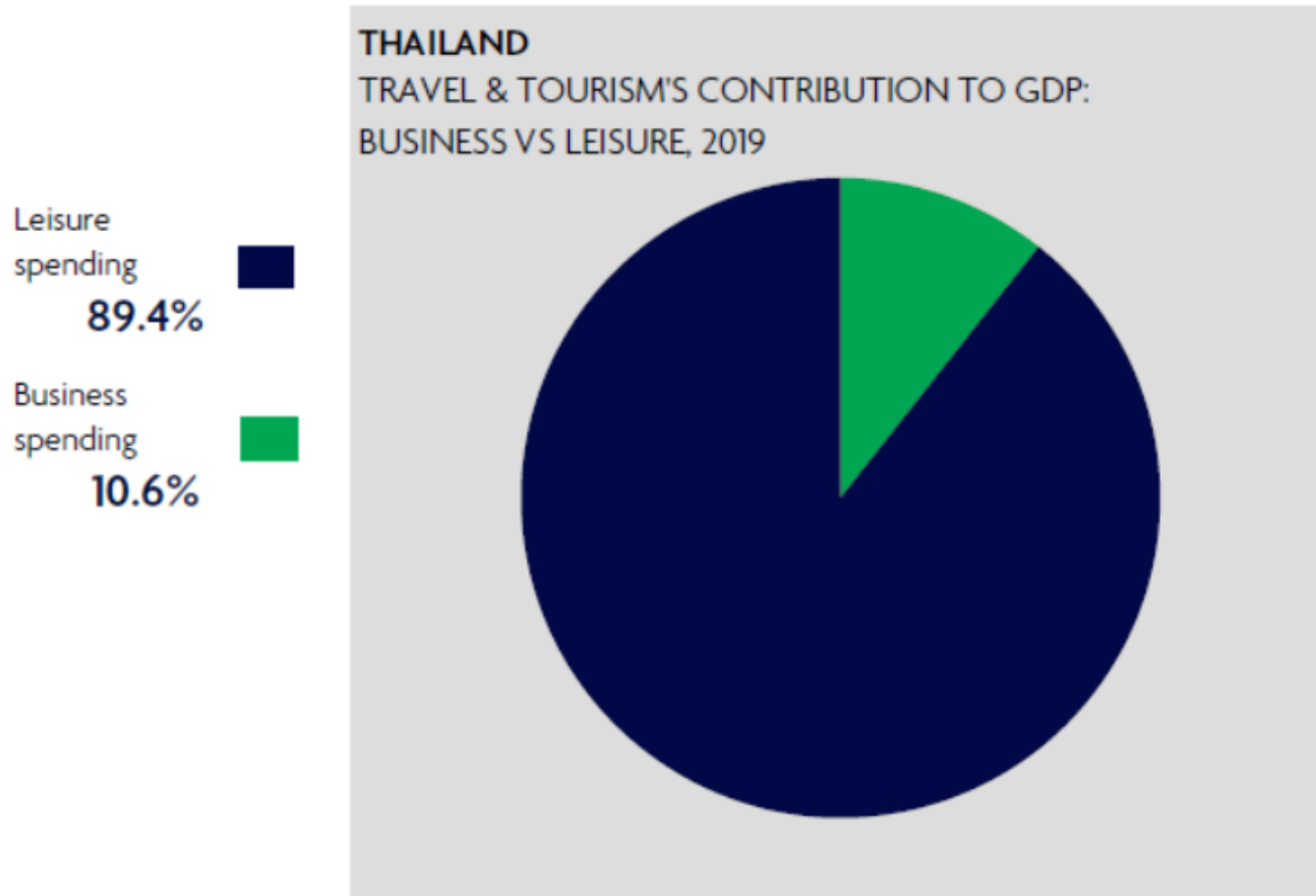


% OF WHOLE ECONOMY INVESTMENT

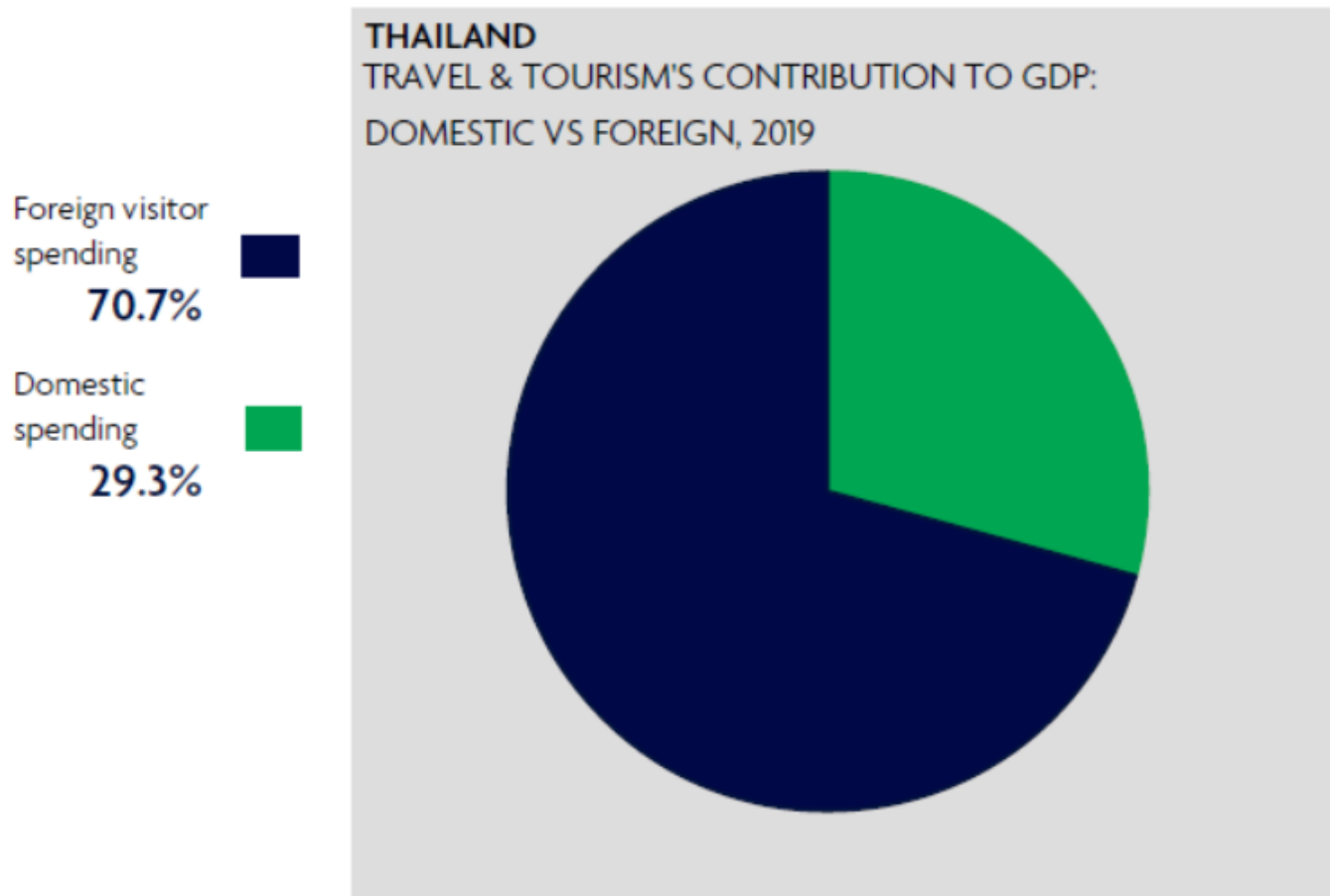


Travel & Tourism is expected to have attracted capital investment of THB91.7bn in 2019.

2. Economic Impact of Travel & Tourism



2. Economic Impact of Travel & Tourism



2. Economic Impact of Travel & Tourism



¹ All values are in constant 2019 prices & exchange rates

2. Economic Impact of Travel & Tourism

THAILAND	2019 USDbn ¹	2019 % of total	2019 Growth ²	USDbn ¹	2030 % of total	Growth ³
Direct contribution to GDP	52.4	9.7	1.8	87.7	11.9	5.0
Total contribution to GDP	107.0	19.7	1.9	178.9	24.3	4.9
Direct contribution to employment ⁴	5,130	13.6	-0.5	7,400	19.6	3.6
Total contribution to employment ⁴	8,055	21.4	-0.3	11,099	29.5	2.9
Visitor exports	68.9	21.1	0.9	121.2	25.0	5.7
Domestic spending	28.5	5.3	3.5	41.9	5.7	3.3
Leisure spending	87.0	8.6	1.7	148.0	10.8	5.2
Business spending	10.4	1.0	1.7	15.0	1.1	3.6
Capital investment	3.0	2.4	1.1	4.7	2.7	4.4

¹2019 constant prices & exchange rates; ²2019 real growth adjusted for inflation (%); ³2021-2030 annualised real growth adjusted for inflation (%); ⁴000 jobs

2. Economic Impact of Travel & Tourism

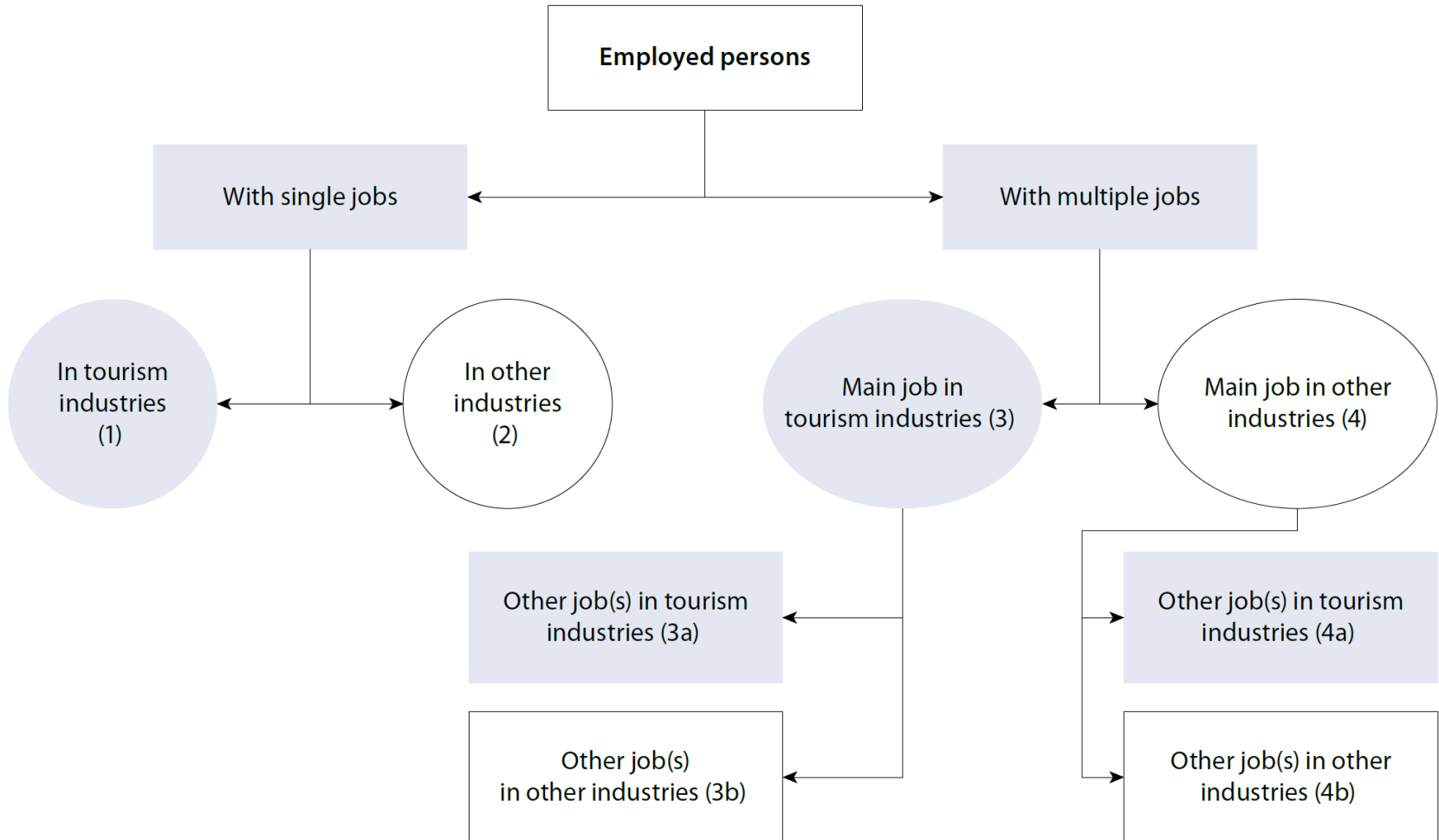
WORLDWIDE	2019 USDbn¹	2019 % of total	2019 Growth²	USDbn¹	2030 % of total	Growth³
Direct contribution to GDP	2,766.7	3.2	3.5	4,012.7	3.5	3.5
Total contribution to GDP	8,875.5	10.3	3.5	13,043.3	11.3	3.7
Direct contribution to employment ⁴	119,223	3.8	2.0	161,754	4.5	3.0
Total contribution to employment ⁴	329,578	10.4	1.7	424,542	11.8	2.3
Visitor exports	1,676.6	6.8	2.8	2,462.5	7.7	3.9
Domestic spending	4,174.8	4.8	3.7	6,083.9	5.3	3.5
Leisure spending	4,588.7	2.5	3.6	6,796.0	2.7	3.8
Business spending	1,262.6	0.7	2.8	1,750.4	0.7	3.0
Capital investment	948.4	4.3	3.4	1,471.3	4.8	4.2

¹2019 constant prices & exchange rates; ²2019 real growth adjusted for inflation (%); ³2021-2030 annualised real growth adjusted for inflation (%); ⁴000 jobs

2. Economic Impact of Travel & Tourism

Employment in the tourism industry

Single versus multiple job holders in the tourism industries



Persons employed in the tourism industries (all jobs) = 1, 3, 4a

Persons employed in the tourism industries (main job) = 1, 3

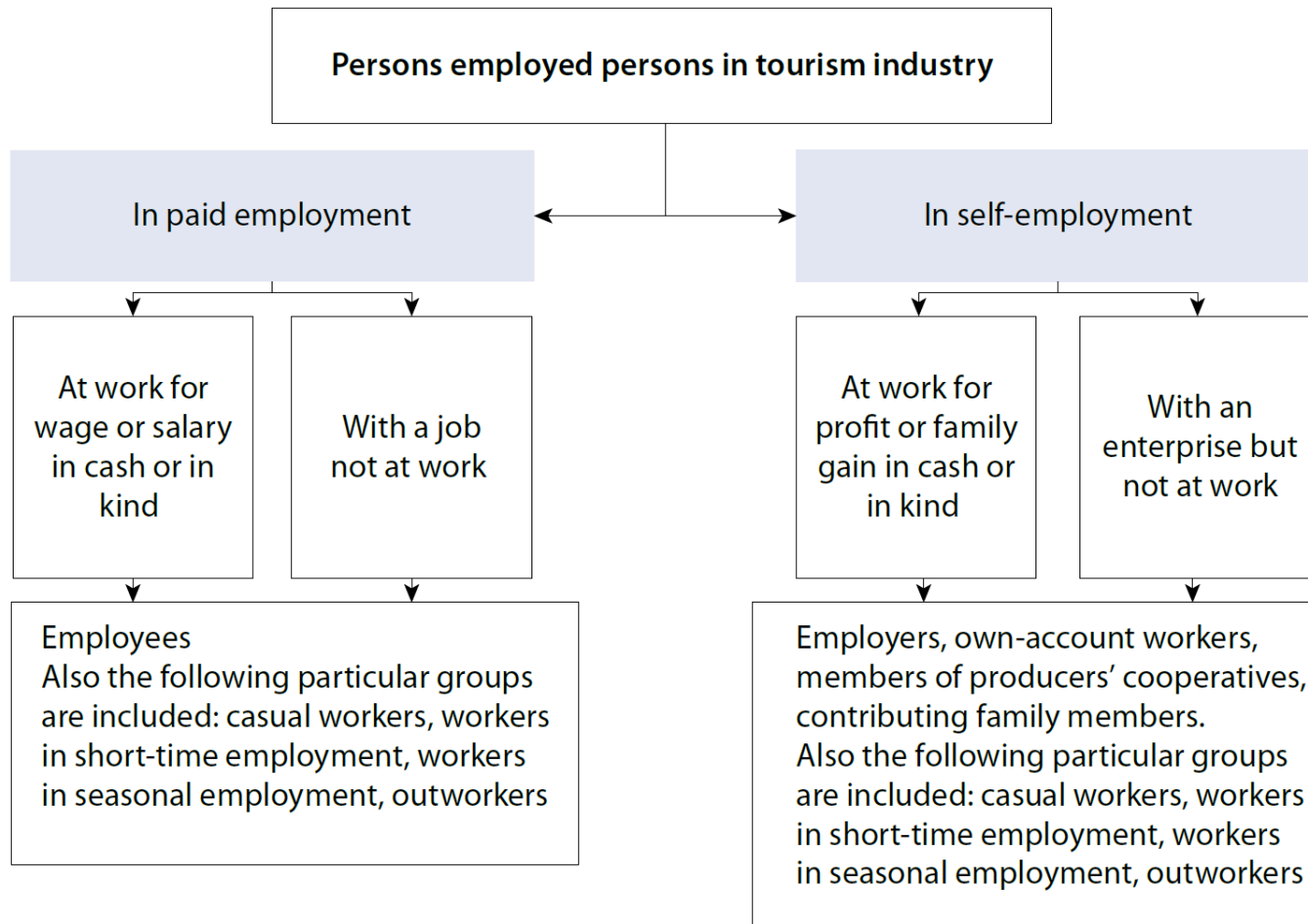
Jobs in the tourism industries = 1, 3, 3a, 4a

Source: United Nations (2008b)

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Employment in the tourism industry

Employment in the tourism industries: basic categories of employed persons

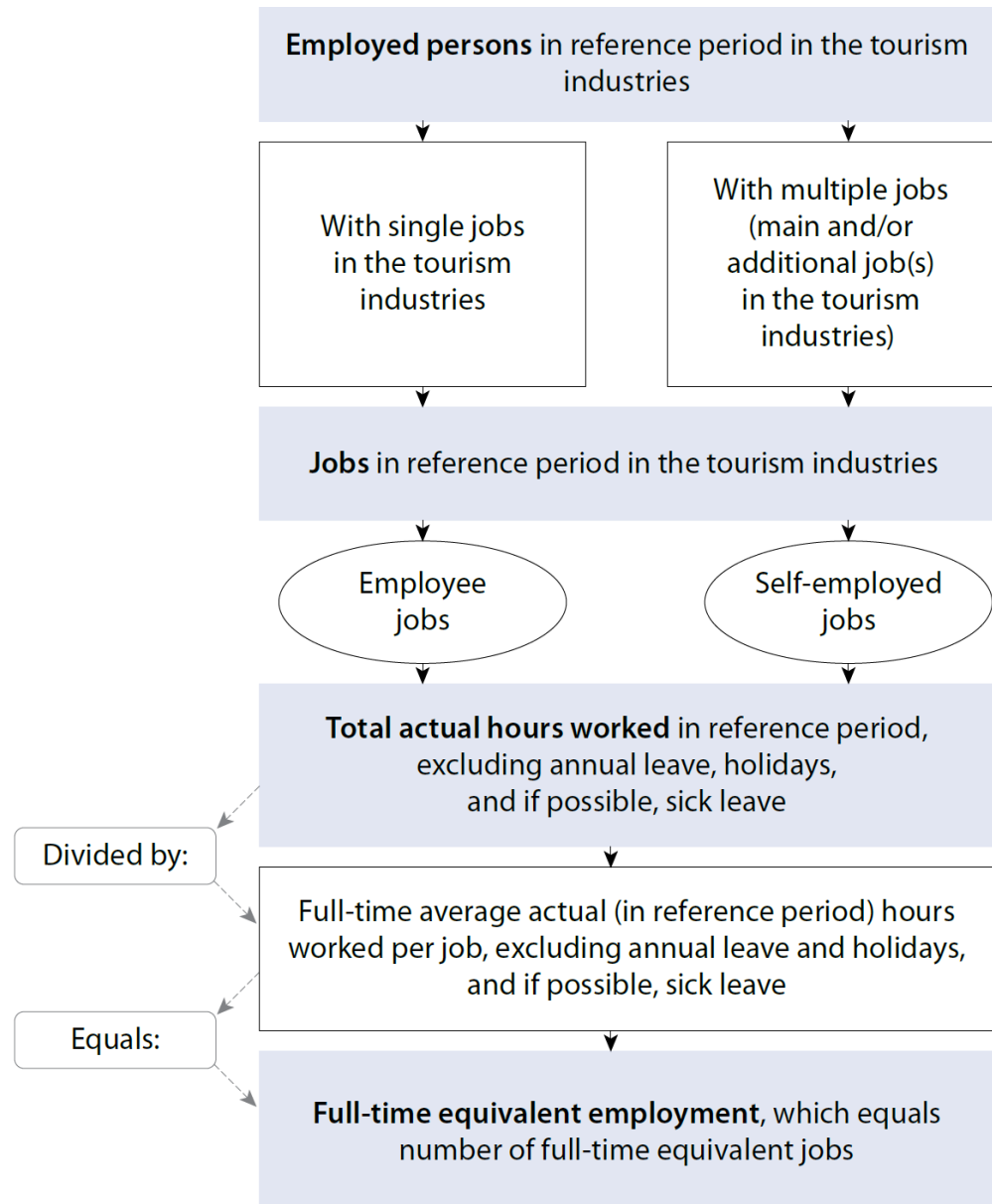


Source: United Nations (2008b)

2. Economic Impact of Travel & Tourism

Employment in the tourism industry

Relationship between different measures of tourism employment in a given period



Source: United Nations (2008b)

2. Economic Impact of Travel & Tourism

Full-time equivalent employment (weekly), calculation method

- ❖ Suppose that one full time employee works in tourism industry will work **8 hours a day for 5 days a week**. So one full time employment will take **$8 * 5 = 40$ hours per week**.
- ❖ Suppose that there are **4 people works in the tourism industry**
 - ✓ Mr. A works **4 hours per day for 5 days**. Mr. A working hours = **$4 * 5 = 20$ hours per week**
 - ✓ Mr. B works **5 hours per day for 2 days**. Mr. B working hours = **$5 * 2 = 10$ hours per week**
 - ✓ Mr. C works **8 hours per day for 5 days**. Mr. C working hours = **$8 * 5 = 40$ hours per week**
 - ✓ Mr. D works **6 hours per day for 5 days**. Mr. D working hours = **$6 * 5 = 30$ hours per week**
- ❖ Total working hours of all people work in the industry = **$20 + 10 + 40 + 30 = 100$ hours**.
- ❖ **Fulltime equivalent employment (weekly) = $100/40 = 2.5$**

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