

Tourism Industry

Vulnerability and resilience

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Lecture 19

Course Syllabus

Lecture 19

- **Tourism industry: Vulnerable but resilient**
- A background of tourism industry in Thailand is presented.
- We investigate how the industry was adversely affected by shocks such as the tsunami and political unrest.
- The tourism industry, which accounts for 6 percent of GDP, is quite vulnerable to all types of shocks.
- The tourism industry is resilient, as it has undergone various external shocks in the past.
- What factors were responsible for the fast recovery after the airport shutdown in 2007 and the riots in May 2010?
- How did the coups and terrorist attacks affect the industry?
- How important is China factor?

Outline

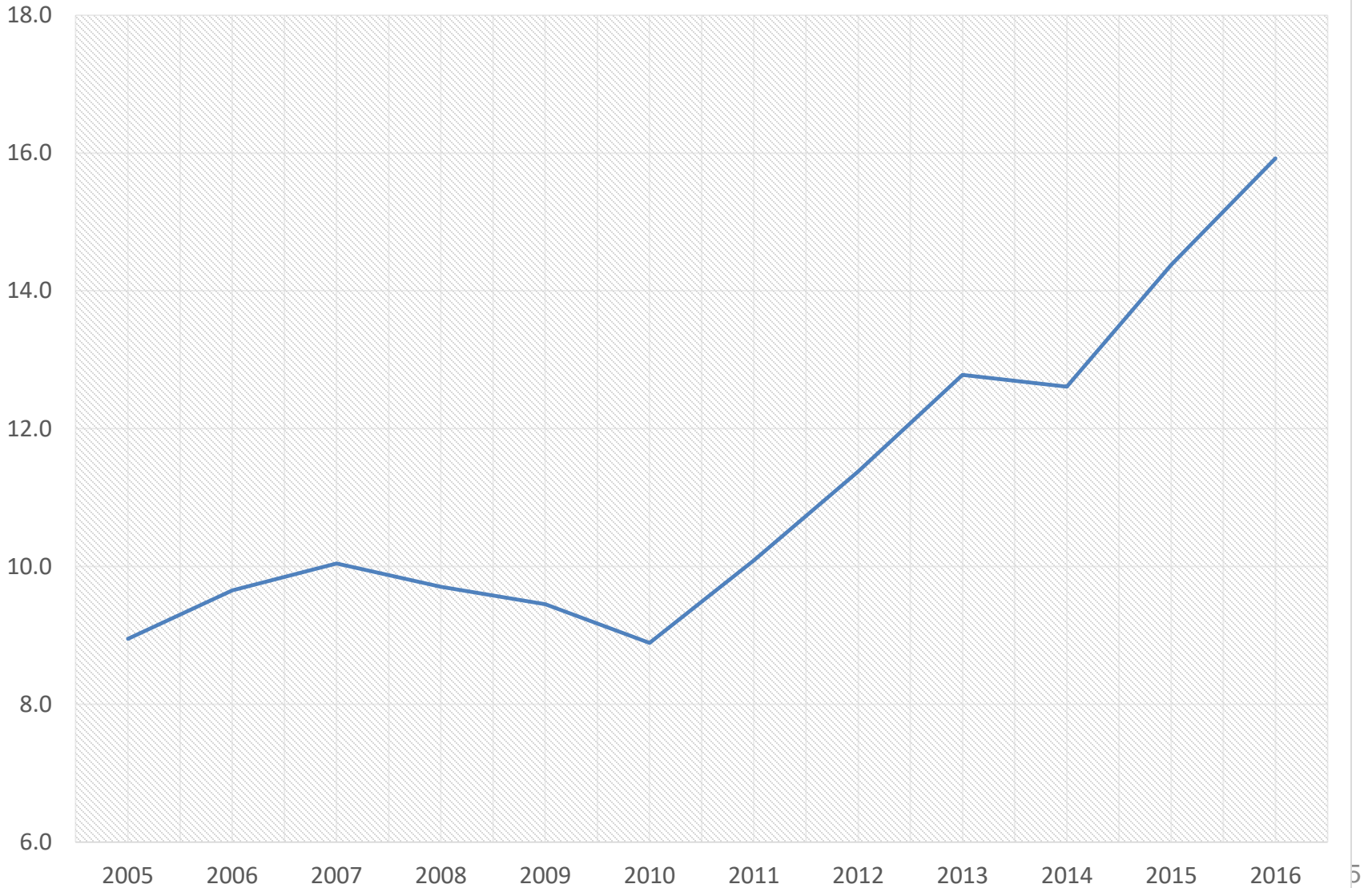
1. Background of tourism industry
2. Shocks, vulnerability, and resilience: SARS, Avian flu, the 2004 tsunami disaster
3. Impact of global recession and political instability
4. Microeconomics of hotel business
5. Medical tourism
6. China Factor

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

Income from Tourism Industry (%GDP)

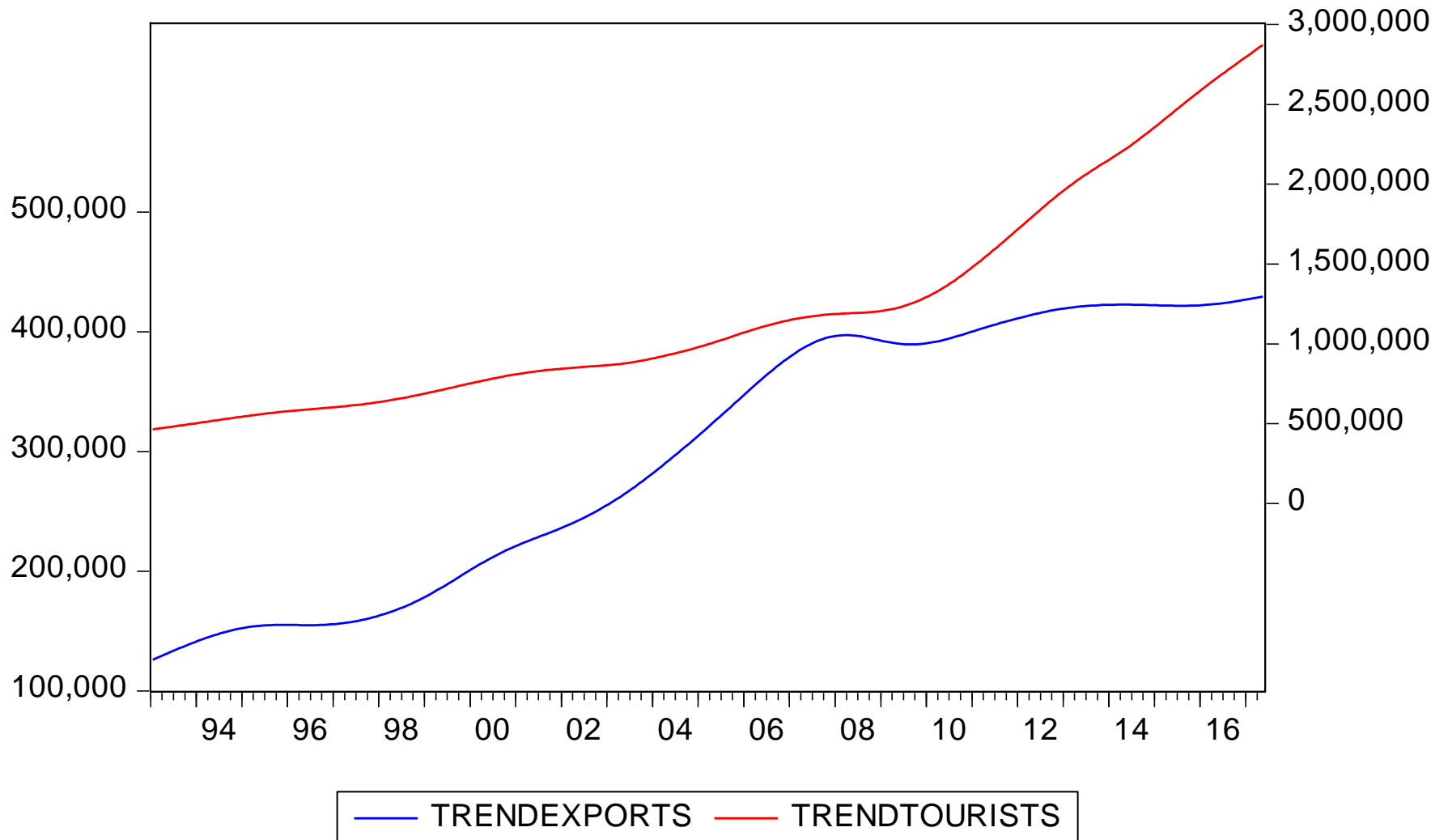
Source: Compiled from data provided by Bank of Thailand



Overview of the industry

- In 2017, there were 35.4 million visitors, increasing by 9 % from the previous year. Tourism revenue amounted to 1.8 trillion baht.
- There were 153 million domestic trips by Thai tourists, rising by 4.4 % from the previous year. It generated 957 billion baht—an increase of 8.4 % from 2016.
- Both domestic and international tourism industry generated 2.8 trillion baht, an increase of 10.5 % from 2016.

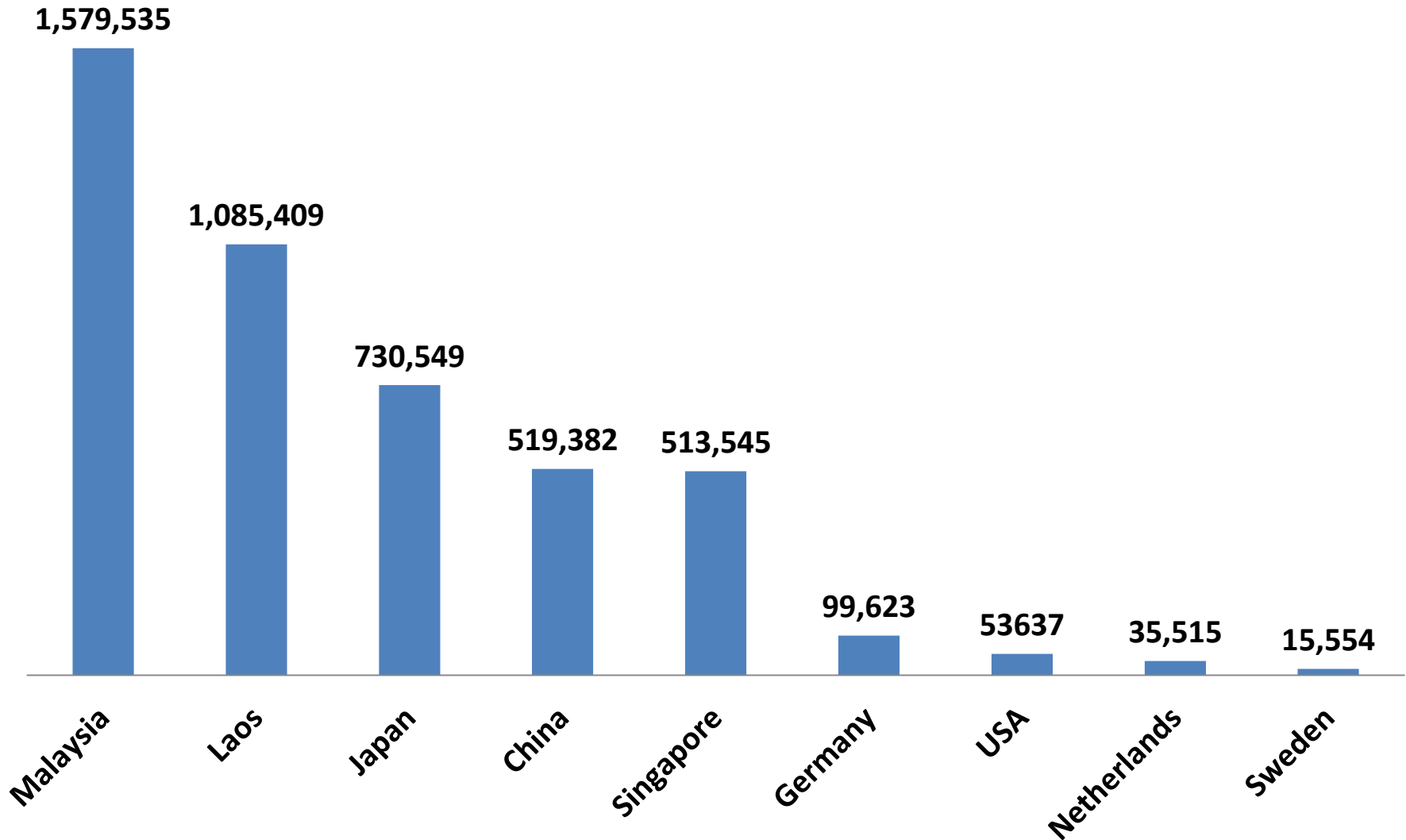
The economy was saved by international travelers



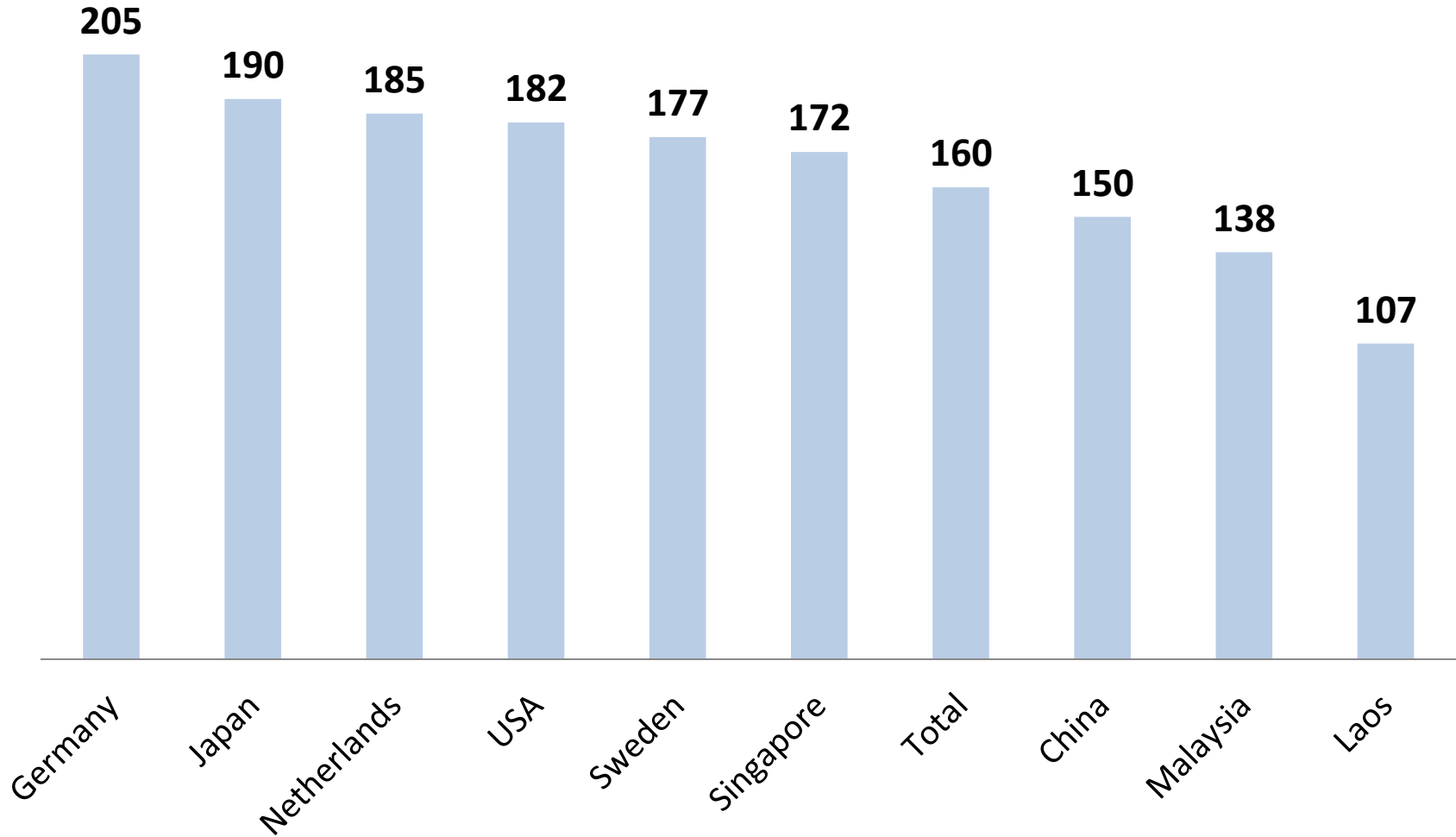
The world sixth largest Tourism industry

- 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.
- Some 32.5 million Thai travelers accounted for 240 billion baht (\$6.8 billion).
- The well-to-do Thais travel out of the countries during the long holiday

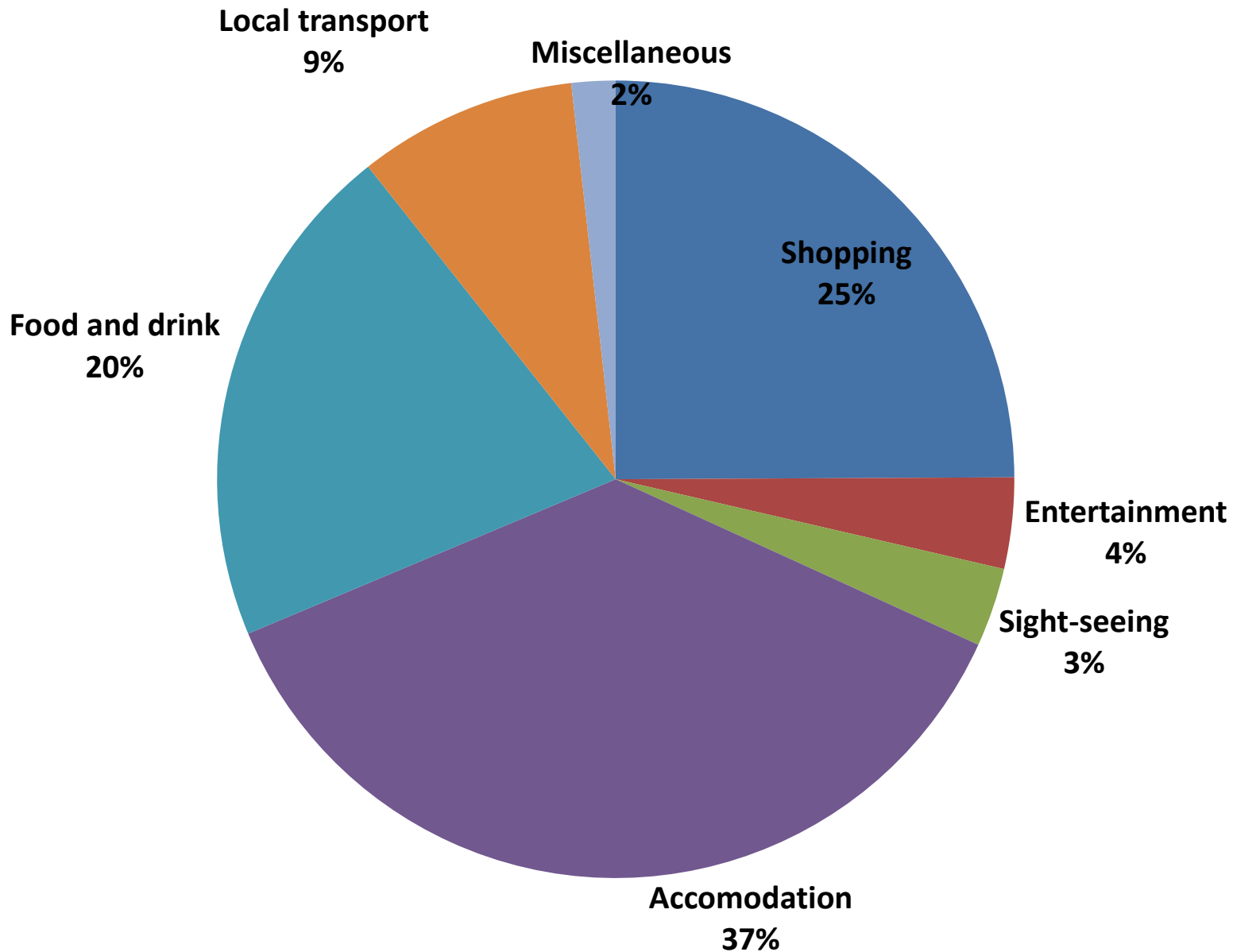
Number of Outbound Thai Tourists in 2015



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



Thai tourists' spending pattern



Travel and Tourism (T&T) Industry

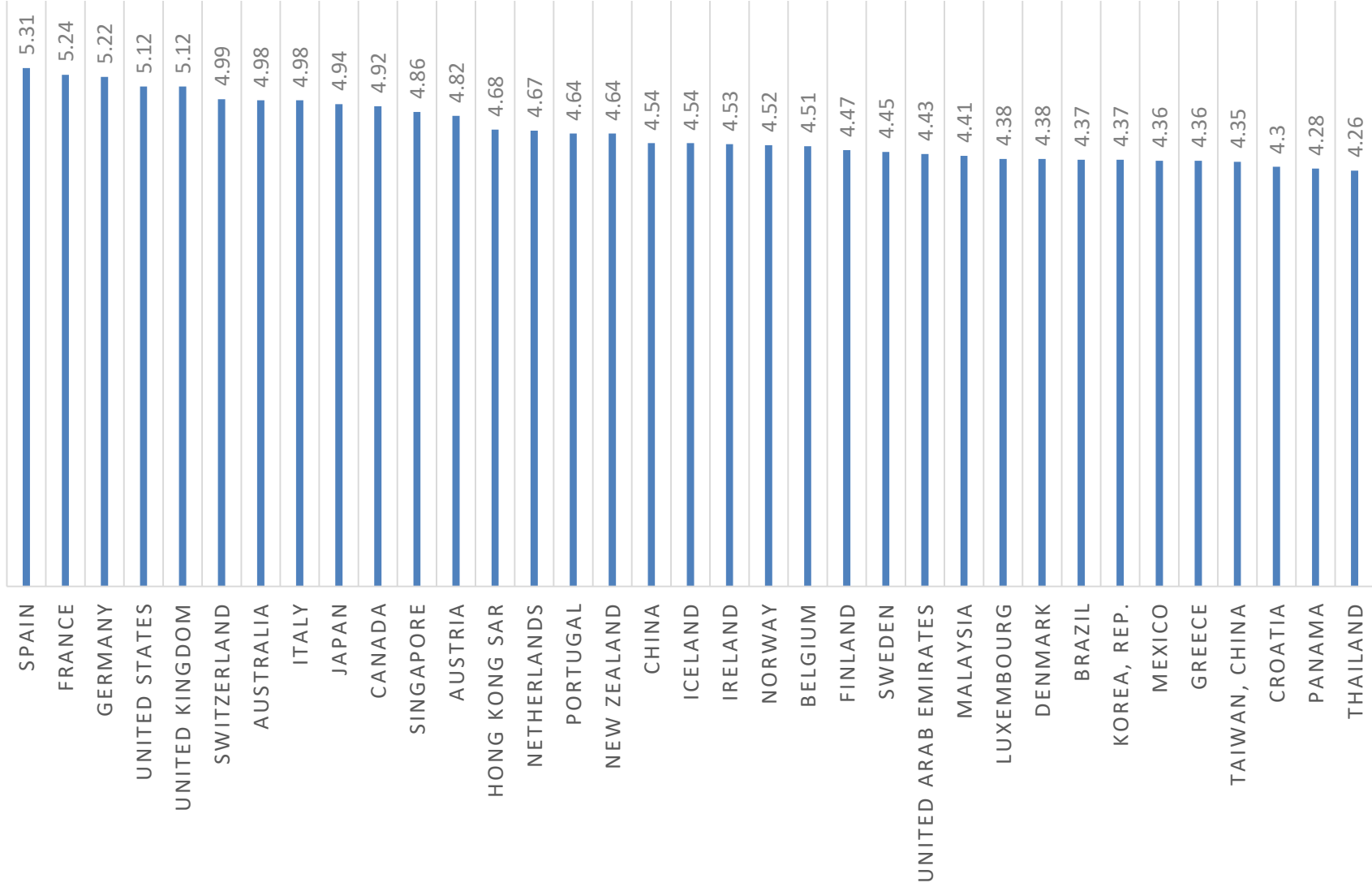
- Despite slow economic growth in advanced economies and geopolitical tensions in some regions, the T&T sector still accounts for a large part of the global economy (estimated to be approximately 9% of global GDP or US\$ 7 trillion) and employment, while the number of international travelers continues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

World 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 (This is about substitution effect).
- Globally, the trend for growth seems unstoppable (This is about income effect).
- In this sense, Thailand's tourism industry is ***not unique*** from other countries'.

TRAVEL AND TOURSIM COMPETITIVENESS INDEX

2015 RANKING

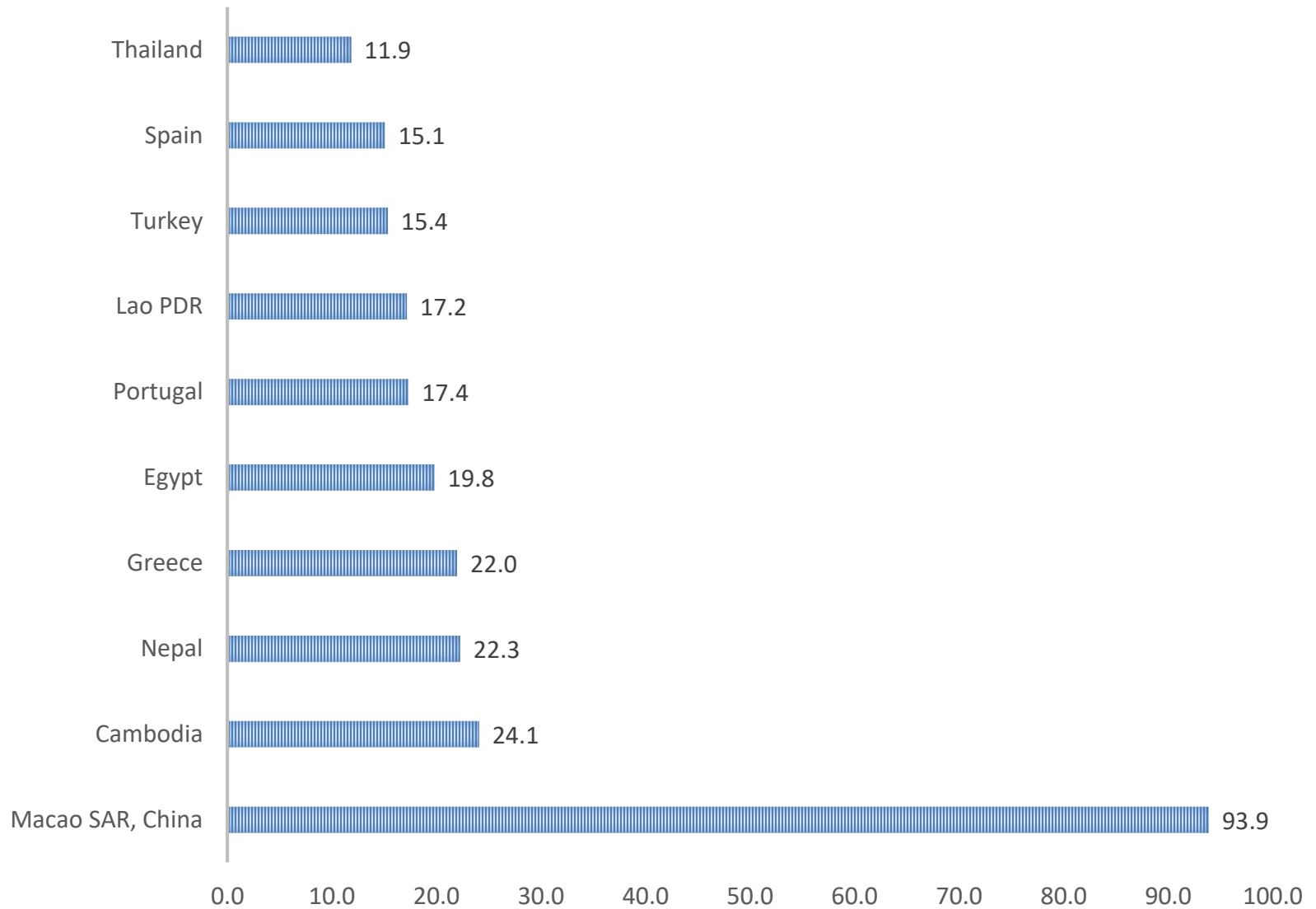


Travel and Tourism Competitiveness

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.

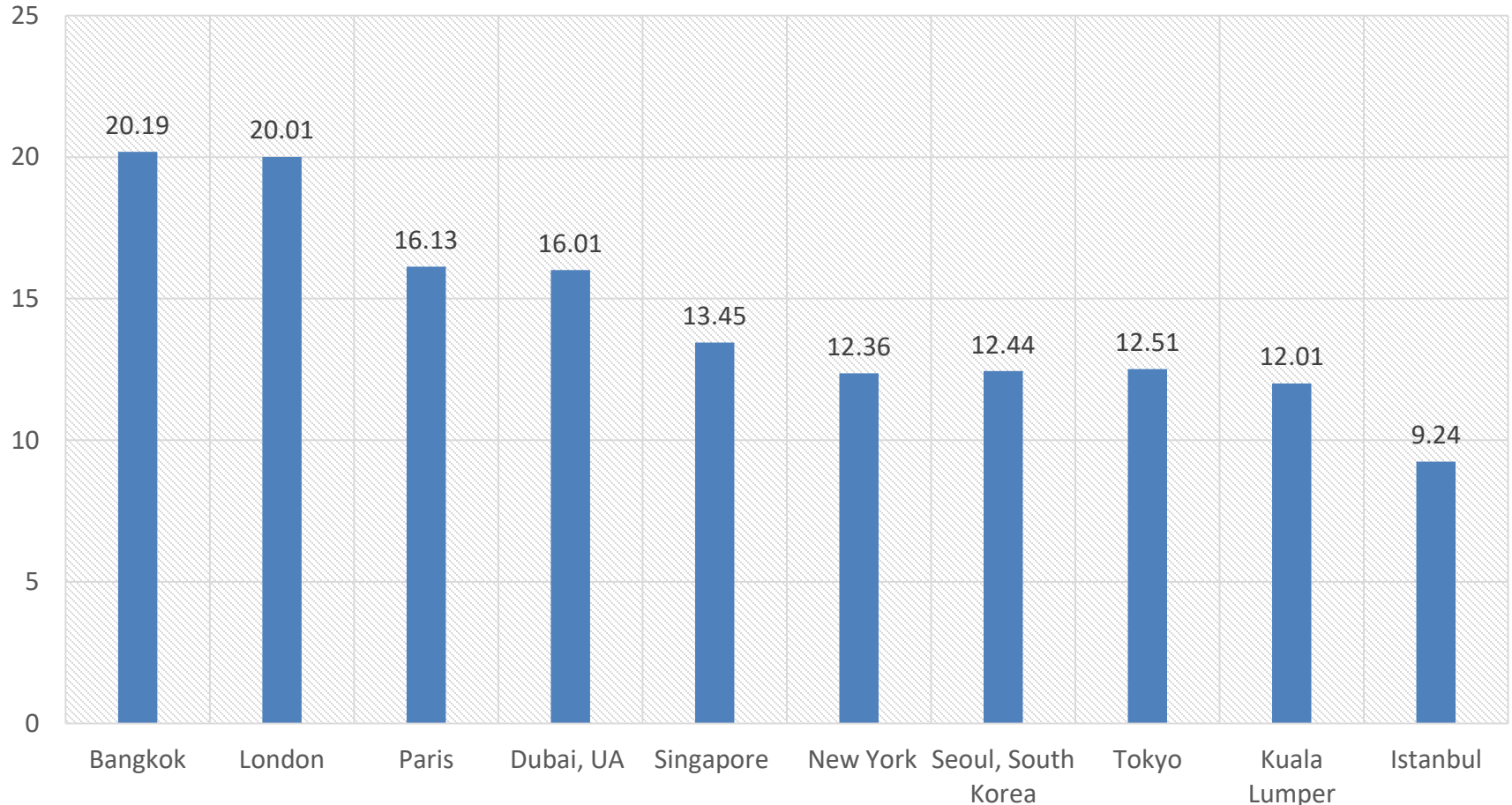
THE RELATIVE IMPORTANCE OF TOURISM INDUSTRY: RECEIPTS (% EXPORTS)



Most popular cities for international visitors

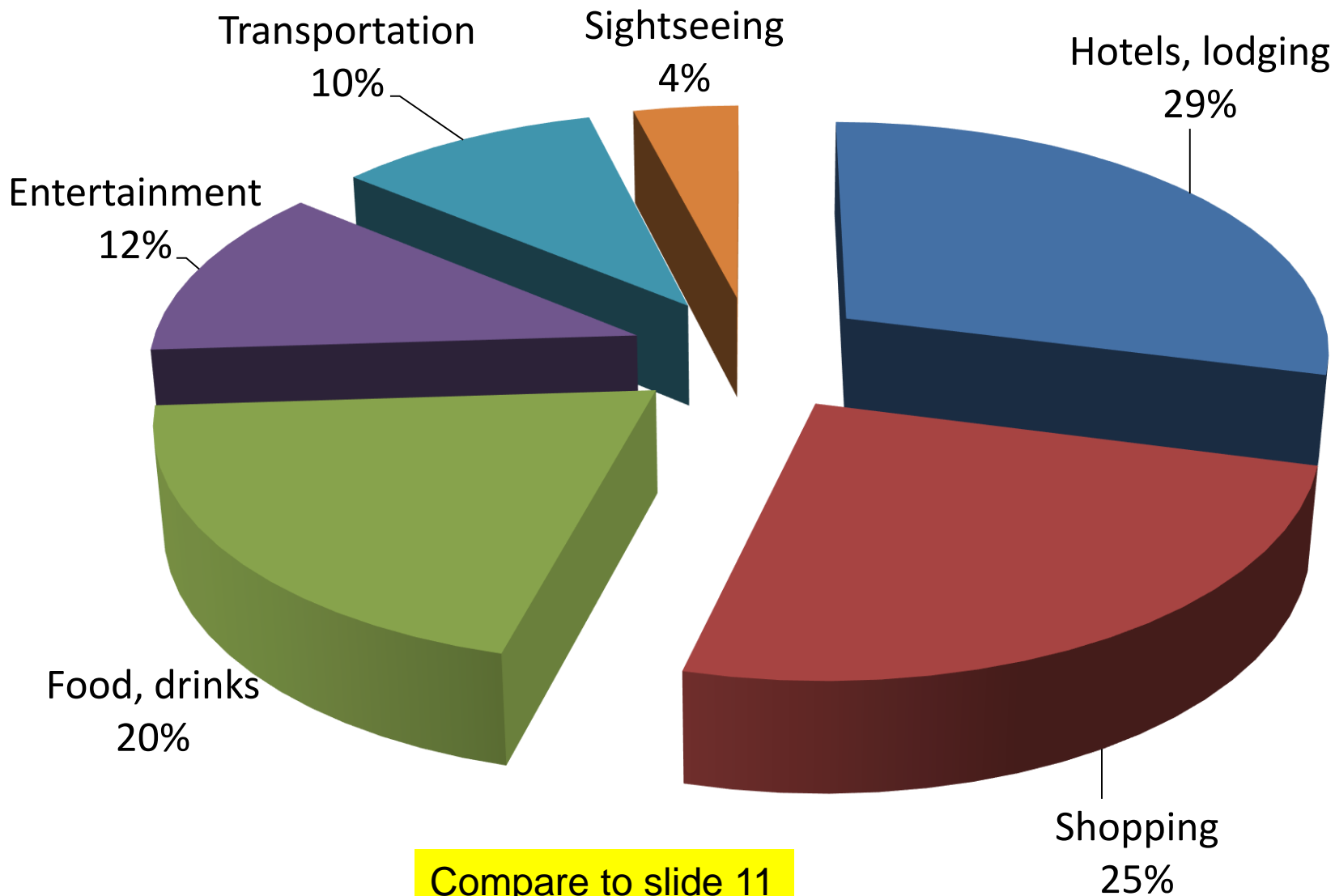
Number of visitors in 2017

Source: Mastercard's 2017 Global Destination Cities Index



Source: Mastercard's 2017 Global Destination Cities Index

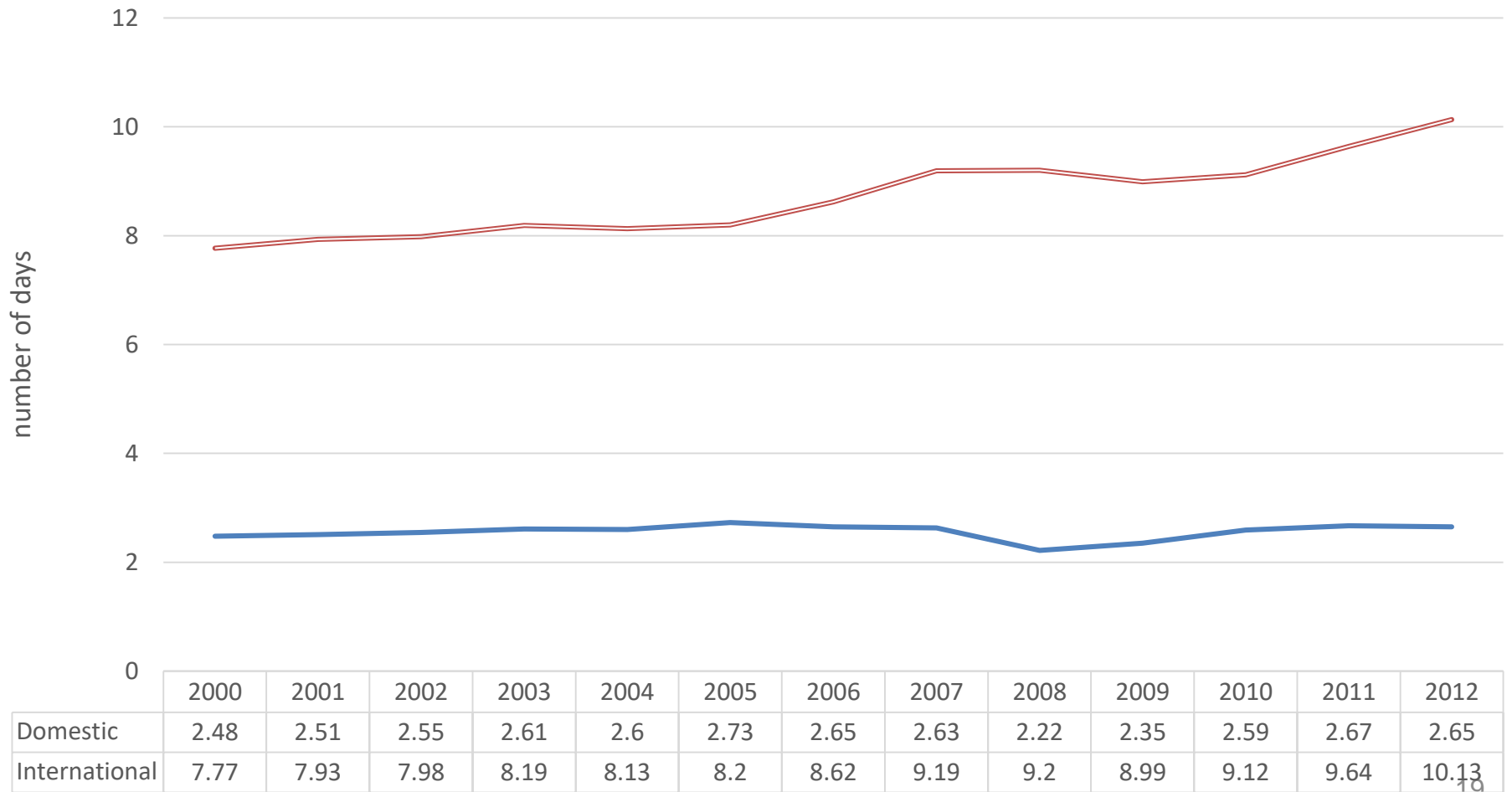
Daily Expenditure of international tourists: 2015



Compare to slide 11

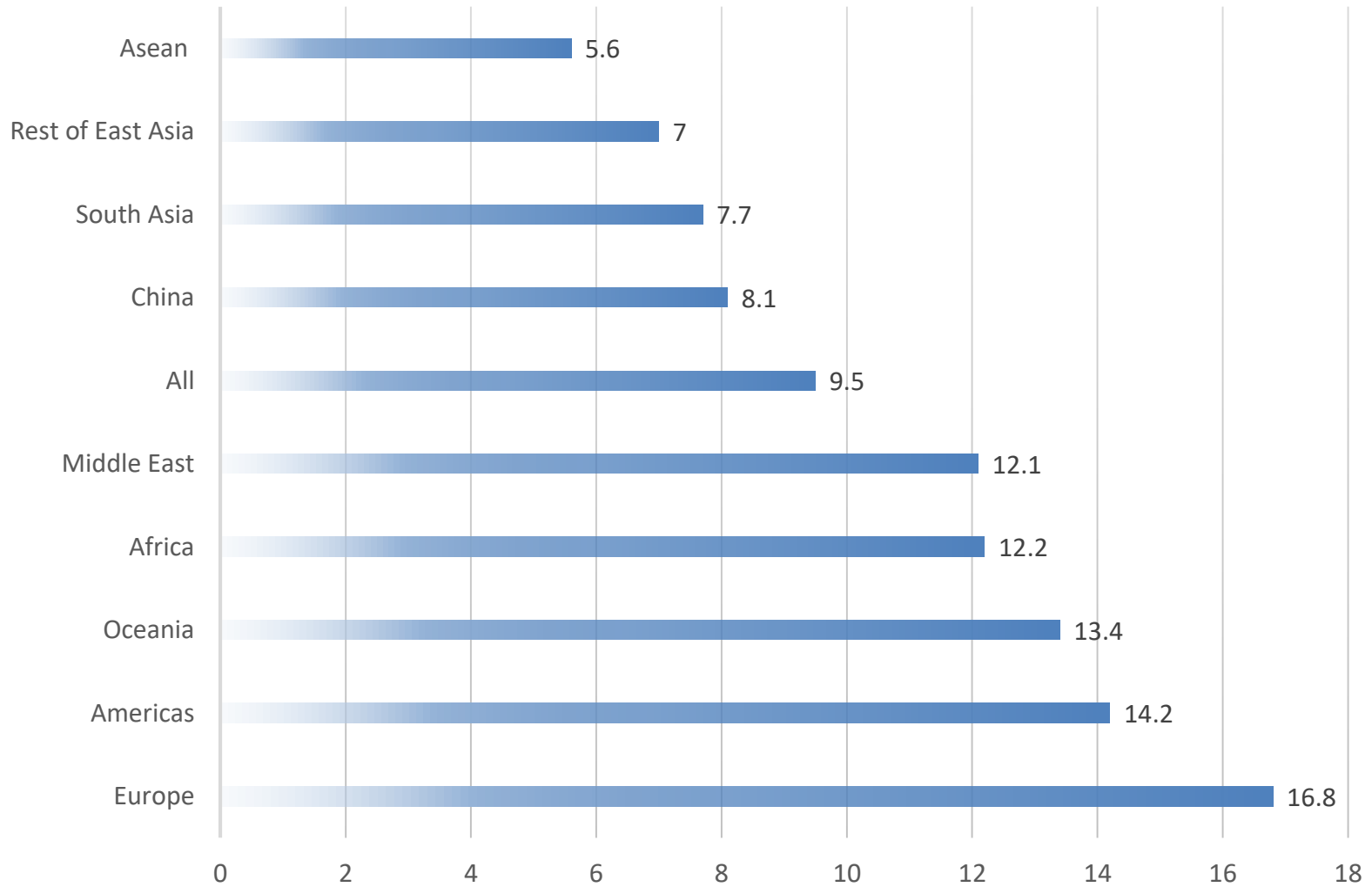
Who stay longer when travelling?

Average length of stay

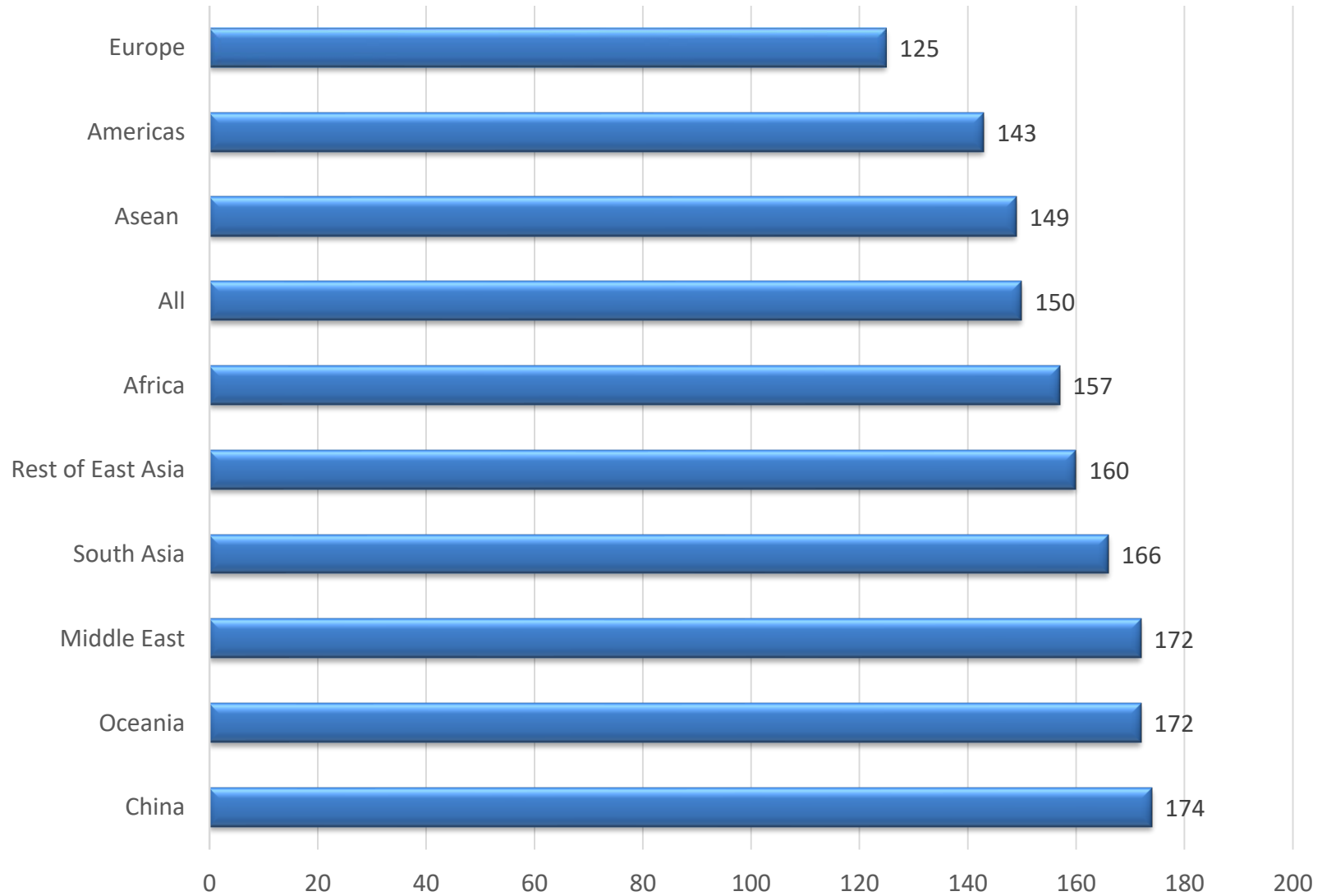


AVERAGE LENGTH OF STAY OF INTERNATIONAL TOURISTS

(NUMBER OF DAYS SPENT IN THAILAND)



Average spending per day, per international tourist (USD/ day)



The land of smiles: Stay indefinitely

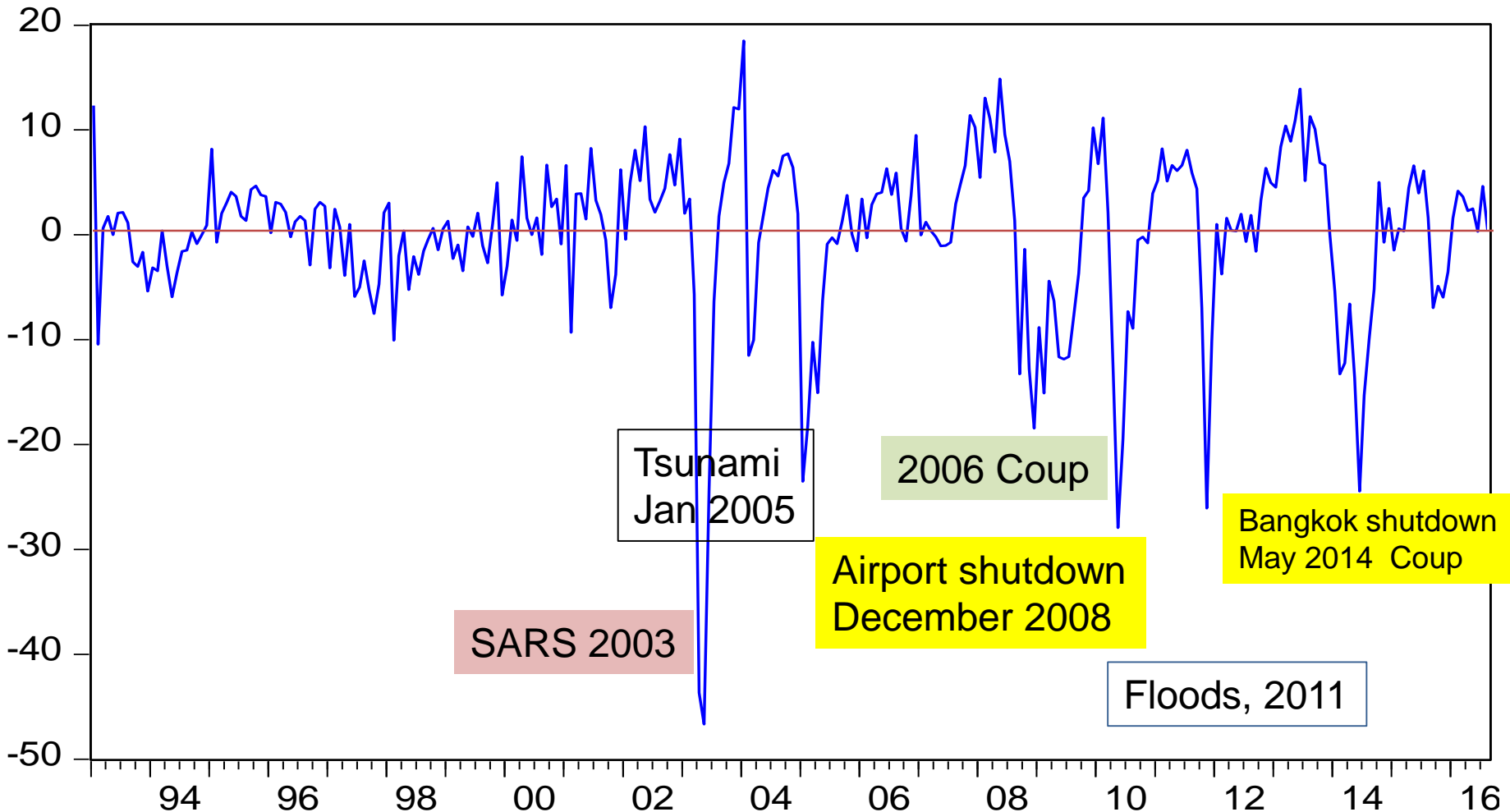
- **Thailand:** Thailand is home to approximately **4,000** US retirees.
- With stunning beaches, tropical climate and exotic culture, there's a lot to smile about.
- Medical care is excellent, and the crime rate is low.
- Best of all, for just **\$1,800** a month, you can live very comfortably, even 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 fee)
- Perception of safety (Erawan shrine bombing)
- Preferences (They keep on coming back)
- **Shocks** (transitory disturbances)

2. Shocks, vulnerability, and resilience

Number of tourists: Deviation from the trend

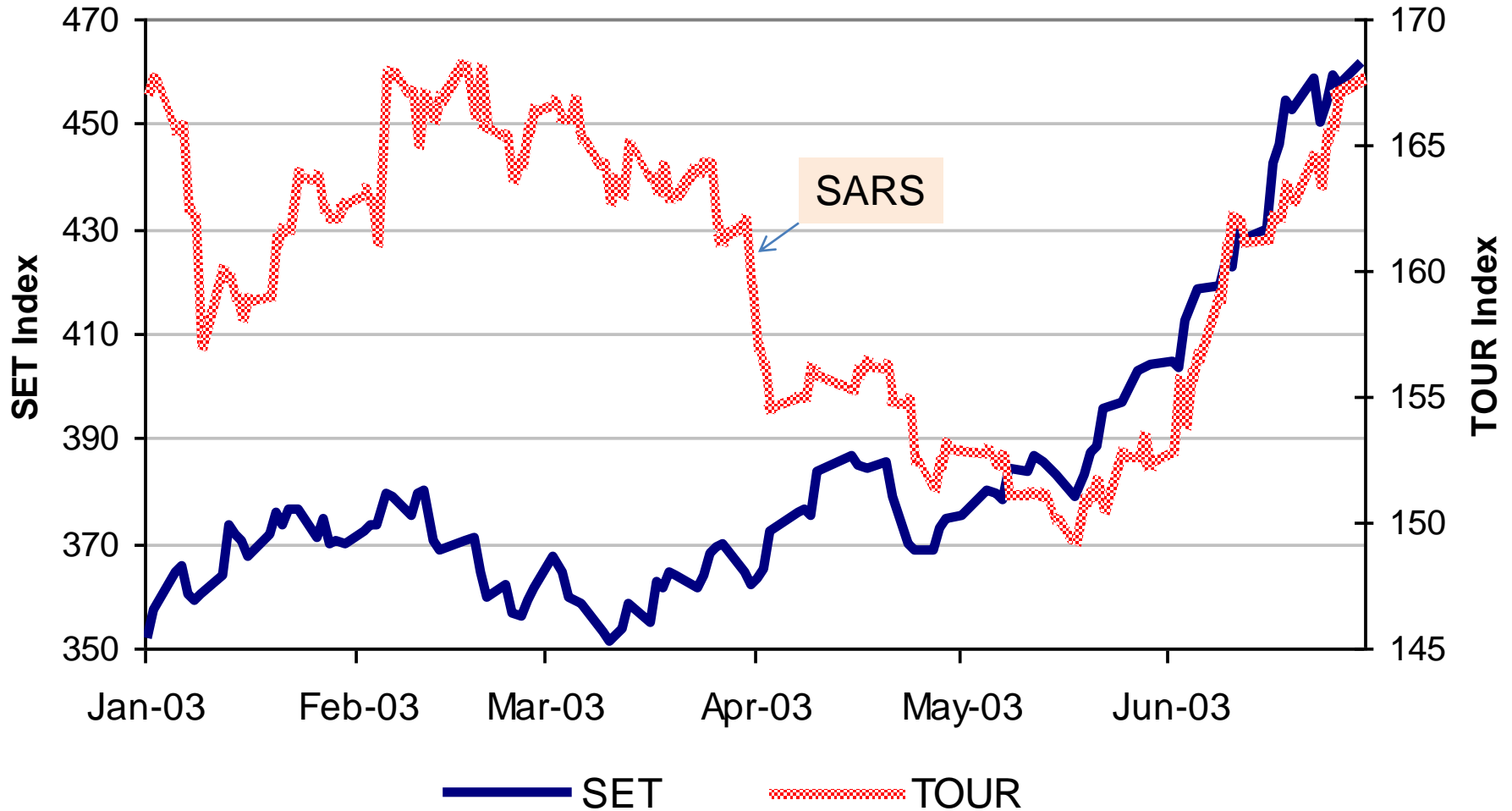


Increasing gyration of the disturbances: moving up and down in an uncontrolled way

When SARS attacked in 2003

- SARS ([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,^l 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

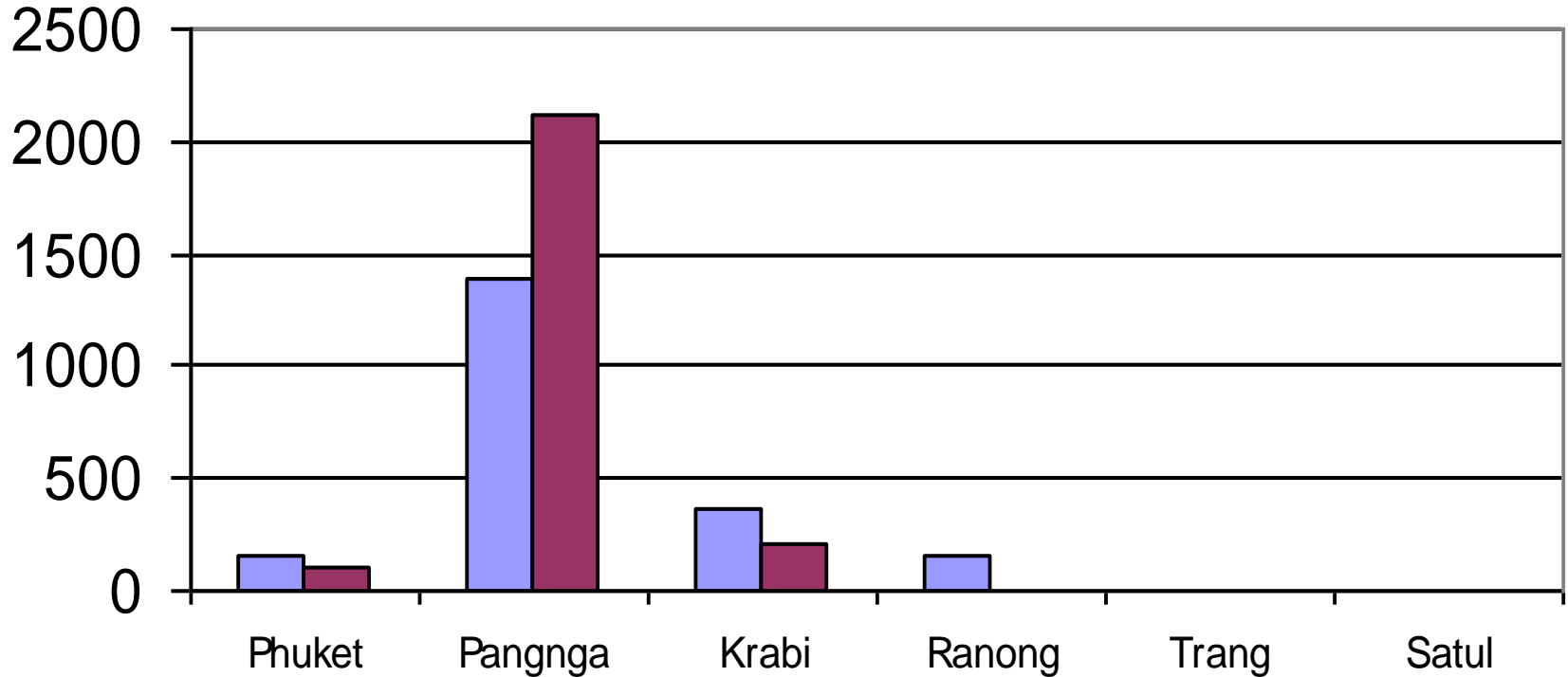
At 9:50 am
Sunday 26th of December 2004



Death toll (percent of total)

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

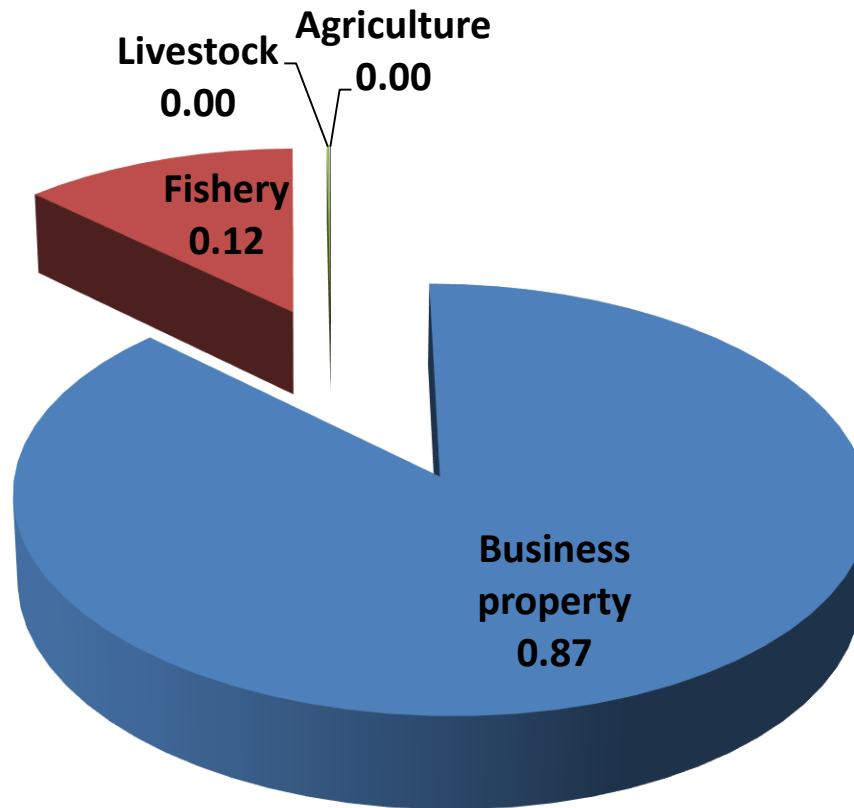
Figure 2: Thai and Foreign Death Toll



Source: DDPM

■ Thai ■ Foreigner

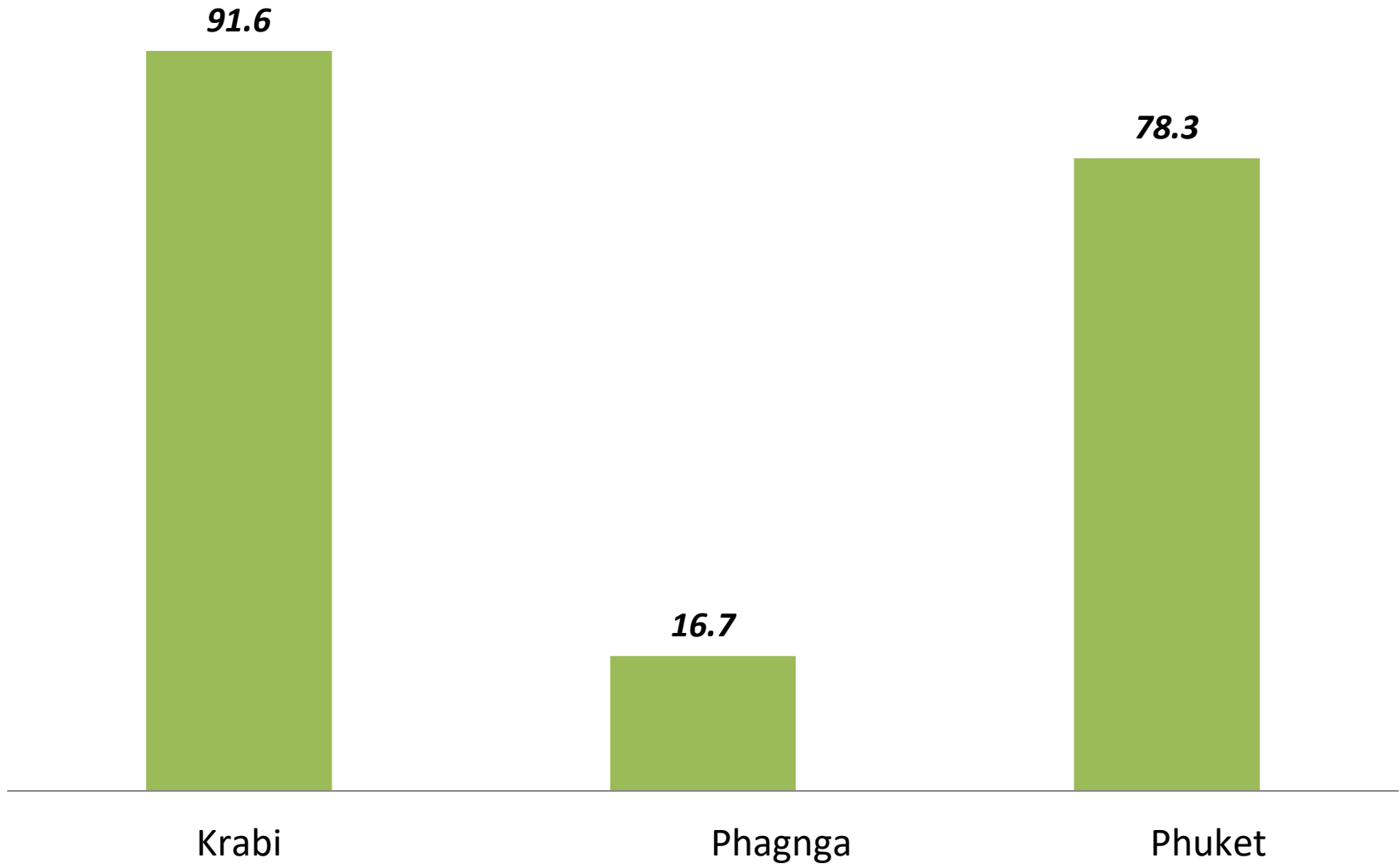
Tsunami and livelihood damages in 2005



Source: Department of Disaster Prevention and Mitigation

Immediate impact on hotel rooms: January 12, 2005

■ percent left



The road to recovery

- Physical destruction by the tsunami still left (January 2005) some facilities to serve visitors after the disaster. Supply factor was not the main concern, except for Phanga.
- 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?

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 baht to just 200 million baht** in 2005.
- High season started in November.
- By November 2005, a recovery by 100 % fully booked hotels.

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.
- “Success is not final, failure is not fatal. It is the will to carry on that counts” Winston Churchill.

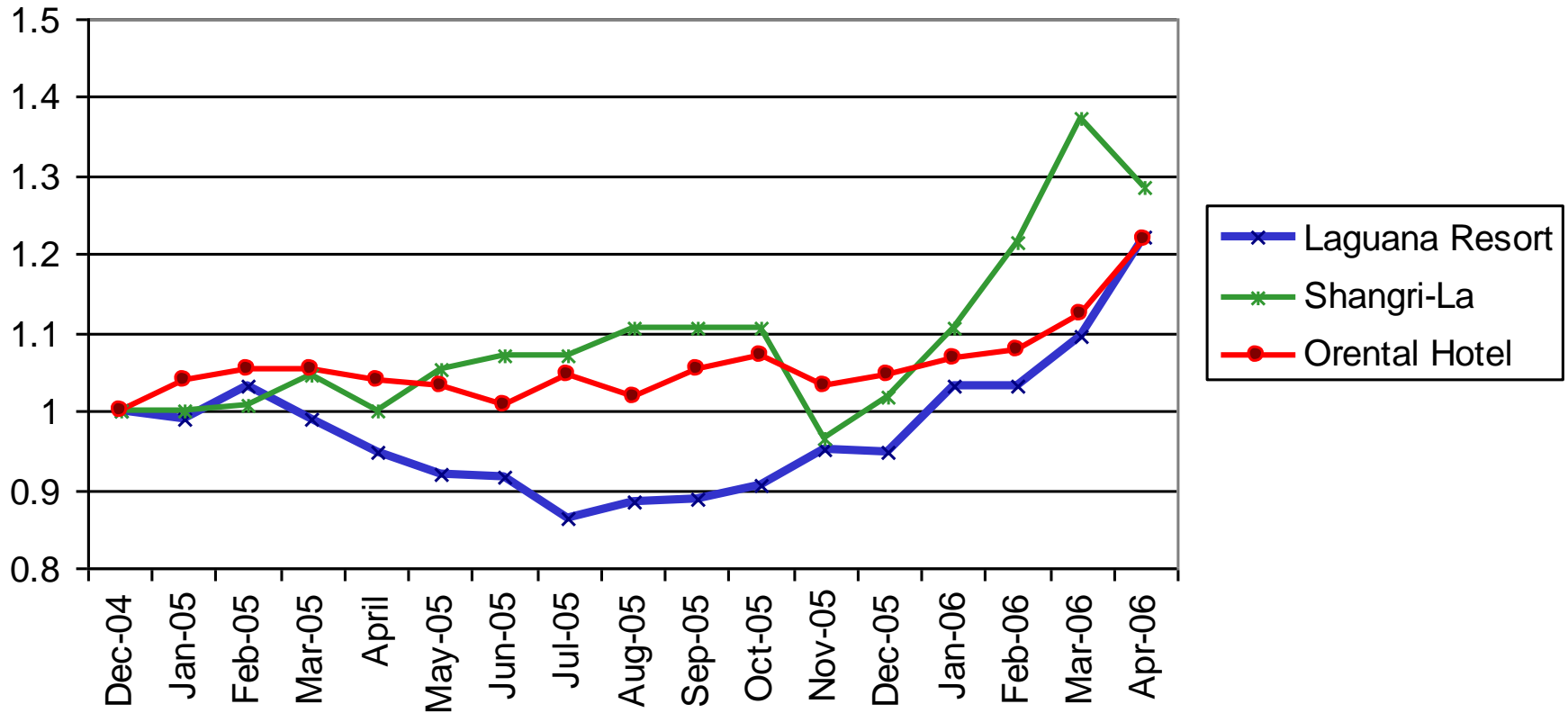
Impact on the stock market: minimal and short-lived

- 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 considerably,
- But Thailand does have other sandy beaches aside from Phuket, Phangna, and Krabi
- 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

Laguana resort suffered more due to the lack of hotels
In other parts of Thailand.

Public Policy responses to the natural disasters: 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.

***Implication from Consumption smoothing hypothesis:
To maintain normal consumption level, credit must
be provided to those who were affected by the
disasters.***

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

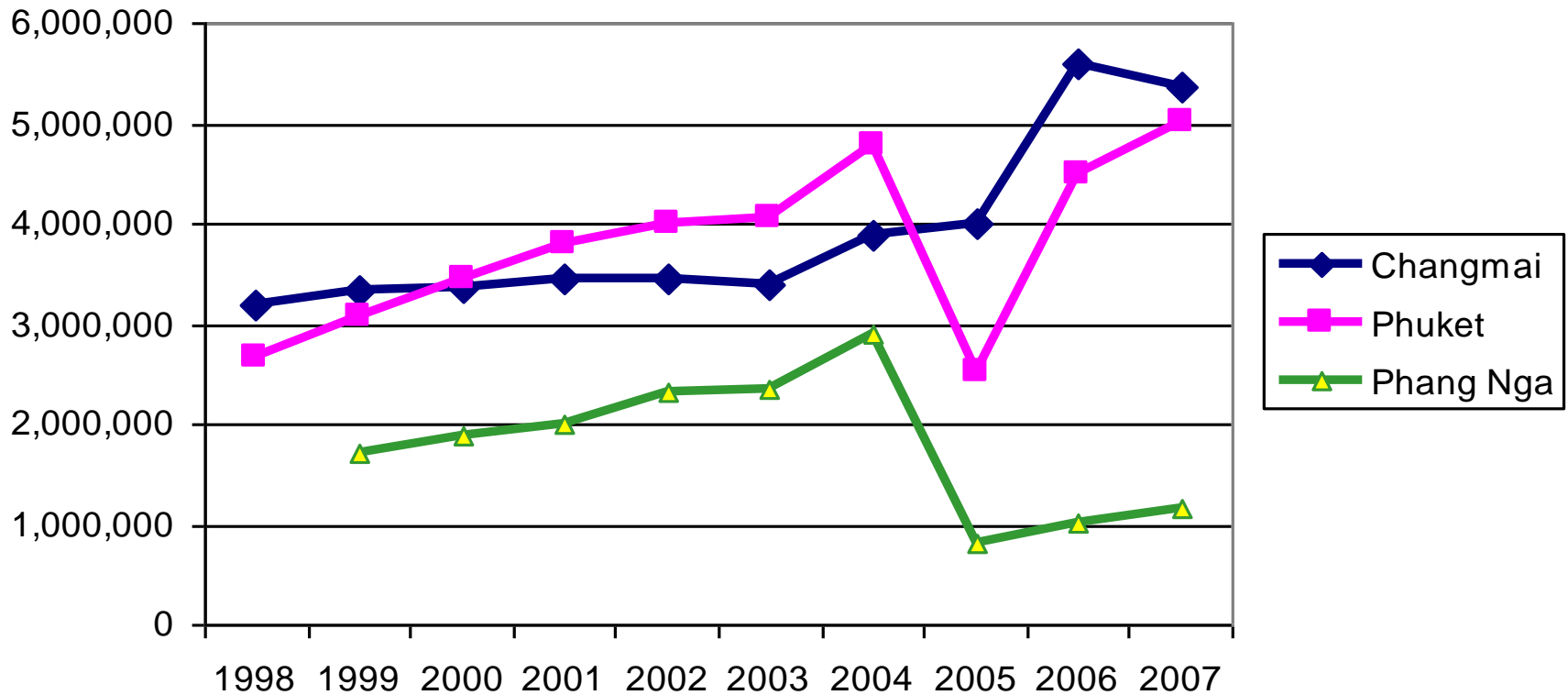
- Thailand can handle the finance of tsunami disaster by her own resources.
- **International assistance** should be directed to other countries with greater needs for help.
- But Thailand asked for one thing: A reduction to tariff barriers and ***greater market access*** to Thai products.
- Countries which suffered from natural disasters would suffer more by downgrading of sovereign debt rating agencies: The cost of international borrowing goes up as growth potential is badly affected.

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.
- 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.

Shocks and rebounds: This too shall pass, give it time

Number of visitors in major tourist destinations



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.

A significant test of resilience

- 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 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.
- By 2018, Khun Suthep, the PAD leader, is getting ready to form a new political party.
- The cabinet endorsed a one-billion-baht budget to be used for reviving and stimulating the tourism industry.

The high cost of the airport shutdown in 2008

- 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.
- In hindsight, the 37 baht proposal was unwarranted.

Bangkok Airport Shutdown in 2008



Thailand's loss was 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.

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 13, 2014**



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: just tell them the truth

Lesson learned

- 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.

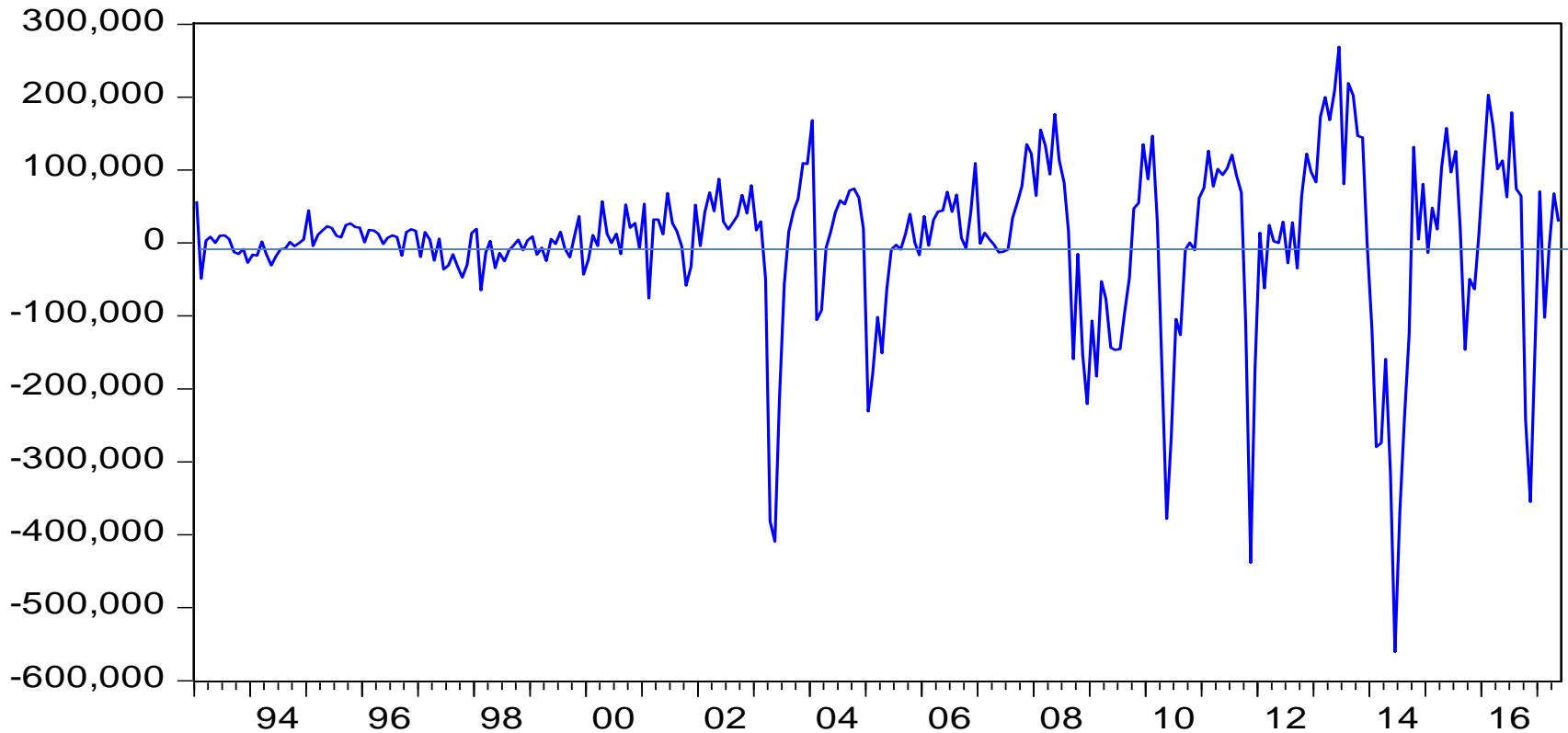
The hotel industry faces unique challenges

- 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

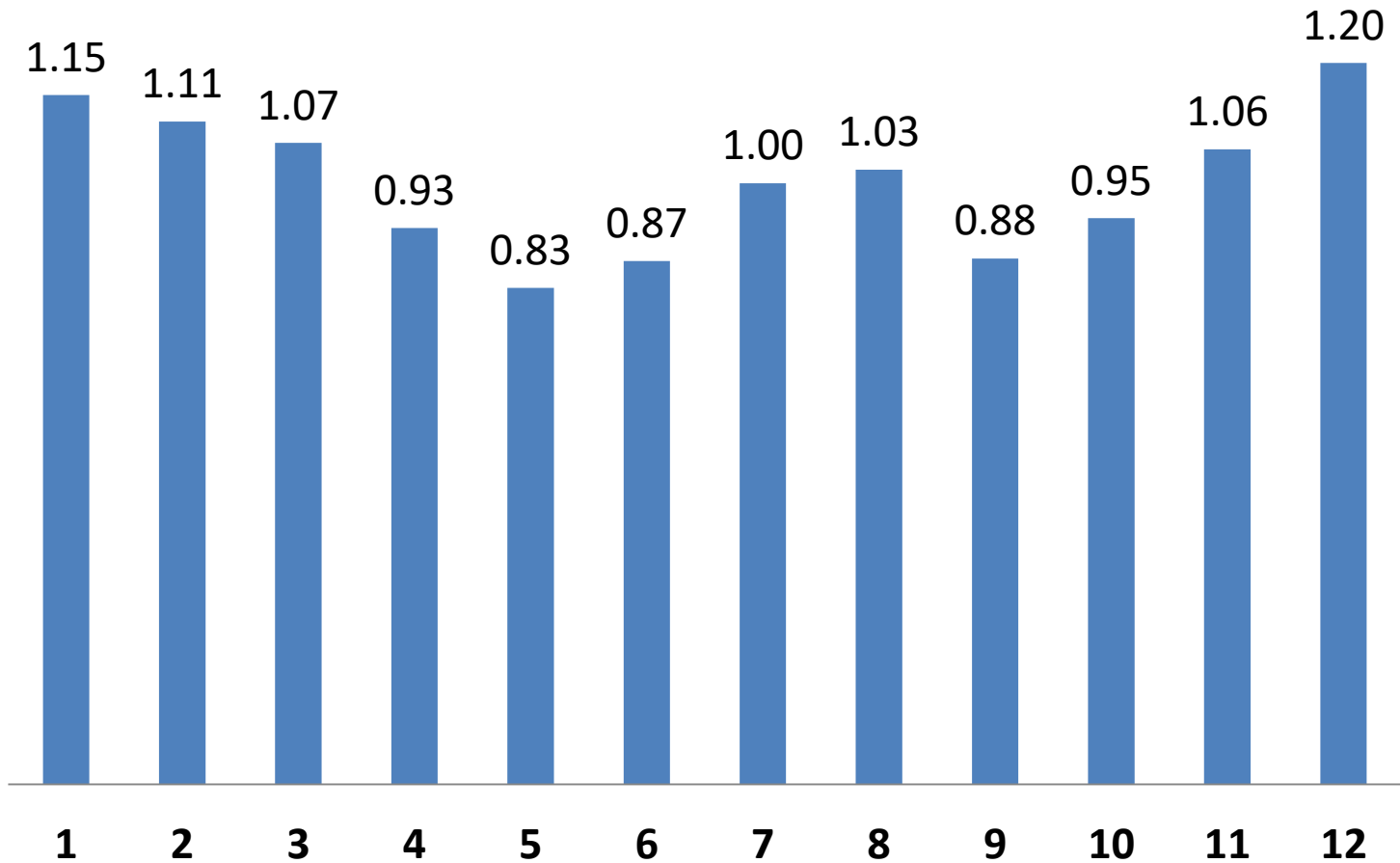
Number of international tourists (Departure from trend; Jan 1993-May 2017)



Microeconomic Analysis of hotel industry

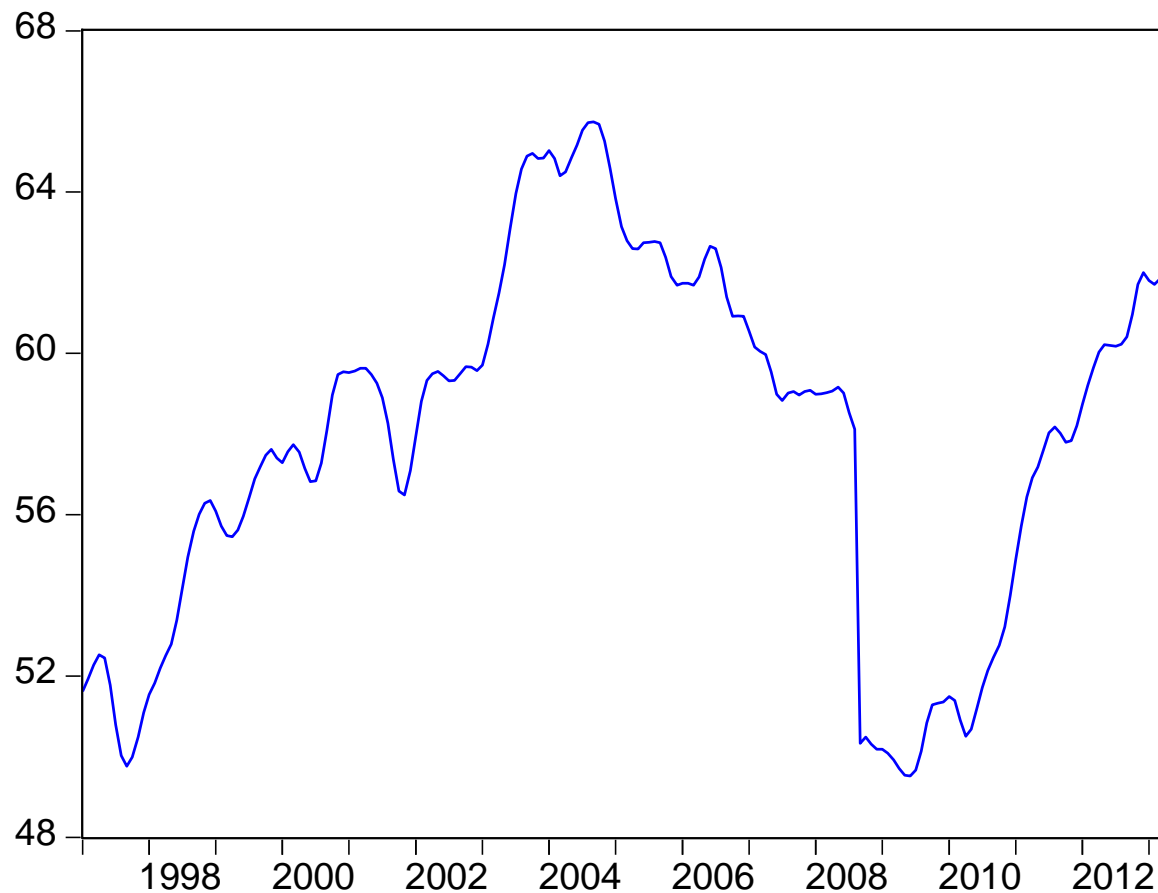
- Seasonality and peak-load pricing
- Economies of scope: Revenues from MICE
- Uncertainty and risks

Monthly number of tourists:
Ratio to moving average
August: long holiday in Europe



Hotel occupancy rate

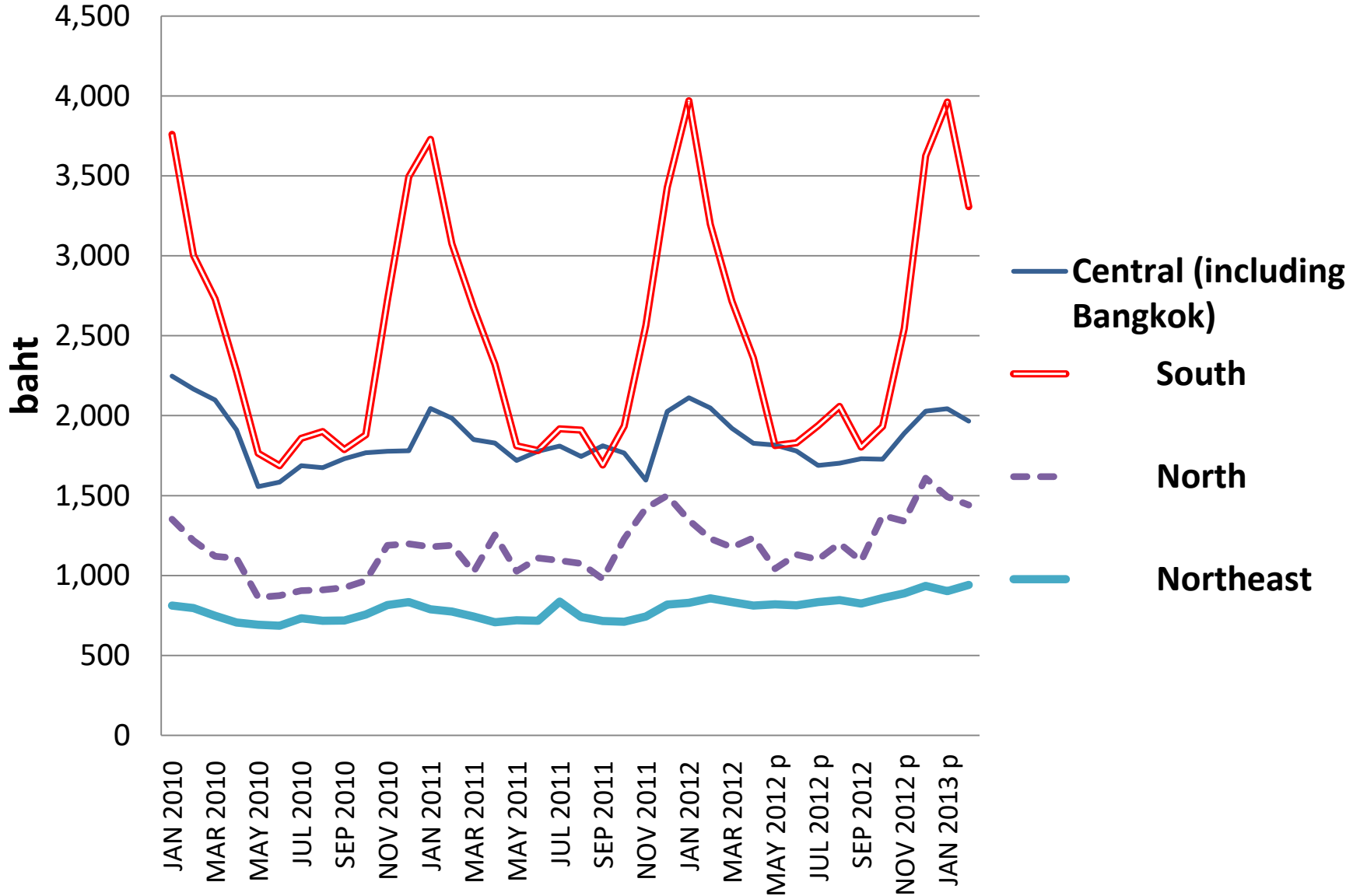
Final trend-cycle



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.

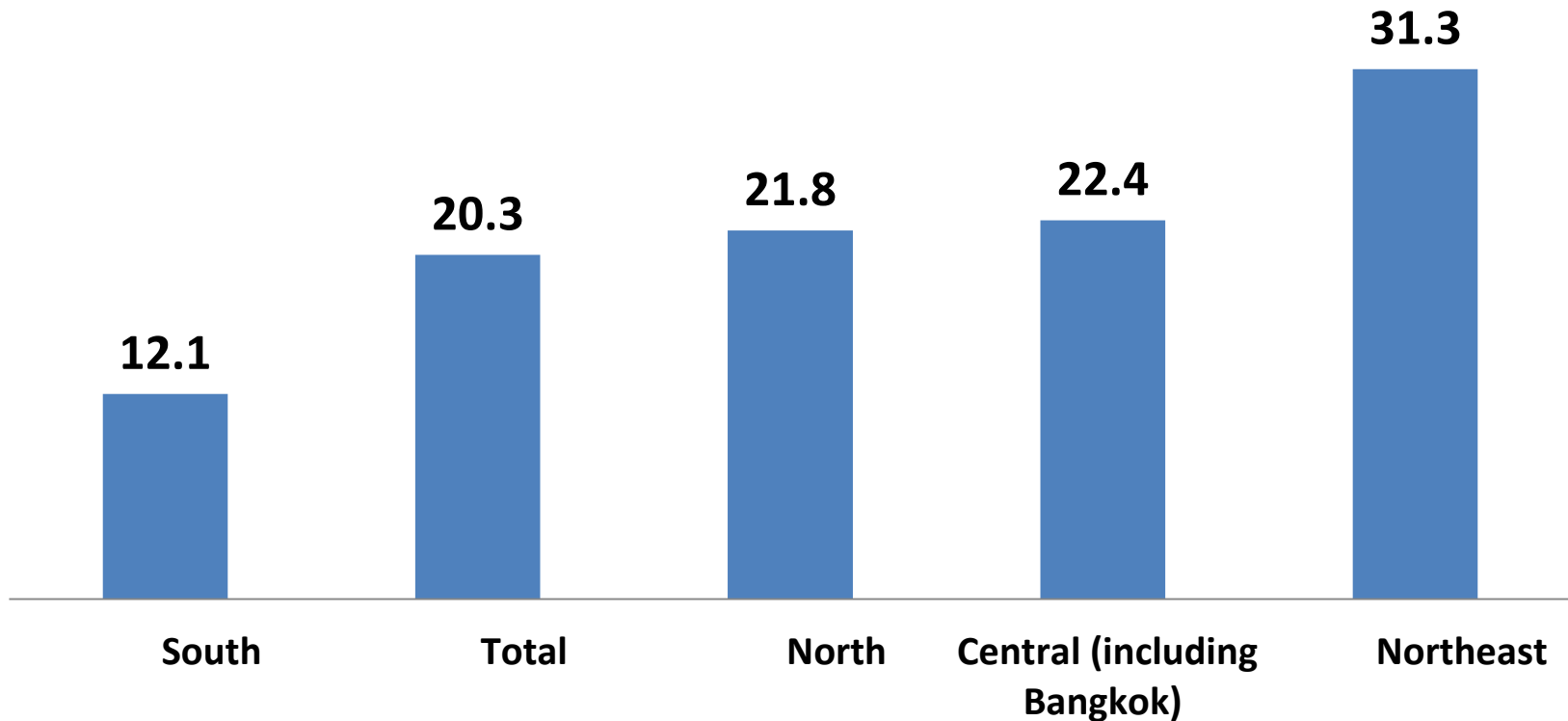
Average room rate



Source: Bank of Thailand

Revenues generated by Meeting, Incentives, Conferences, and Exhibitions (MICE)

average share: 2010-2012



Performance of major hotels in 2017

| | Revenue (mb) | Change (%) | Profit (mb) | Change (%) |
|-----------------|-----------------|---------------|----------------|-----------------------------------|
| Erawan group | 5,773 | 8 | 506 | 38 |
| Dusit Thani | 4,590 | -4.7 | 267 | 134 (from selling property) |
| Minor Group | 30,970 | 12 | 7,685 | 8 |
| Central | 9,357 | 0.5 | 1,991 | 7.7 |

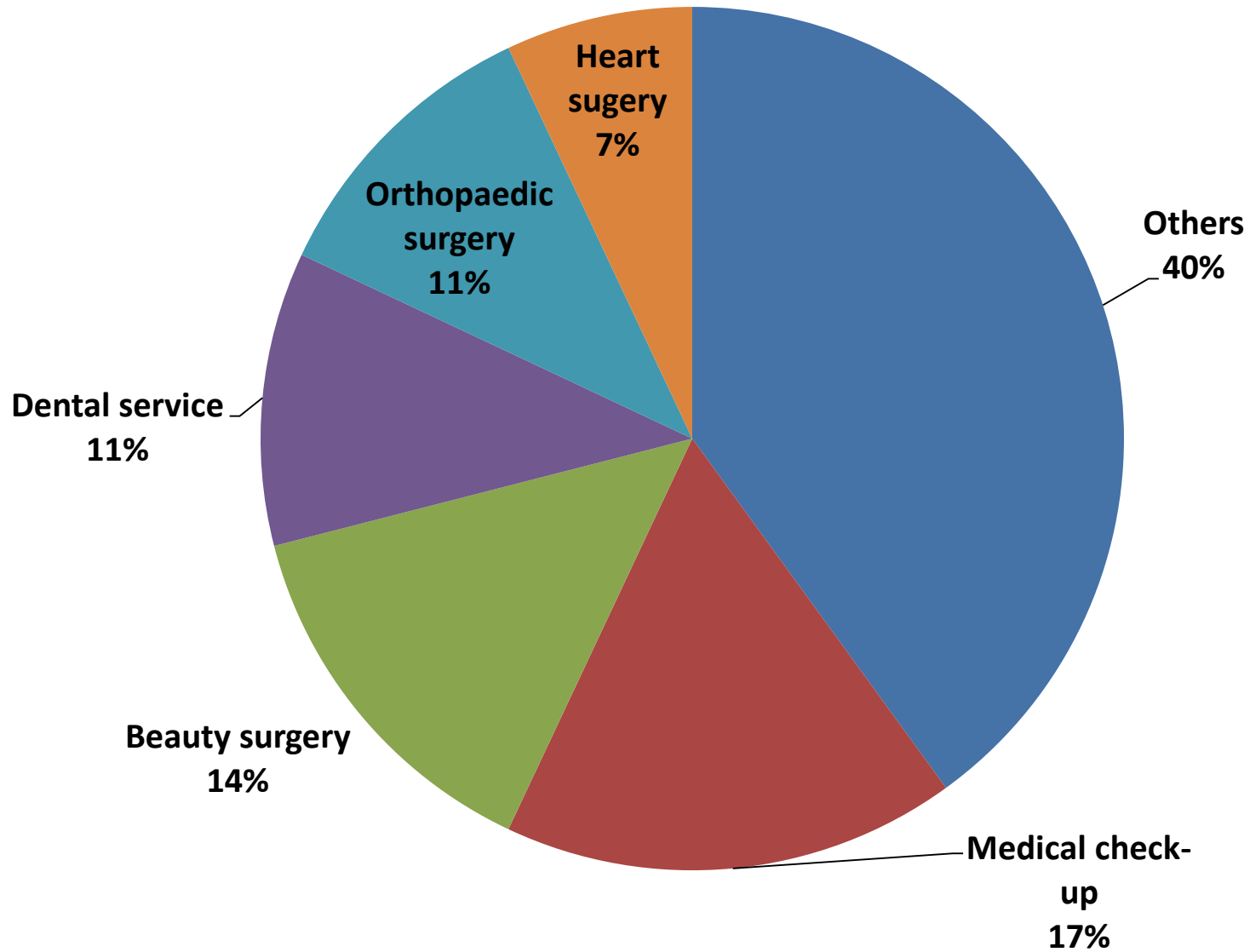
Expect the Unexpected

- 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.

5. 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.

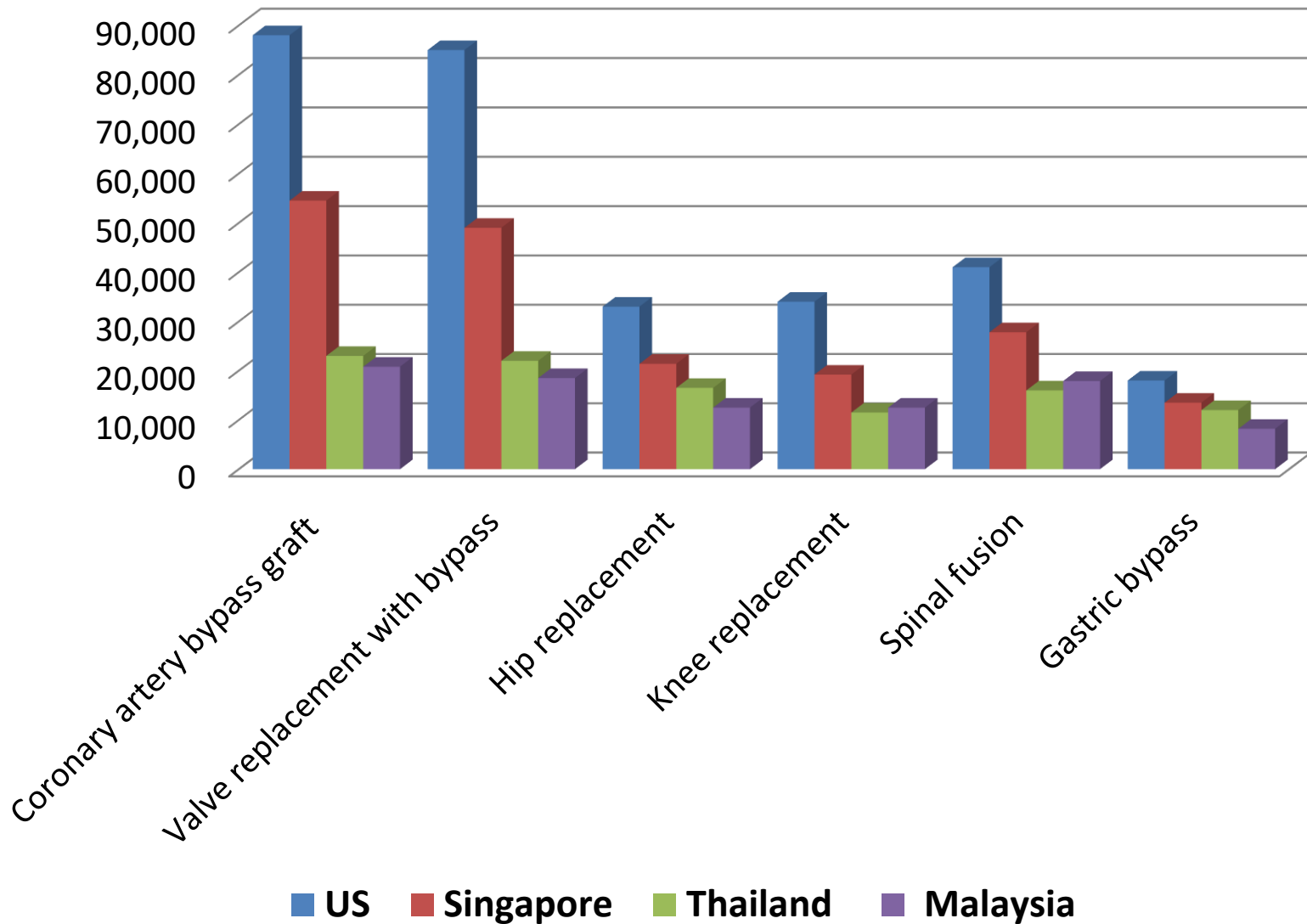
popular medical services among foreign visitors



Popular Medical Services

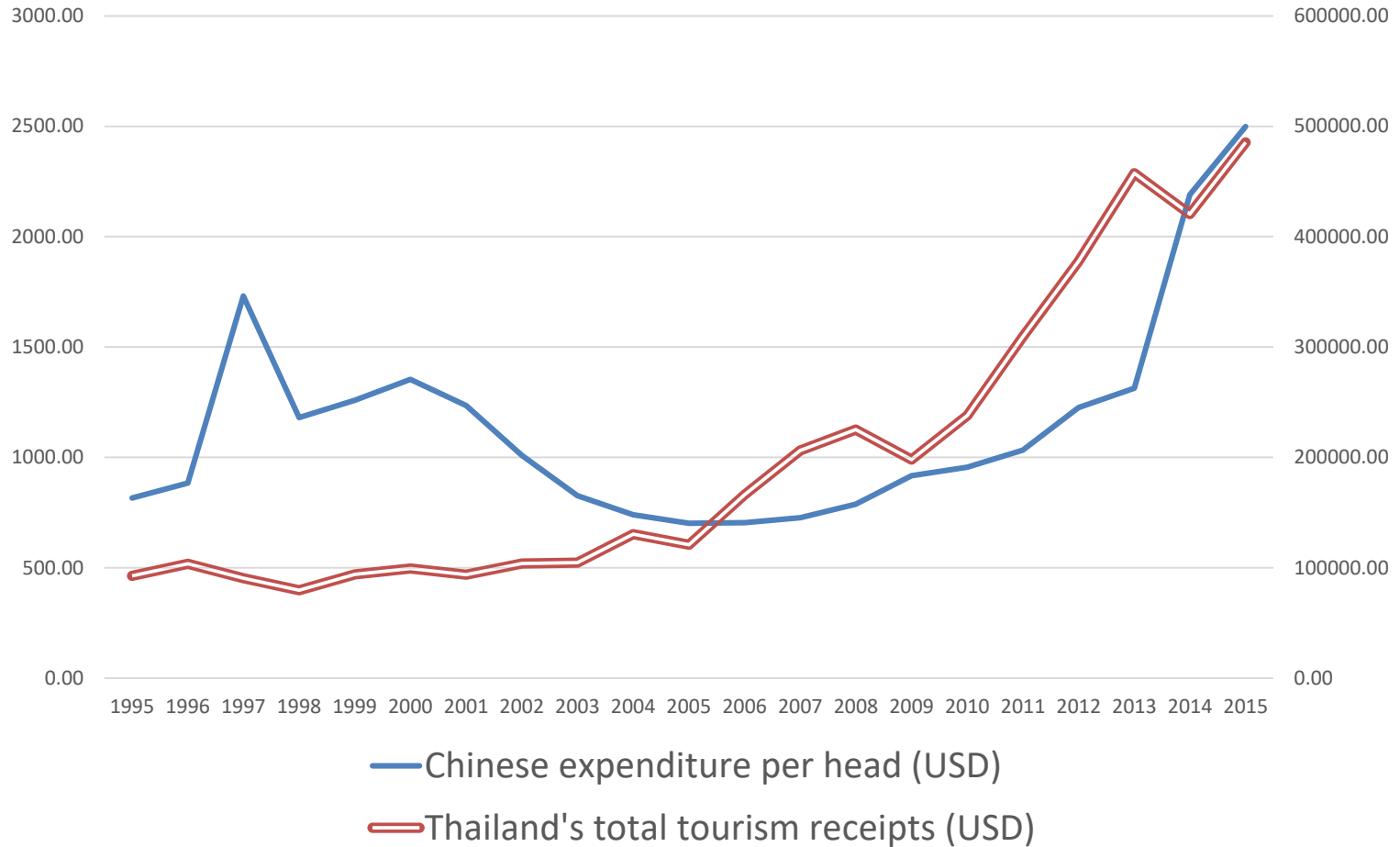
- Popular medical services among foreigners include standard checkups, cosmetic surgery, and dental services.
- Beside tourists, there are expats working in Thailand and neighboring countries where medical service standards remain relatively low, encouraging them to come to Thailand.
- Myanmar and the 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

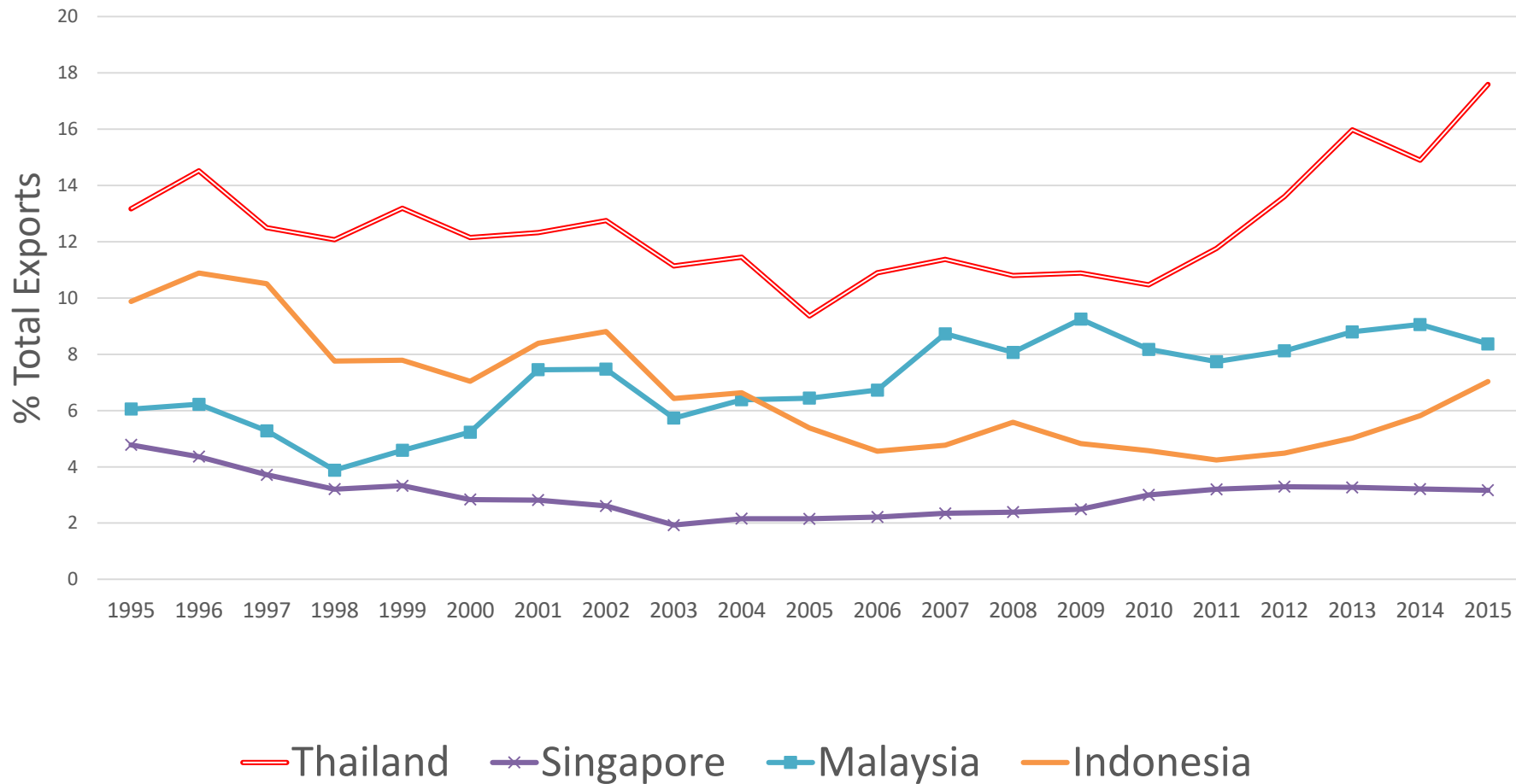


6. China Factor

Outbound tourism

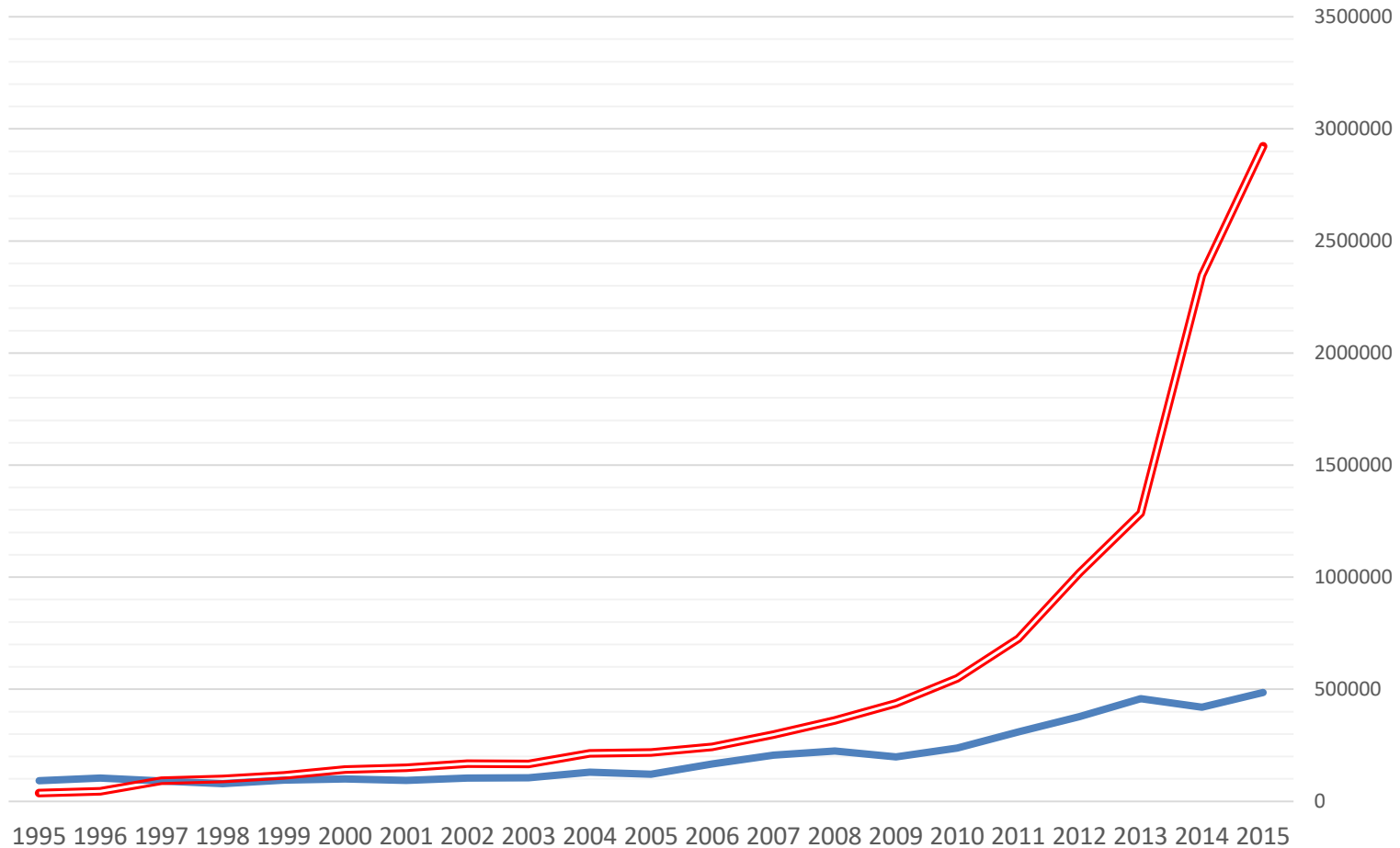


Receipts from International Tourism

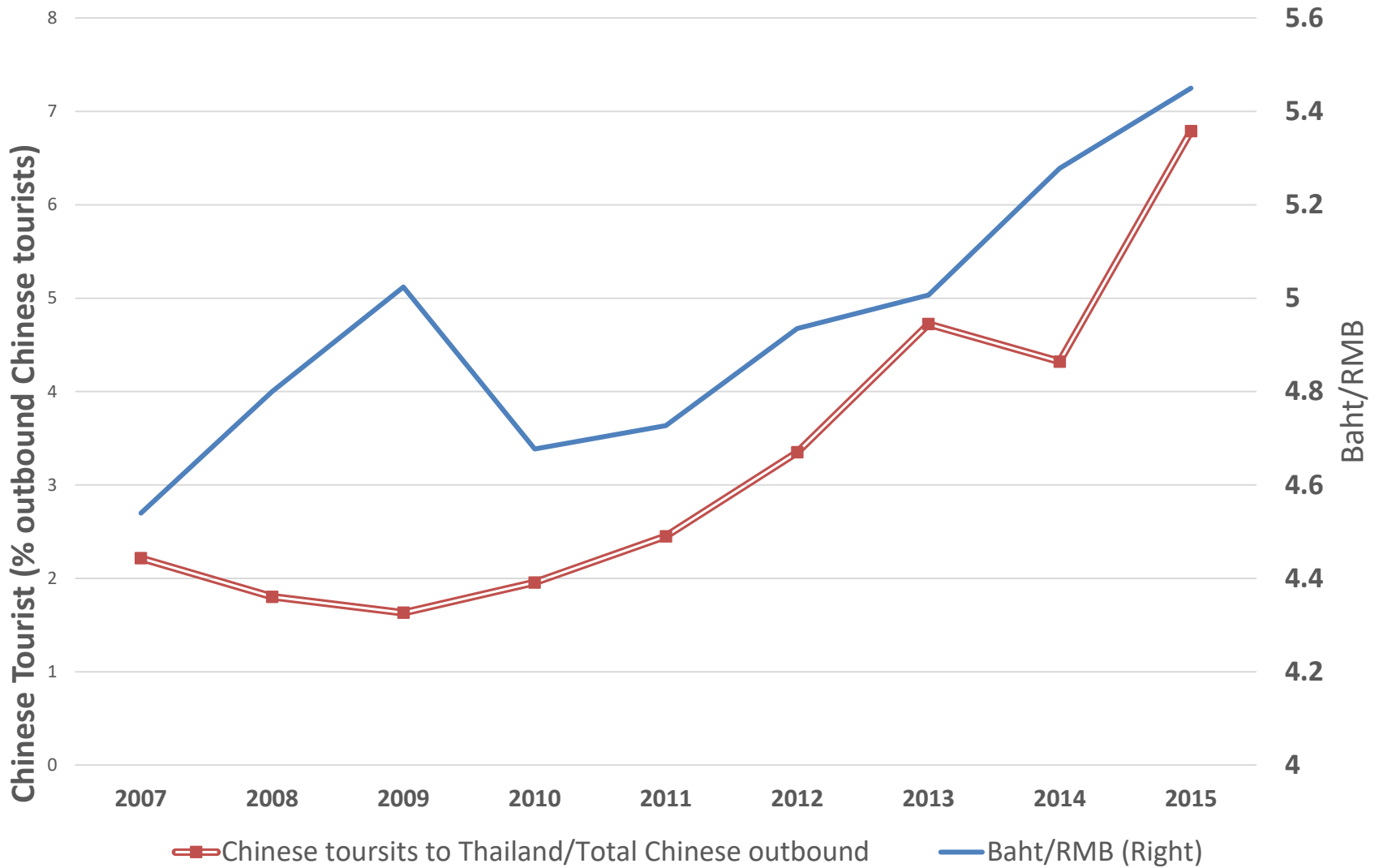


International Tourism: Thailand's Revenues and Expenditures
Source: World Bank
Thousands USD

— Thailand's receipt — China's international expenditure



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 the government 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