

Tourism Industry

Vulnerability and resilience

Mr. Bhanupong

Lecture 19

Course Syllabus

Lecture 19

- A background of tourism industry in Thailand is presented.
- We investigate how the industry was adversely affected by various shocks.
- The tourism industry is resilient, as it has recovered from various external shocks.

Great Expectations

- Thailand saw a record 38.27million tourists in 2018, up 7.5 % from 2017.
- In December 2018 alone, tourist arrivals were 3.85 million.
- Chinese tourists were returning after a slowdown sparked by a tour boat tragedy that triggered concerns about safety standards.
- The number of Chinese holidaymakers rose 2.8% in December from a year earlier, to 838,634.
- The Tourism Ministry expected 41m in 2019 (Bangkok Post: Jan 28, 2019)

Outline

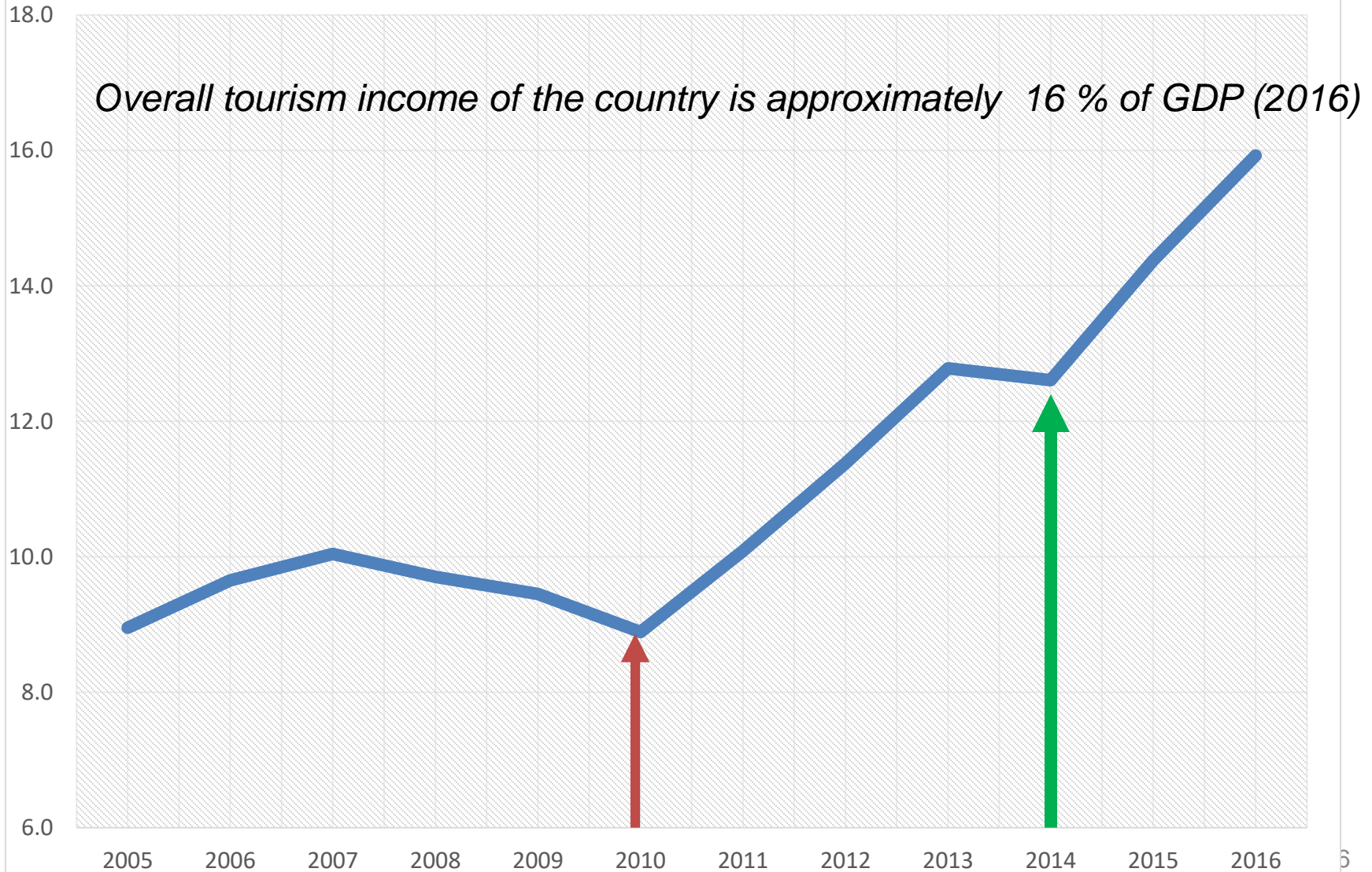
1. Tourism industry's characteristics
2. Shocks, vulnerability, and resilience
3. Impact of global recession and political instability
4. Microeconomics of hotel business
5. Medical tourism
6. China Factor
7. Something bad has happened

1. Industry Characteristics

- Highly labor intensive: generating employment and *migration*.
- Strong linkages (backward and forward) to other sectors.
- Generating *net* foreign exchanges
- Providing a *service-led* growth mechanism
- *Cultural capital stocks* (visiting heritage buildings creates jobs in the wider economy as well as in the local economy.
- *Natural capital stocks*

Income from Tourism Industry (%GDP)

Source: Compiled from data provided by Bank of Thailand



Thailand's tourism sector is not unique

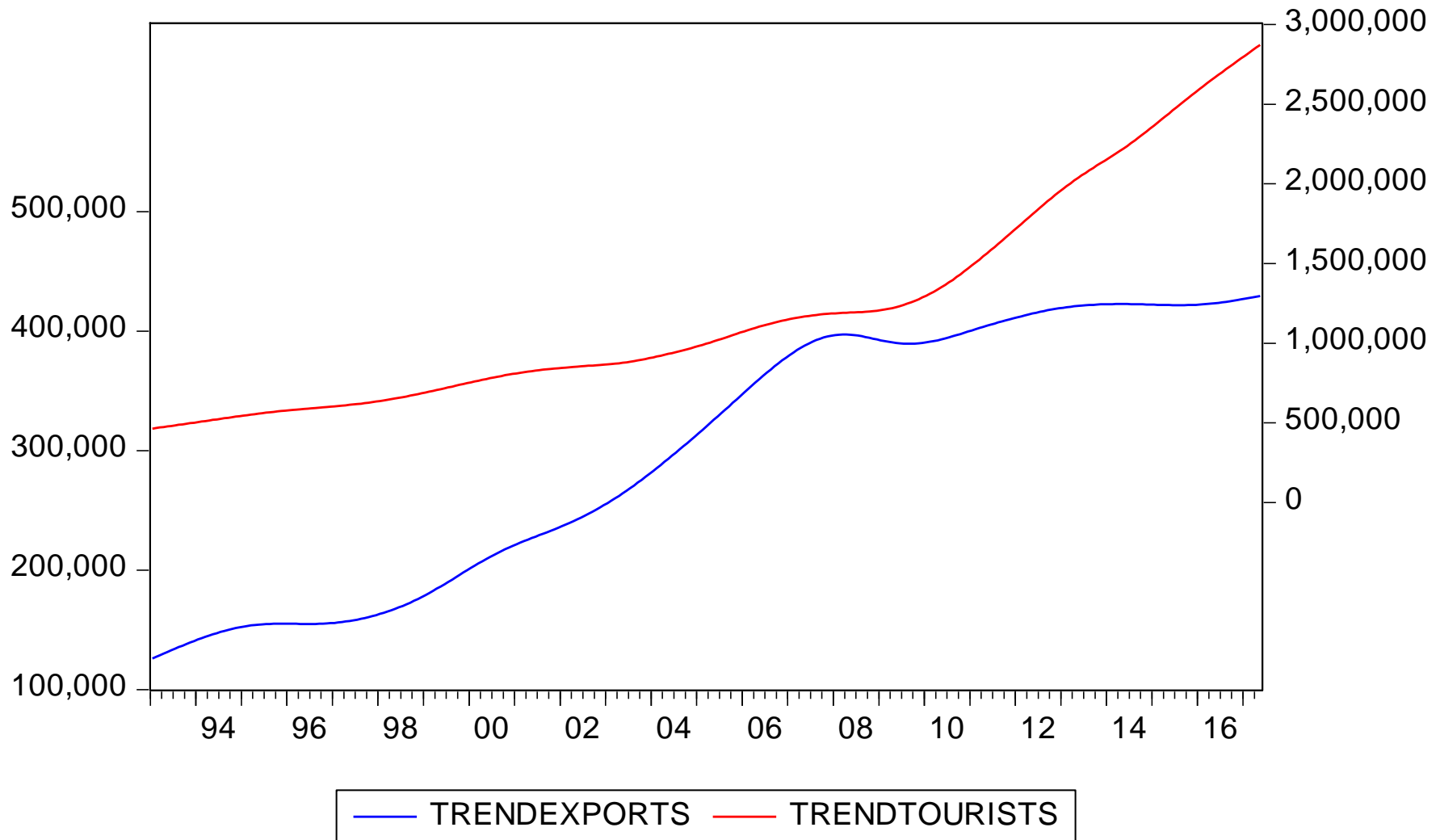
World Travel and Tourism Sectors are *resilient*

- The tourism sector has shown ***surprising resilience*** to (1) geopolitical tensions, (2) threats of terrorism, (3) **global pandemics** and (4) 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 (substitution effect).
- Globally, the trend for growth seems unstoppable (income effect).
- In this sense, Thailand's tourism industry is ***not unique*** from other countries'.

Overview of the industry

- Thailand attracted the second highest number of tourists in the region (next to China) with 35.4 million visitors in 2017.
- The *Asia Pacific region* has outperformed all other regions in terms of growth, with international tourist arrivals increasing an average 7% per year compared to the world average of 4% --***faster than financial services, and manufacturing.***
- The Asia Pacific region accounts for 30 per cent of the world's international tourism receipts.

As commodity exports slowed down, tourism industry rose (boosting property sector)



The Travel & Tourism Competitiveness Report 2019

Covering 140 economies, the Travel & Tourism Competitiveness Index measures the set of factors and policies that enable the sustainable development of the travel and tourism sector, which contributes to the development and competitiveness of a country.

Spain, France
Germany: 5.4

Rank	Economy	Score ¹	Rank	Score ²	Diff. from Global Avg. (%)
1	Spain	5.4	0	0.3	41.4
2	France	5.4	0	1.5	40.4
3	Germany	5.4	0	2.0	40.0
4	Japan	5.4	0	2.1	39.6
5	United States	5.3	1	2.6	36.6
6	United Kingdom	5.2	-1	-0.2	34.9
7	Australia	5.1	0	0.8	33.6
8	Italy	5.1	0	1.9	32.2
9	Canada	5.1	0	1.6	31.3
10	Switzerland	5.0	0	1.5	30.4
11	Austria	5.0	1	2.0	28.8
12	Portugal	4.9	2	3.2	27.2
13	China	4.9	2	3.2	26.7
14	Hong Kong SAR	4.8	-3	-1.1	25.1
15	Netherlands	4.8	2	3.2	24.5
16	Korea, Rep.	4.8	3	4.7	24.3
17	Singapore	4.8	-4	-2.0	23.7
18	New Zealand	4.7	-2	1.4	23.4
19	Mexico	4.7	3	3.4	21.9
20	Norway	4.6	-2	-1.0	19.4
21	Denmark	4.6	10	3.4	19.1
22	Sweden	4.6	-2	0.2	18.6
23	Luxembourg	4.6	5	1.4	18.4
24	Belgium	4.5	-3	0.1	18.2
25	Greece	4.5	-1	0.9	18.1
26	Ireland	4.5	-3	0.3	18.0
27	Croatia	4.5	5	2.4	17.6
28	Finland	4.5	5	2.7	17.4
29	Malaysia	4.5	-3	0.4	17.3
30	Iceland	4.5	-5	0.0	17.0
31	Thailand	4.5	3	2.6	16.9
32	Brazil	4.5	-5	-0.8	15.8
33	United Arab Emirates	4.4	-4	-1.3	15.3
34	India	4.4	6	5.7	14.9
35	Malta	4.4	1	2.4	13.3

Thailand:
4.5

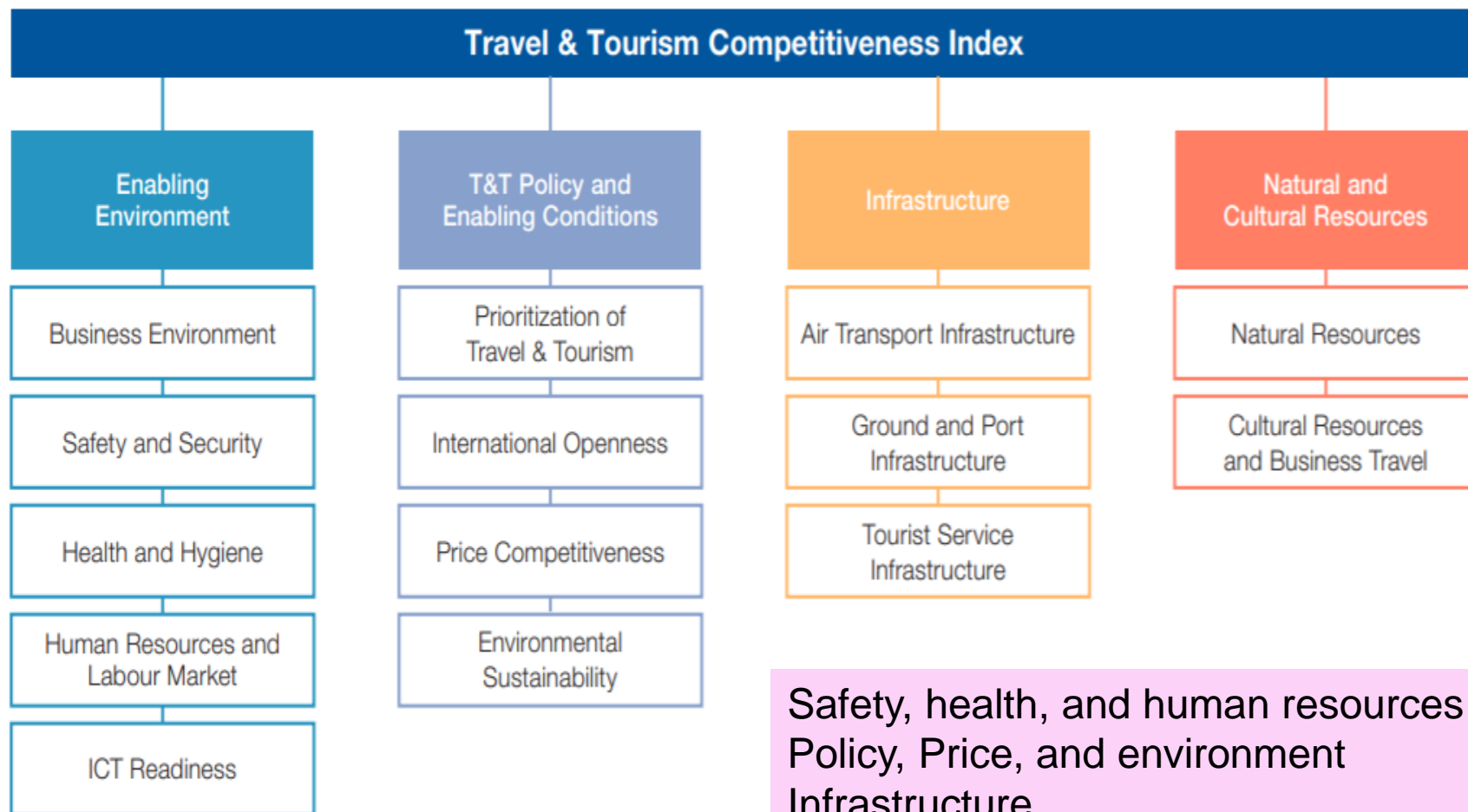
Rank	Economy	Score ¹	Rank	Score ²	Diff. from Global Avg. (%)
46	Hungary	4.2	1	3.4	9.0
49	Peru	4.2	2	3.1	8.3
50	Argentina	4.2	0	2.5	7.9
51	Qatar	4.1	-4	1.5	7.5
52	Chile	4.1	-4	0.9	6.6
53	Latvia	4.0	1	1.8	5.0
54	Mauritius	4.0	1	2.3	4.2
55	Colombia	4.0	7	4.7	4.2
56	Romania	4.0	12	5.7	3.7
57	Israel	4.0	4	3.6	3.5
58	Oman	4.0	8	5.1	3.4
59	Lithuania	4.0	-3	1.5	3.3
60	Slovak Republic	4.0	-1	2.0	3.3
61	South Africa	4.0	-8	-0.8	3.2
62	Seychelles	4.0	1	2.7	3.1
63	Viet Nam	3.9	-4	0.4	2.7
64	Bahrain	3.9	-4	0.4	1.5
65	Egypt	3.9	9	7.0	1.3
66	Morocco	3.9	-1	2.2	1.2
67	Montenegro	3.9	5	5.6	1.1
68	Georgia	3.9	2	4.7	0.7
69	Saudi Arabia	3.9	-6	1.4	0.7
70	Ecuador	3.9	-13	-1.2	0.4
71	Azerbaijan	3.8	0	2.7	-1.3
72	Brunei Darussalam	3.8	n/a	n/a	-1.7
73	Dominican Republic	3.8	3	4.2	-1.9
74	Uruguay	3.8	3	4.2	-2.1
75	Philippines	3.8	4	4.2	-2.5
76	Jamaica	3.7	-7	0.9	-2.6
77	Sri Lanka	3.7	-13	-2.3	-3.2
78	Ukraine	3.7	10	6.5	-3.2
79	Armenia	3.7	5	5.2	-3.6
80	Kazakhstan	3.7	1	2.2	-4.6
81	Namibia	3.7	1	2.2	-4.7
82	Kenya	3.6	-2	1.0	-5.7

Vietnam: 3.9

Rank	Economy	Score ¹	Rank	Score ²	Diff. from Global Avg. (%)
95	Tanzania	3.4	-4	-0.5	-10.8
96	Kuwait	3.4	4	2.7	-11.1
97	Lao PDR	3.4	-13	-3.2	-11.8
98	Cambodia	3.4	-4	0.3	-12.1
99	Guatemala	3.4	-13	-3.2	-11.8
100	Lebanon	3.4	-4	0.3	-12.1
101	North Macedonia	3.4	-12	-3.8	-12.7
102	Nepal	3.3	1	1.9	-13.0
103	Moldova	3.3	14	6.4	-14.5
104	Tajikistan	3.3	3	3.1	-14.6
105	Bosnia and Herzegovina	3.3	8	5.2	-14.7
106	Senegal	3.3	5	3.8	-15.2
107	Rwanda	3.2	-10	-3.4	-15.5
108	El Salvador	3.2	-3	-1.3	-16.0
109	Paraguay	3.2	1	2.7	-16.0
110	Kyrgyz Republic	3.2	5	4.1	-16.0
111	Gambia, The	3.2	1	3.4	-16.1
112	Uganda	3.2	-6	-0.3	-17.0
113	Zambia	3.2	-5	-0.6	-17.8
114	Zimbabwe	3.2	0	1.2	-18.0
115	Ghana	3.1	5	3.5	-18.2
116	Algeria	3.1	2	2.5	-18.2
117	Venezuela	3.1	-13	-4.6	-18.6
118	Eswatini	3.1	n/a	n/a	-18.8
119	Côte d'Ivoire	3.1	-10	-1.6	-19.1
120	Bangladesh	3.1	5	7.3	-19.4
121	Pakistan	3.1	3	7.1	-19.5
122	Ethiopia	3.0	-6	-2.4	-21.4
123	Benin	3.0	4	6.3	-21.5
124	Lesotho	3.0	4	6.4	-21.5
125	Malawi	2.9	-2	0.7	-23.9
126	Guinea	2.9	n/a	n/a	-24.1
127	Mozambique	2.9	-5	0.0	-24.3
128	Cameroon	2.9	-2	0.7	-24.7
129	Nigeria	2.8	0	0.0	-26.8

Lao and Cambodia: 3.4

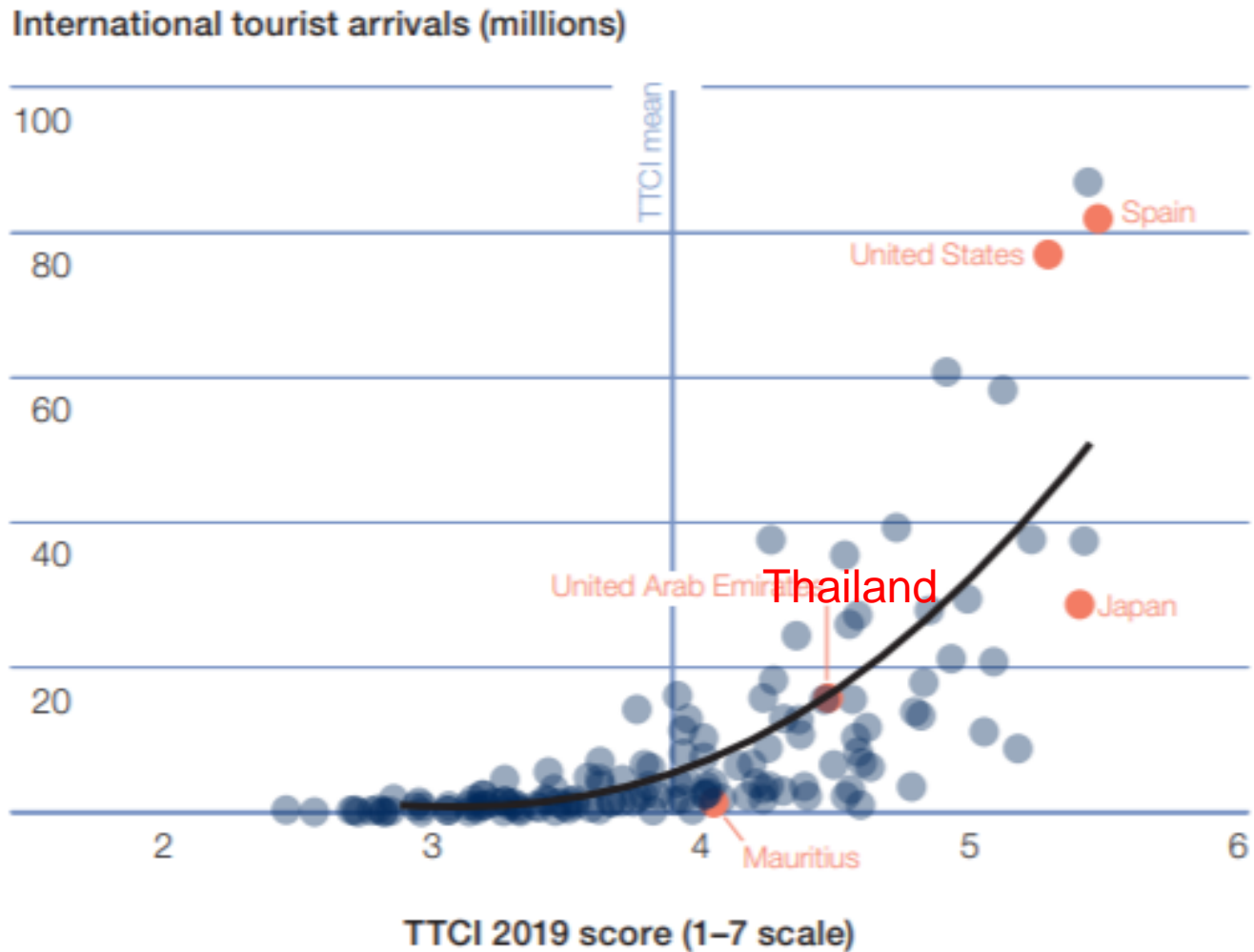
The T&T Competitiveness Index 2019 framework



Safety, health, and human resources
Policy, Price, and environment
Infrastructure
Natural and cultural capital

Thailand's rank: 31st, score 4.5

Figure 1: Travel & Tourism Competitiveness Index 2019 and international tourist arrivals



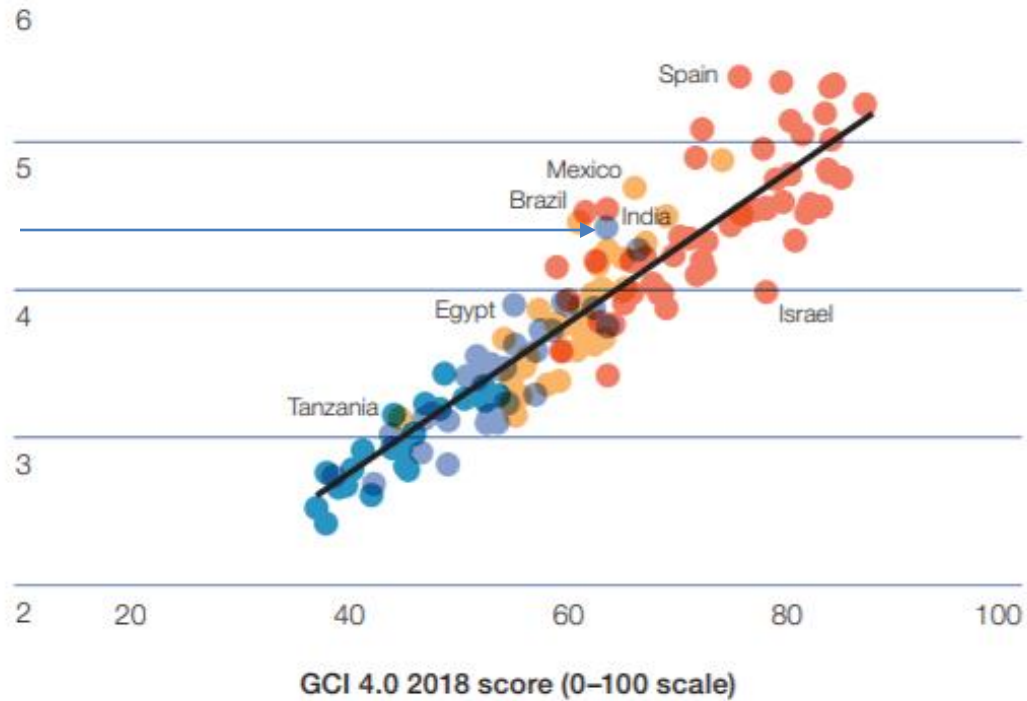
Note: International tourist arrivals excludes Liberia, (2017 or latest available).

Top performers for each region are highlighted.

Sources: World Economic Forum and World Tourism Organization (UNWTO).

Figure 3: Correlation between travel & tourism and overall competitiveness

TTCI 2019 score (1–7 scale)

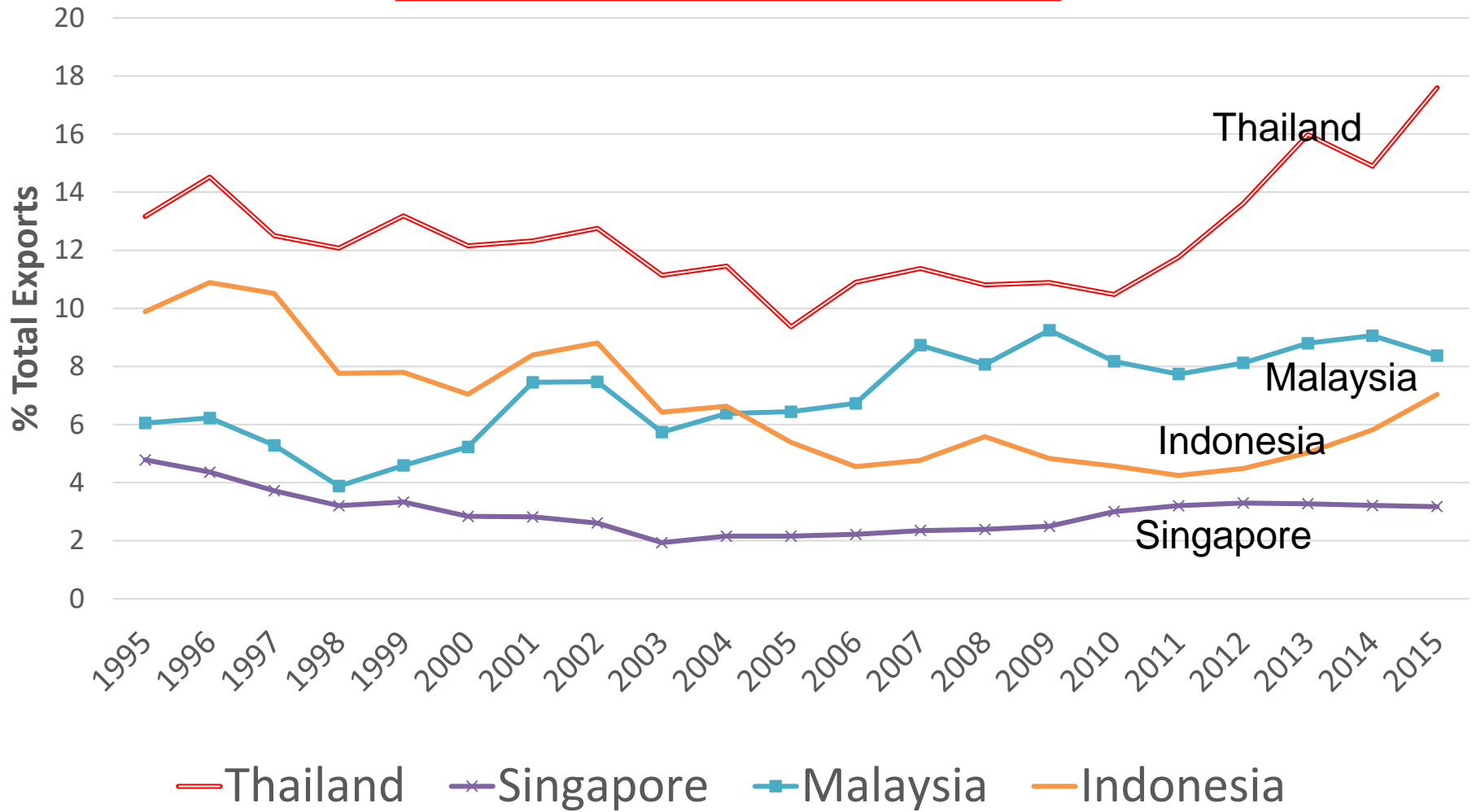


Key

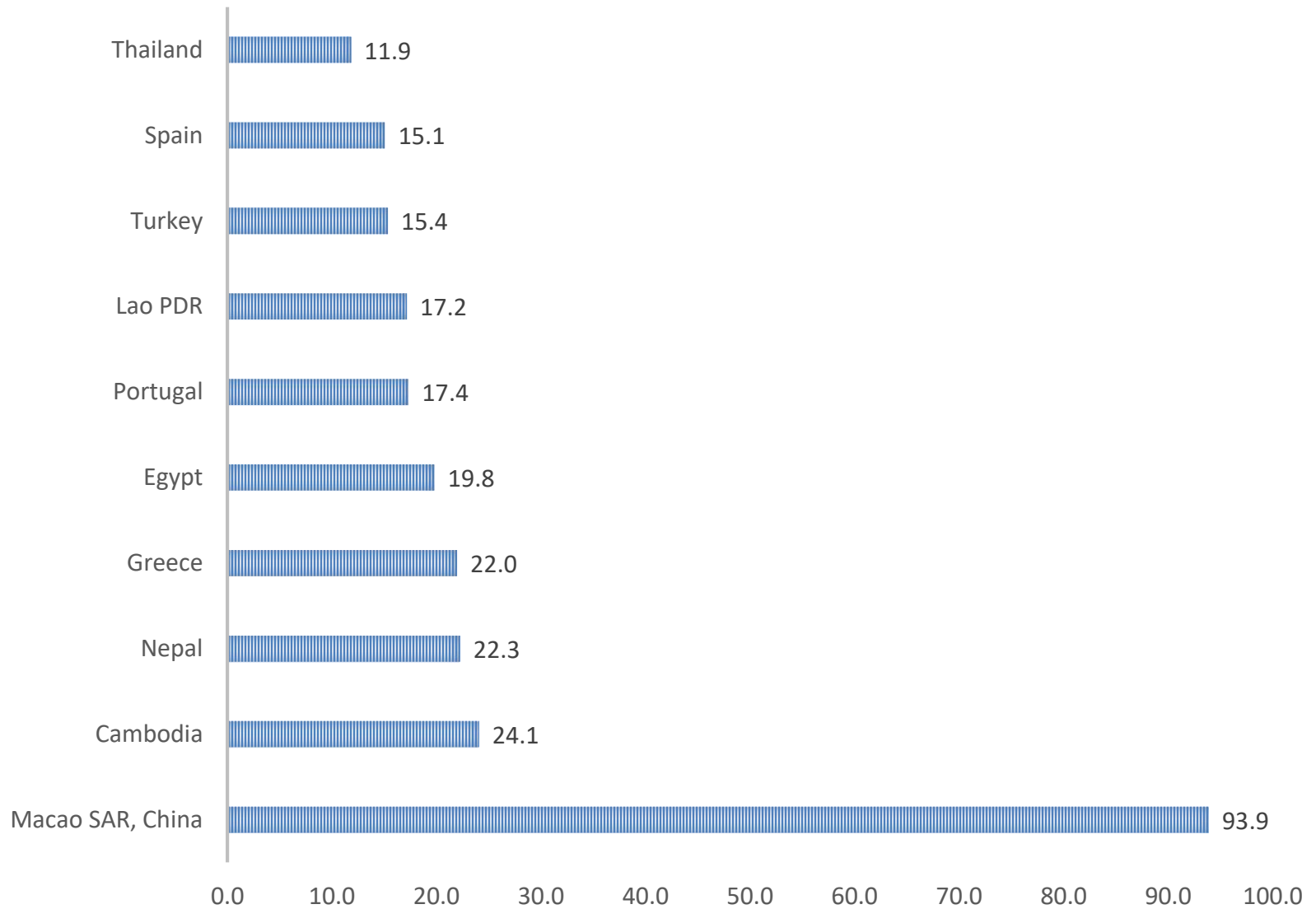
- High income
- Upper-middle income
- Lower-middle income
- Low income

Source: World Economic Forum, 2018 and 2019.

Receipts from international tourism (% total exports)



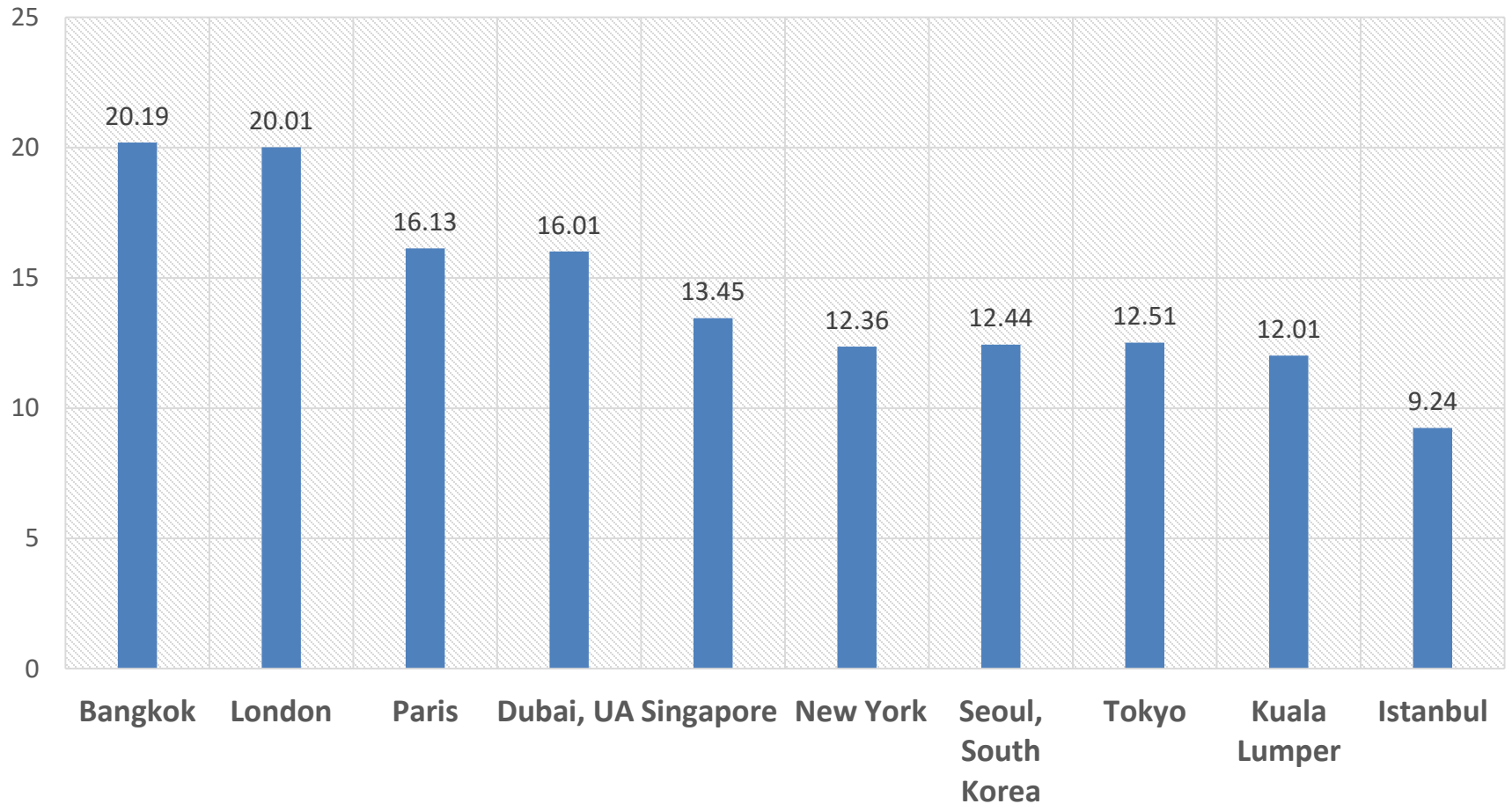
THE RELATIVE IMPORTANCE OF TOURISM INDUSTRY: RECEIPTS (% EXPORTS)



Most popular cities for international visitors

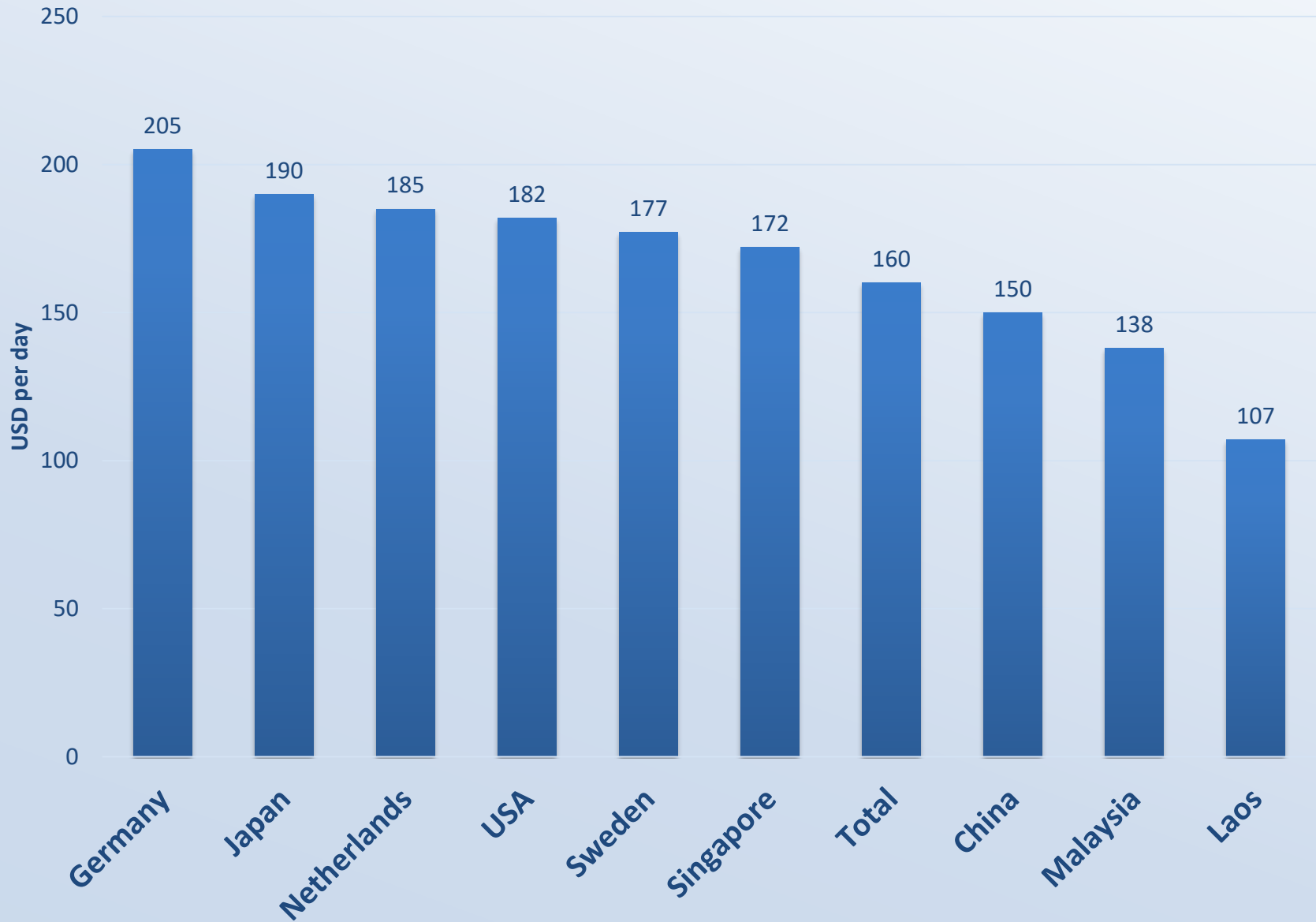
Number of visitors in 2017

Source: Mastercard's 2017 Global Destination Cities Index

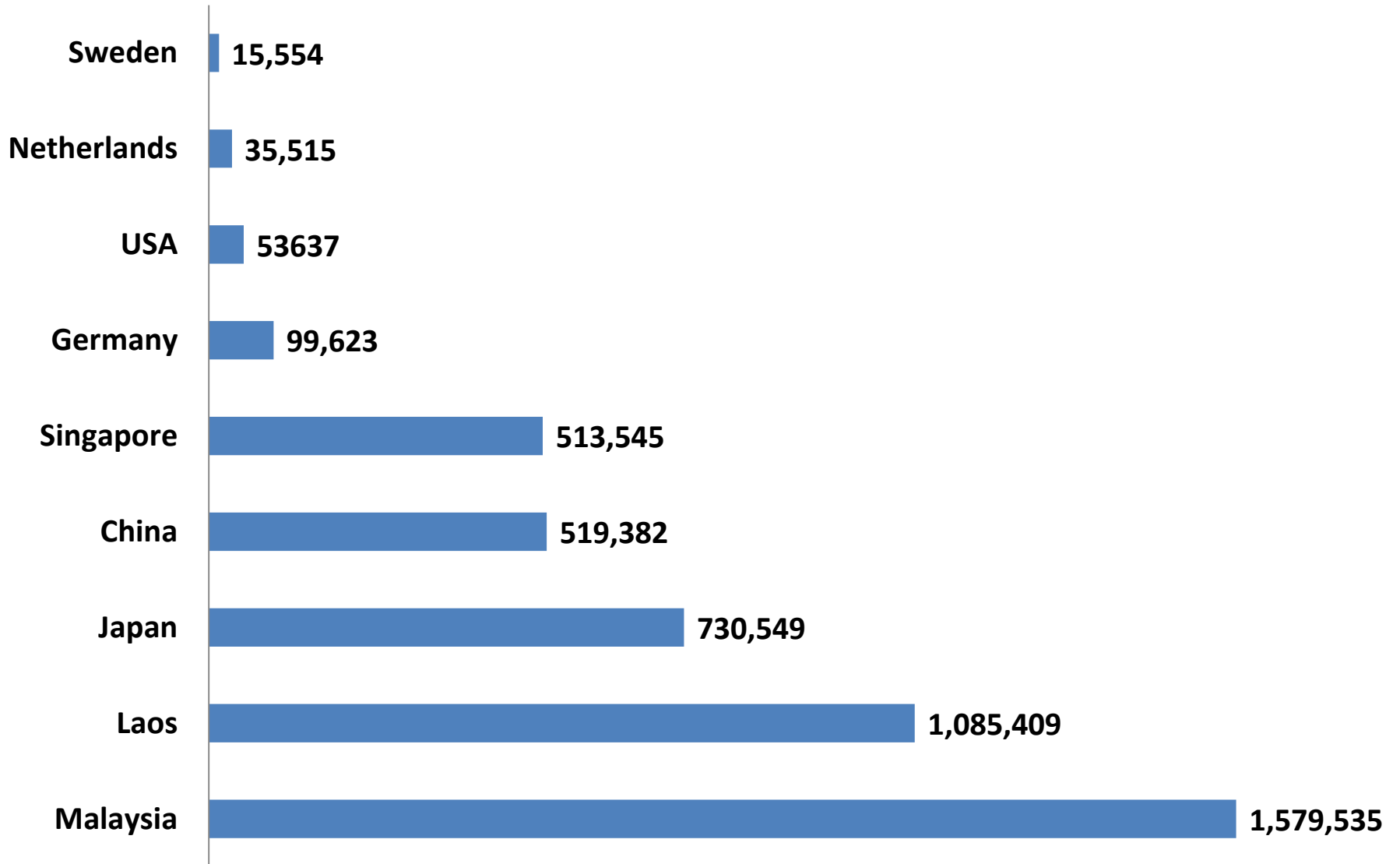


Source: Mastercard's 2017 Global Destination Cities Index

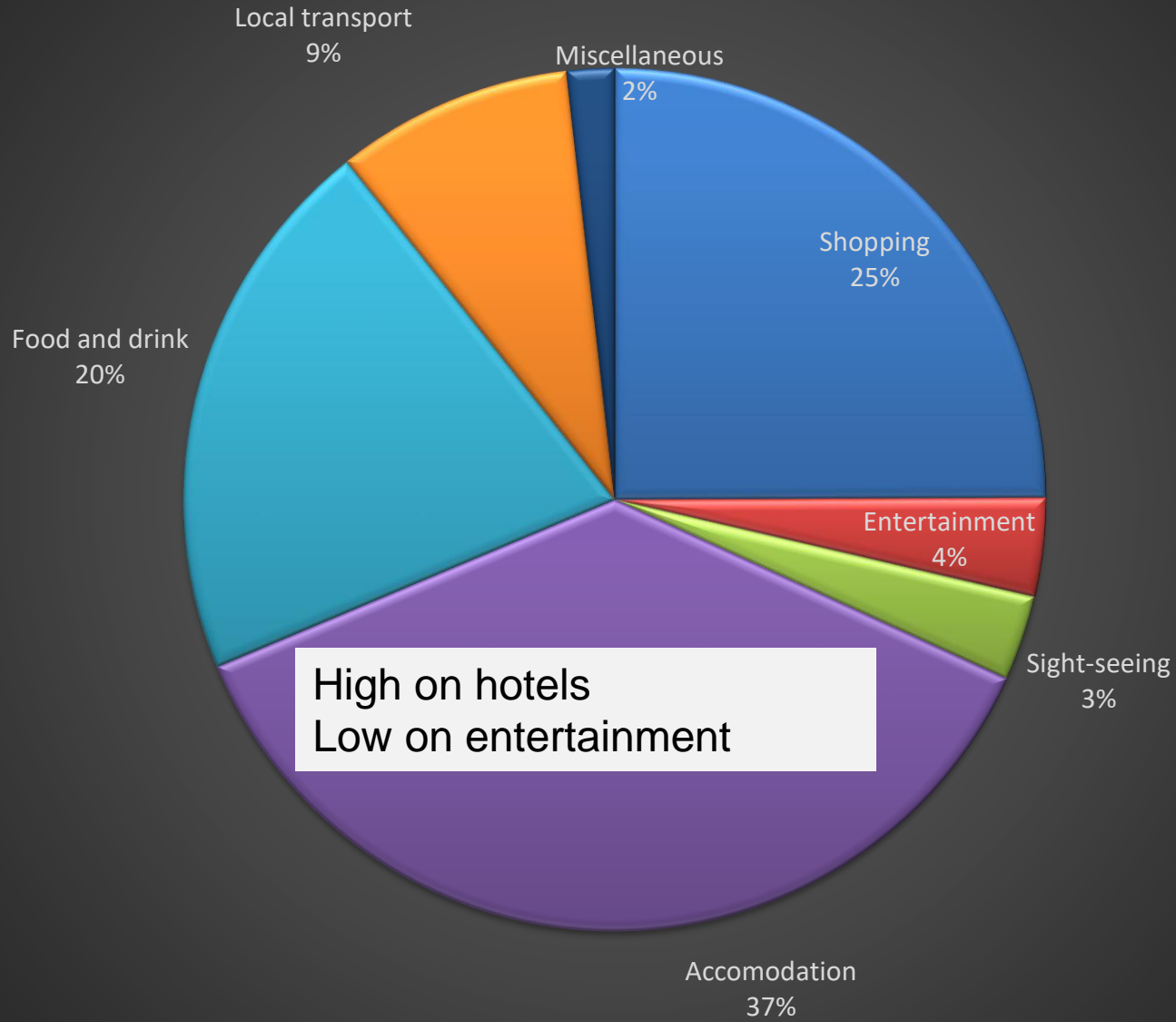
Thai tourists' average spending in various countries in 2015



Number of outbound Thai tourists in 2015



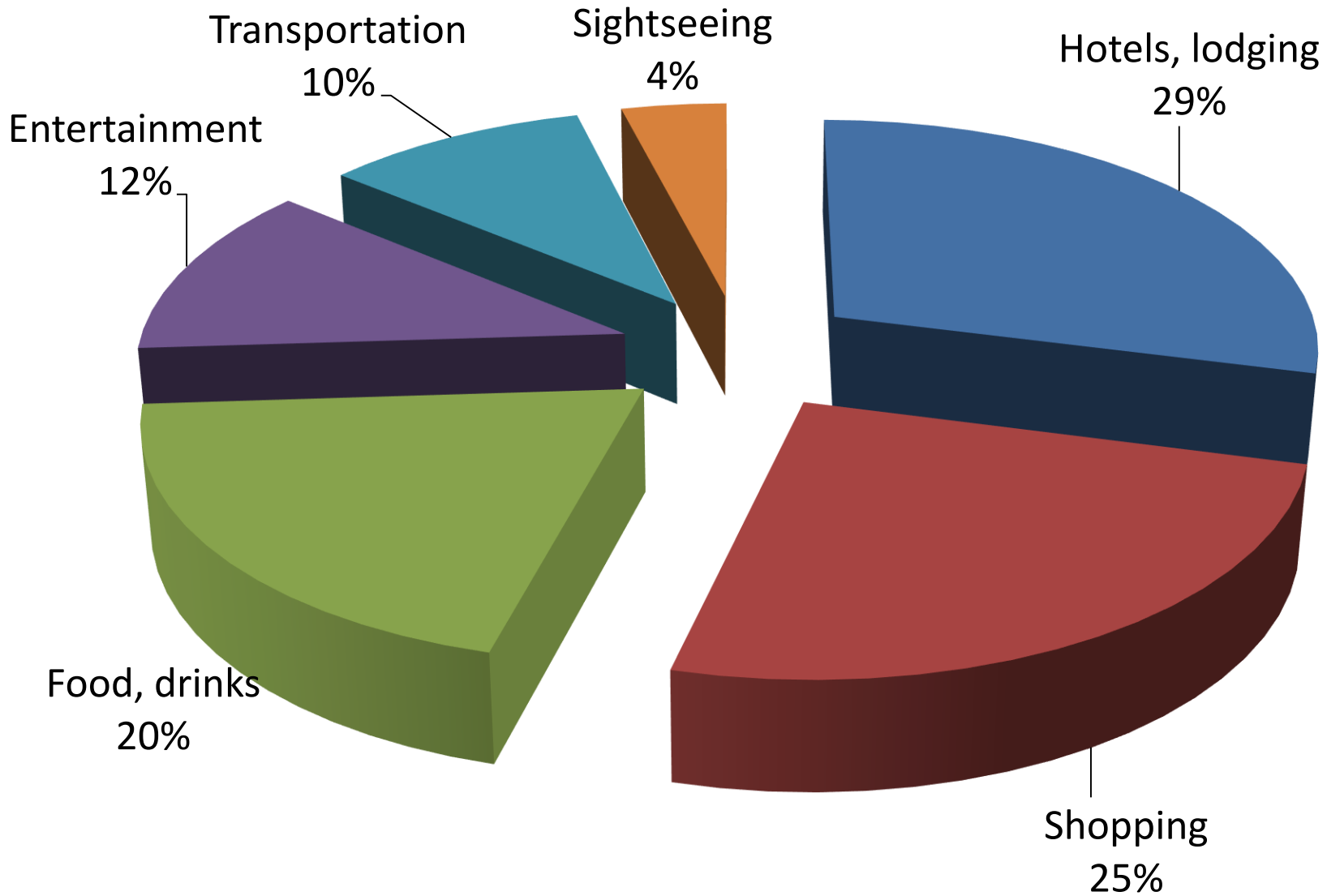
Thai tourists' spending pattern



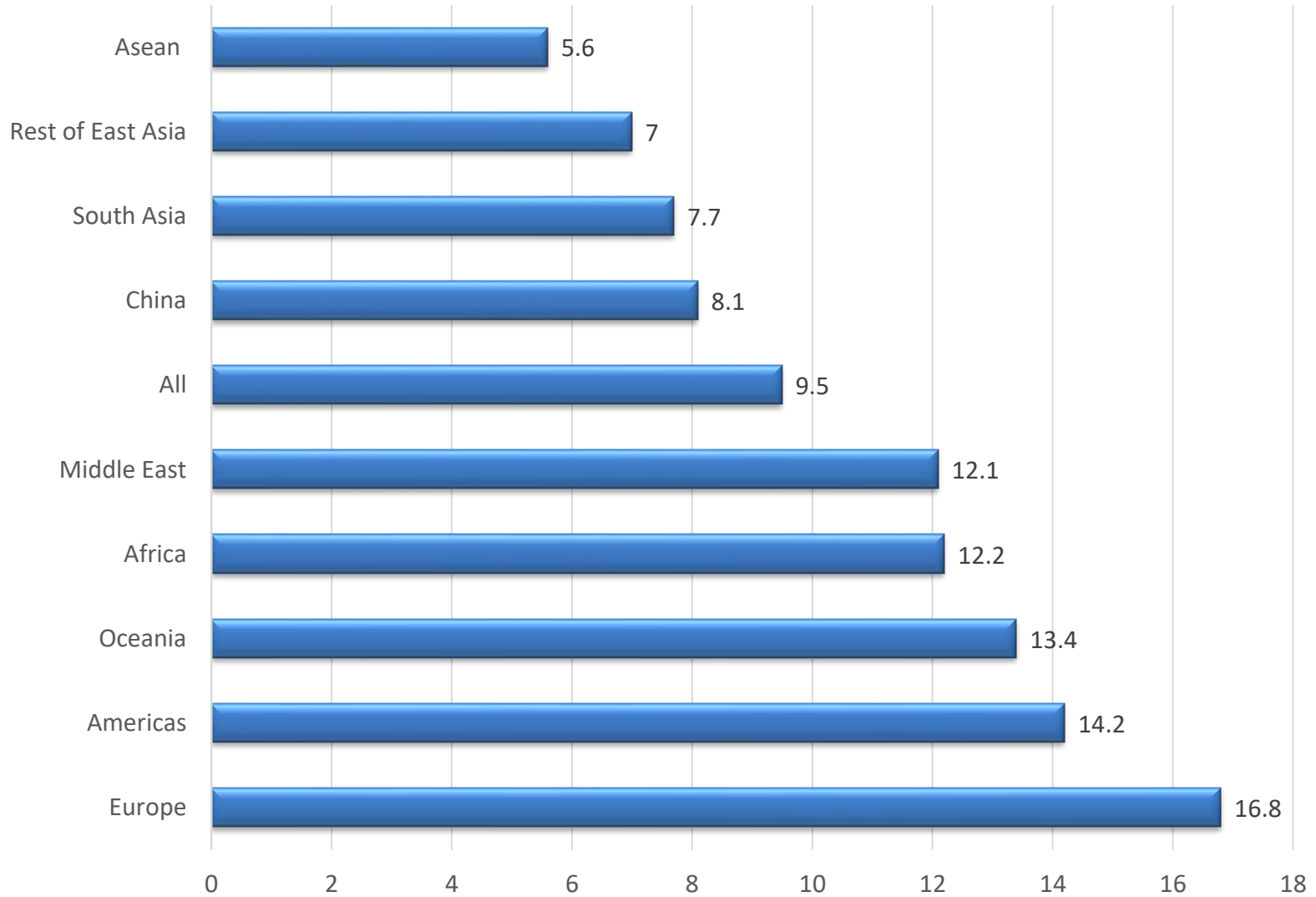
■ Shopping ■ Entertainment ■ Sight-seeing ■ Accommodation ■ Food and drink ■ Local transport ■ Miscellaneous

Daily expenditure of international tourists: 2015

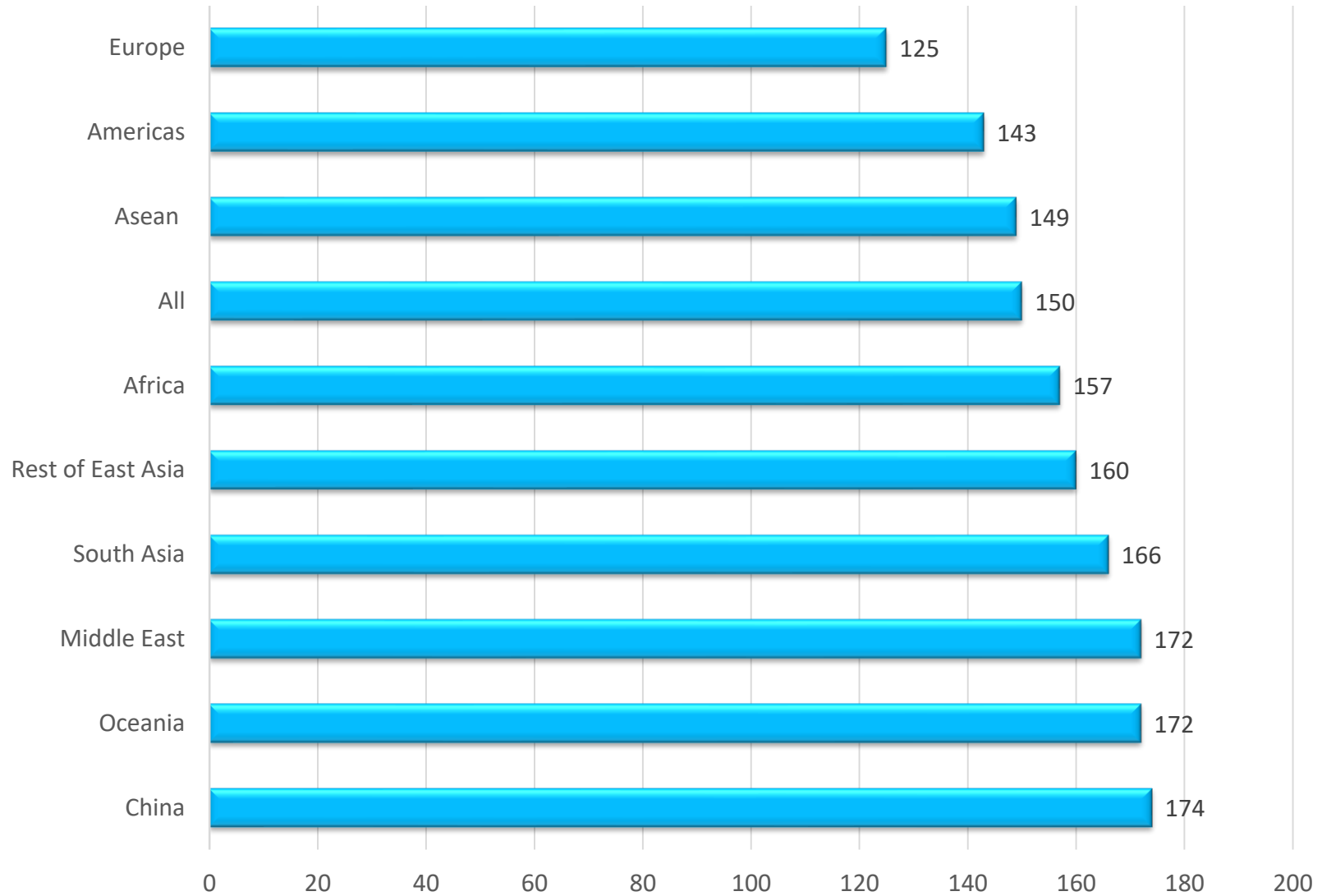
Forward Linkages



Average length of stay by regions (number of days spent in Thailand)



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

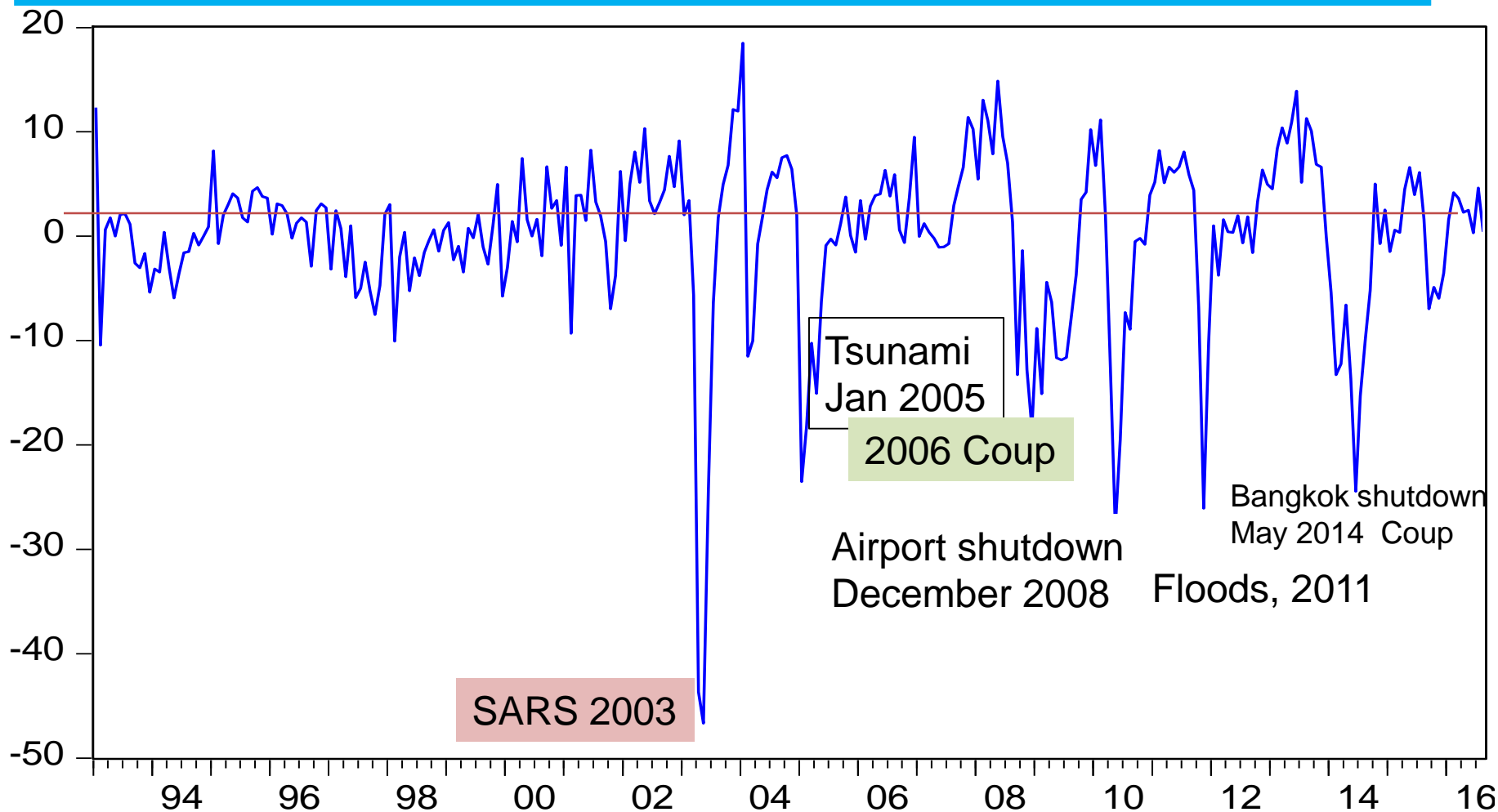


Determinants of tourism demand (inbound and outbound)

- Income (income elastic demand: luxurious service)
- Relative prices (plenty supply of hotel rooms)
- Exchange rates (strong baht is unfavorable 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

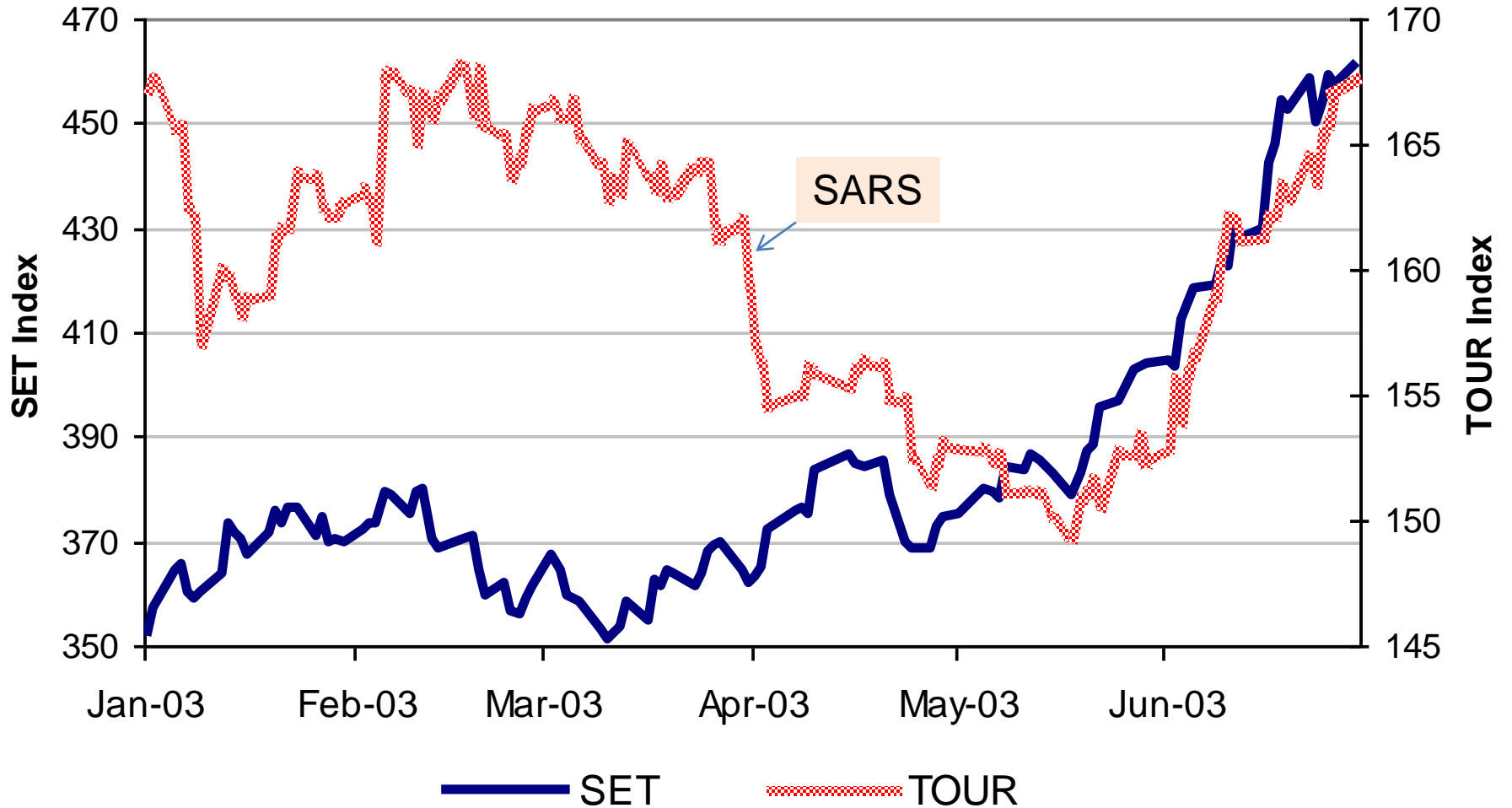


Increasing gyrations of the disturbances: moving up and down in an uncontrolled way

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, mainly cough, dyspnea, and pneumonia
- Tourism industry suffered considerably from **travel restrictions**.
- The ***pattern of stock price recovery was*** similar for the case of tsunami and SARS shocks.

SARS Impact on the Stock Market



Source: Stock Exchange of Thailand (SET)

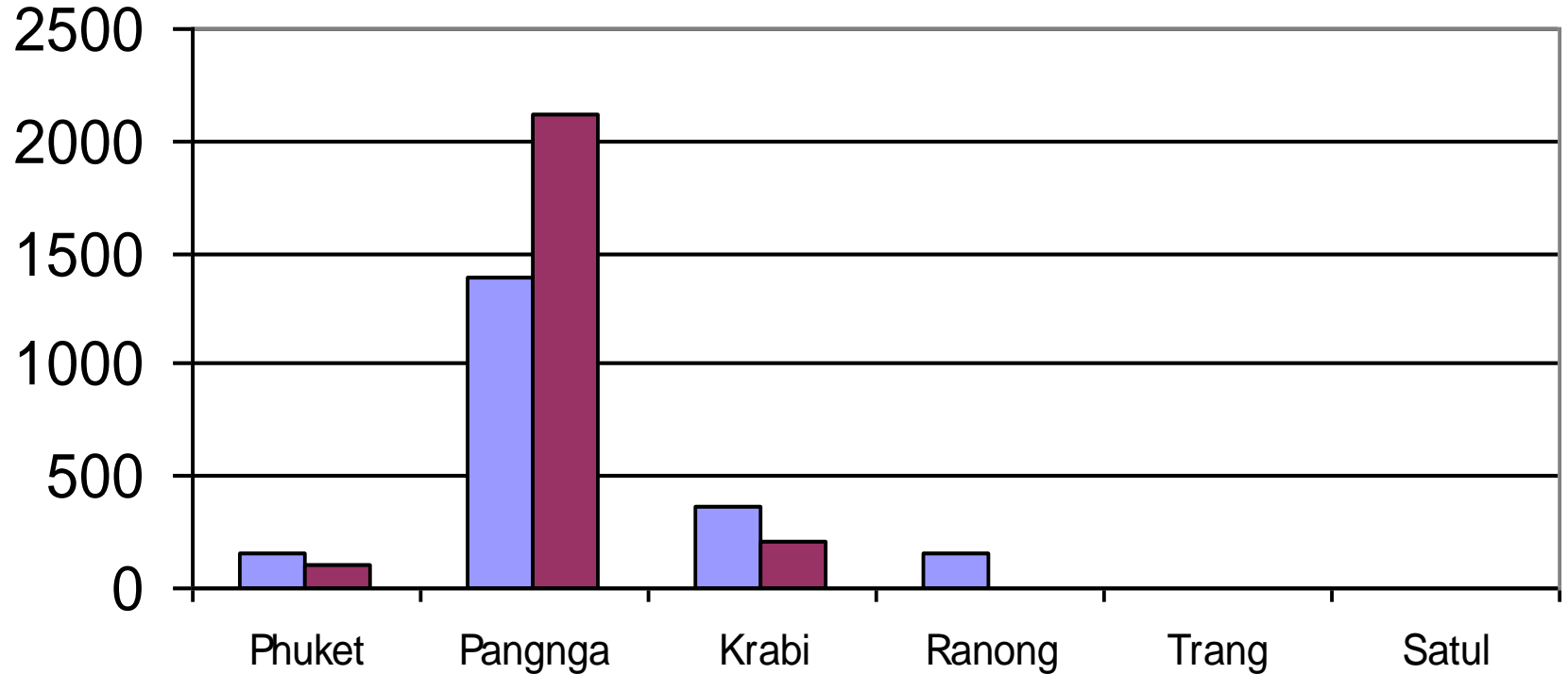
Tourism and hotel industry sector were hit temporarily

At 9:50 am
Sunday 26th of December 2004



Tsunami Death toll (2004)

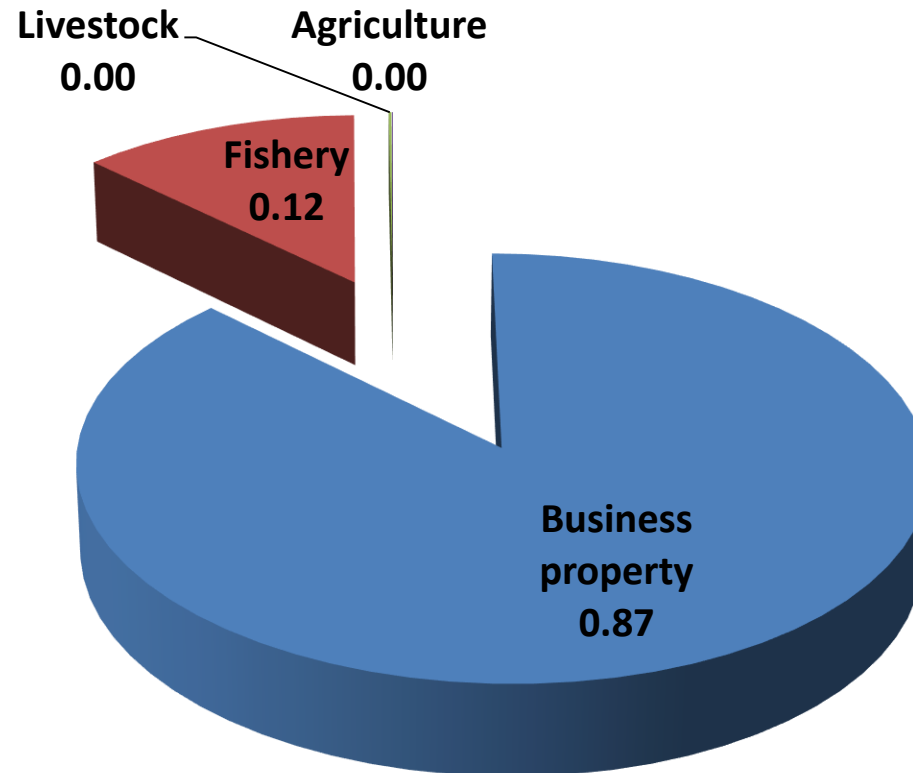
Figure 2: Thai and Foreigner Death Toll



Source: DDPM

■ Thai ■ Foreigner

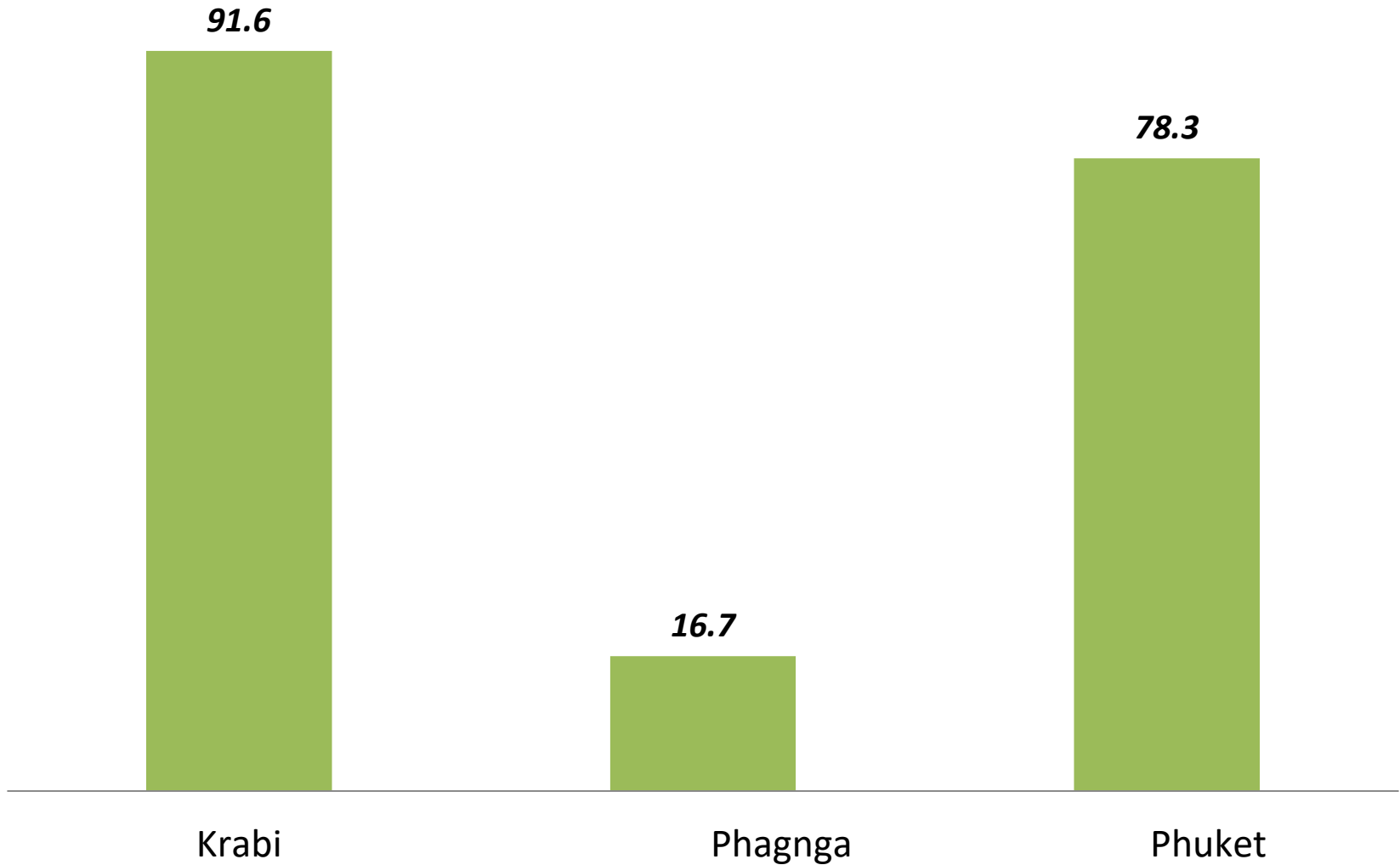
Tsunami and damages in 2005



Source: Department of Disaster Prevention and Mitigation

**Immediate impact on hotel rooms:
On January 12, 2005**

■ percent left



Phagnga: 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.

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 Phagnga.
- 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?

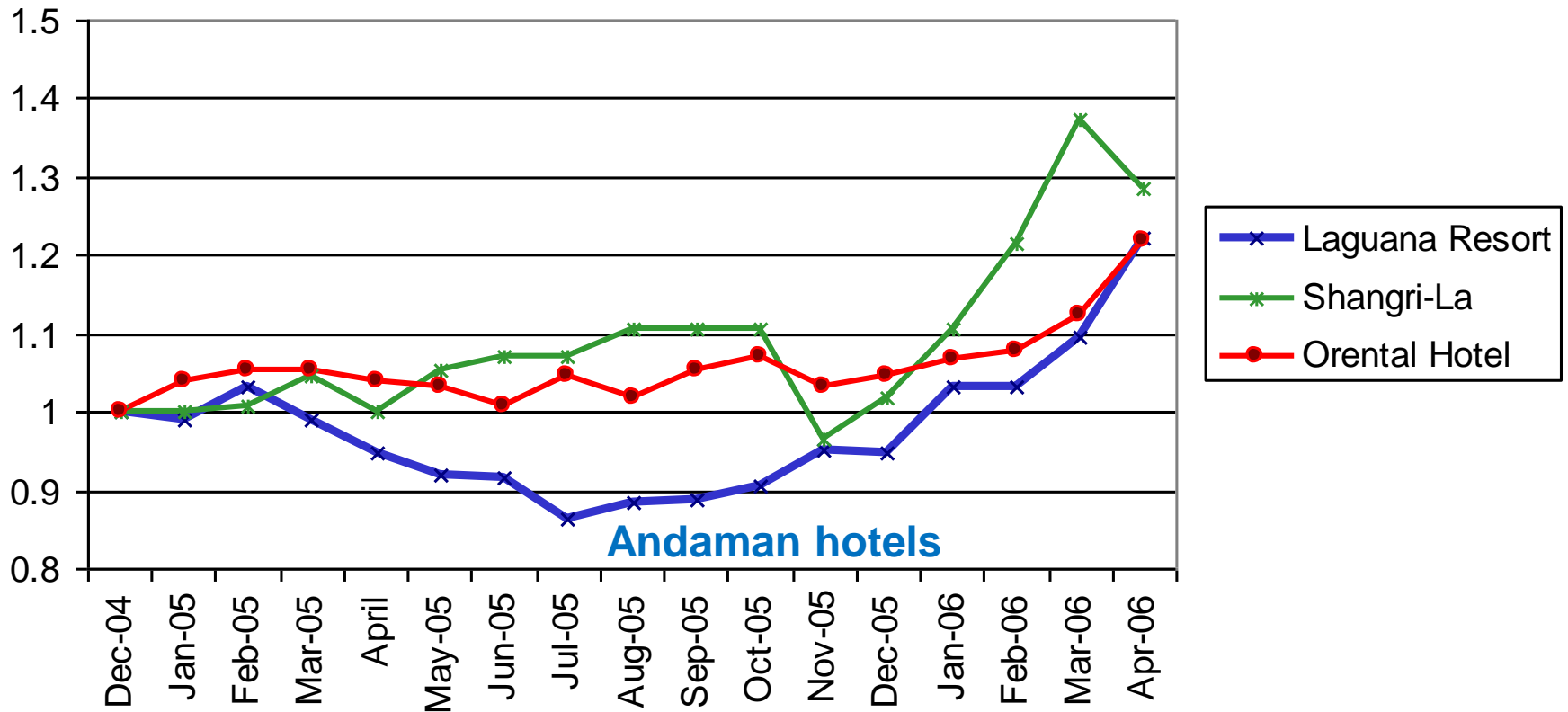
Impact on the stock market: minimal and short-lived

- On December 27, 2004 The Securities Exchange of Thailand (SET) index fell by 1 % only, while the hotel index fell by 2.5 %.
- It took the SET index **four days** to rebound to pre-tsunami level.
- However, it took the overall **hotel** stocks for **one month** to regain their ground.

Andaman exposure hotels

- Hotels with Andaman beach exposure (Laguna resort) suffered considerably,
- But Thailand does have other sandy beaches aside from Phuket, Phangnga, 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

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

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.

Implication from the 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,
- Although 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

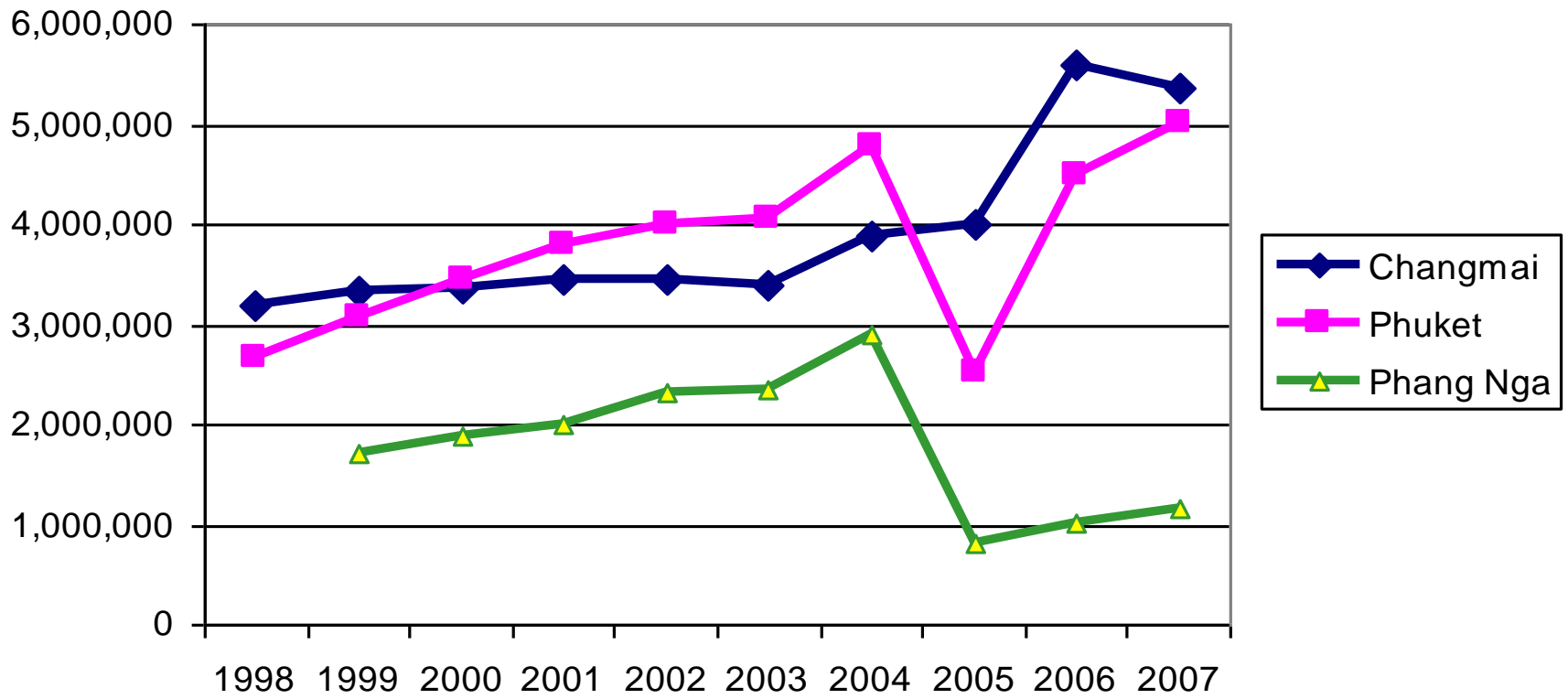
- Thailand can handle the finance of tsunami disaster by her own resources.
- **International assistance** should be directed to other countries with greater needs for help.
- But Thailand asked for one thing: A reduction to tariff barriers and **greater market access** to Thai products.
- Countries which suffered from natural disasters would suffer more by **downgrading of sovereign debt** rating agencies:
- The cost of international borrowing goes up (**higher risk premium**) 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 declined 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 was 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: Give it time, this too shall pass

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.

The 290- billion-baht loss, thanks to the 10-day-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 Bank of Thailand.
- The cabinet endorsed a one-billion-baht budget to be used for reviving and stimulating the tourism industry.

What did the travel agency ask?

- 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. The hotel business still survives at the current 30 baht.

Bangkok Airport Shutdown in 2008



While Thailand lost, neighboring countries gain

- Thailand experienced a decline in tourists' confidence beginning in December 2008 when international airports started closing and many foreign tour agents quit the country.
- **It 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.
- Since the bad deeds of the PAD leaders went on without punishment, they were emboldened to carry on the unthinkable: the Bangkok Shutdown in 2014.

**Anti-government protesters occupy key sites, roads and ministries on
the first day of the PDRC-led urban siege campaign:
January 13, 2014**



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

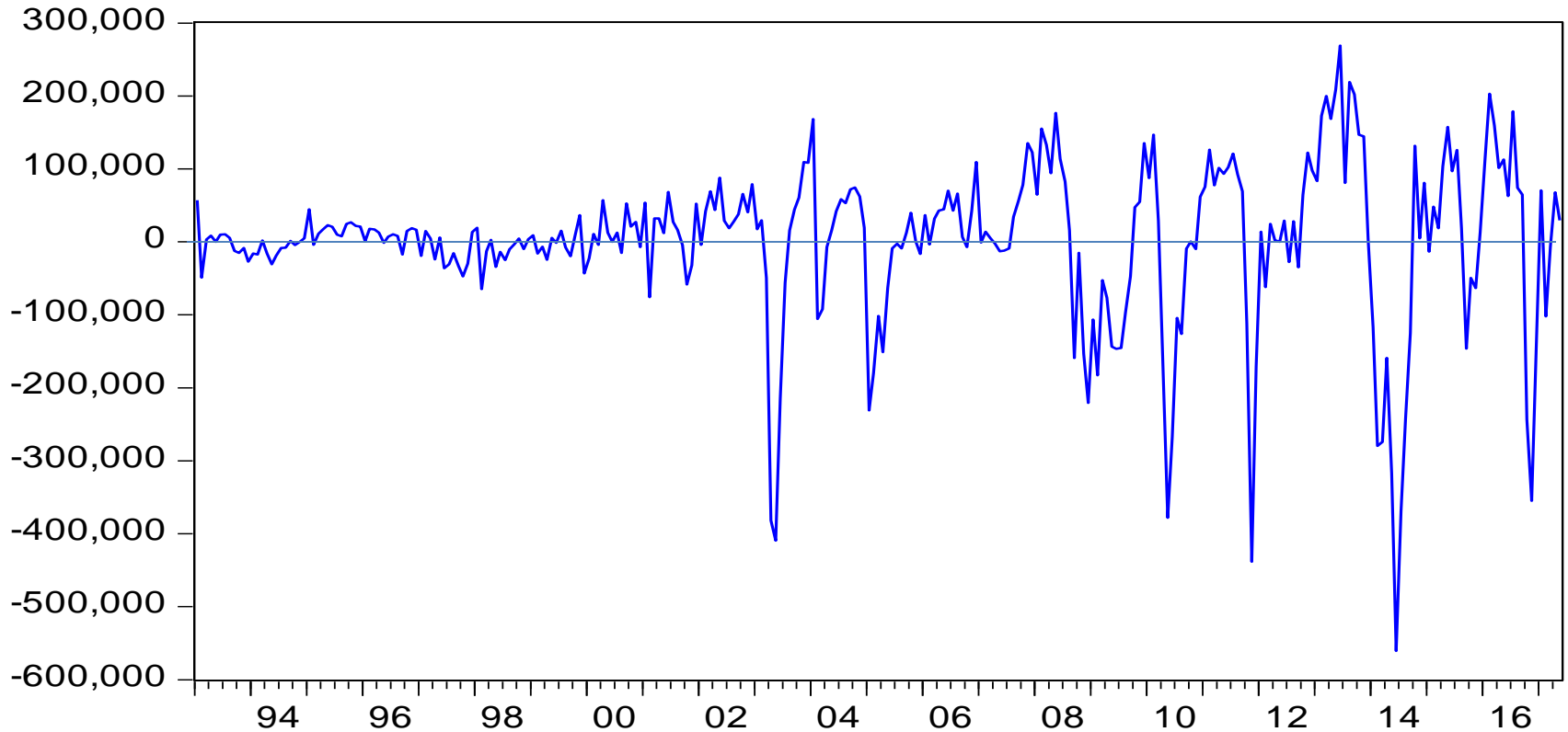
4. Microeconomic Analysis of Tourism Industry

- Hotels are complex organizations, creating value for consumers and investors by combining 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(online booking: Thomas Cooks was closed down) which also affect performance.

The hotel industry faces unique challenges

- Demand shocks impact the industry in differing ways: Economic volatility, Political instability, Terrorism, and Pandemics
- Effective business leaders seek to understand the impact of different shocks and develop the tools required to manage the consequences.
- Operating in a globally inter-connected and consumer-led environment, the hotel industry is exposed to various risks of business interruption.

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

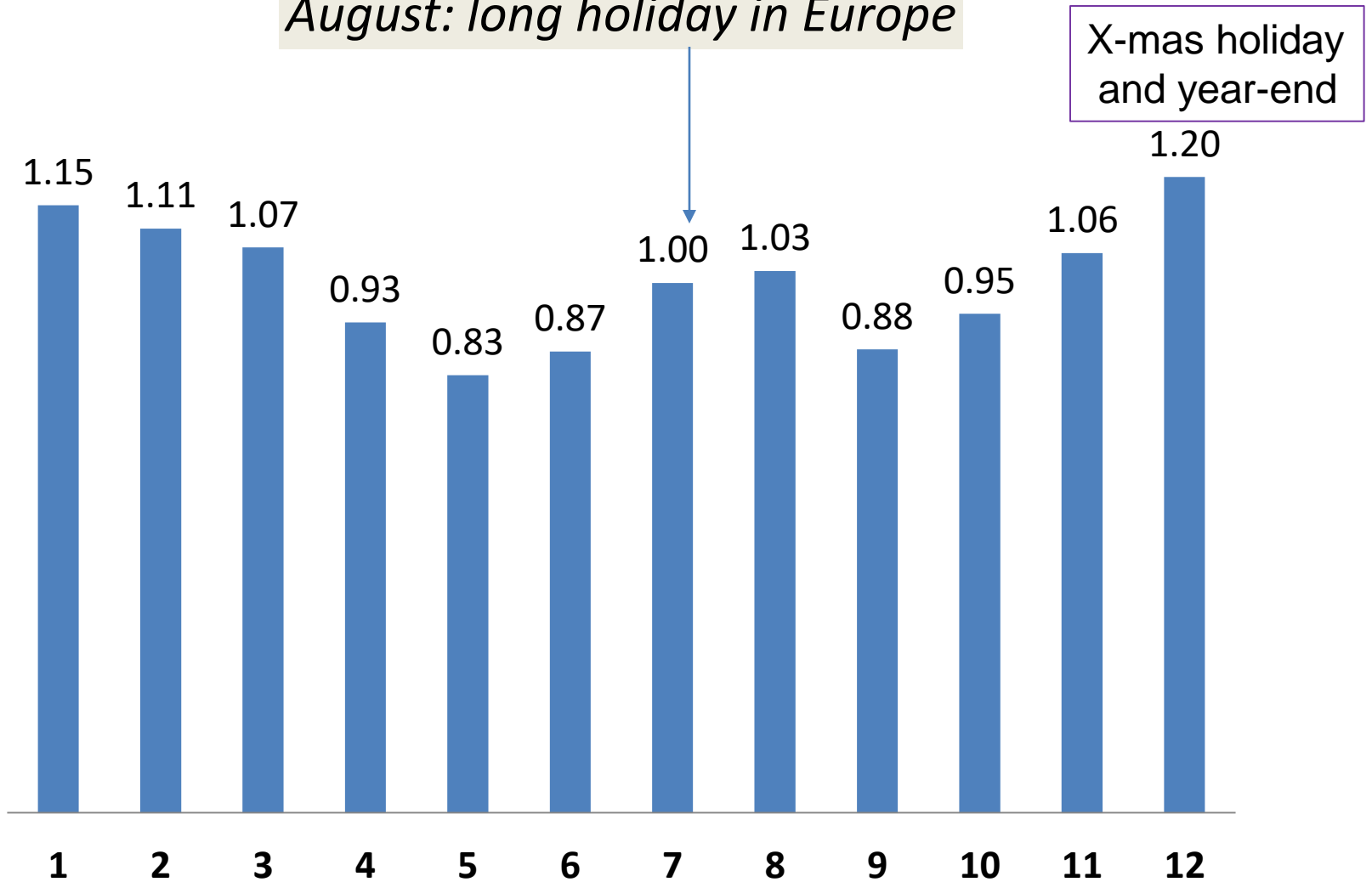


The travel and hospitality industry is operating through increasingly prolonged periods of uncertainty and instability.

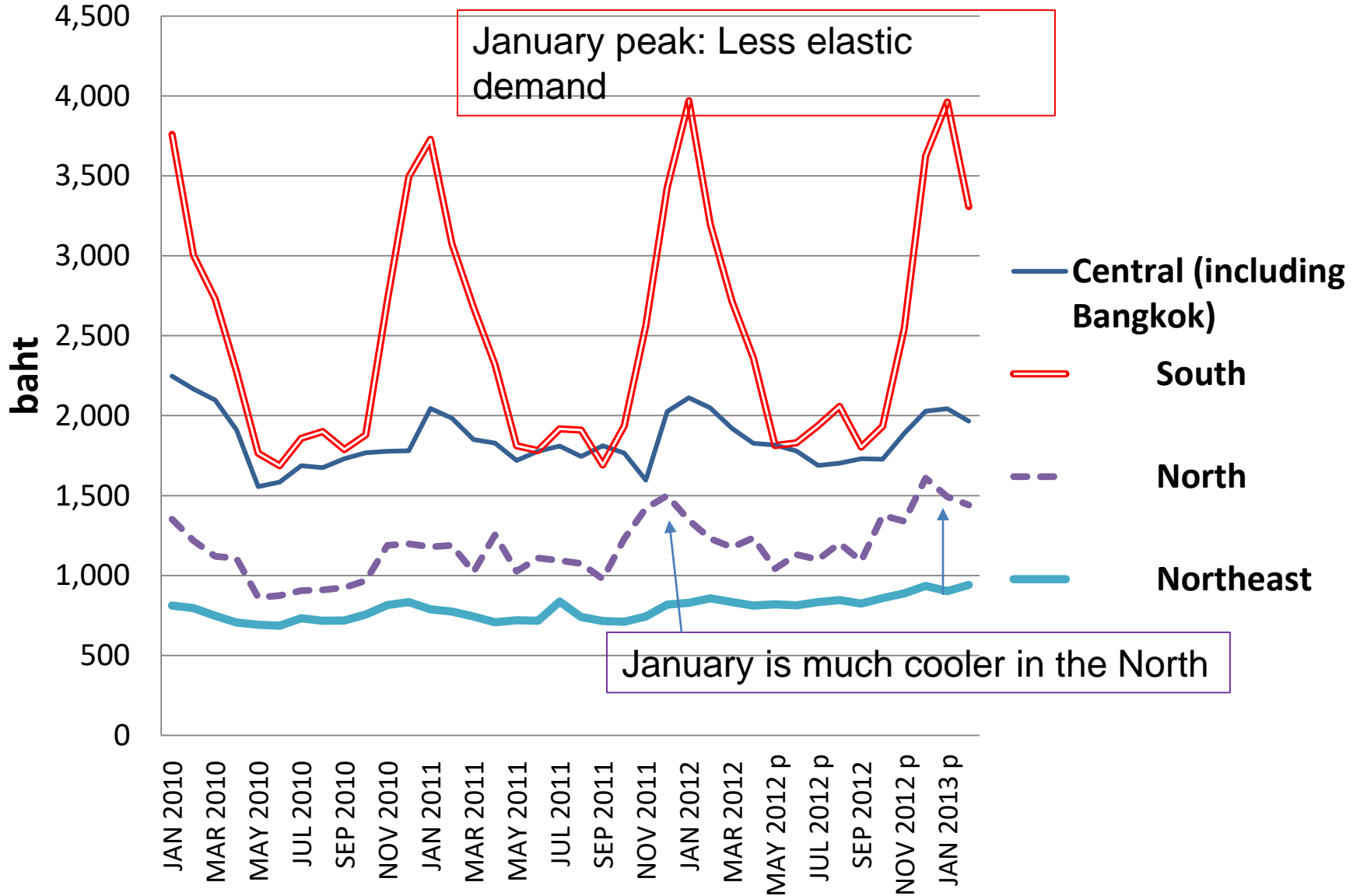
Microeconomic Analysis

- Seasonality and peak-load pricing
- Economies of scope: Revenues from MICE
- Uncertainty and risks affects supply and demand sides through reducing long term profitability and investment

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

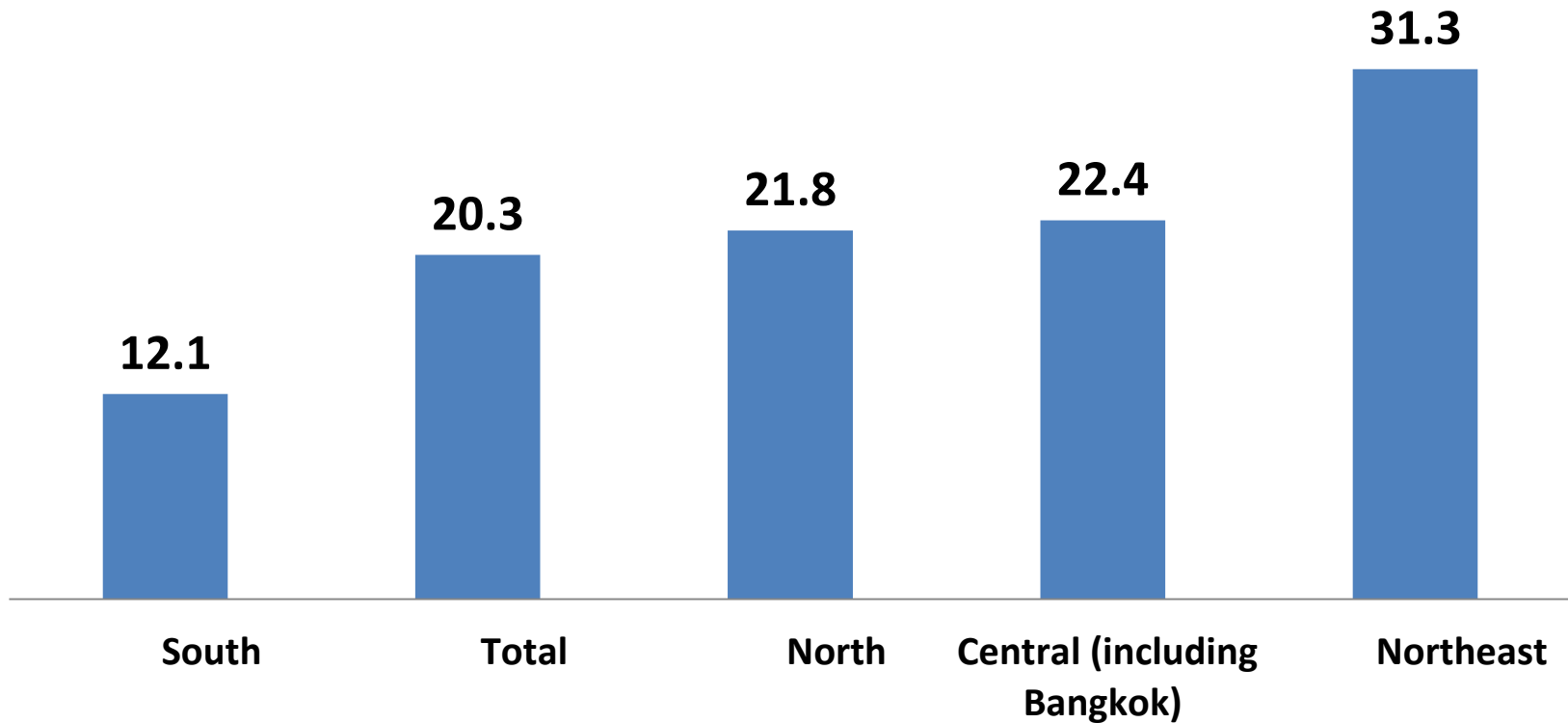


Average room rate



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

average share: 2010-2012



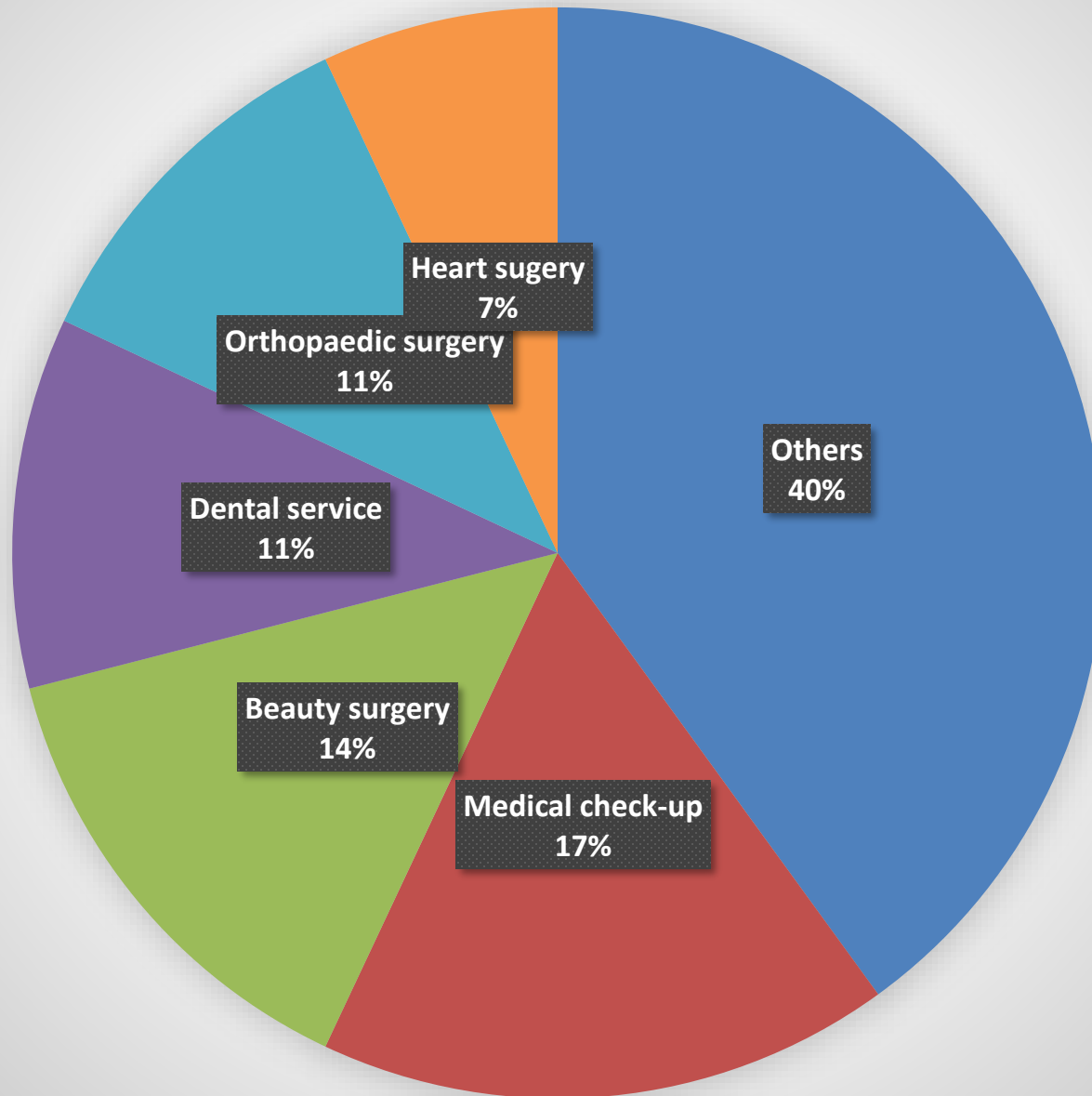
Expect the Unexpected

- The hotel industry needs to adapt to living with uncertainty (scale down operation and temporary staff reduction)
- **Preparation** is the 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.
- Those who are well prepared will emerge from a crisis as winners with a stronger position and capitalize on the recovery.

5. Medical tourism

- With strong support from the government, demand for Thai medical services from foreigners 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.

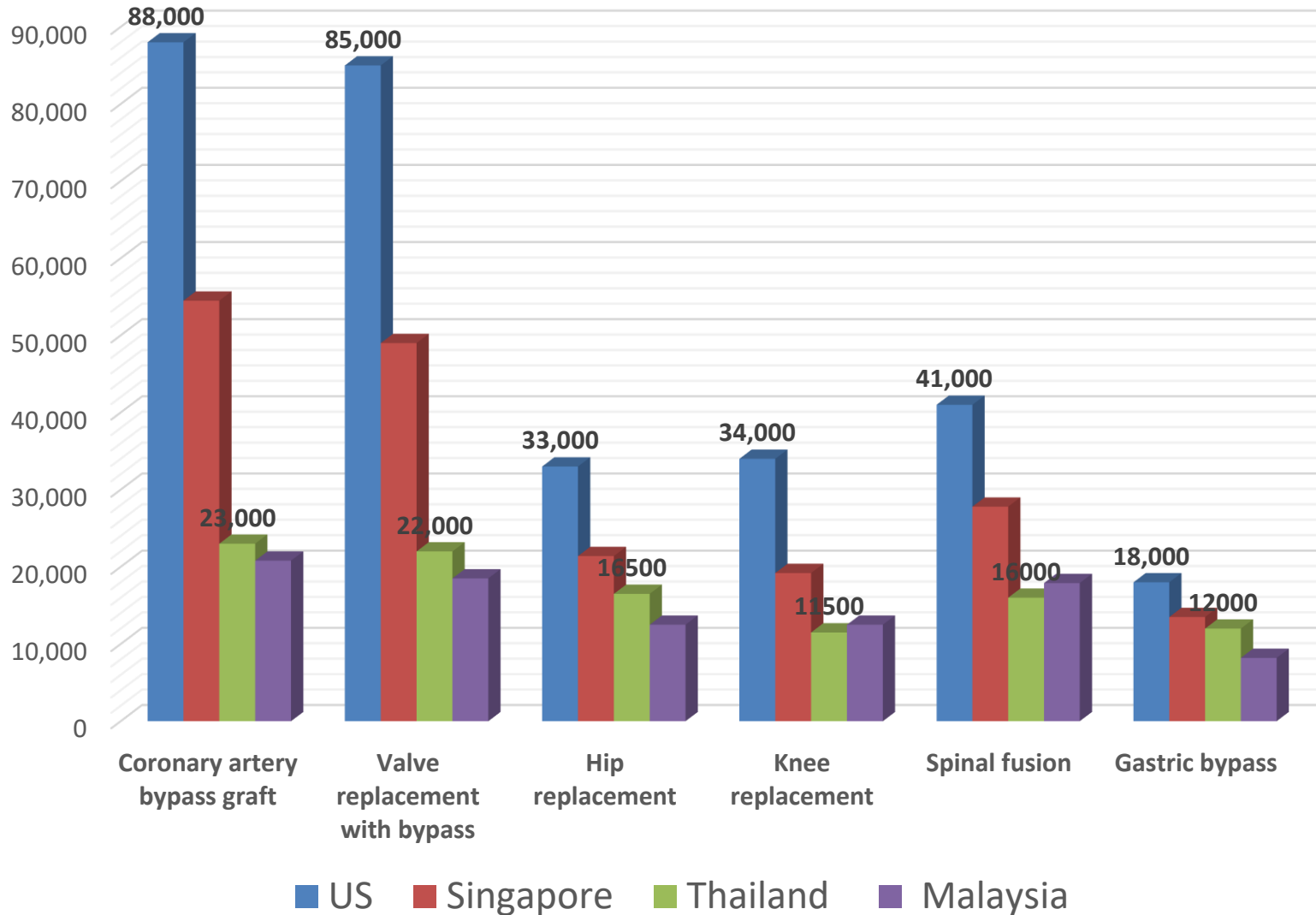
popular medical services among foreign visitors



Popular Medical Services

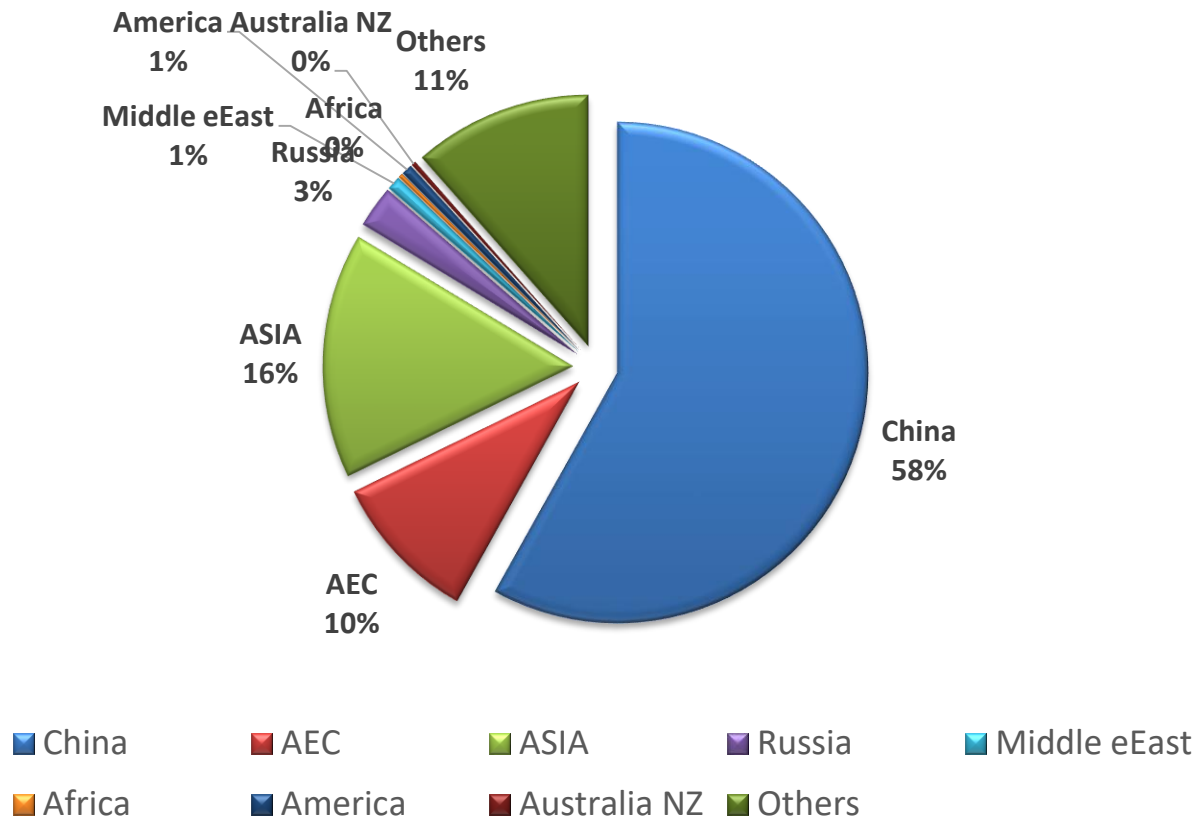
- Popular medical services among foreigners include **standard checkups, cosmetic surgery, and dental services**.
- Beside tourists, there are expats working in Thailand and neighboring countries where medical service standards remain relatively low, encouraging them to come to Thailand.
- *Myanmar and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

The importance of chinese tourists share in 2019

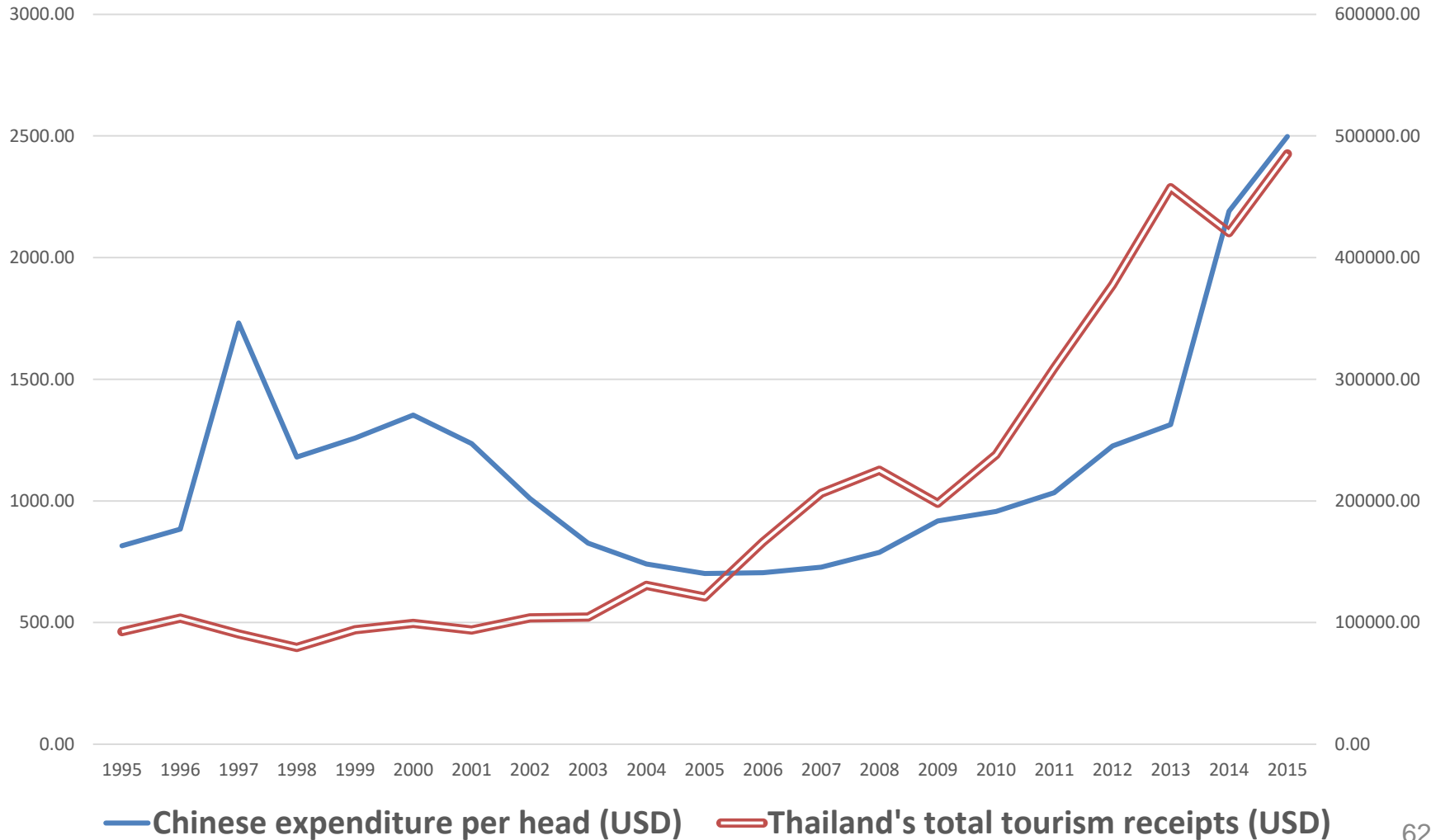


Workers prepare plates of **mango with sticky rice**, a popular local dessert for thousands of Chinese tourists, in an outdoor banquet in Muang Thong Thani in Nonthaburi province outside Bangkok on Jan 20, 2019 as part of a government promotion to attract more Chinese tourists.

The huge event aims to set a Guinness World Record for the largest serving of mango sticky rice.

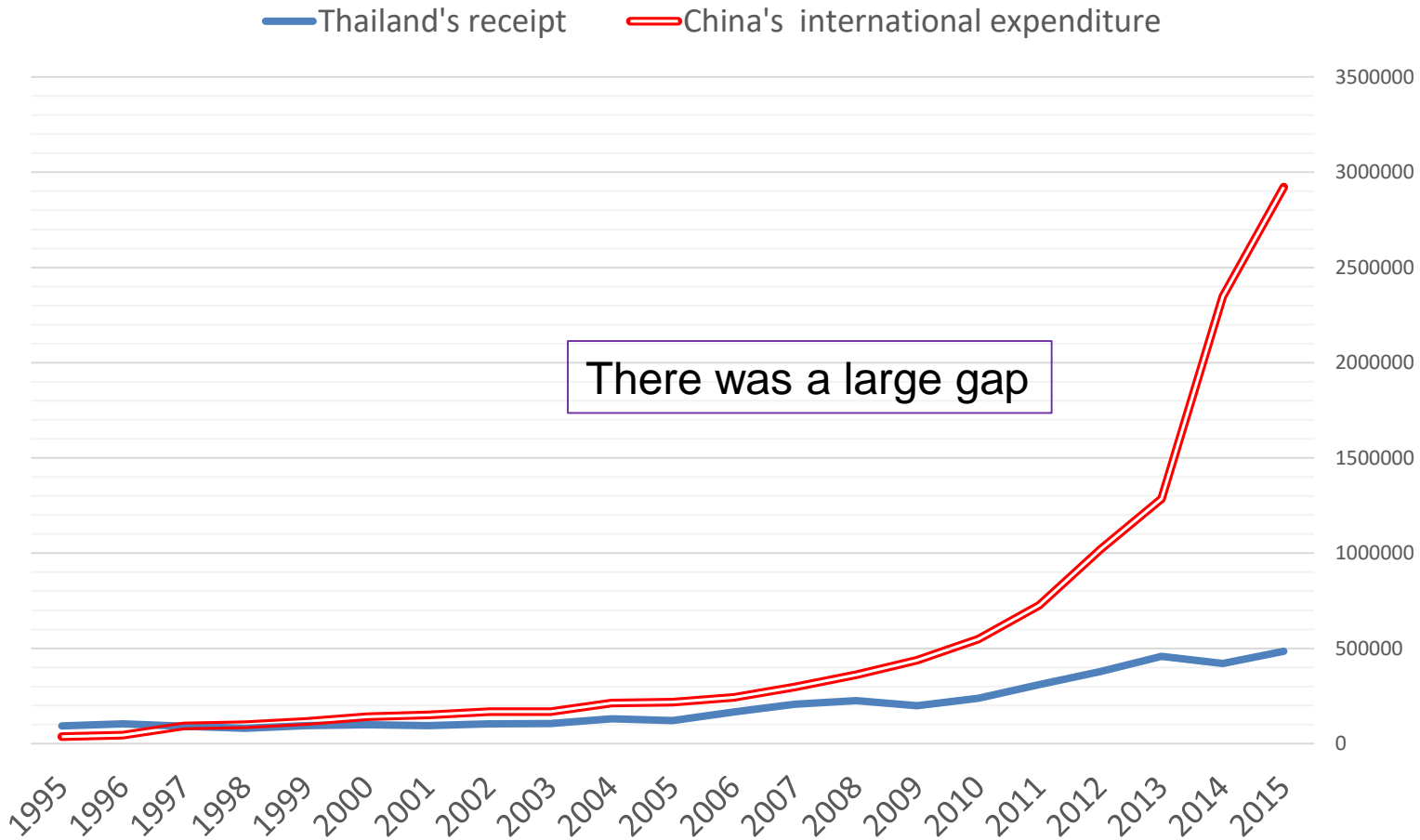


Chinese expenditure per head and Thailand's total tourism receipts

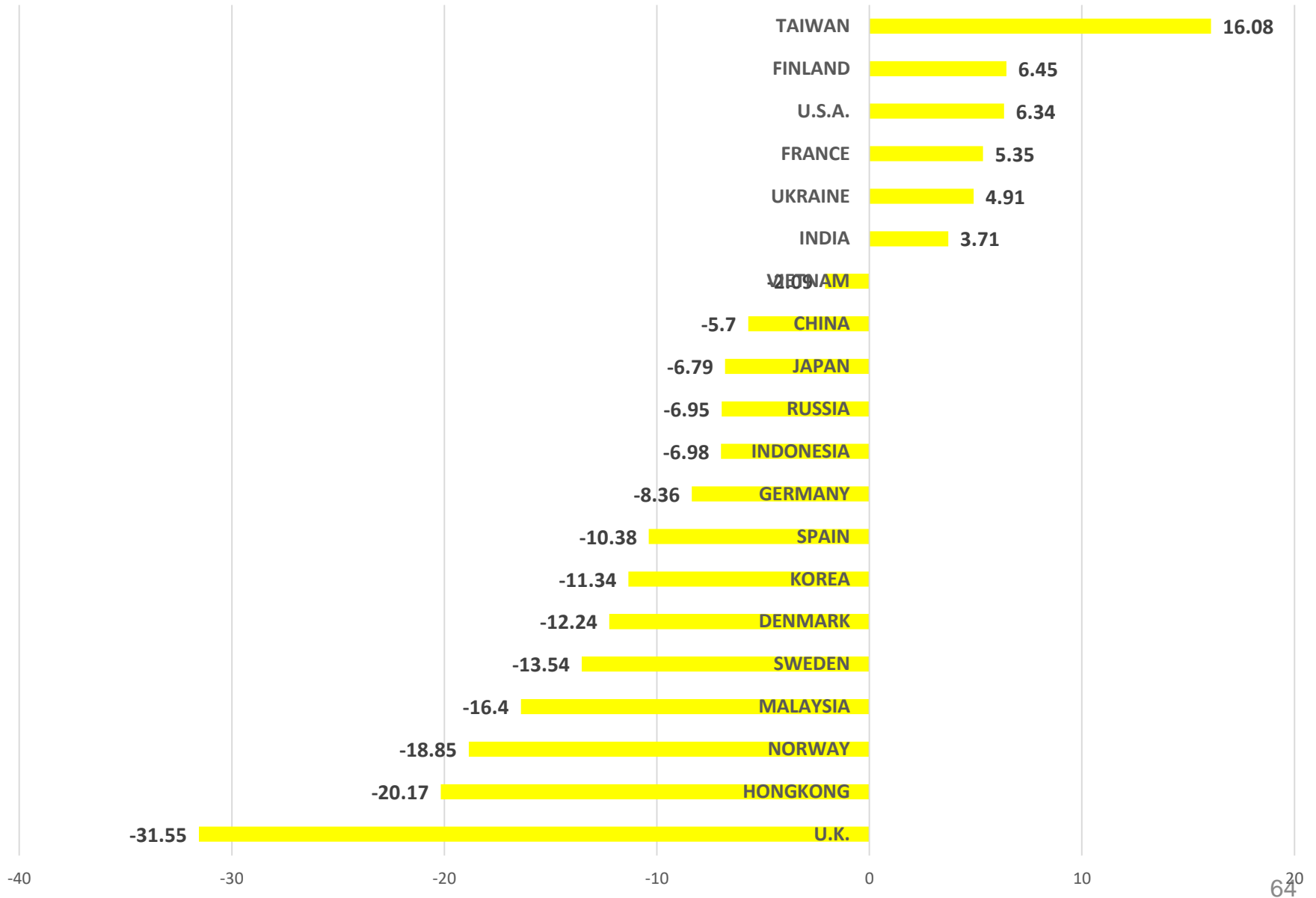


International tourism: Thailand's Revenues and Expenditures

Source: World Bank
Thousands USD

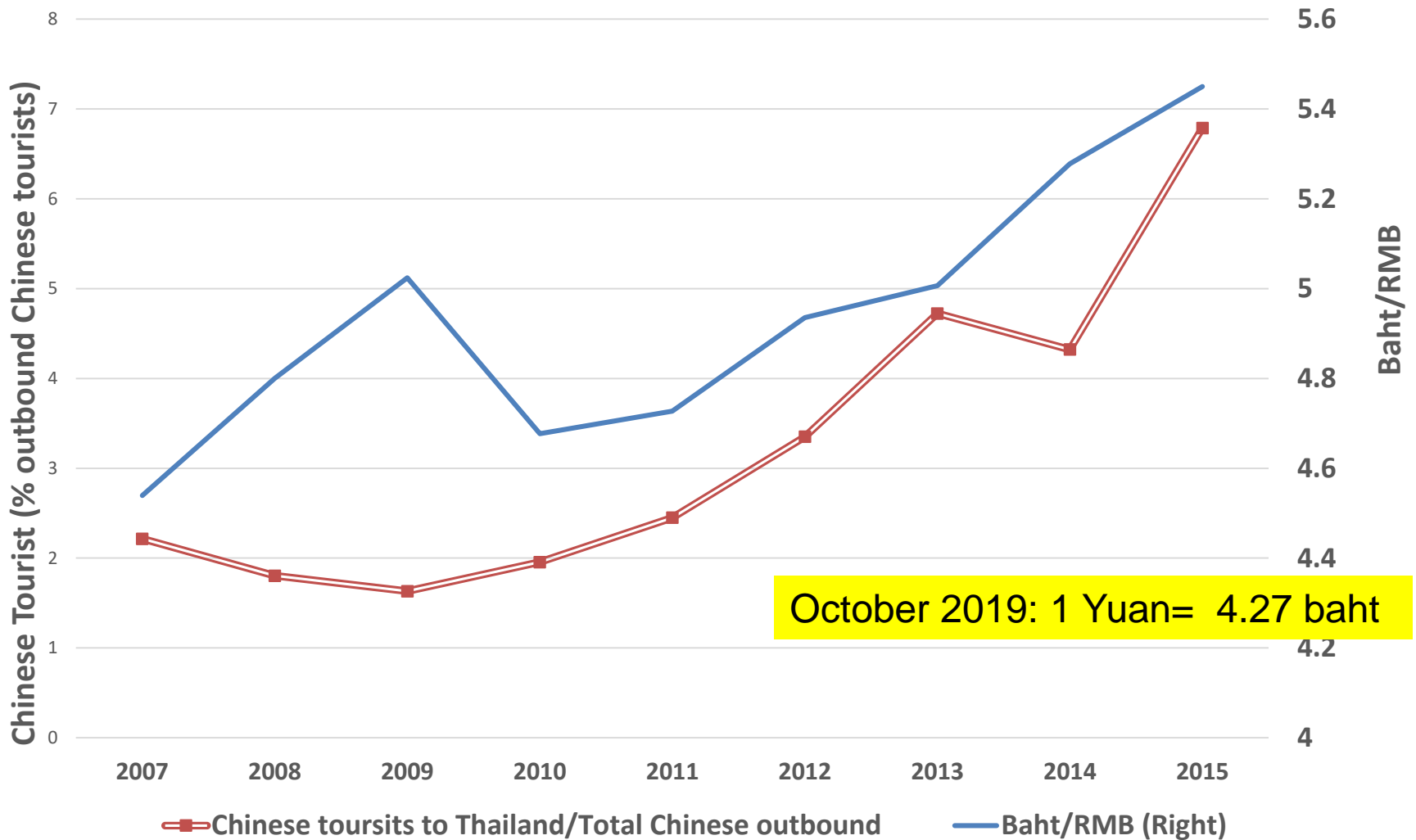


Percentage change in number of tourists Jan - Oct 2019



Exchange Rate Matters

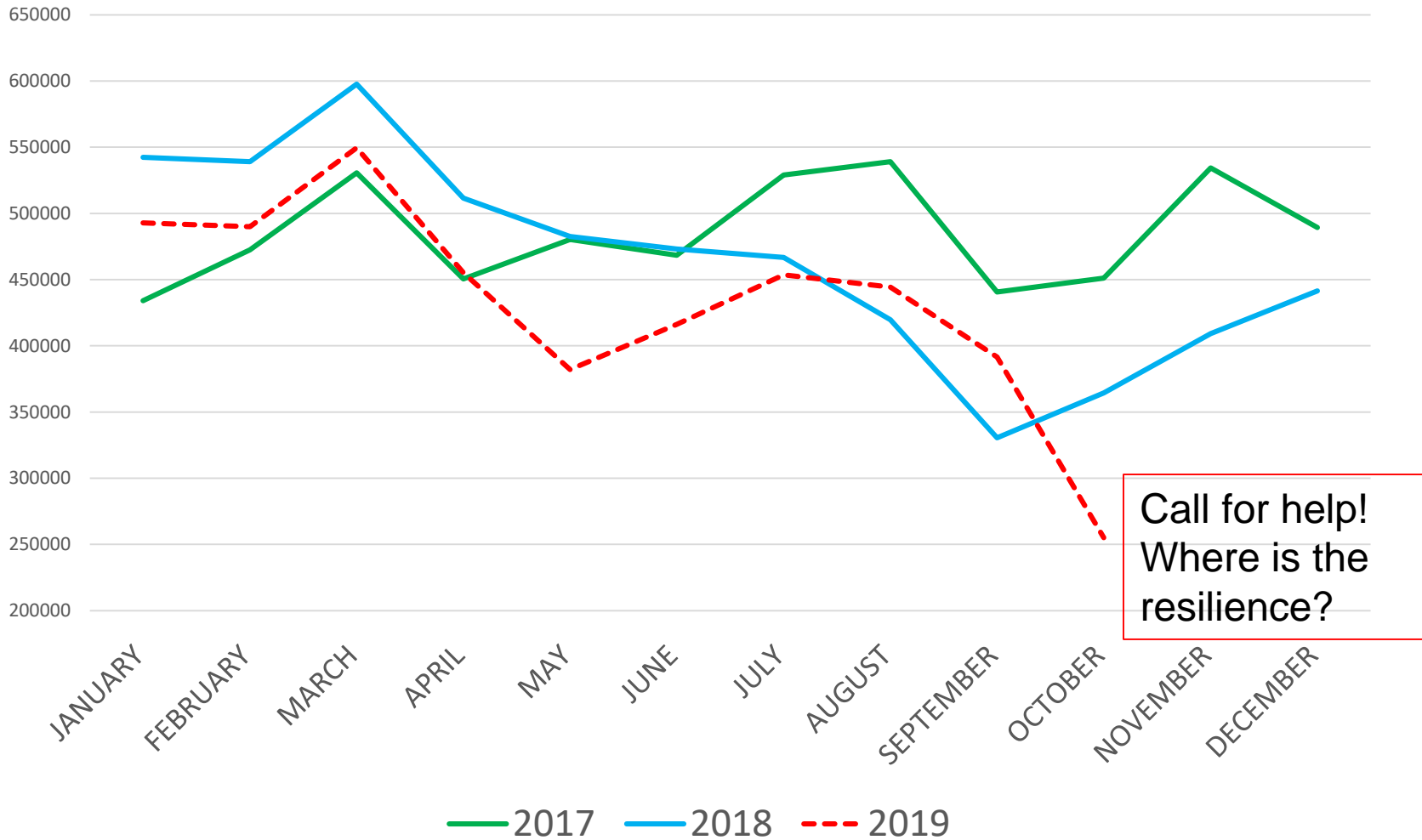
Cheap baht boosted Chinese tourists



7. Something bad has happened in 2019

- December 2018, the busiest month ever, was considered Thailand's tourism goldmine
- There has been a slump in tourist arrivals since January in 2019.
- From April to May 2019, the arrivals dropped from 3,195,006 to 2,726,808.

Number of tourist arrivals



Pattaya and Phuket are key indicators

- In June 2009, the number of tourist dropped 20-30% in Pattaya and Phuket.
- It comes as even the head of the Tourist Authority of Thailand, famous for its bullish outlook, has accepted that the country's prized industry, which had a record year in 2018, has found itself buffeted by an unexpected negative environment throughout 2019.
- *“The industry will rebound in 2020 as the country refocuses on high quality and high spending tourists.” said the head of TAT.*

Political uncertainty is just one reason for the fall off

- There were hopes that Asian and Australian travellers will take up some of the slack in July and August.
- The problem not only on external factors but also on shortcomings in Thailand.
- One was the political uncertainty sparked in the run-up to the election in Thailand and *the long process afterwards* to form a new government.
- Air pollution in Bangkok has become a major problem.

“Leapfrog” investment pattern in Phuket has left many hotels and tourism operations exposed

- Phuket has seen as ‘leapfrog’ investment in the tourism industry on the island driven by a massive increase in tourist arrivals in five years from **9 million** arrivals to **14 million**.
- It now poses a major problem for operators who find themselves competing for a shrinking market.
- Some rooms in Phuket were on sale at 50% of the low season rate for June last year as desperate hotel operators try to recoup income on their investments.

Stagnant European economy and world conditions suffocating tourism right now

- The deteriorating world economic situation in 2019 is another factor.
- Tourist numbers from the European Union were down because the European economy was stagnant.
- The heightened tensions caused by the US-China trade war is suffocating the tourist trade.
- This is most notably seen in a dramatic fall-off in Chinese tourists.

Competition from Vietnam and Cambodia

- The growing competition is from other Asian tourist locations such as Vietnam and Cambodia.
- Phuket currently stranded with too many hotel rooms and not enough visitors.
- **Safety is a real issue in Thailand's tourist prospects that can no longer be ignored.**
- Is safer to travel in Vietnam and Cambodia?

Thailand emerges on **top for insurance claims** from travellers in a UK survey

- The UK Post Office released data to show that Thailand was the tourist destination with ***the highest number of claims for accidents in the UK for its insurance service.***
- Thailand scored 5.9 in its index coming ahead of Sweden and New Zealand.
- The survey measured the cost of covering insurance for tourists in these countries. For instance, the survey highlighted high medical costs in New Zealand which also has a high accident rate.
- New Zealand is famous among young westerners for its extreme sports. For Sweden, it was cancellations and lost luggage.
- ***Thailand's high accident rate was the problem.***

Europeans have abandoned Pattaya

- Pattaya raises the alarm – tourist number down 20% to 30% in June compared to last year
- The absence of European tourists from Pattaya has now become a long-term trend.
- However, in past years, the **influx of Chinese tourists** and travellers from other Asian countries had **filled the gap**.
- Glory days of the Pattaya beer bars are gone

Where have all the tourists gone?

- The glory days of the huge numbers of young and middle-aged European tourists crowding out the beer bars of Pattaya have come to an end.
- *They have gone elsewhere* or else they are put off by the high Thai baht and adverse economic conditions at home.
- **Vietnam emerges as a serious competitor to Thailand**
- The emerging competitor for Thailand is Vietnam.
- **Cambodia** has attracted many European visitors who once flocked to Thailand as well as huge numbers of Chinese.
- **Vietnam** is now seen as a relatively safer and more exciting destination.
- In 2018, Vietnam also had a record tourism year with over **15.5 million visitors**, less than half the size of Thailand.

Thai hotel group Centara expand in Vietnam

- This has led leading Thai hotel chain Centara to announce that it is developing new hotels and resorts in that country over the next five years. The company has a range of branded hotels and offerings in Vietnam already from its Centara Grand brand and Boutique collection to accommodation for foreign techies who enjoy more freedom.
- Centara is a Thai hotel group that has a 30-year track record of excellence and success. The company now has over 70 hotels in its portfolio with over 13,000 rooms
- **23,000 hotel rooms right now being built in Vietnam as that country celebrates its EU deal**
- So far in 2019, Vietnam is having an excellent year with almost six million visitors recorded. The upsurge in Vietnam's tourist prospects can be seen from official data showing that there are currently over 23,000 hotel rooms in the process of construction.
- ***Vietnam on June 30th signed a historic free-trade pact with the European Union.***
- Vietnam is emerging as a competitor to Thailand which appears at this point in 2019 to be in a state of flux now also with its highly prized and valuable tourist industry.

Critical Thinking 1: How government responds to the slump

- The cabinet (October 22), approved an six-month extension to the exemption of **visa fee waiver** until the end of April next year.
- The visa fee waiver has been implemented since November 2018 and is due to expire by the end of this month.
- Waiving of the Bt2,000 fee has since led to a 120 per cent increase in tourist arrivals despite costing the government Bt *10.8 billion in lost revenue*.
- “However, the loss was insignificant when compared to Bt144.73 billion in tourist spending”.
- The move is part of government measures to boost the local economy, including incentives for domestic tourists, soft loans and reduction in mortgage and transaction fees for the property sector.

Critical Thinking 2: Thai Airways at crisis point, TG president says

The airline's president on Tuesday voiced serious concern about the loss-ridden national airline's future and cited this *aircraft waiting for repairs* as an example of why it was losing so much money



Is THAI really in a crisis?

- THAI had lost its market leadership on several routes to competitors, citing northern routes that had generated a third of THAI's revenue but were now dominated by low-cost airlines.
- The competition is very fierce this year," Mr Sumeth, THAI president, said.
- " Next year it must do its best. If staff are still unaware and do nothing, they will not have enough time to fight back.
- Today very little time remains. Today there is no comfort zone. Everyone will die if the vessel sinks," .

What has gone wrong with the TG?

- THAI would cut costs by reducing the salaries of managerial staff and following a zero inventory policy at its catering department
- In the first half of this year, THAI posted a loss of 6.4 billion baht, raising its accumulated loss to **280 billion baht**.
- TG employs more than 20,000 people. The wage bills are very high, pushing the price of the airfares.
- THAI has faced mounting pressure on its revenue as it struggles to operate ***with ageing aircraft, declining tourist arrivals, stiff competition, and a stronger currency.***
- The baht's **8% appreciation** against the US dollar in the past year. The baht is the strongest in a basket of emerging-market currencies tracked by Bloomberg.
- “The baht appreciation greatly affected the Thai tourism situation,” the company said.
- Transport Minister supported Thai Airways’ plan to buy new aircraft to improve its services.
- In Q3 2019, the company had total of **103** active aircraft.

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 should be responses of the tourism industry to internal and external shocks? How should the industry react to these two different sources of shocks.
- *Should the baht stay undervalued?*