

# Tourism Industry

## *Vulnerability and resilience*

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Lecture 20

# A lopsided engine: housing in China

- Often said to be the economy's motor, property is making a comeback. But the engine is already revving dangerously fast in big cities while barely sputtering to life elsewhere.
- Figures out today will reveal whether the Chinese government has made headway in correcting this imbalance.
- Shenzhen, a southern metropolis where prices of new homes have soared by 57% in the past year, has raised minimum down-payments and cracked down on illegal lending.

# What could go wrong?



Chinese house prices, yuan per m<sup>2</sup>  
January 2012=100



Sources: China Index Academy; SouFun

# The difference between the west and the east coast cities

- Beijing and Shanghai have implemented similar measures. Meanwhile, in smaller cities, officials are trying to spur home buying with discounted mortgages and incentives for new residents.
- If China can redirect its property boom to these places, the economic outlook will brighten markedly. But the authorities have long been overconfident of their ability to control the flow of people: that is why smaller cities have gluts of unsold homes in the first place.

# Outline

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

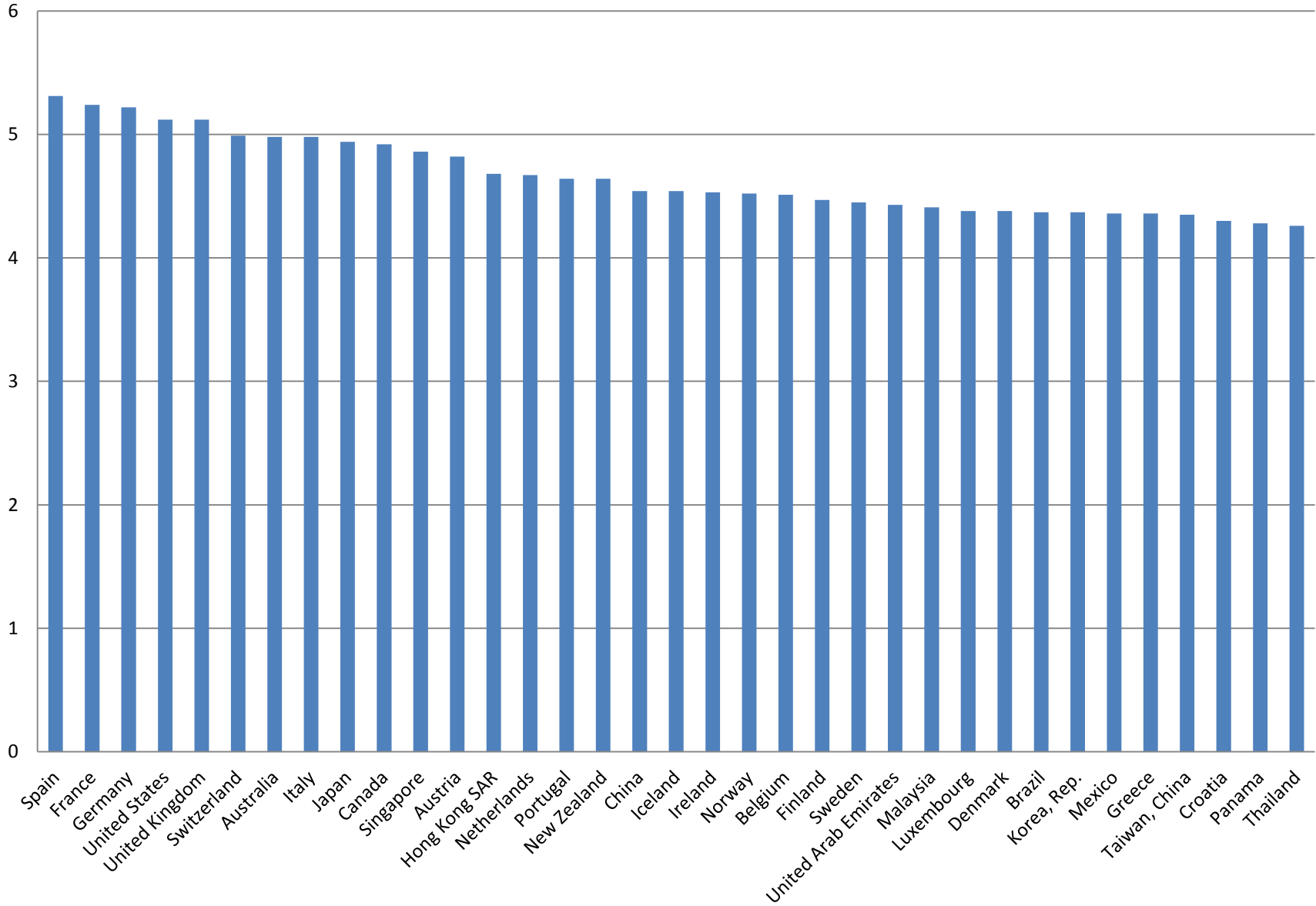
# Travel and Tourism Industry

- 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



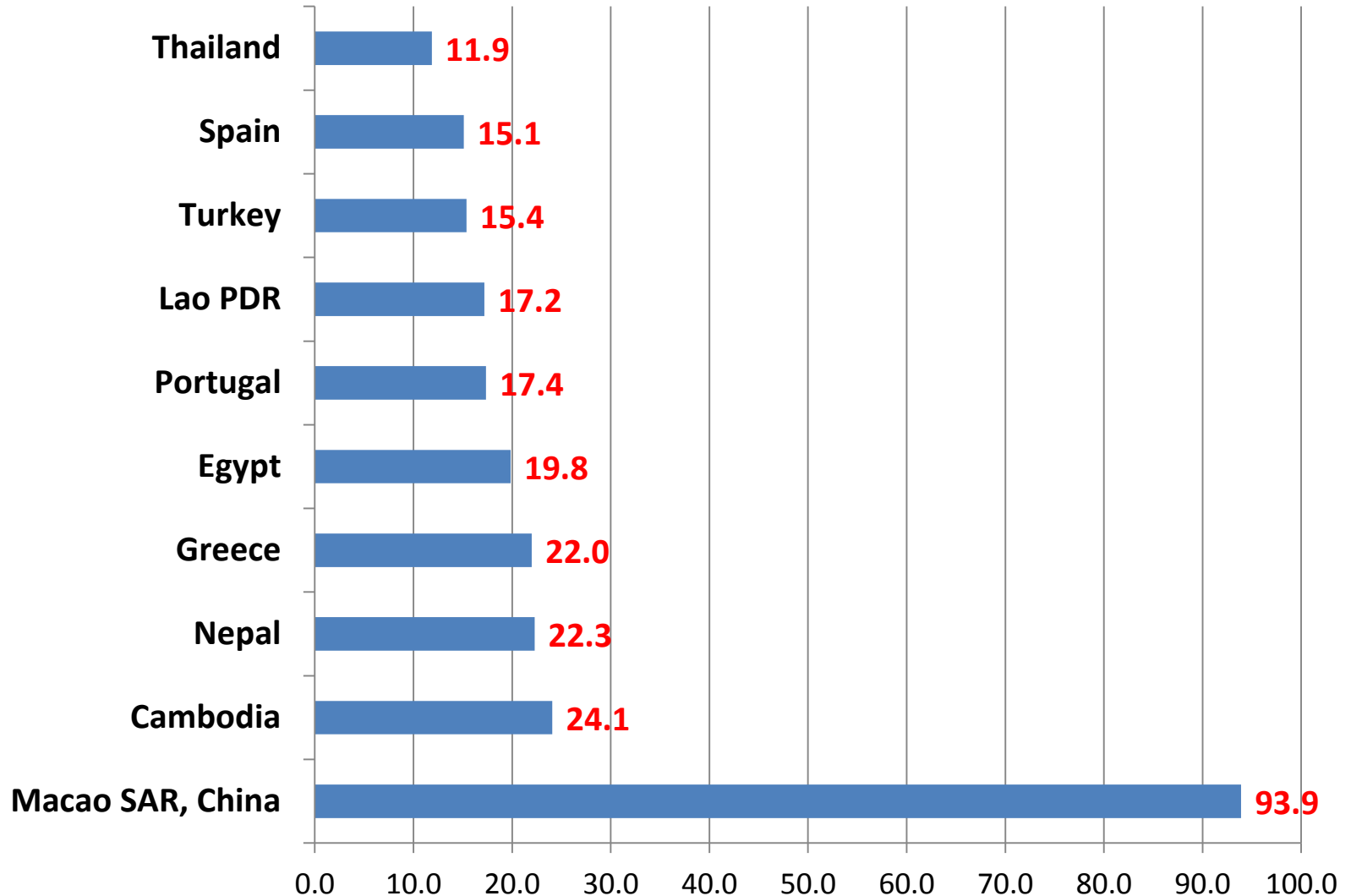
# Travel and Tourism Competitiveness

- 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.

# Characteristics of Thailand's tourism industry

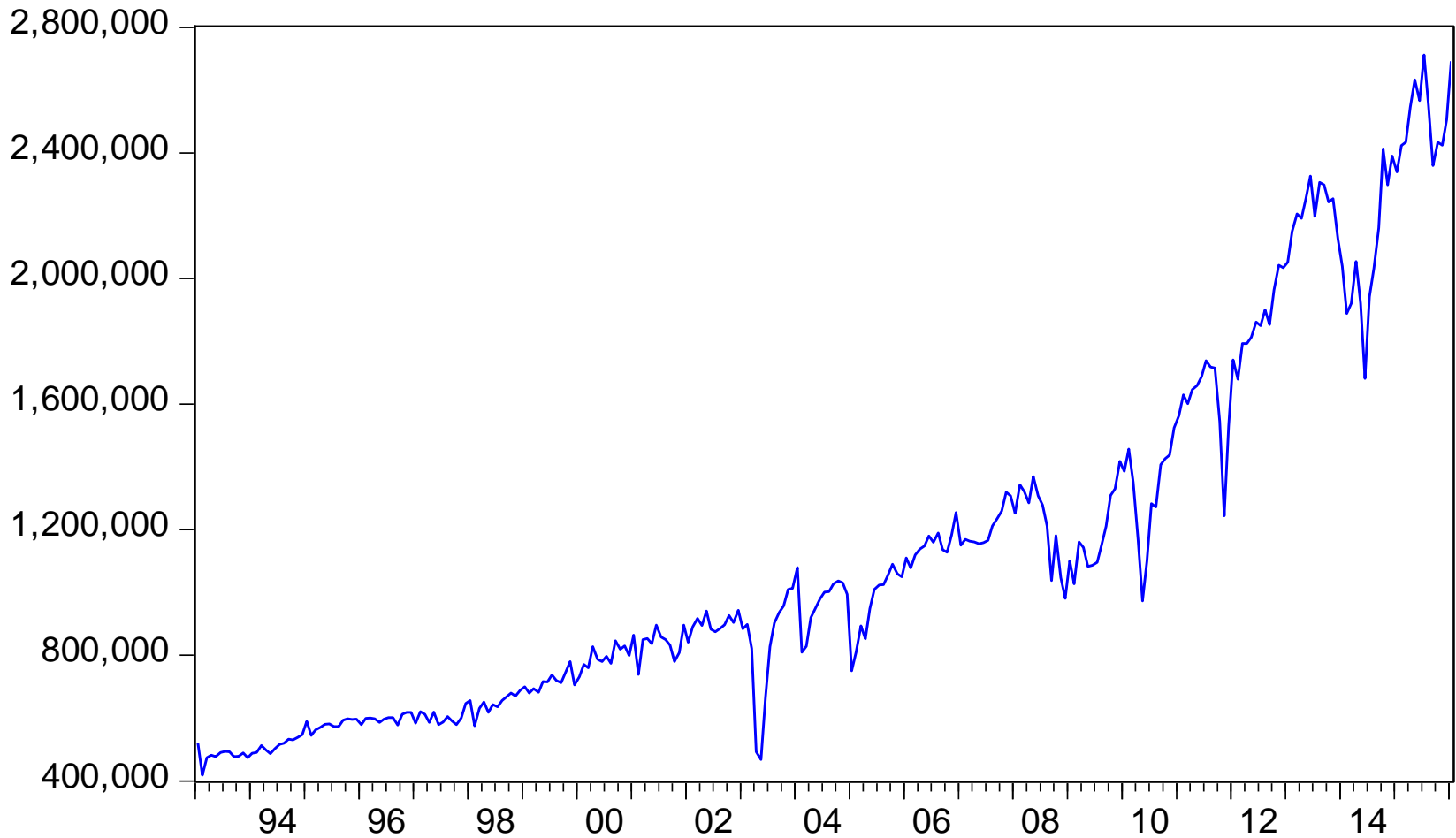
- Overall tourism income of the country is approximately 16 % of GDP.
- ***Cultural capital*** and natural capital stock
- Highly labor intensive: employment and migration.
- Strong linkages to other sectors.
- Net foreign exchanges.

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

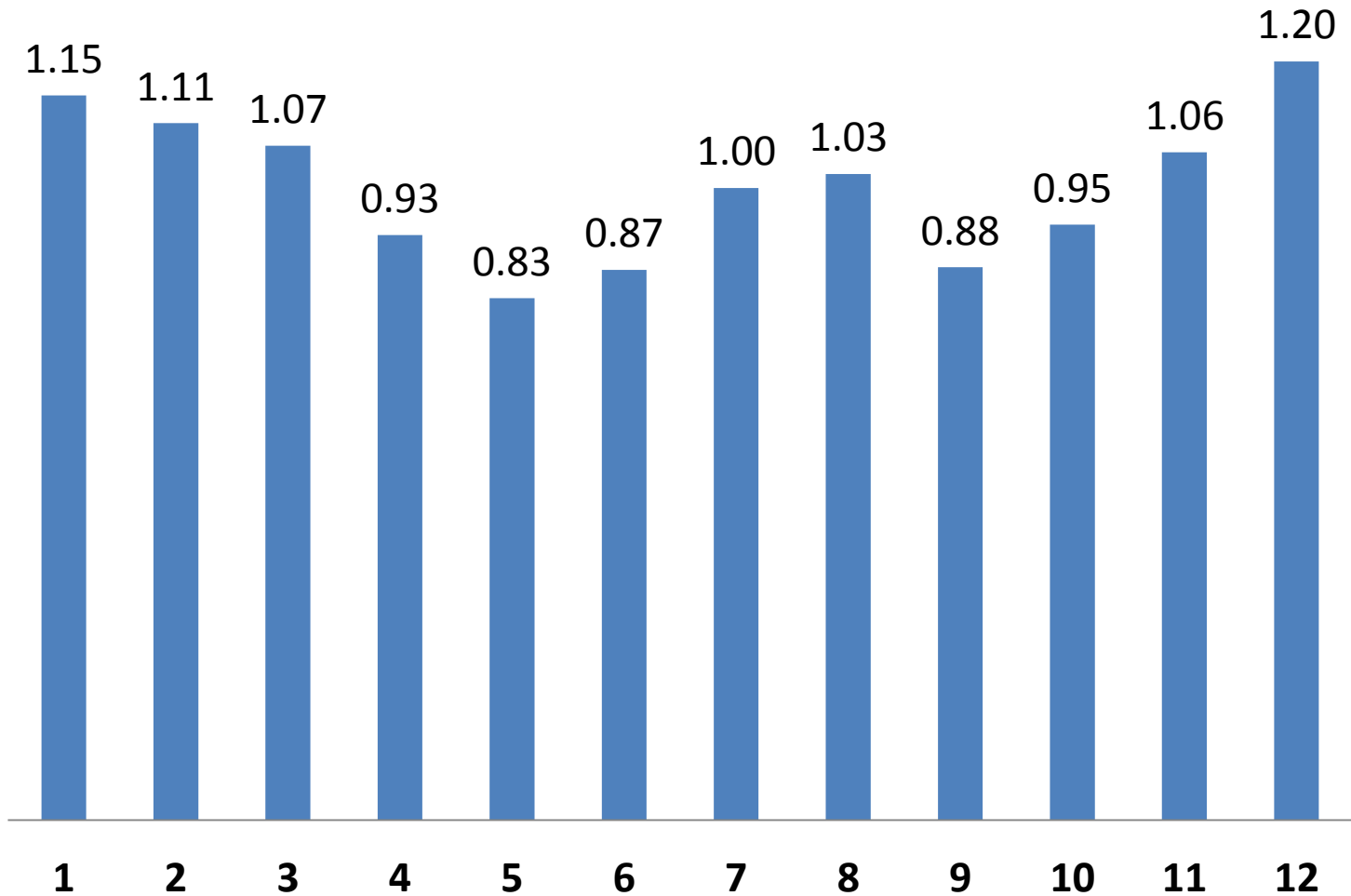


# From Jan 1993 to Jan 2016

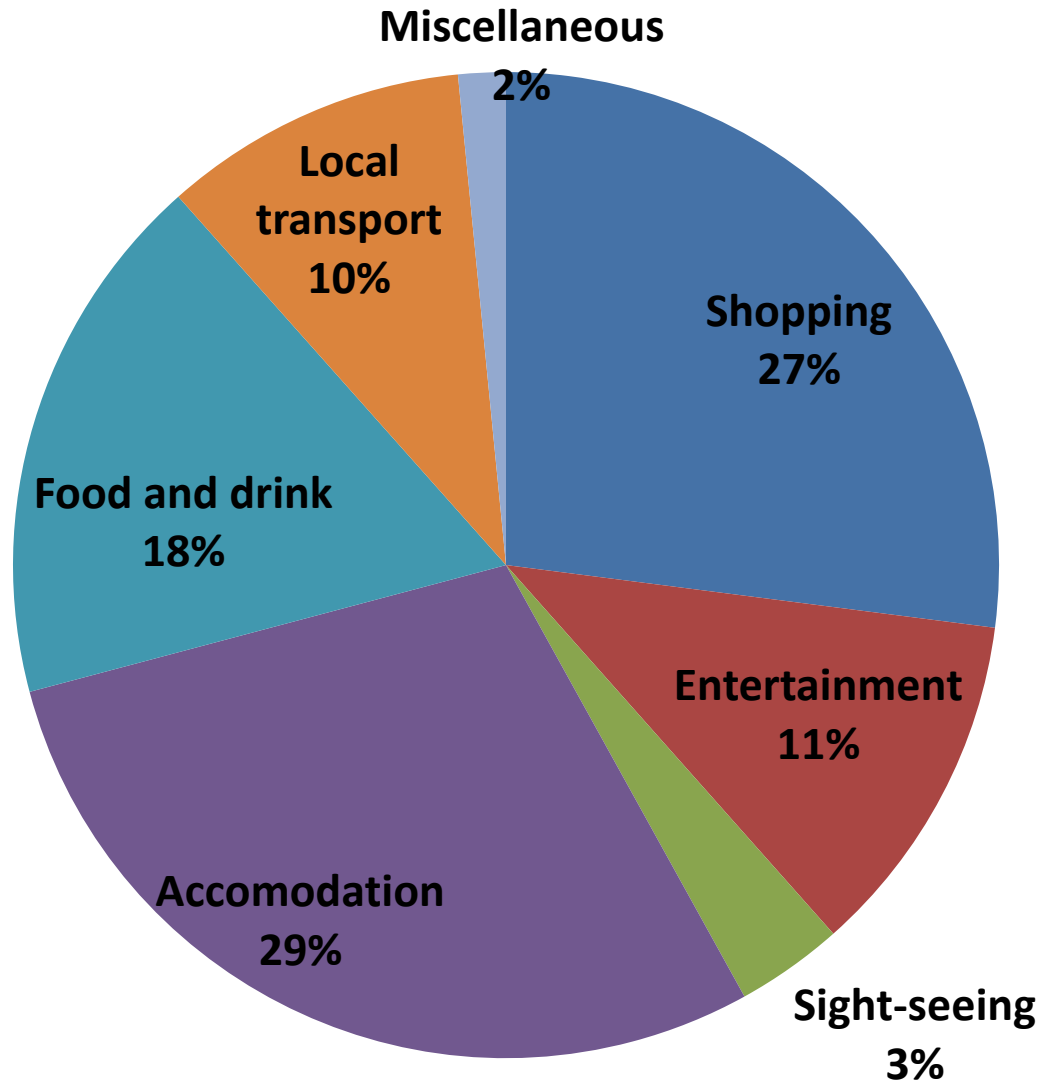
Number of Foreign Visitors



## Monthly number of tourists: *Ratio to moving average*

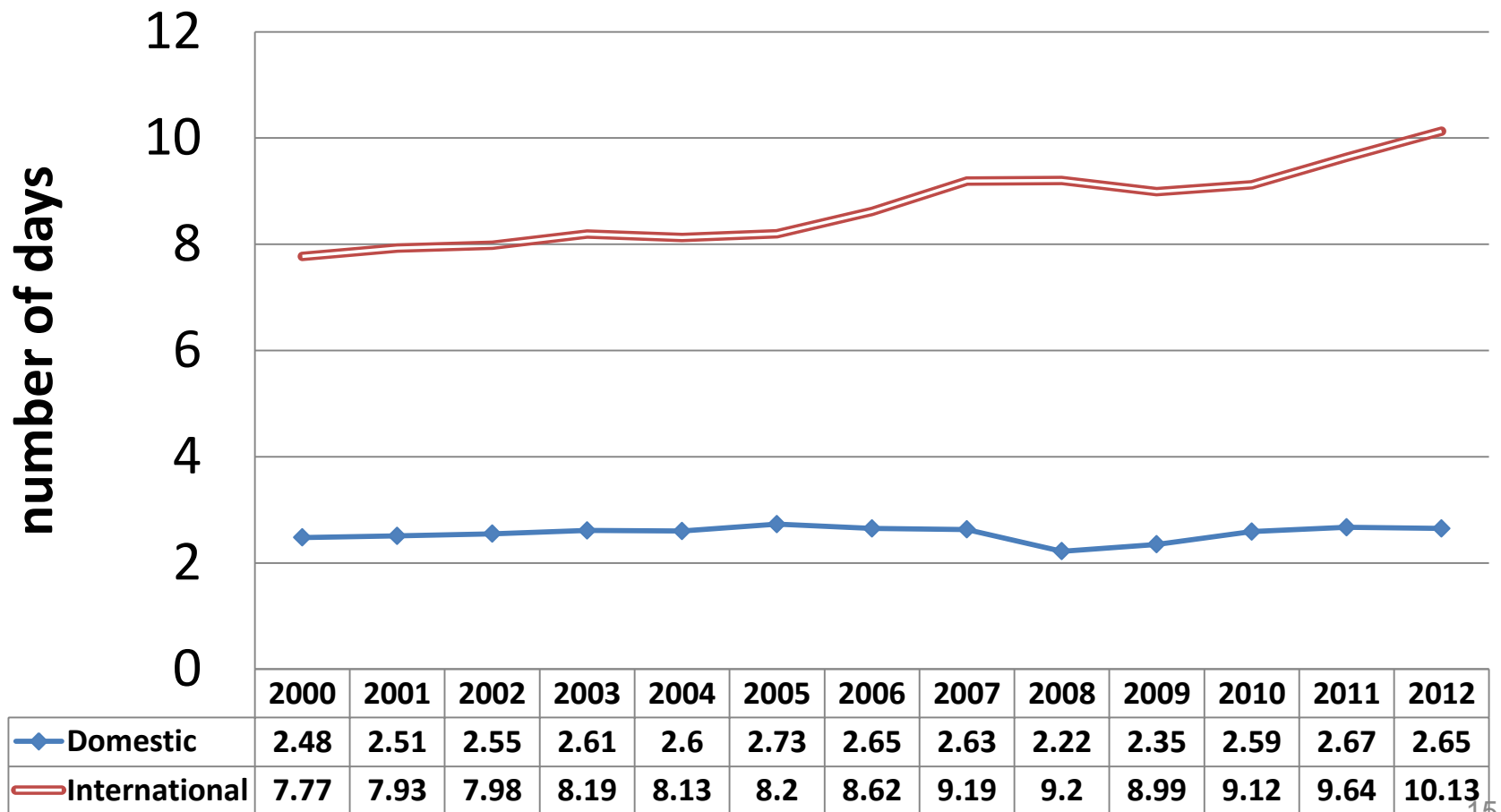


## Pattern of international tourists' spending in 2011



# How long will you stay in Thailand?

## Average length of stay



# The World's Lowest Cost of Living for Retirement

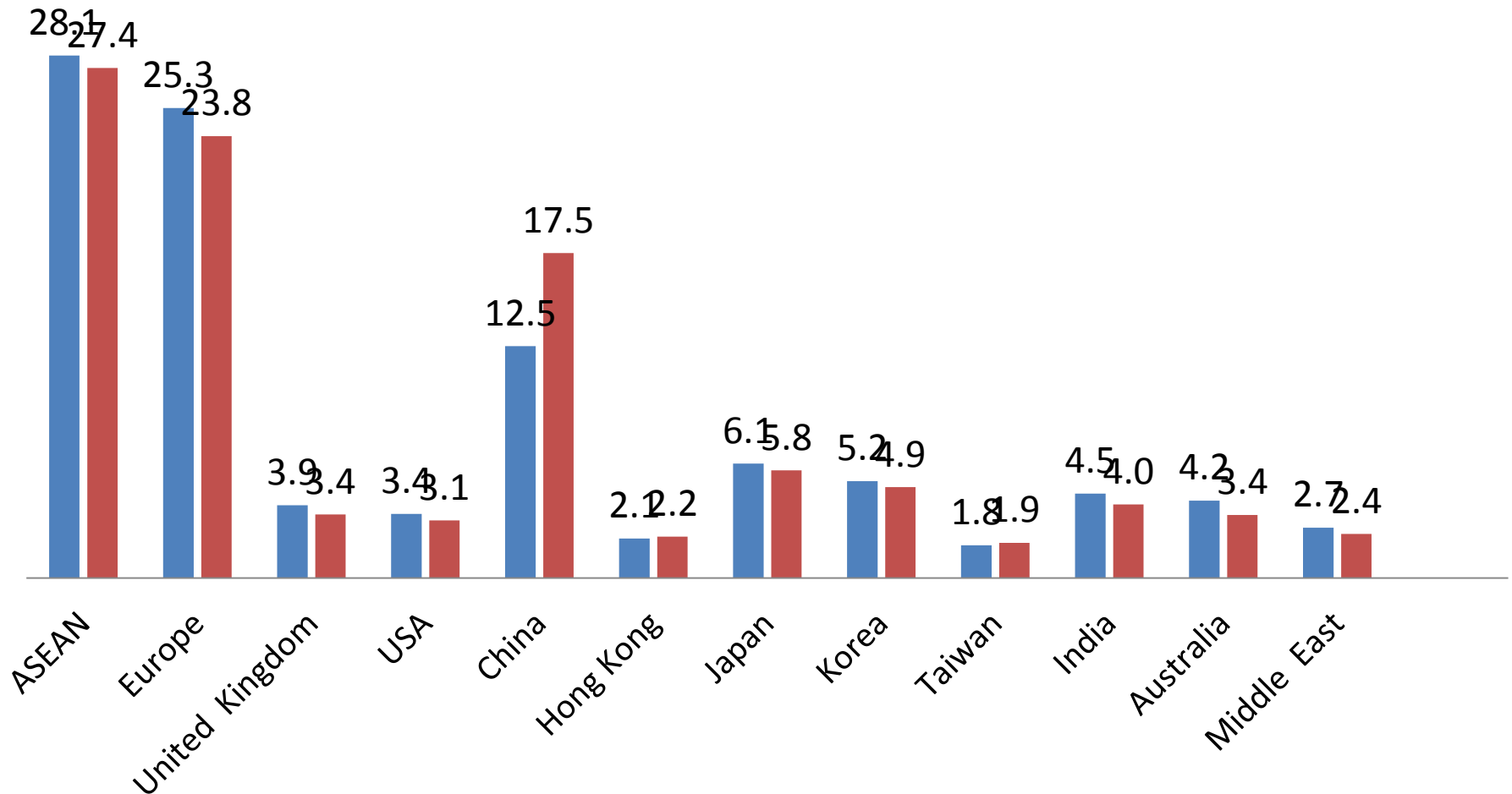
- **Philippines:** The majority of the people speak English, the climate is generally warm and tropical, and you can live quite comfortably on as little as \$1,000 per month.
- Perhaps that's why **36,000** Americans have chosen to immigrate to the Philippines.
- There is ample, quality healthcare here,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

## Aside from Malaysia, Ecuador, Panama, and Costa Rica

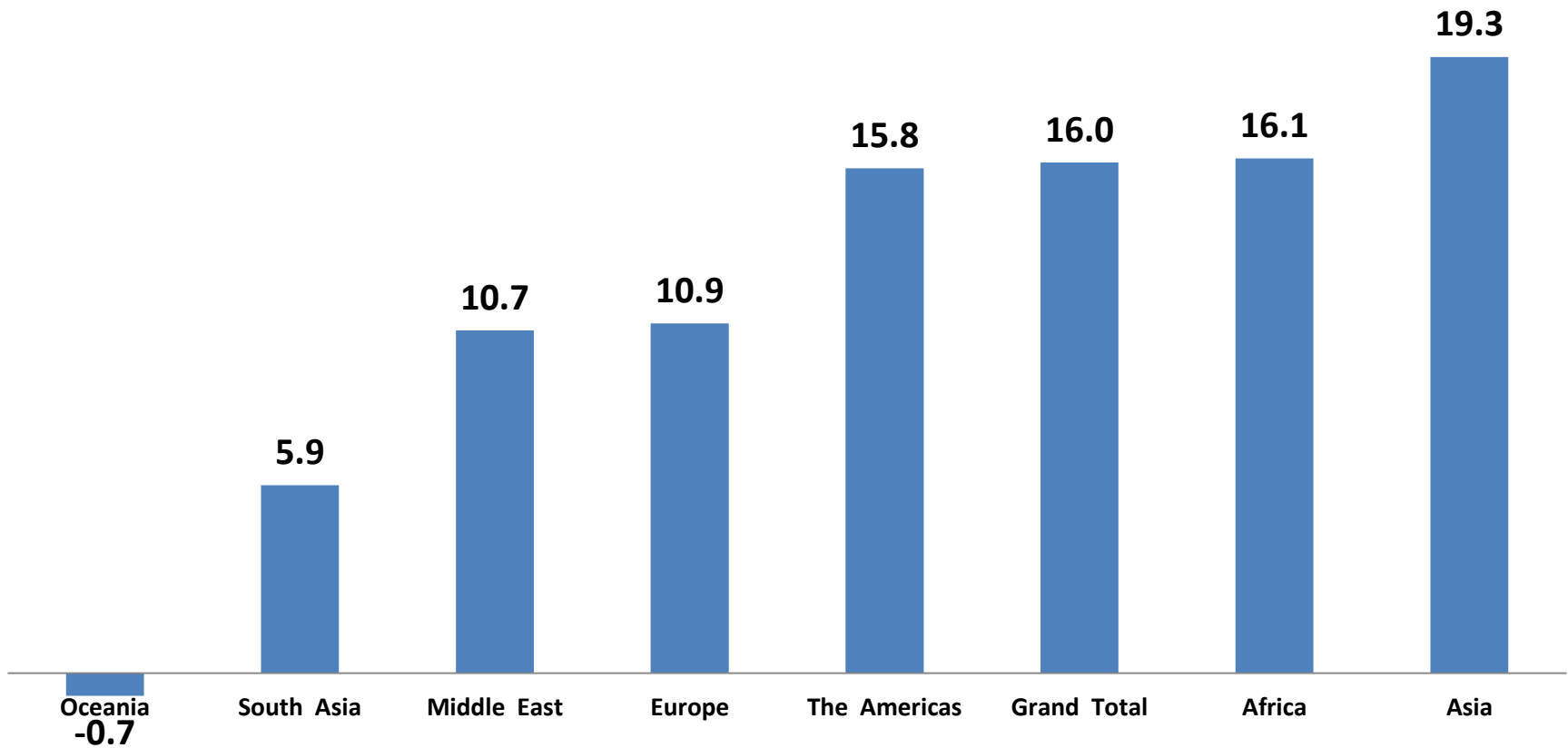
- **Thailand:** Often called “The Land of Smiles,” Thailand is home to approximately **4,000** US retirees.
- With stunning beaches, tropical climate and exotic culture, there’s a lot to smile about.
- Although the Thai language is challenging, many Thais speak English, especially in the larger cities.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

# Percentage Share of international tourists

■ 2012 ■ 2013

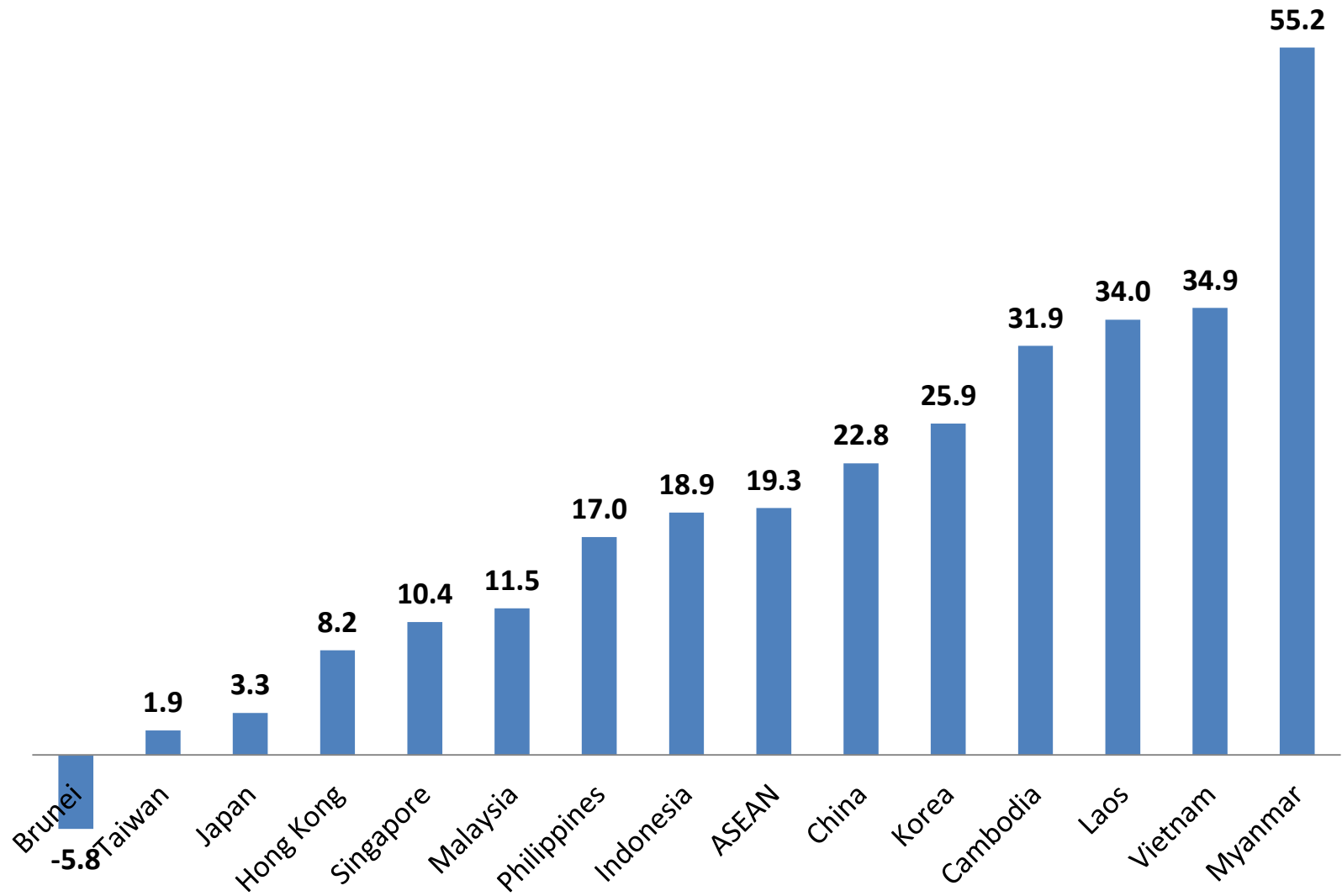


## Percentage change in number of tourists: By region Feb 2016(y-o-y)



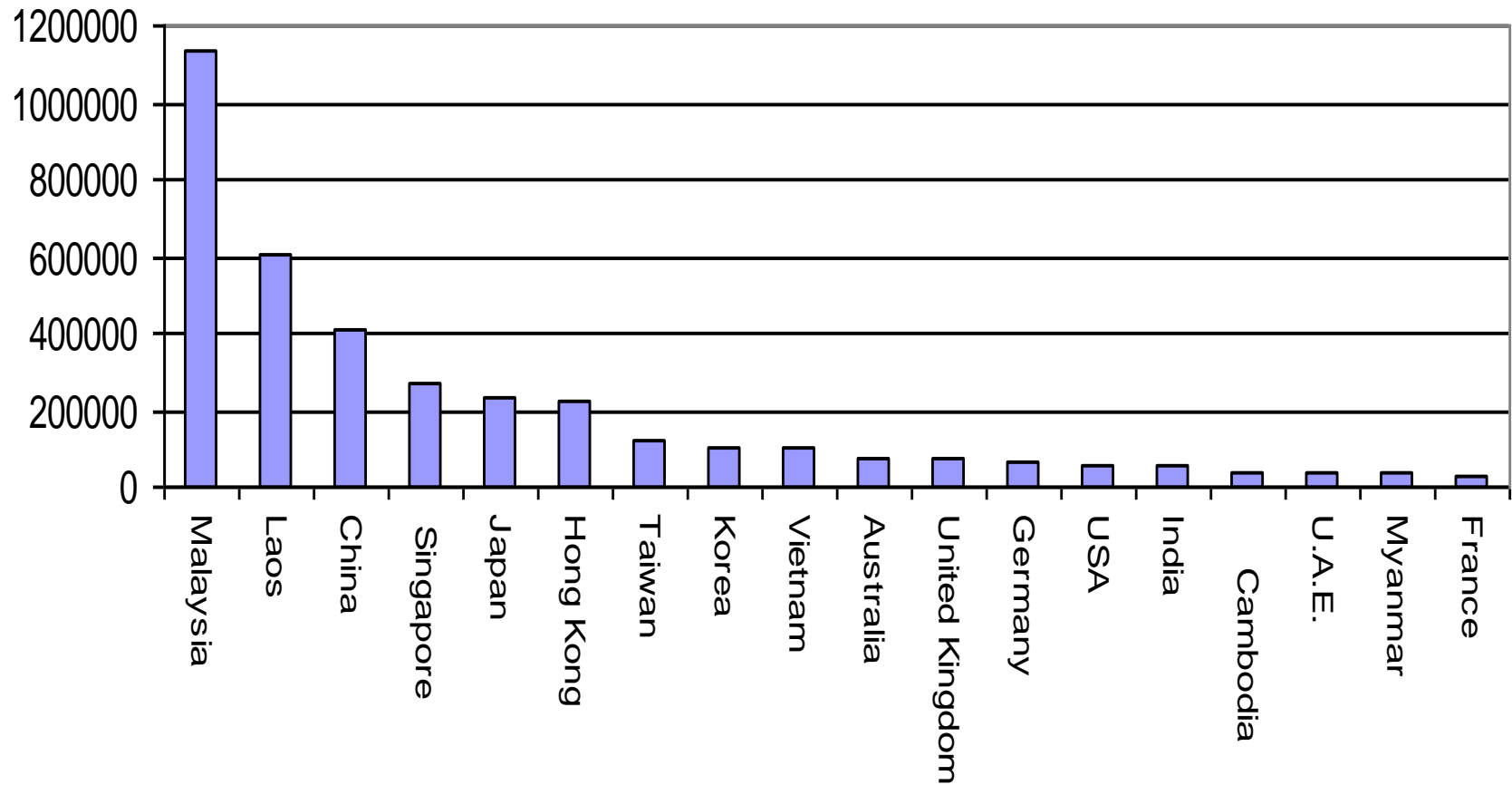
# Asian visitors to Thailand

## *Feb 2016 (y-o-y)*

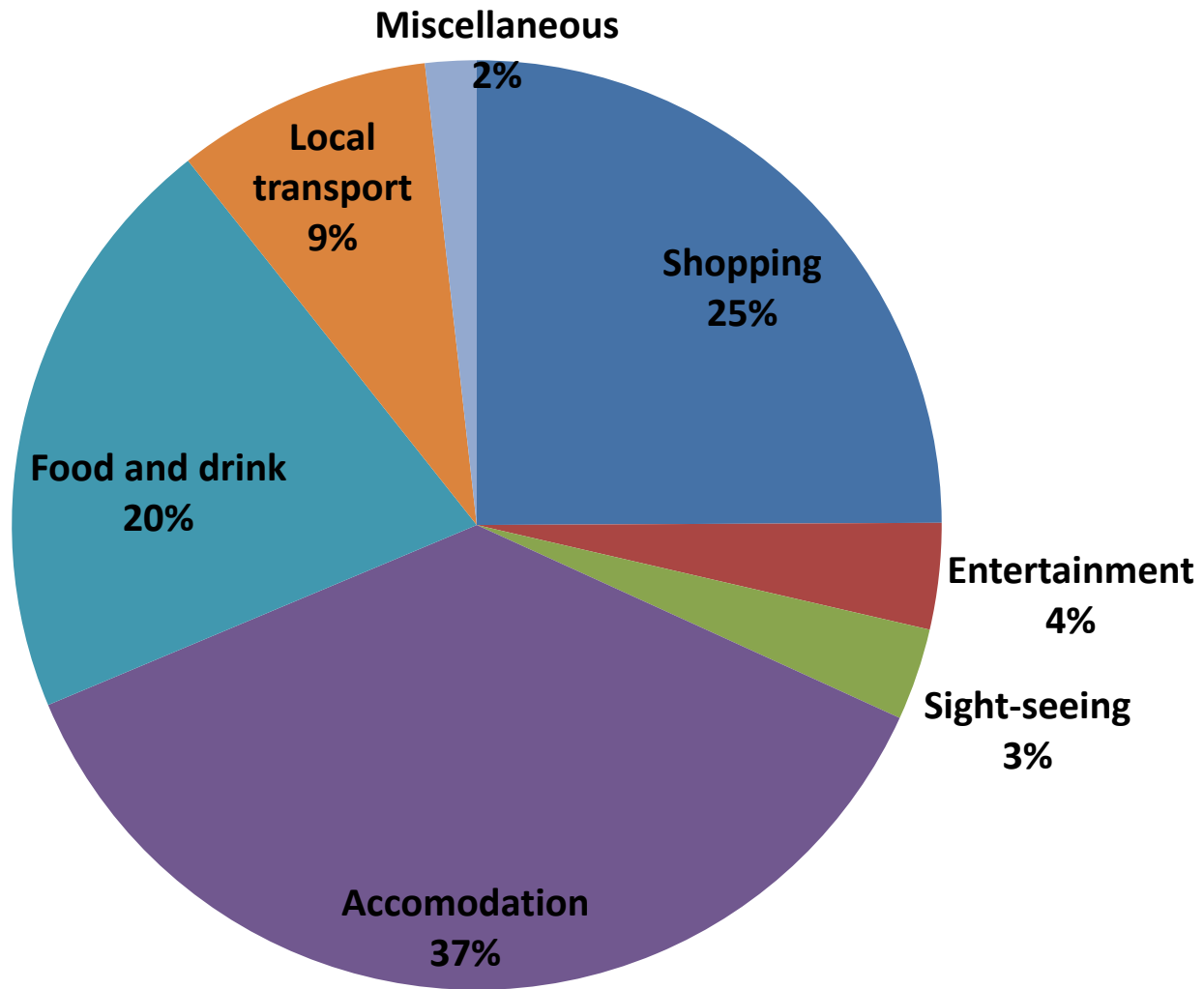


# Where were Thais on their holidays?

Outgoing Thai tourist (number of person) in 2007



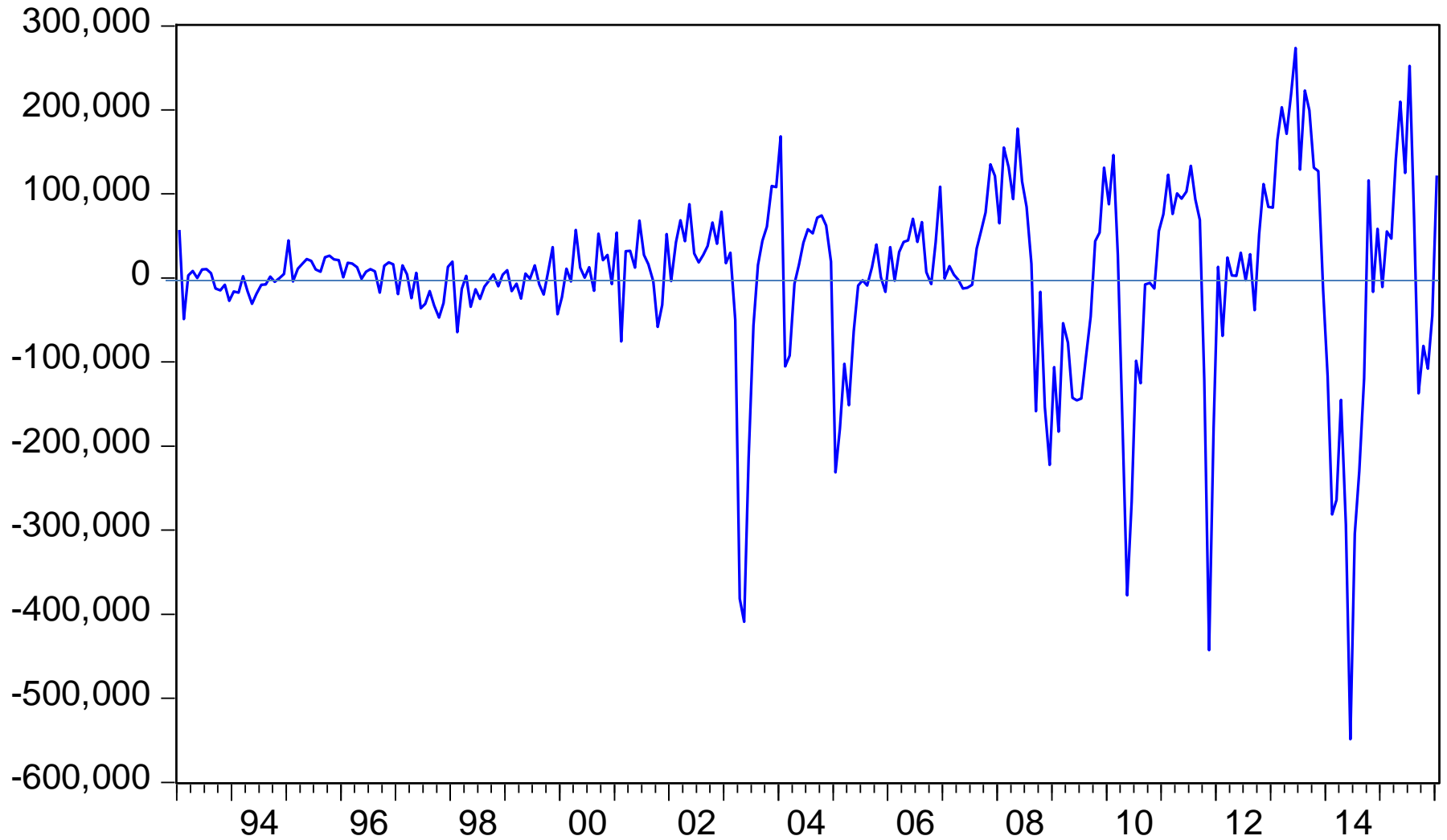
# Thai tourists' spending pattern in 2011



# 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)

# Deviation from Trend

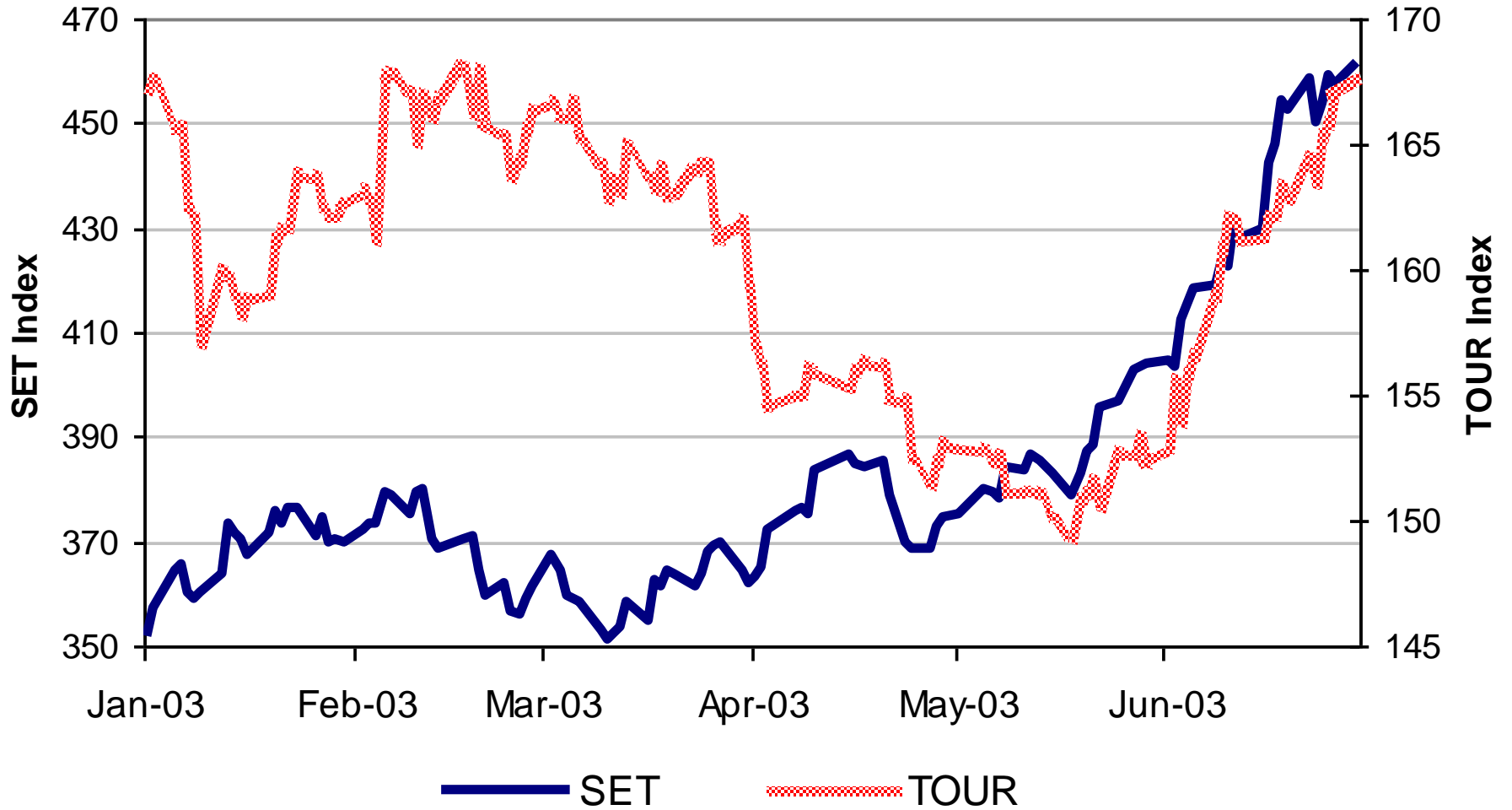


Increasing gyration of the disturbances: moving up and down in an uncontrolled way

# 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,<sup>l</sup> mainly cough, dyspnea, and pneumonia
- Tourism industry suffered considerably from **travel restrictions**. The patterns of recovery in share prices are similar for the tsunami and SARS.
- How did the shock affect the stock market?
- Avian Influenza pandemic

# SARS Impact on the Stock Market

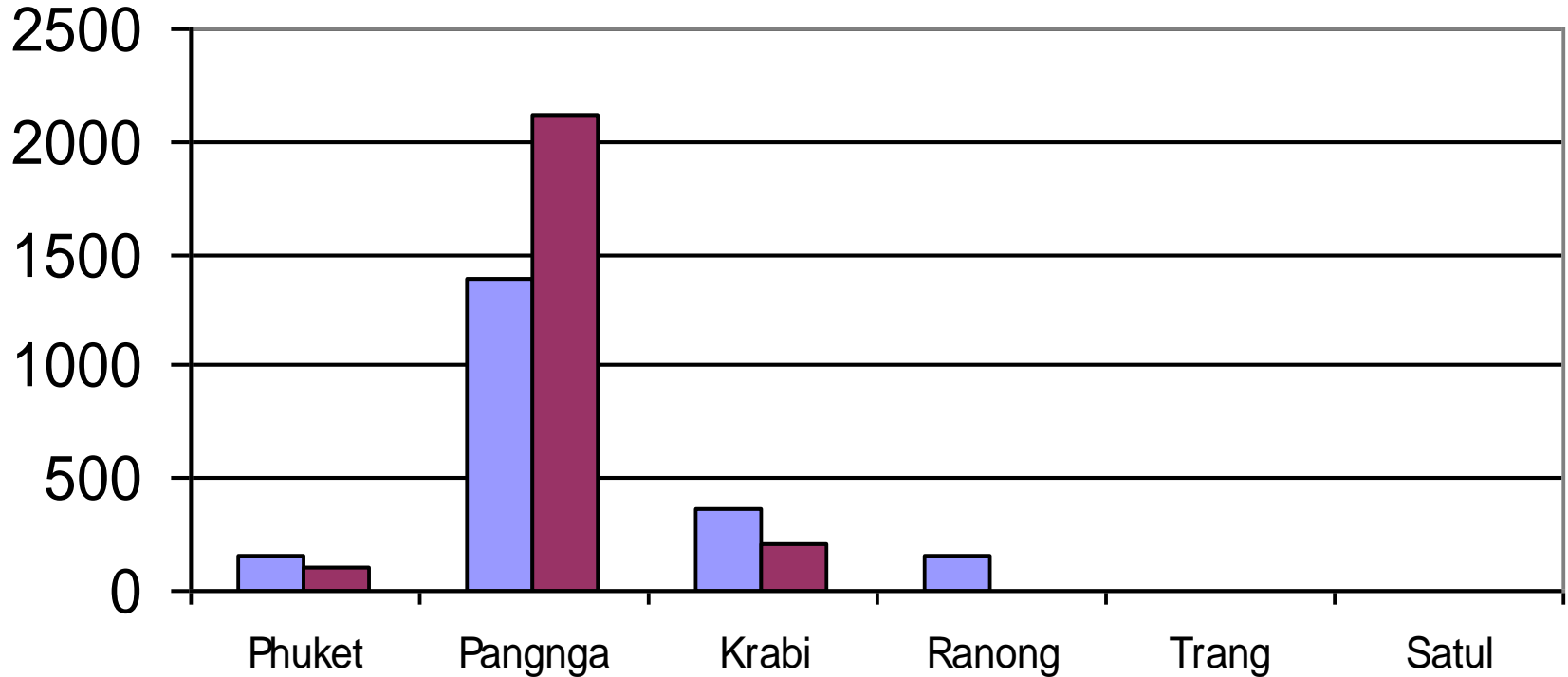


Source: Stock Exchange of Thailand (SET)

On December 26, 2004

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

Figure 2: Thai and Foreigner Death Toll



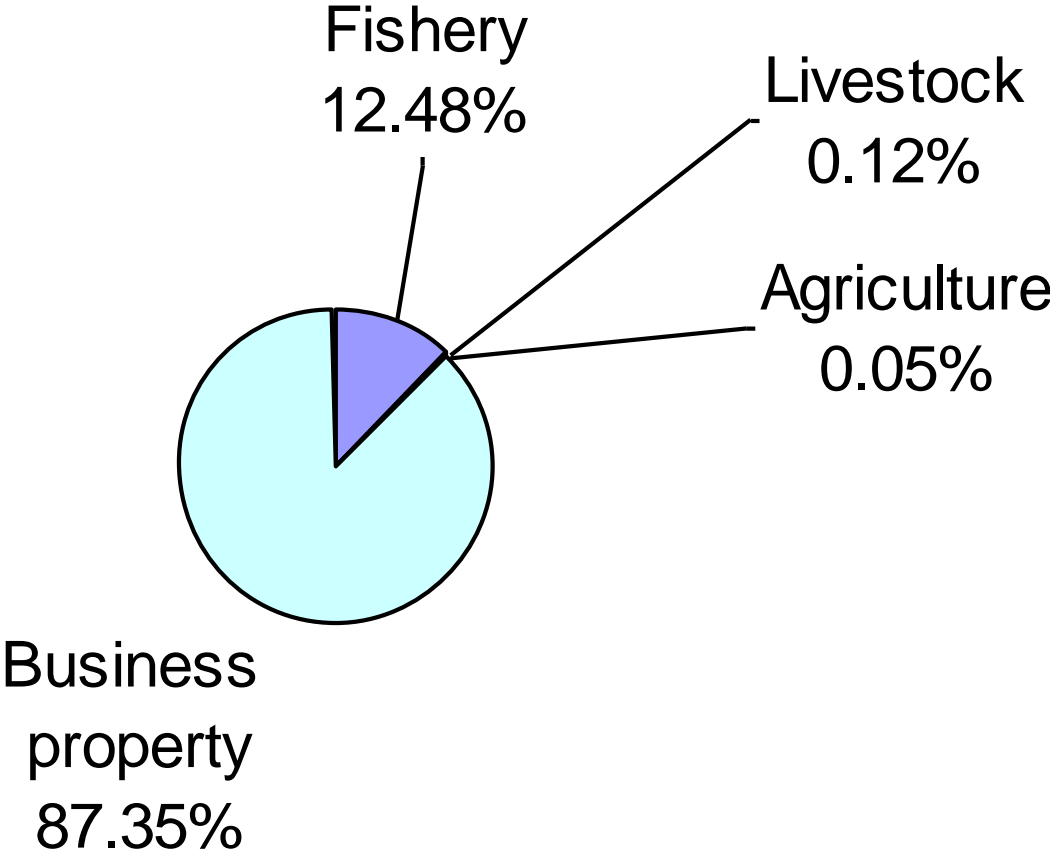
Source: DDPM

Thai Foreigner

# Six provinces were affected by the 2004 Tsunami

- Combined output of the six provinces is 2.7 % of total GDP.
- Combined income from tourism in six provinces is 30% of the total tourism industry.
- The adverse impact of the tsunami was not substantial.

# Figure 5: Damage to livelihoods



Source: DDPM

At 9:50 am  
Sunday 26<sup>th</sup> of December 2004



## Table 2: Immediate tsunami impact on hotels

	<b>Krabi</b>	<b>Phangnga</b>	<b>Phuket</b>
<b>Total rooms *</b> (before tsunami)	9,867	6369	33,587
<b>Remaining#</b> (after tsunami)	8,979	1063	26,298
<b>% remaining rooms</b>	91.6	<b>16.7</b>	78.3

**Source: Tourism Authority of Thailand**

**Notes: \*Total number of available rooms in September 2004**

**#Number of available rooms on January 12, 2005**

# The road to recovery

- Physical destruction by the tsunami still left some facilities to serve visitors after the disaster.
- The survival of the industry heavily relied on the demand side.
- International visitors dropped by 10 % in 2005Q1, reducing income by 7.8%
- How did the industry survive?

# Phuket 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

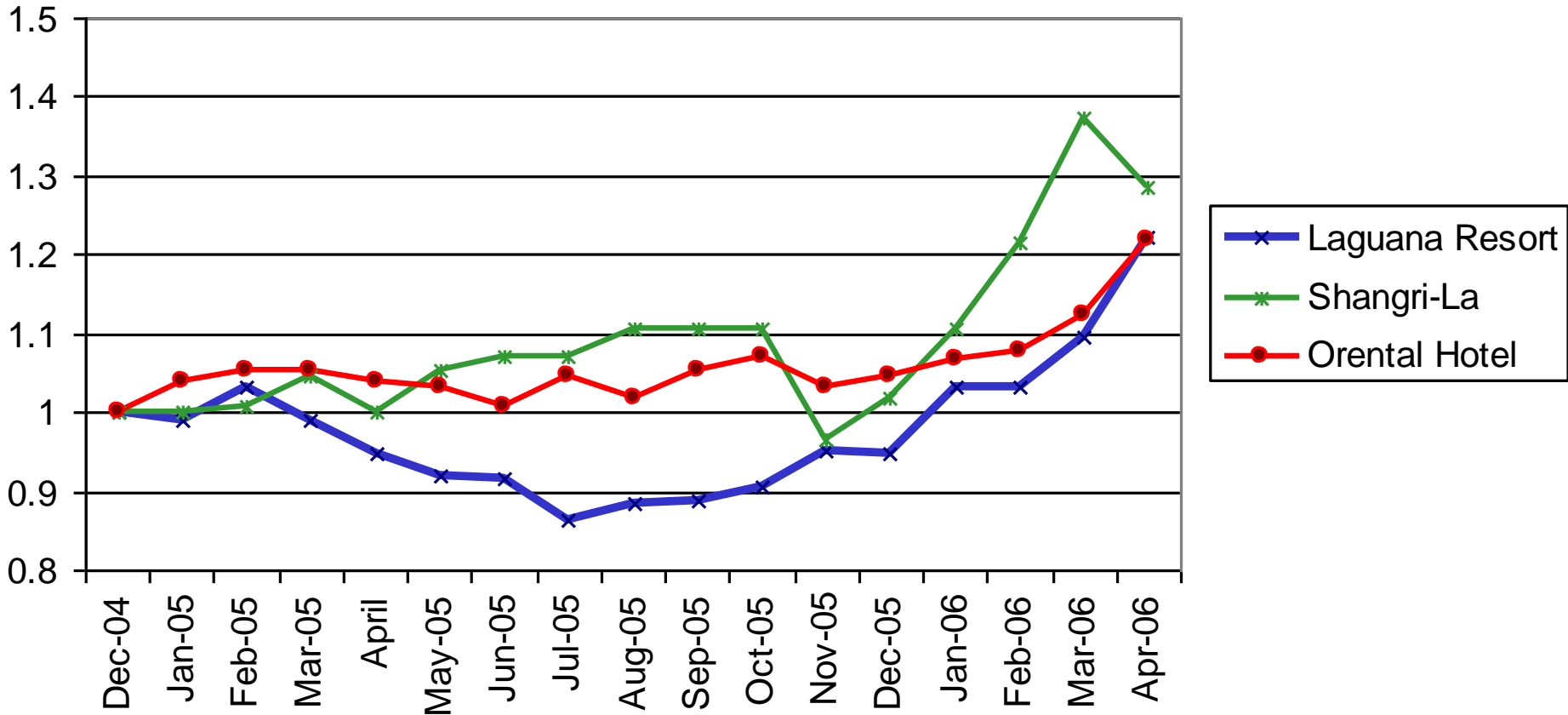
# Impact on the stock market

- The Securities Exchange of Thailand (SET) index fell by **one** percent, while the hotel index fell by 2.5 % on December 27, 2004.
- It took the SET index **four days** to rebound to pre-tsunami level.
- It took the overall **hotel** stock for **one month** to regain its ground.

# Andaman exposure

- Hotels with Andaman beach exposure (Laguna resort) suffered,
- But other hotels (Oriental and Shangri-la) benefited from migration of visitors from the three southern provinces.
- Hotel concentrating their operation in these provinces suffered losses, while other hotels with diversified locations were able to maintain their revenues.
- **Diversification** is the key to resilience.

## Asymmetric impact of tsunami on hotel stocks



# Policy responses to the tsunami

Tax exemption to tsunami victims

28 billion budget allocation for reconstruction

20 billion baht of soft loans by the Bank of Thailand.

Bank of Agriculture provides three-year interest-free credit to affected farmers.

Government Saving Bank and SME Bank have become more active in lending.

Consumption smoothing hypothesis

# Demand matters most

- With massive capital injection, supply constraint is not a problem in the long run.
- A sustainable recovery requires a demand pull from private and public sectors.
- There was a shortage of labor supply in the hotel business, pushing higher wage rates as the industry slowly recovered.

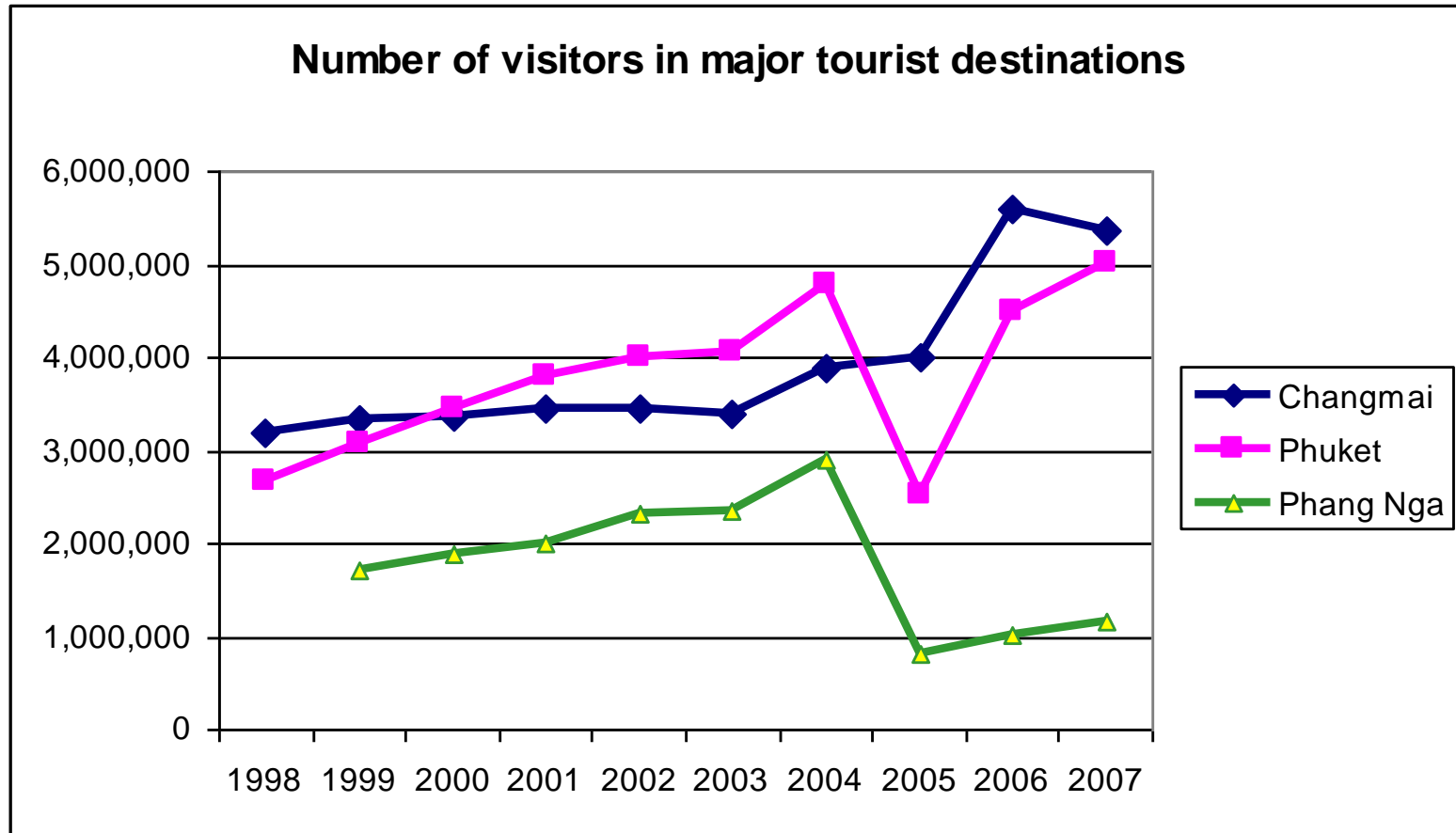
# The right way to help

- Thailand can handle the finance of tsunami disaster by her own resources.
- **International assistance** should be directed to other countries with greater needs for help.
- But Thailand asked for one thing:
- A reduction to tariff barriers and ***greater market access*** to Thai products.

# A friend in need, is a friend indeed

- The EU cut down the tariff rates on imported shrimp from Thailand.
- The tariff declines from 12 to 4.2 percent for fresh shrimp, from 20 to 7 percent for processed shrimp. (The return of the GSP for another three years)
- There is ***no limit*** to imports of shrimp from Thailand into the EU ( as the share of Thai shrimp in the EU is small).
- Japan offered to help by cutting the tariff rates of 20 agricultural products to **zero** to help Thai farmers hit by drought and the tsunami.

# Shocks and rebounds



# Impact of Political Instability on Performance of the Tourism Sector

- 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.
- 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.
- 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.

- 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.

# The Cost of Bangkok Shutdown in 2014

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

# What have we learned from experiencing various shocks?

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

# Vulnerable but resilient

- Tourism industry is constantly bombarded by both external and internal shocks: SARS, Avian Influenza, oil price shocks, tsunami, terrorist bombing, military coups, and political violence.
- The industry is vulnerable to loss of confidence that induces negative spiral.
- Give it time, the industry will rebound after experiencing new unexpected shocks.

# The Hotel Industry Faces Unique Challenges

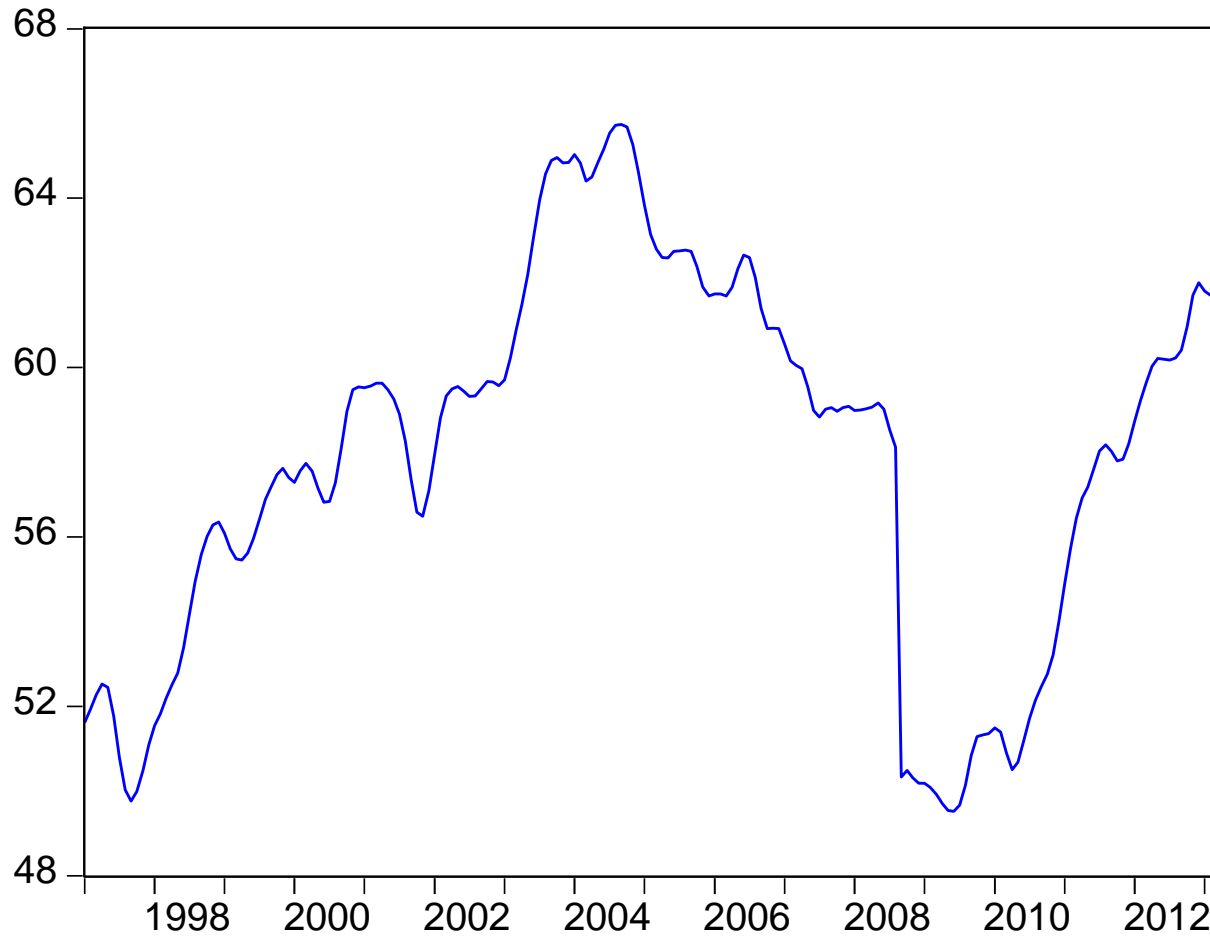
- Hotels are complex organizations, creating value for consumers and investors by combining bricks and mortar with people and technology.
- Their performance is not only affected by macroeconomic cycles and consumer trends, but is also linked to that of parallel sectors such as airlines and travel companies;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

# Four common demand shocks

- 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.
- 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
- Tools and approaches to manage uncertainty.

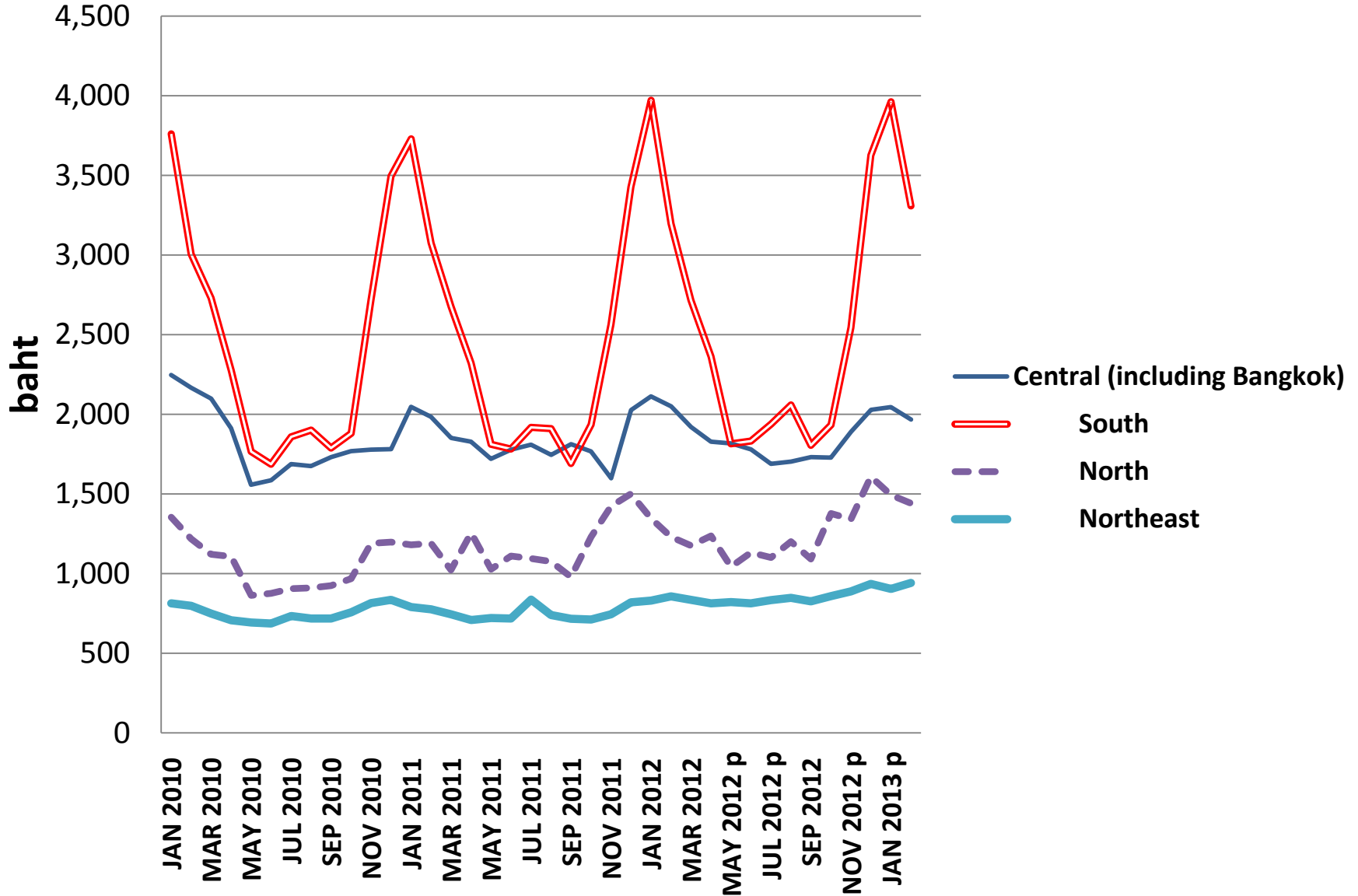
# Hotel occupancy rate

Final trend-cycle



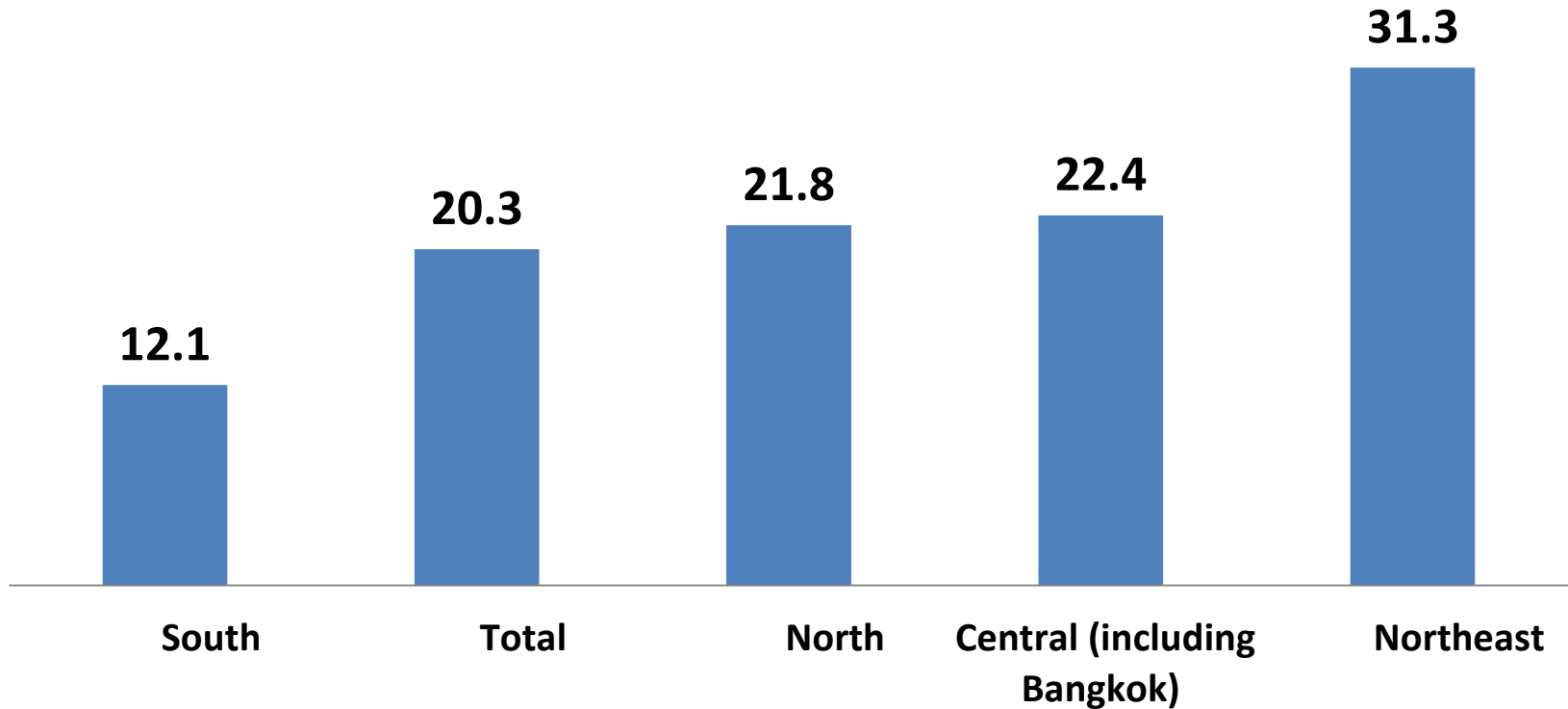
- The average occupancy of hotels in key tourism areas, especially in southern and northern Thailand, was close to the normal low-season rate of about 55% to 60%.
- A notable revival in Asian visitors is being seen this quarter.
- The council has also forecast trips by Thai tourists at 90.72 million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

# 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.

# Domestic tourism

- Shifting focus from international tourism to domestic tourism is a common measure. For example, in December 2008, the Thai government cooperated with the private sector to organize a “Thai Travel Fair”, cutting prices of local airlines and hotels, which increased the quantity and frequency of domestic travel.
- In 2010, Thailand introduced a personal taxable income deduction for Thai residents on domestic tourism-related spending.
- However, an increase in domestic tourism does not typically offset the losses incurred by a decline in international tourists, as they tend to spend much more than domestic tourists.

# Urban to urbane: cities and culture

- Great cities ought to have (at least) three things: good transport, lots of green space and terrific culture.
- Two dozen or more around the world are building new arty districts from scratch.
- Construction is the easy part, if expensive (\$250 billion-plus will be splurged over the next decade).
- It's much harder to create the lively atmosphere that makes a city uniquely engaging.

# Art Basel Festival: Art begets life in cities

- Art Basel says it can help. During its latest show in Hong Kong, the art-fair group announced the Art Basel Cities Initiative, which will marry metropolises with the art world to stage cultural events.
- According to Philip Levine, mayor of Miami Beach, since Art Basel's first Florida art fair 14 years ago, the number of art galleries has risen 20-fold
- Several public and private museums have opened; and two new districts have sprung up.

# Points to ponder

- If the tourism industry is flexible and resilient, it would regain its steady state growth path in time after encountering a shock, provided that appropriate policy responses are applied.
- How can we make the tourism industry more flexible?
- What is an appropriate policy response to a triple-dip recession?
- How can industry respond to the MCT (not MIT) and marshal law?