

EE460: Tourism industry *Vulnerability and resilience*

Bhanupong

Lecture 20

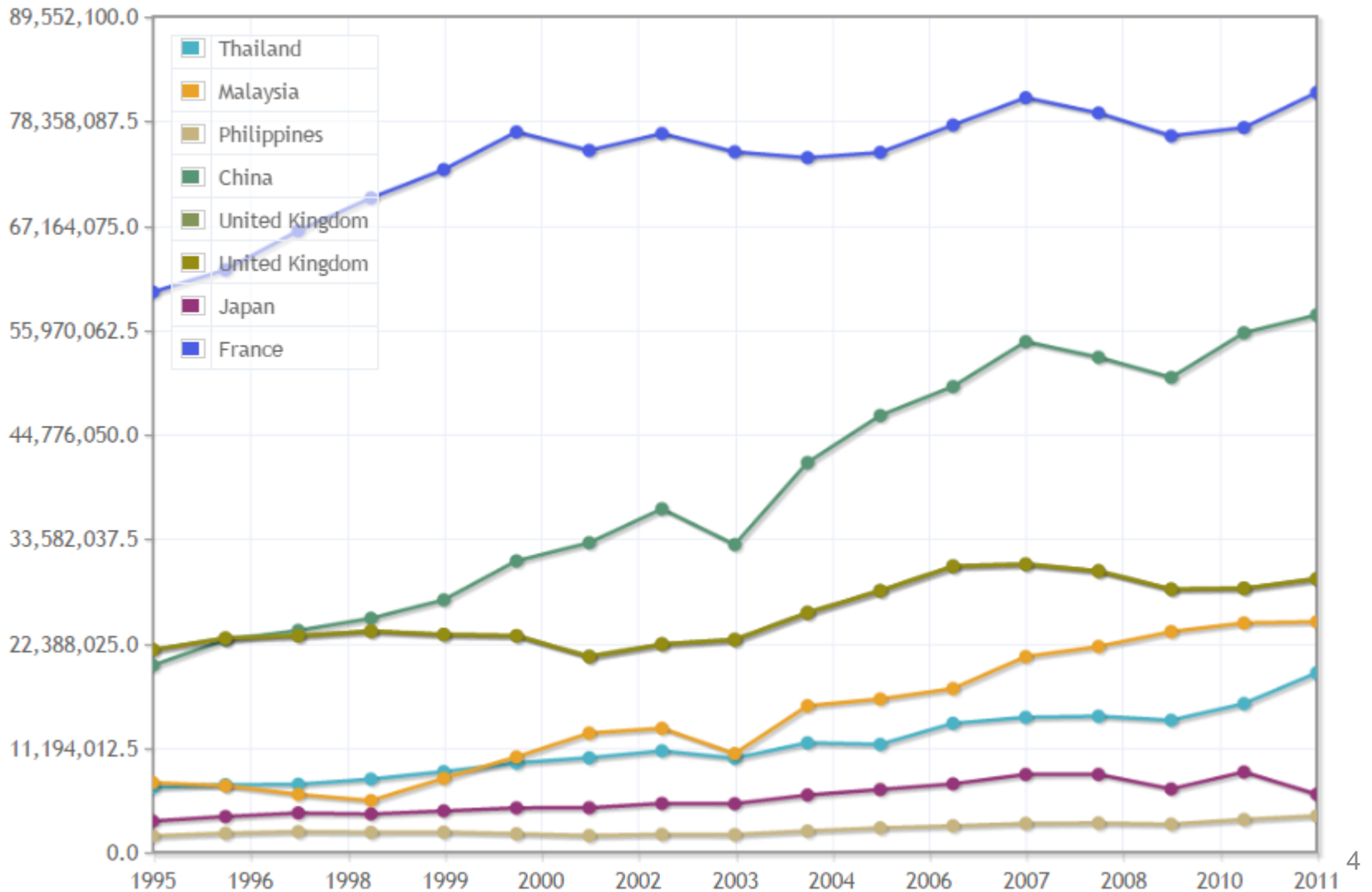
Outline

- Shocks and vulnerability
- SARS, Avian flu, 2004 tsunami
- Impact of GFC and political upheaval
- Microeconomics of hotel business
- Risk factors

Characteristics of the tourism industry

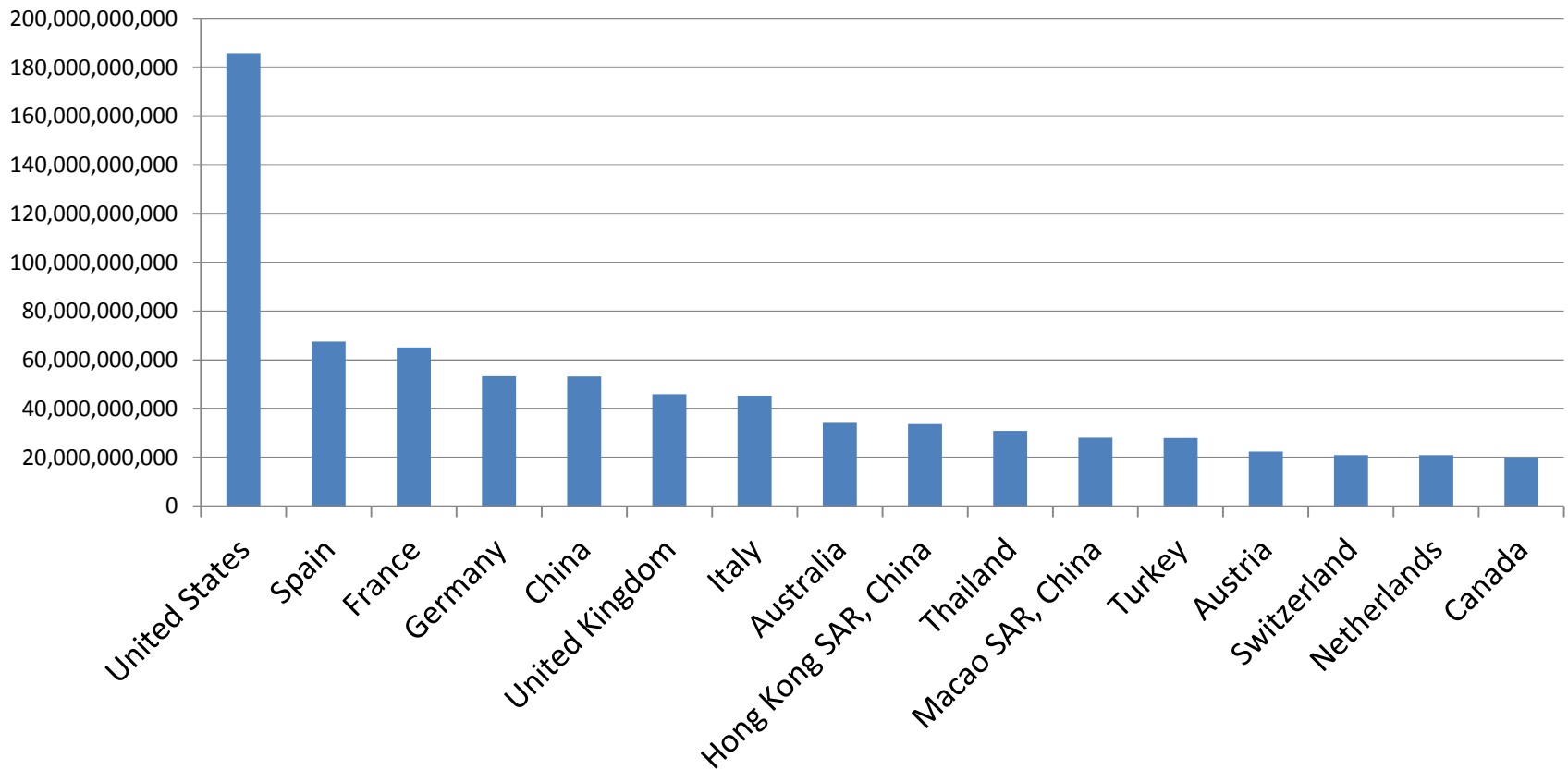
- Overall tourism income of Thailand is approximately 16 % of GDP.
- Cultural capital and natural capital stock
- Highly labor intensive: employment and migration.
- Strong linkages to other sectors.
- Net foreign exchanges.

International tourism, number of arrivals



International tourism, receipts (current US\$) - Country Ranking in 2011

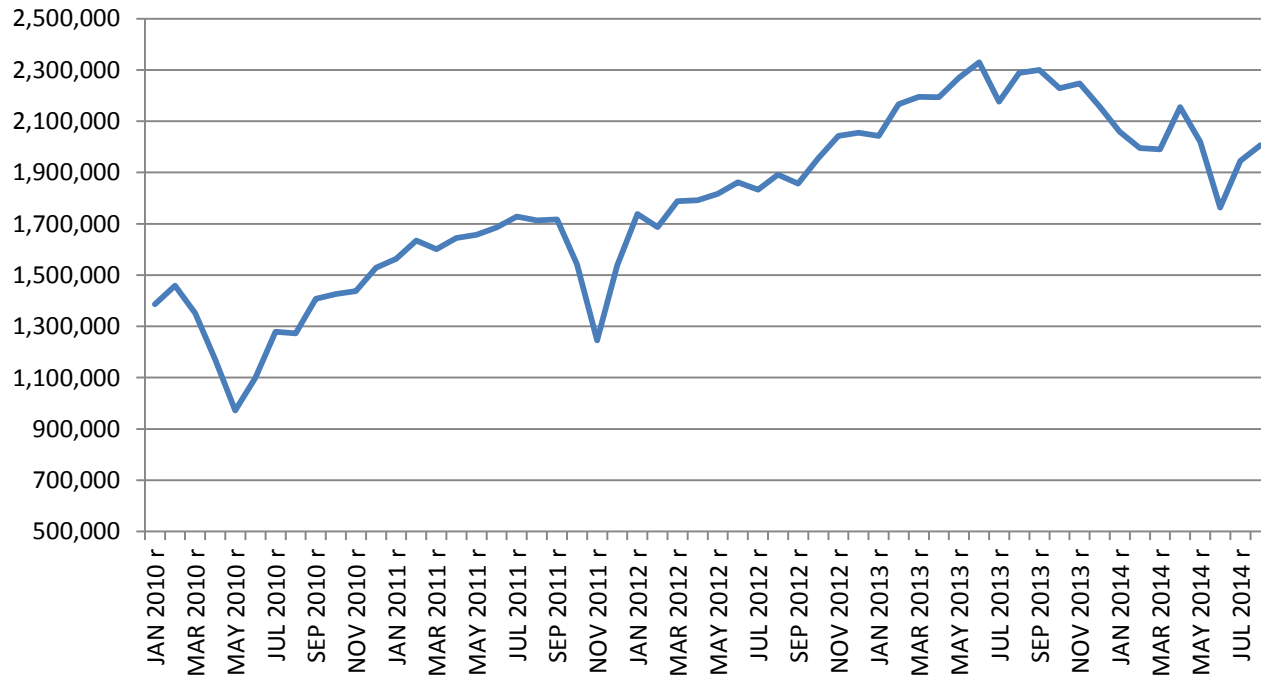
Revenues from international tourism in 2011



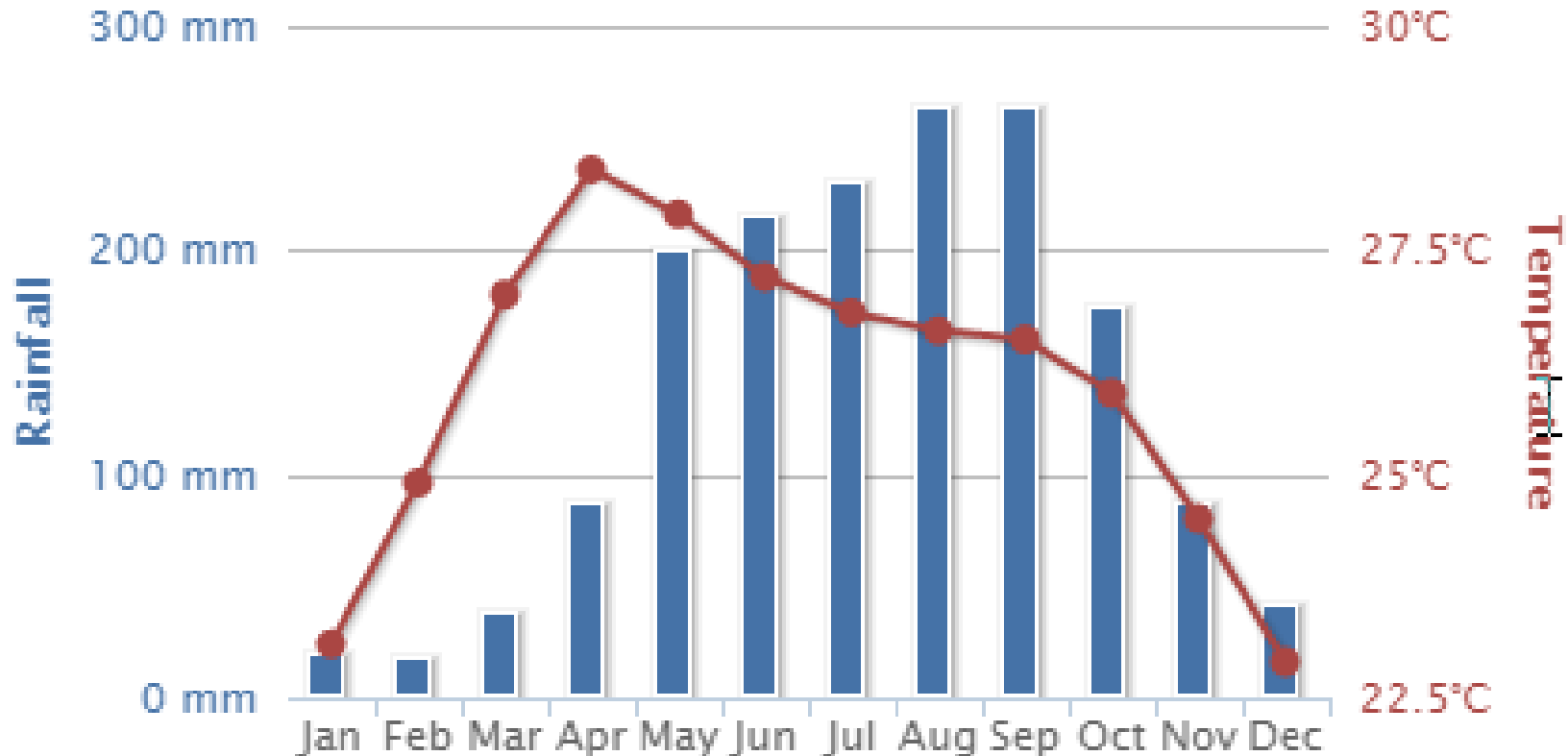
International tourism, receipts (% of total exports) - Country Ranking, 2011

Rank	Country	Value
1	Macao SAR, China	93.91
34	Cambodia	24.08
35	Nepal	22.28
36	Greece	22.00
43	Egypt	19.84
48	Portugal	17.36
49	Lao PDR	17.18
52	Turkey	15.38
53	Spain	15.10
61	Thailand	11.86

Number of international tourists in Thailand

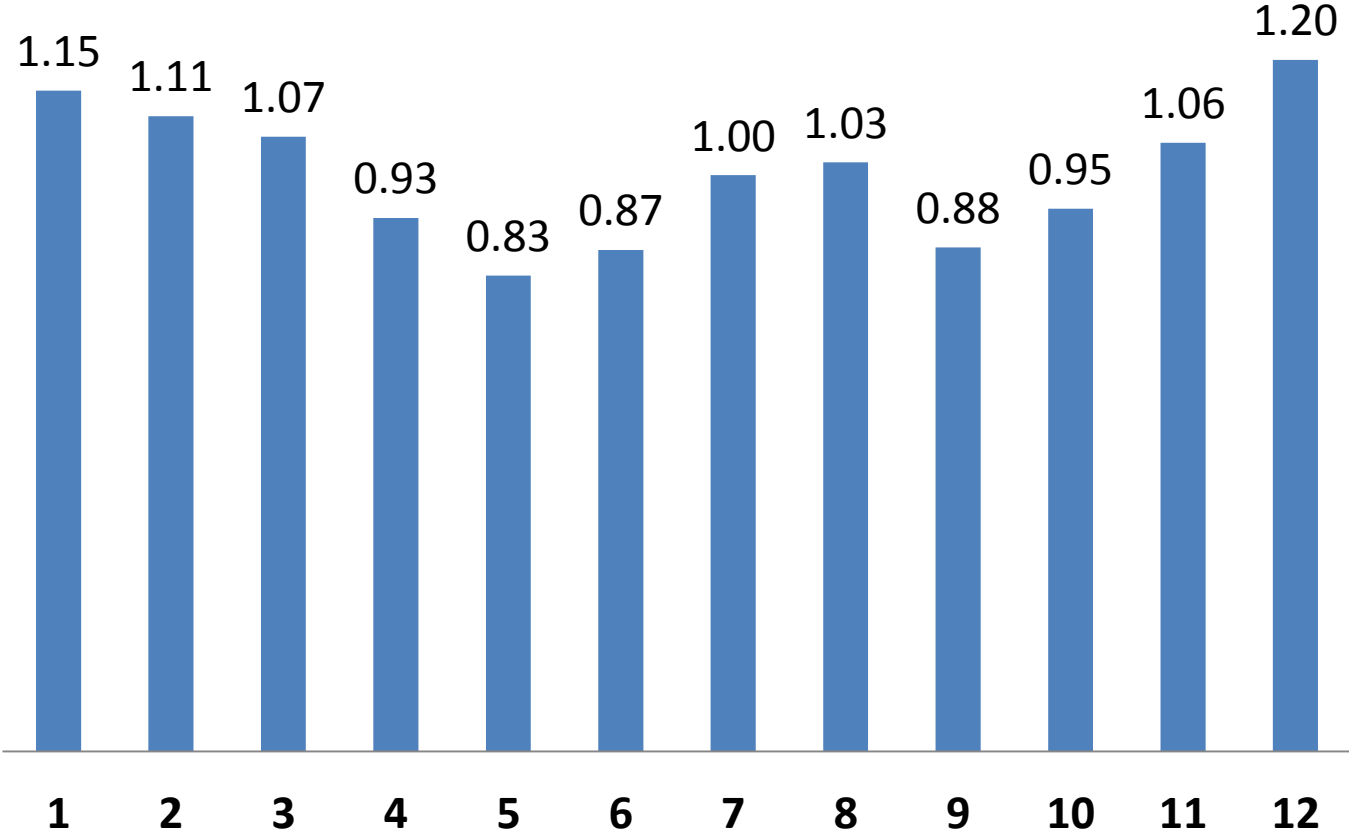


AVERAGE MONTHLY TEMPERATURE AND RAINFALL FOR THAILAND FROM 1900-2009

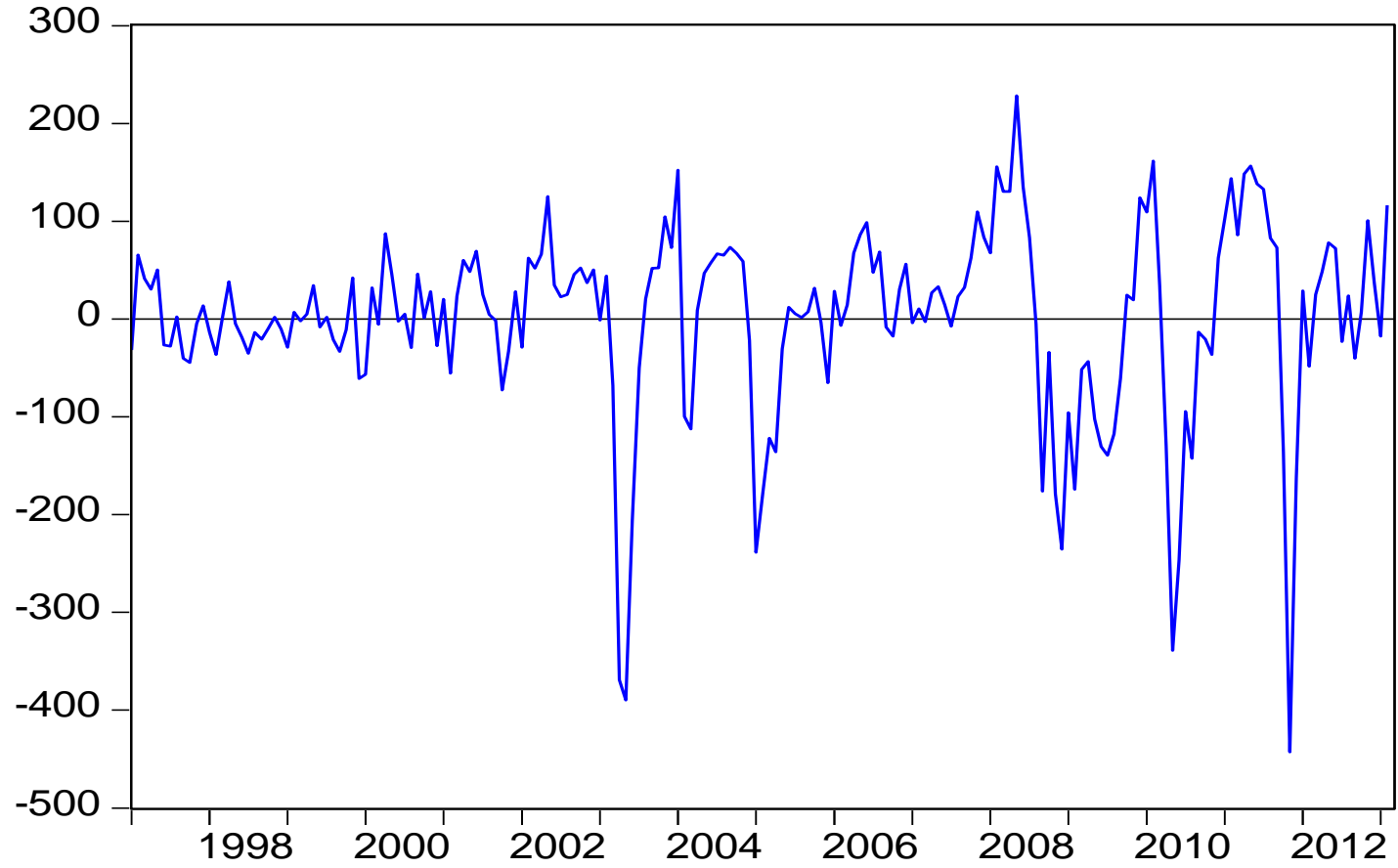


The dataset was produced by the Climatic Research Unit (CRU) of University of East Anglia (UEA).

Number of tourists: Ratio to moving average



Deviation from trend



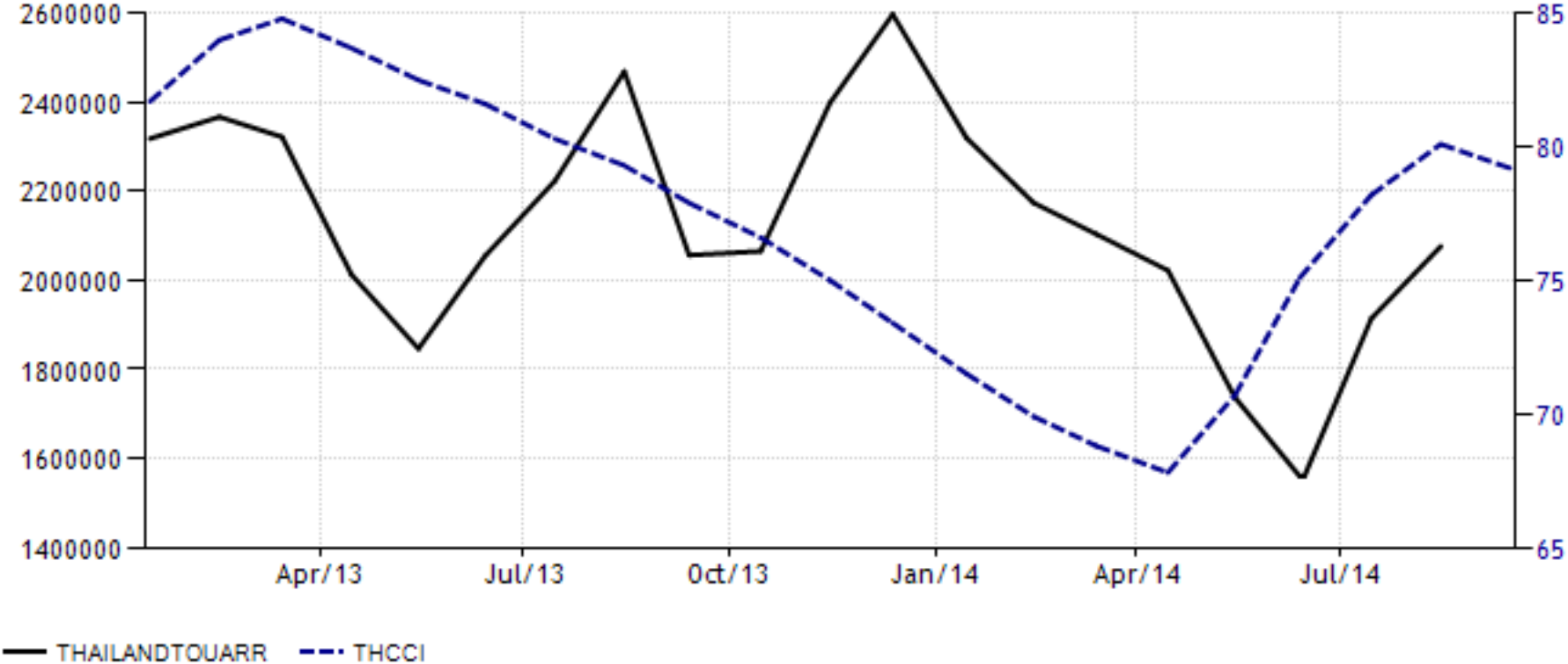
Thailand Tourist Arrivals 1997-2014

Tourist Arrivals in Thailand increased to 2076440 in August of 2014 from 1914580 in July of 2014.

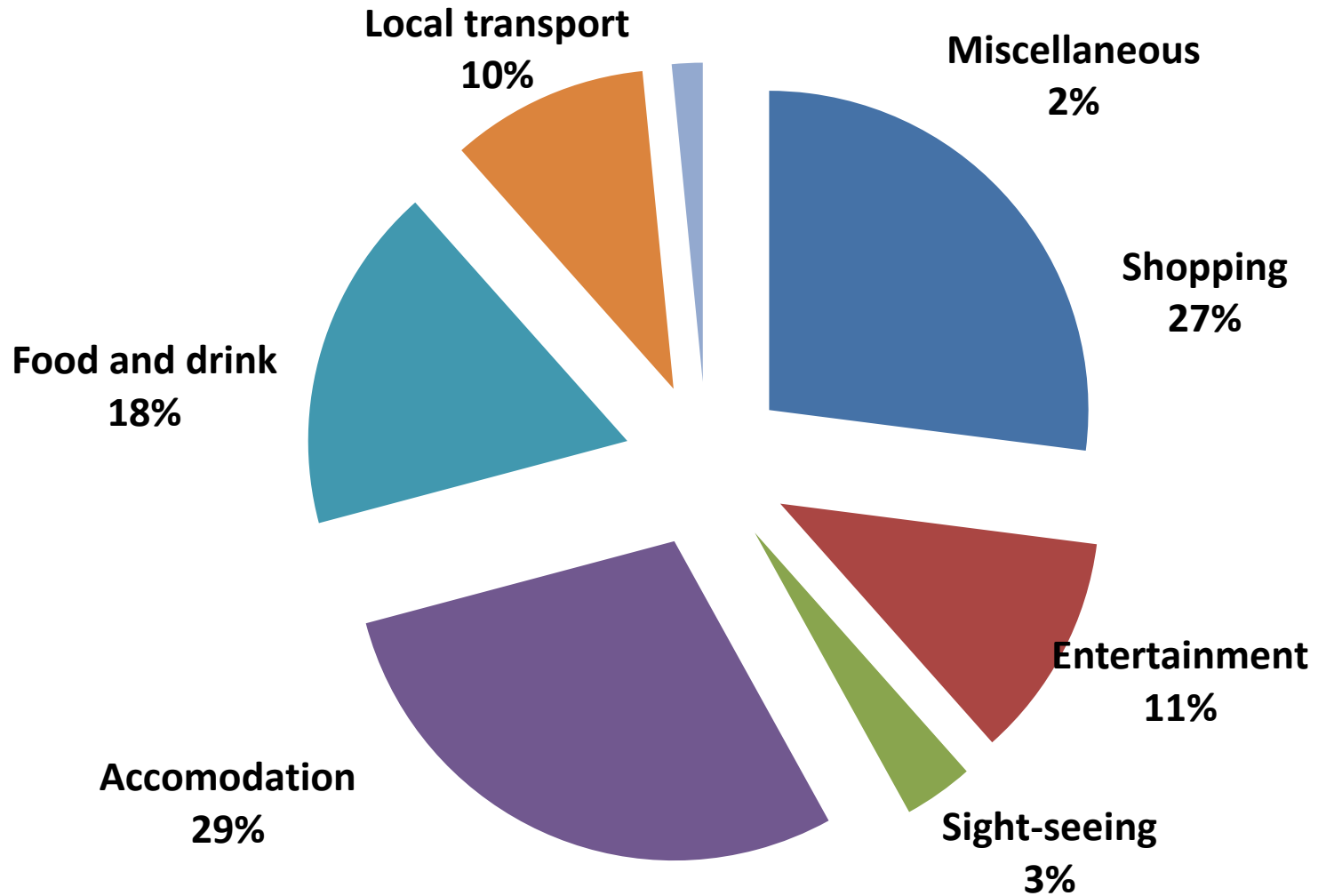
Tourist Arrivals in Thailand averaged 1154235.12 from 1997 until 2014, reaching an all time high of 2598020 in December of 2013 and a record low of 399600 in May of 2003.

Tourist Arrivals in Thailand is reported by the Bank of Thailand.

THAILAND TOURIST ARRIVALS | THAILAND CONSUMER CONFIDENCE

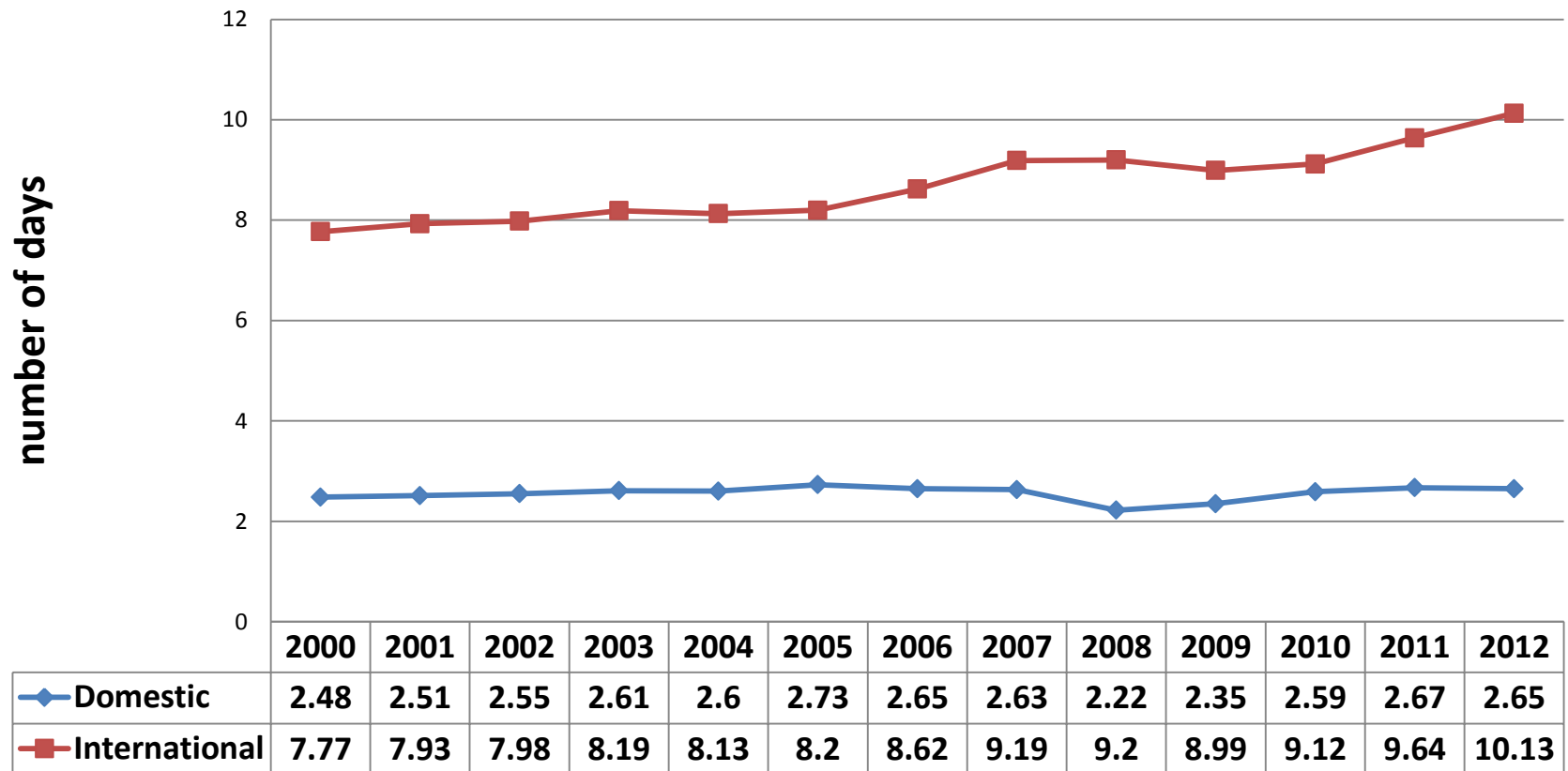


Pattern of international tourist spending in 2011



How long will you stay in Thailand?

Average length of stay



The World's Lowest Cost of Living for Retirement

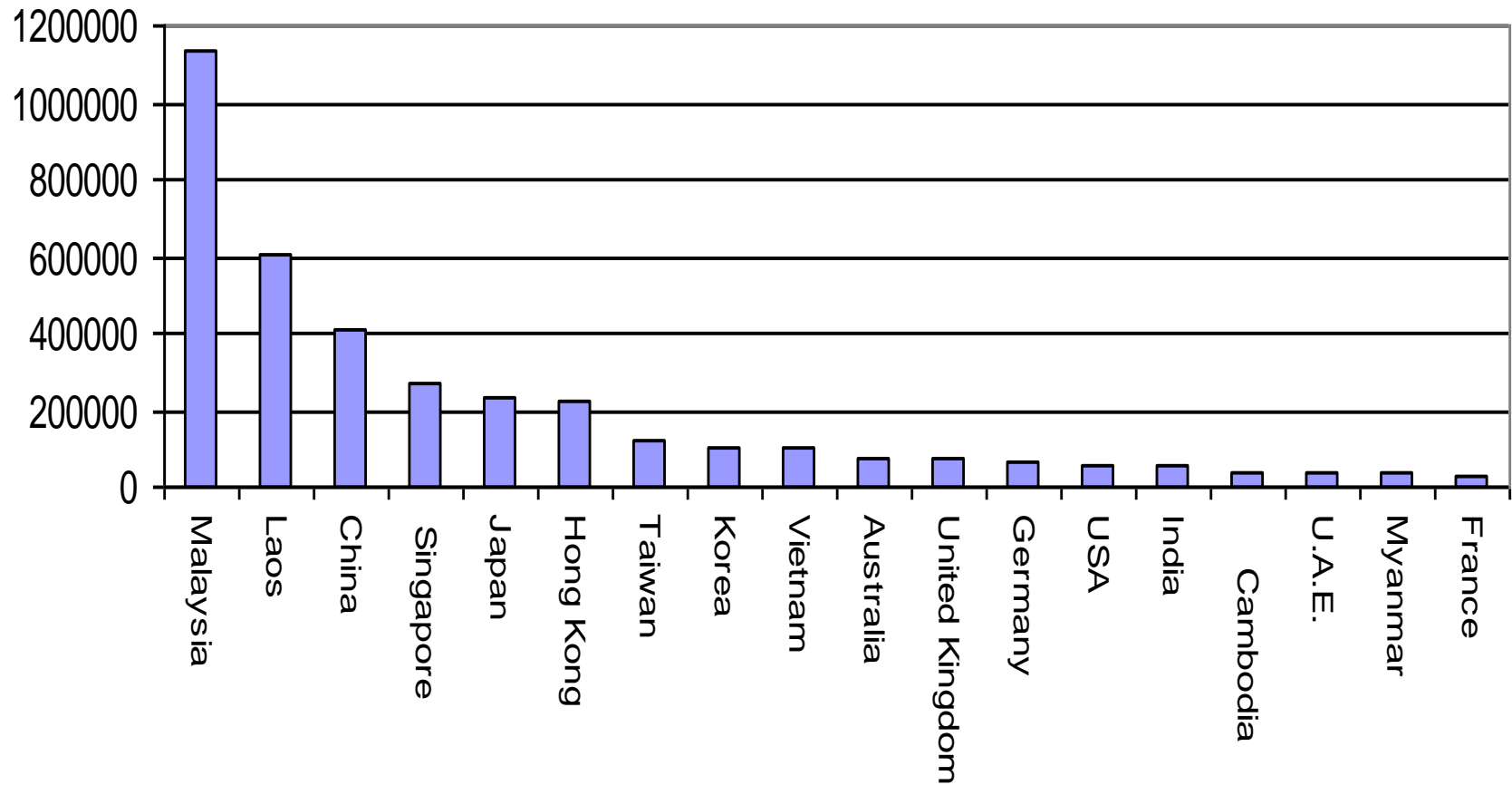
- **Thailand:** Often called “The Land of Smiles,” Thailand is home to approximately 4,000 US retirees. With stunning beaches, tropical climate and exotic culture, there’s a lot to smile about.
- Although the Thai language is challenging, many Thais speak English, especially in the larger cities.
- Medical 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.

My Second Home

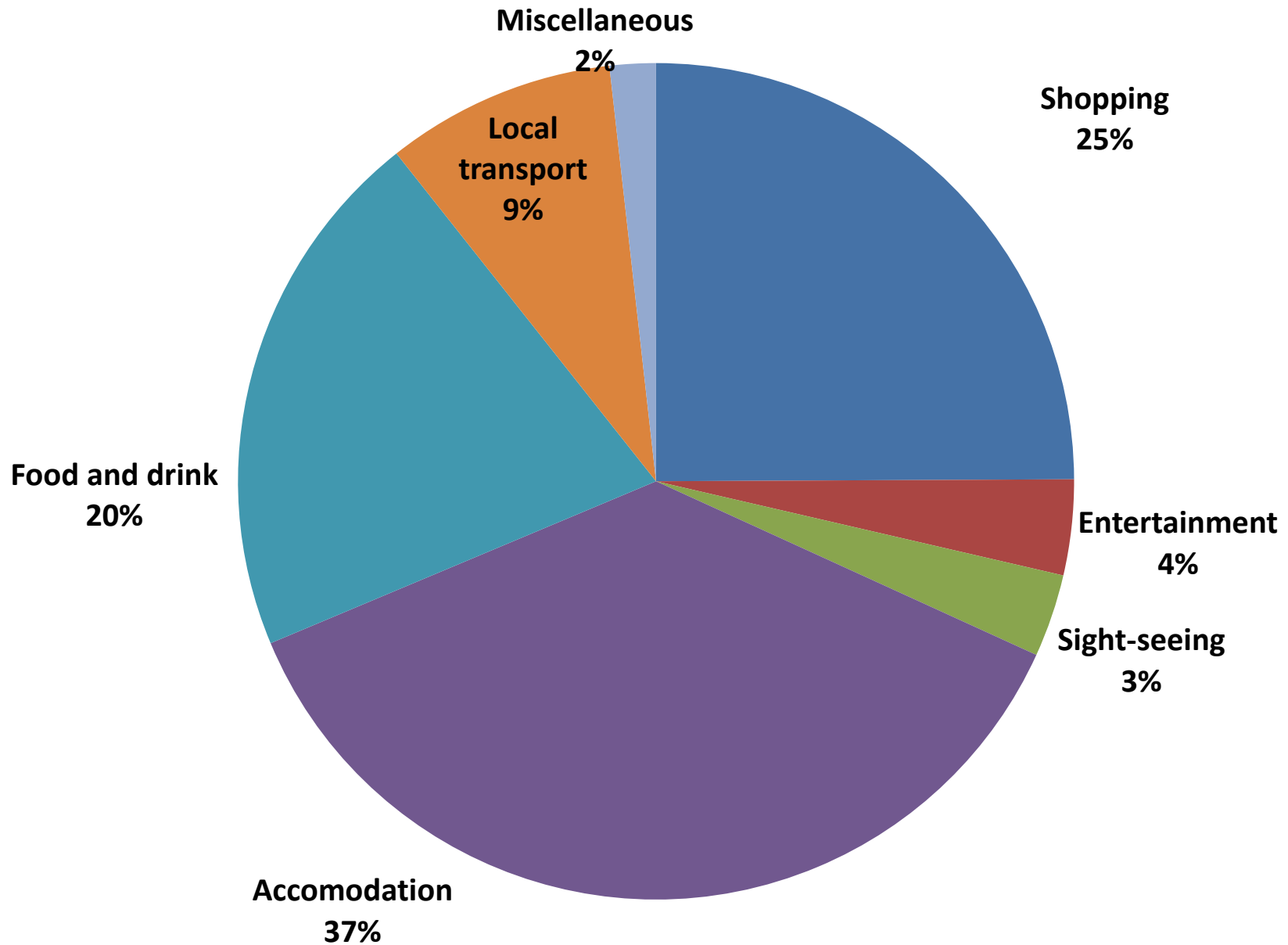
- **Philippines:** The majority of the people speak English, the climate is generally warm and tropical, and you can live quite comfortably on as little as \$1,000 per month. Perhaps that's why 36,000 Americans have chosen to immigrate to the Philippines. There is ample, quality healthcare here, with 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.
- **Malaysia:** Another Asian country where English is widely spoken, Malaysia welcomes foreign retirees with a program called "**Malaysia My Second Home**" – it's a 10-year social visa that is easily renewed. The excellent, inexpensive healthcare makes Malaysia a hotspot for medical tourism as well. The climate is tropical, with warm nights, warmer days and plenty of rain, but the beautiful beaches, friendly people and low crime rate make up for the drizzle. Plus, you can live comfortably here for about \$1,700 a month or less.

Where were Thais on their holidays?

Outgoing Thai tourist (number of person) in 2007



Thai tourists' spending pattern in 2011

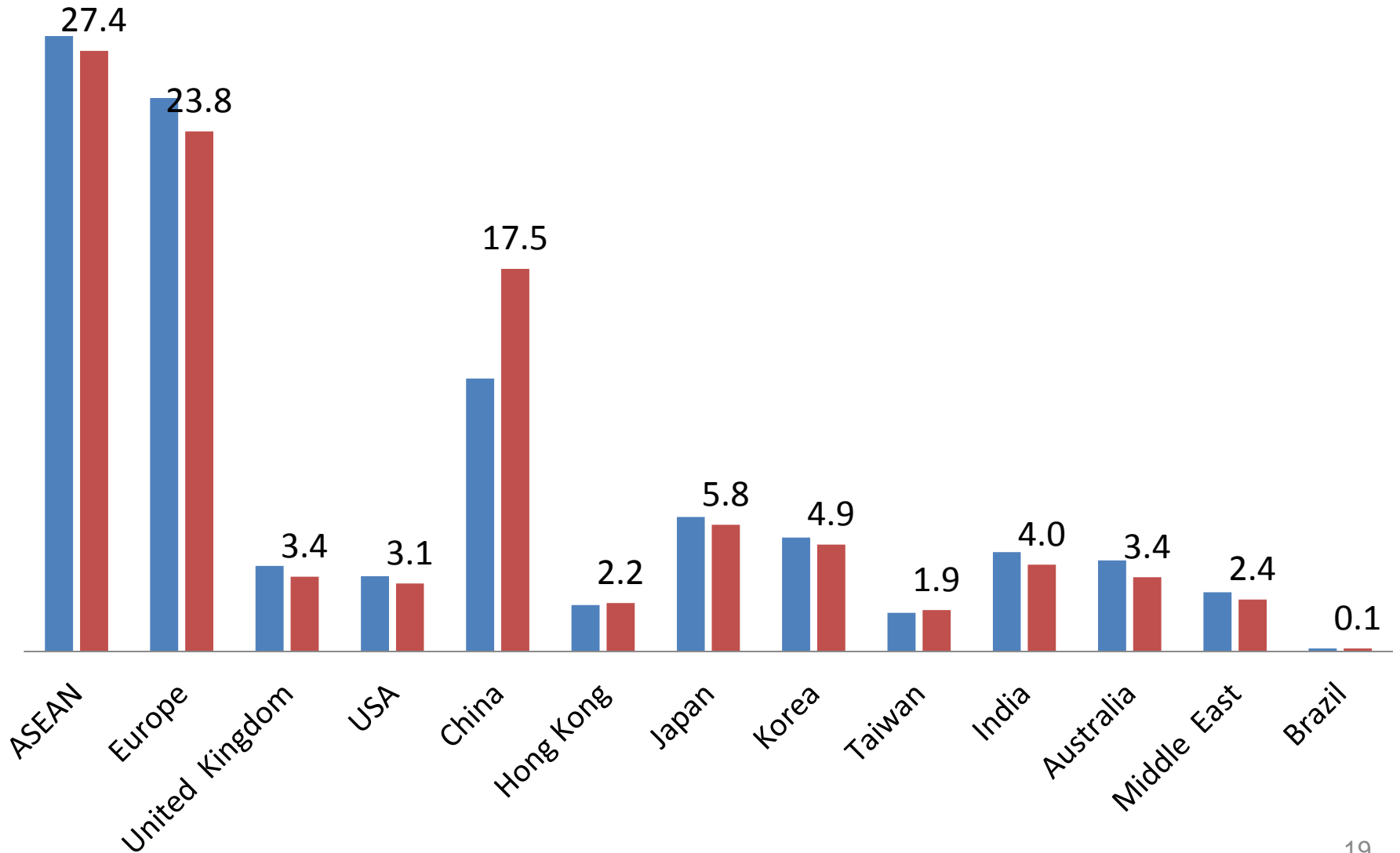


Determinants of tourism demand

- Income level (income effect)
- Relative prices (substitution effect)
- Exchange rates
- Transportation cost (oil prices)
- Perception of safety
- Preferences

Share of international tourists

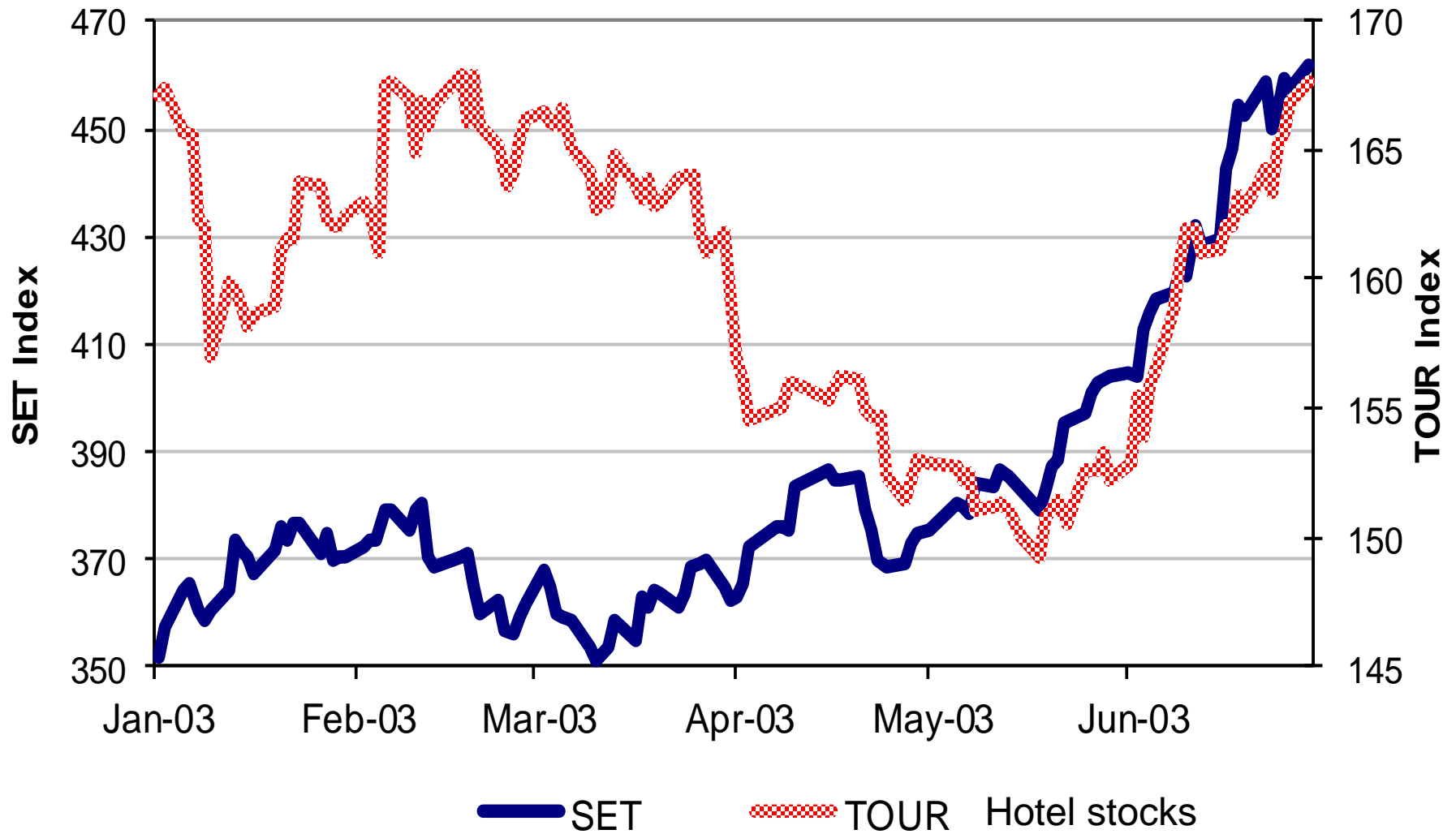
■ 2012 ■ 2013



When SARS attacked in 2003

- Tourism industry suffered considerably from **travel restrictions**.
- The plunge in hotel share prices in April 2003 was more severe.
- The patterns of recovery in share prices are similar for the tsunami.

SARS Impact on the Stock Market



Source: Stock Exchange of Thailand (SET)

After the tsunami struck in December 26, 2004

- Physical destruction by the tsunami still left some facilities to serve visitors after the disaster.
- International visitors dropped by 10 % in 2005Q1, reducing income by 7.8%
- Physical damage in Phuket 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: Phi phi island

- 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 rebounded 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.
- Since 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 greatly exaggerated.
- International media aggravated the depressive tourism industry through fears.
- But Thailand does have other sandy beaches aside from Phuket, Phangna, and Krabi: Samui, Hua Hin, and Pattaya

Impact of the Tsunami on the stock market

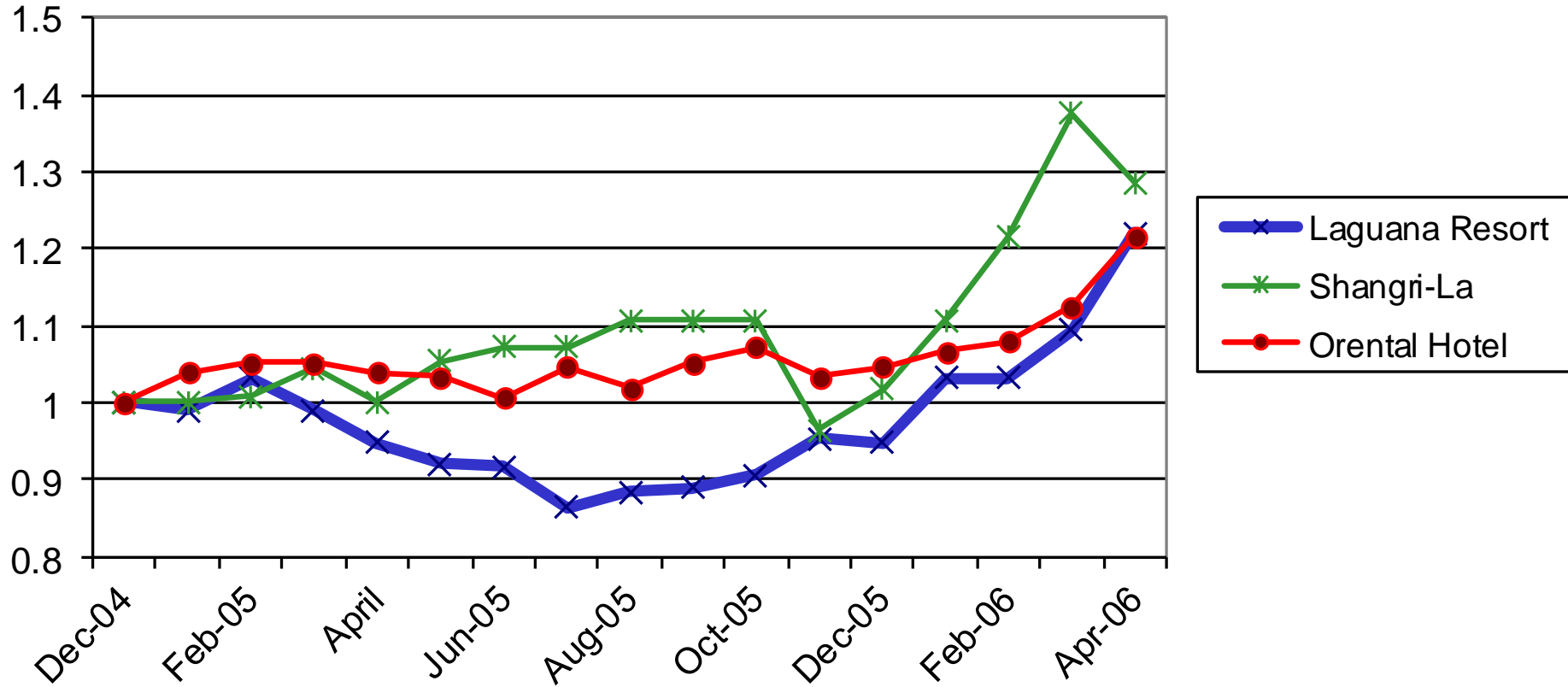
- The Securities Exchange of Thailand (SET) index fell by **one** percent, while the hotel index fell by 2.5 % on December 27, 2004.
- It took the SET index only **four days** to rebound to pre-tsunami level.
- It took the overall **hotel** stock for **one month** to regain its ground.

Andaman exposure

- Hotels (Laguna resort) with Andaman beach exposure 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 baht budget allocated for reconstruction

20 billion baht of soft loans provided 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.

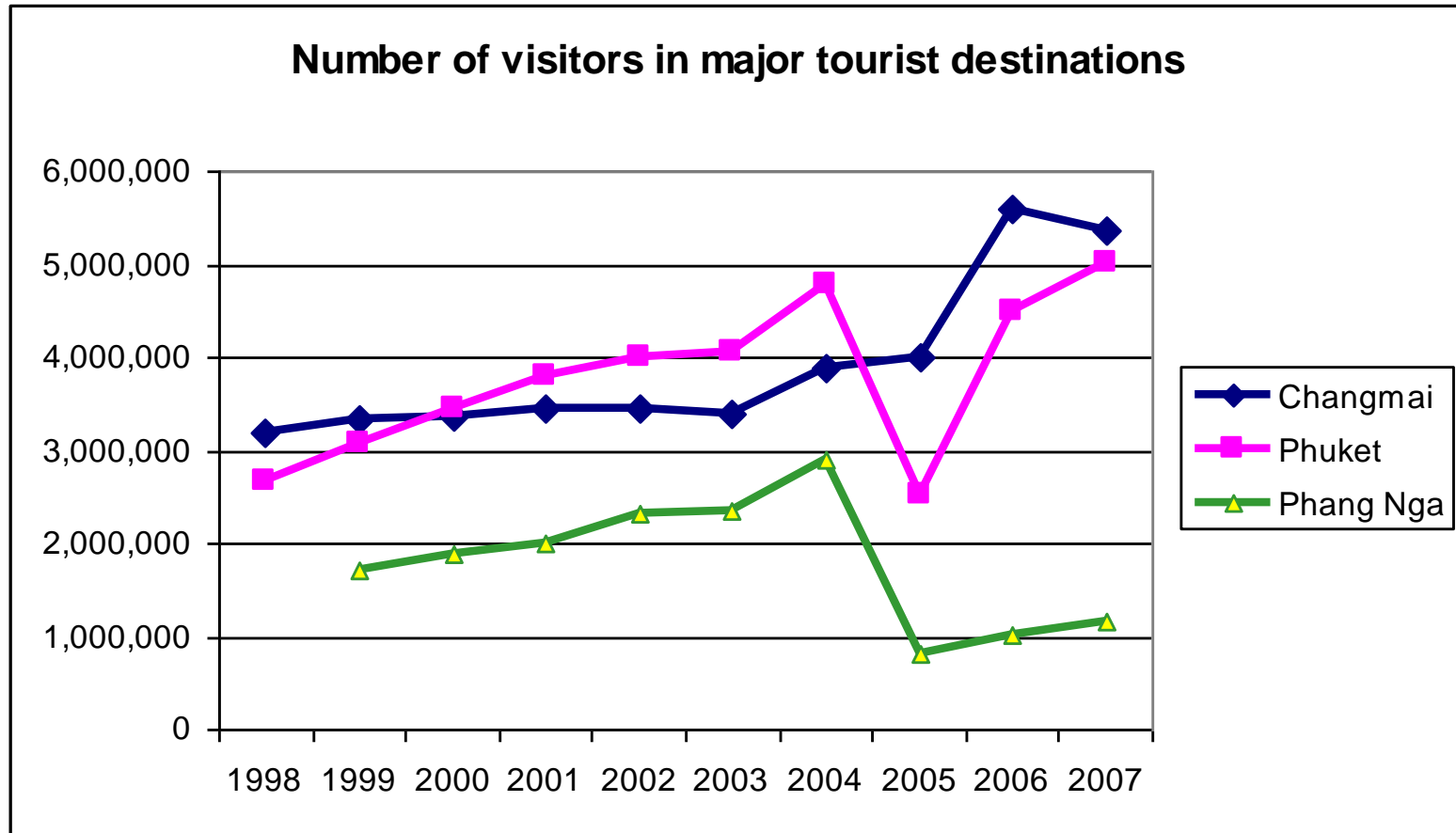
The right way to help

- 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



The high cost of the airport (Bangkok) shutdown in 2008 (2014)

- 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.

- Suvarnabhumi Airport currently serviced less than 600 flights a day, against more than 700 prior to the airport crisis.
- Thai Hotel Association called on the government to issue an **airport-closure guarantee**, which would certify a payment of Bt350,000 per person next time international visitors were left stranded in circumstances similar to those in 2008.

Global recession impact on tourism industry

- Tourists from Thailand's main markets had fallen gradually since 2008Q4.
- The number of travelers from Scandinavia has declined 10 per cent, from other European countries, such as Germany, the Netherlands and England, 30-40 per cent and 90 % from China.

What drove tourists away

- Added to the flu pandemic was the effect of the seizure of Suvarnabhumi and Don Mueang airports by supporters of the People's Alliance for Democracy (PAD).
- The Songkran riots (April 2009)
- The disruption and cancellation of the Pattaya Asean summit.
- Federation of Thai **Tourism** Associations (FETTA), believed that arrivals to Thailand would be well below the government's target of 15 million in 2009; the 11 million figure was more likely.
- Bangkok shutdown in 2014

What have we learned from experiencing various shocks?

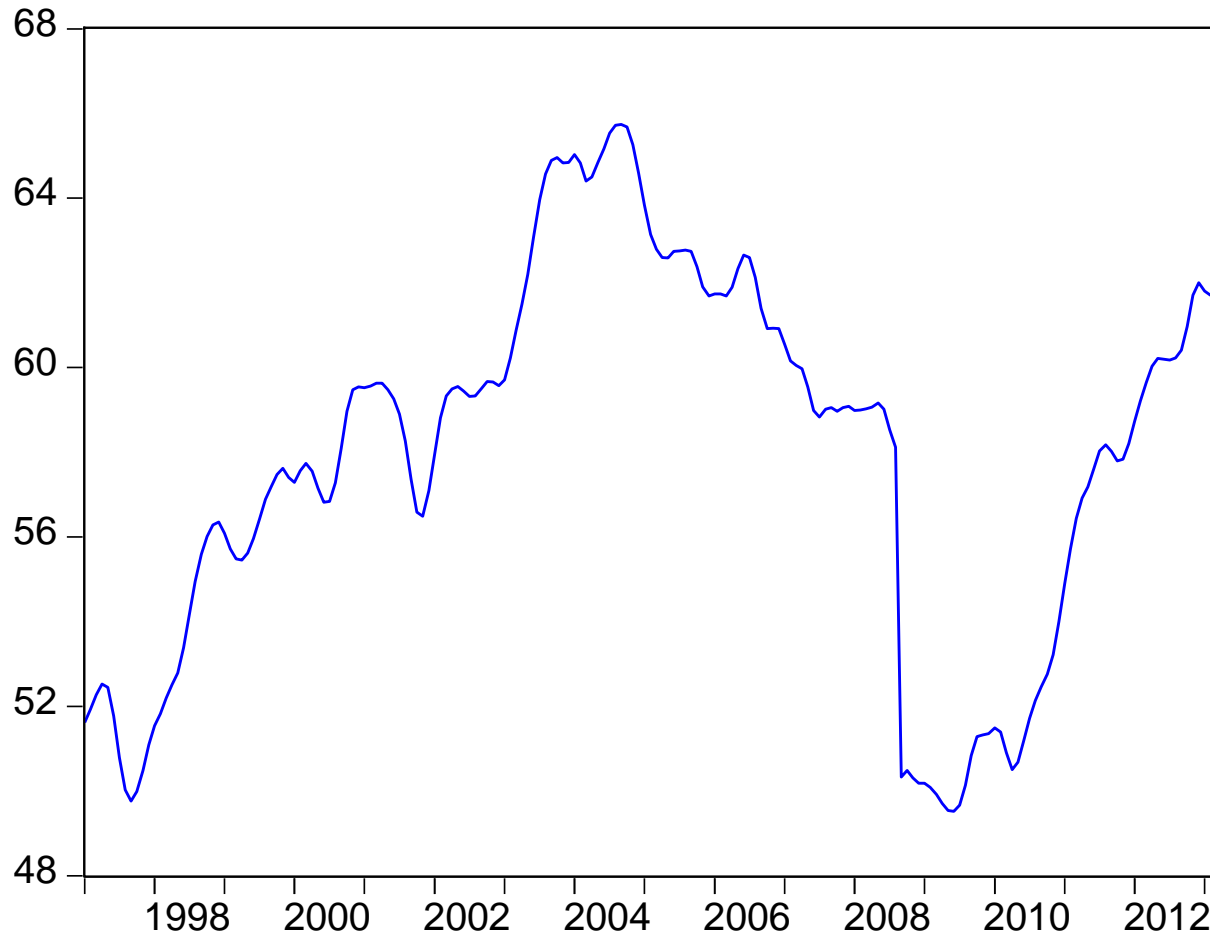
- Random shocks perturb the steady growth path of the economy.
- A random shock can turn a *mild* recession into a *severe* recession if confidence is lost.
- As a part of confidence-building public investment, the tsunami warning system, with cooperation among countries to share and maintain the system,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

Vulnerable but resilient

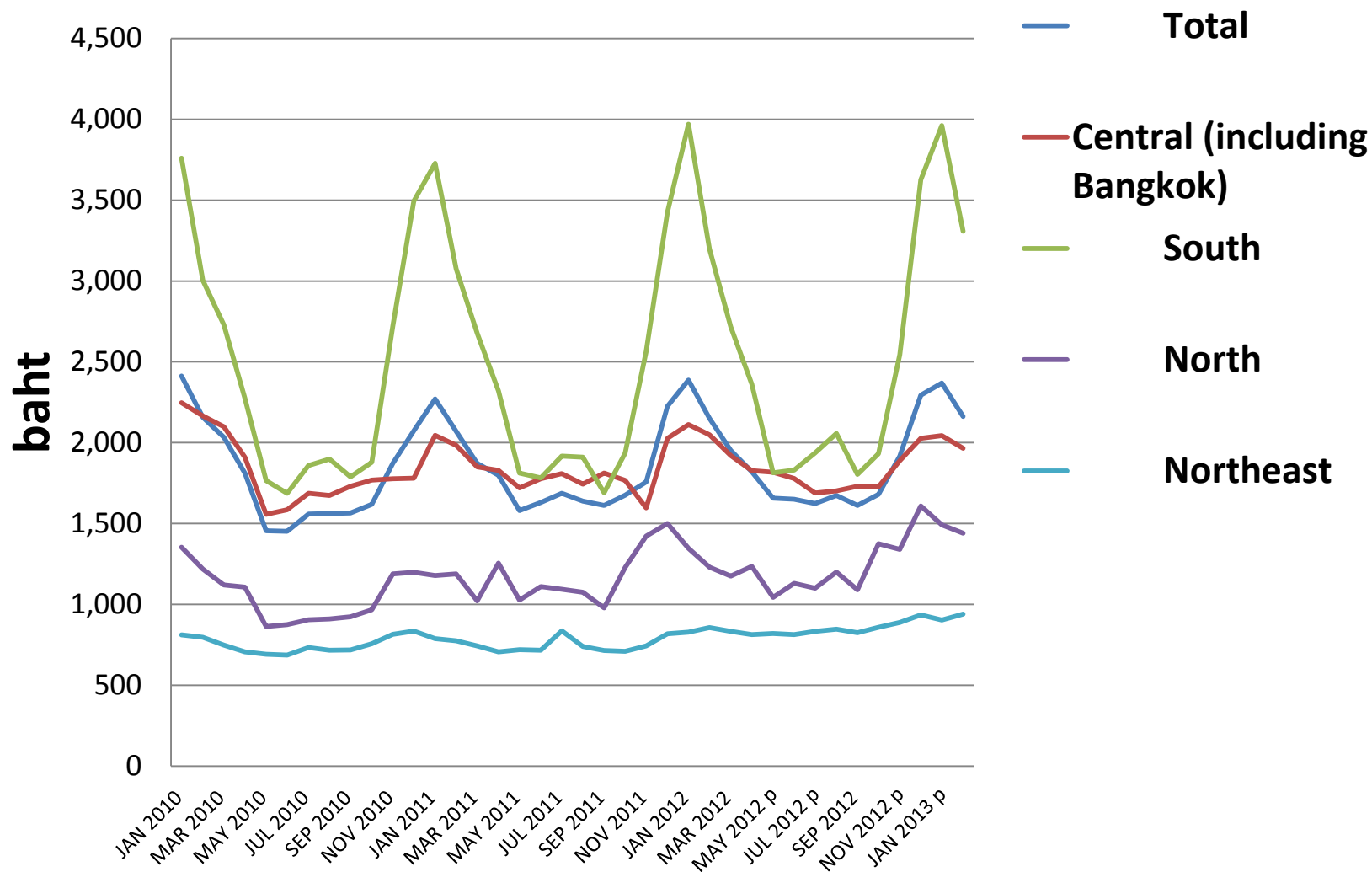
- Tourism industry is constantly bombarded by both external and internal shocks: SARS, Avian Influenza, oil price shocks, tsunami, terrorist bombing, military coups, and political violence.
- The industry is vulnerable to loss of confidence that induces negative spiral.
- Give it time, the industry will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

Hotel occupancy rate

Final trend-cycle



Average room rates

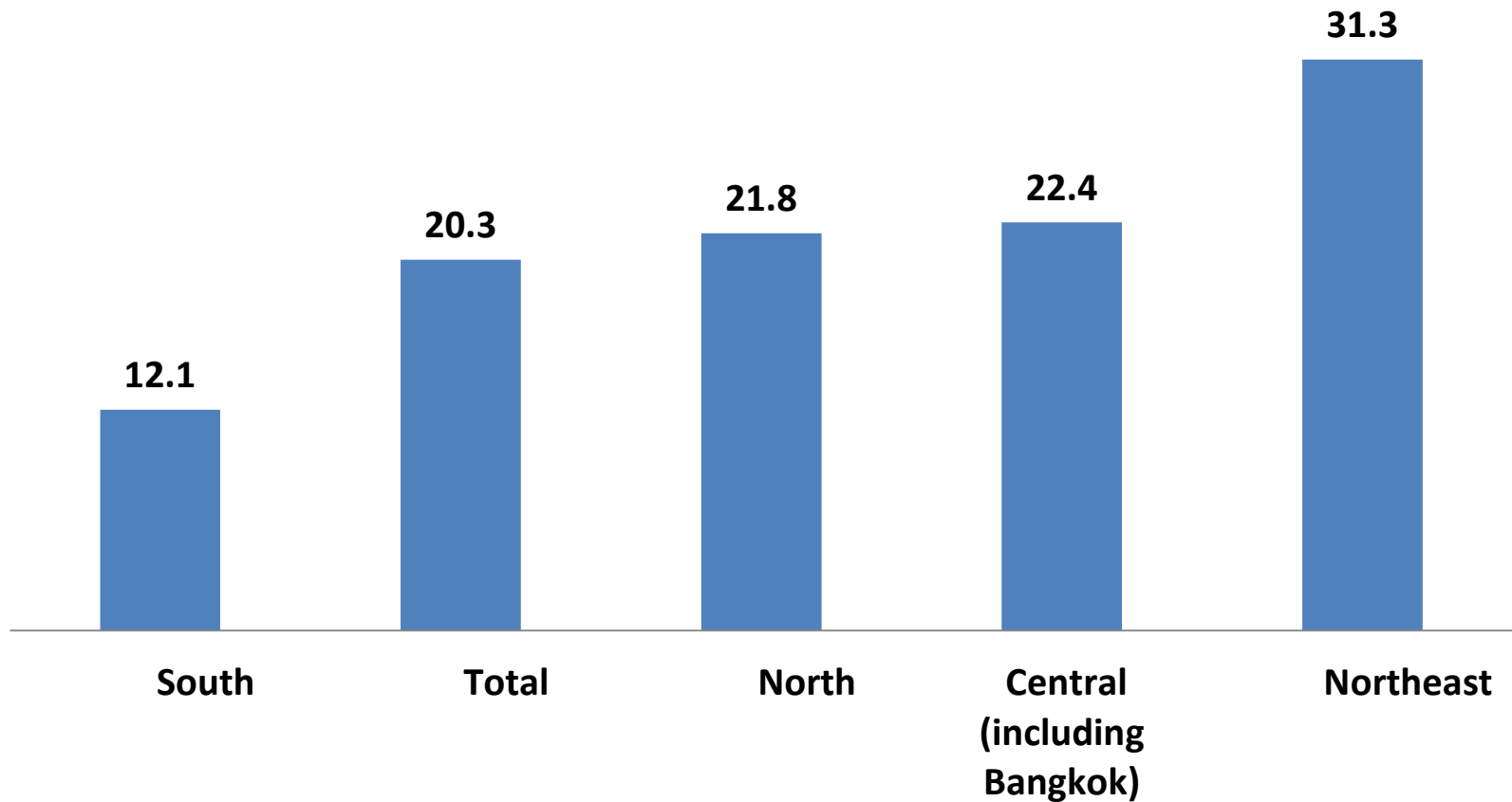


Source: Bank of Thailand

MICE Industry

- **Meetings, incentives, conferences, and exhibitions (MICE)**, with the “E” sometimes referring to *events* and the “C” sometimes referring to conventions is a type of tourism in which large groups, usually planned well in advance, are brought together for a particular purpose.
- Recently, there has been an industry trend towards using the term 'meetings industry' to avoid confusion from the acronym

Revenues generated by meeting and seminar packages
average share: 2010-2012



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 flexible?
- What is an appropriate policy response to a triple-dip recession?

Target and challenges in 2014

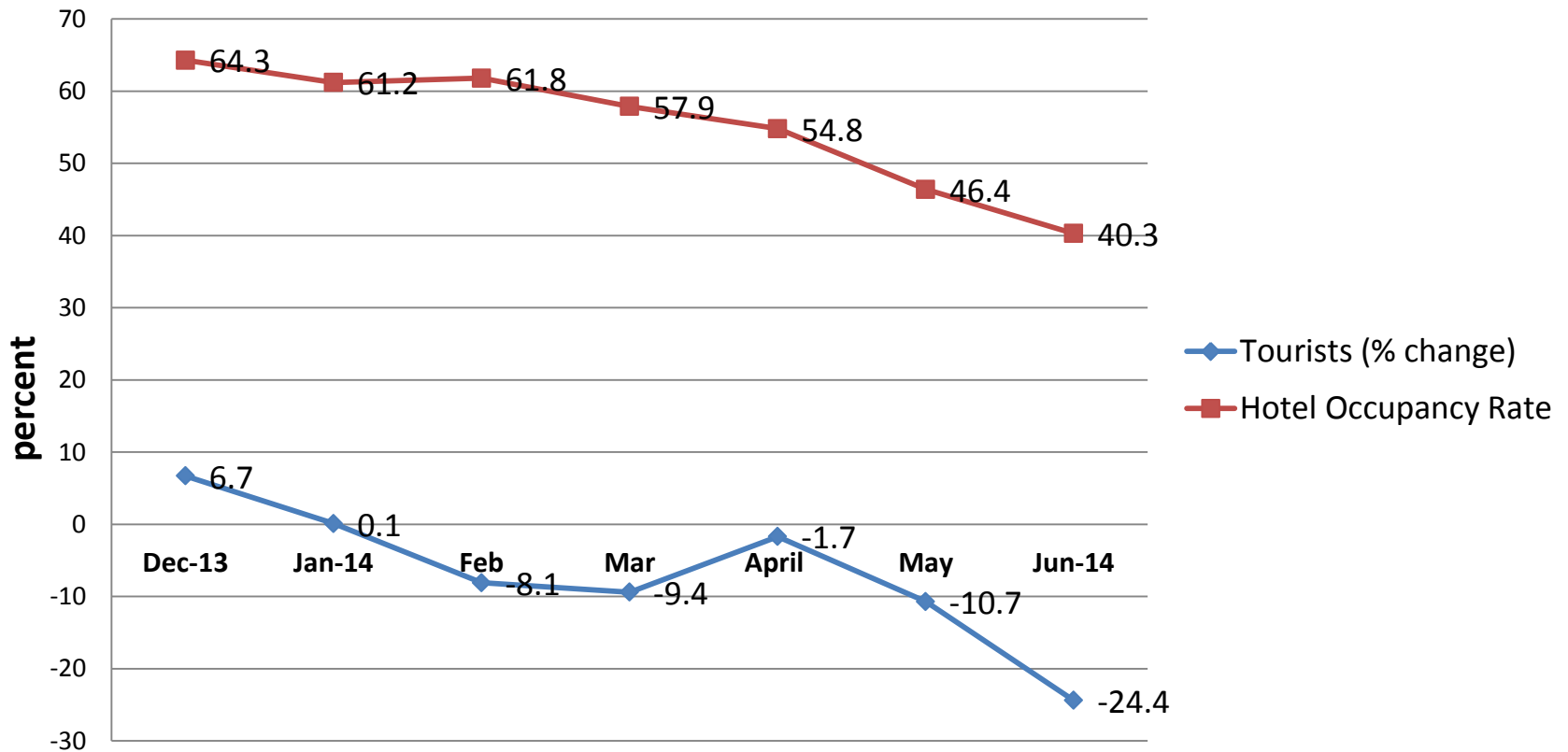
- Income from tourism: 2.2 trillion baht
- Fragile recovery in Europe
- More political turmoil

Risk factors

- Sales tax hike in Japan
- Depreciating the yuan
- India's growth slowdown
- A constant shock-syndrome

Opportunity lost

Impact of recent political turmoils



Conclusions

- The industry is vulnerable but resilient
- It has learned to cope with a constant-shock syndrome.
- The private sector must learn to adjust during difficult times