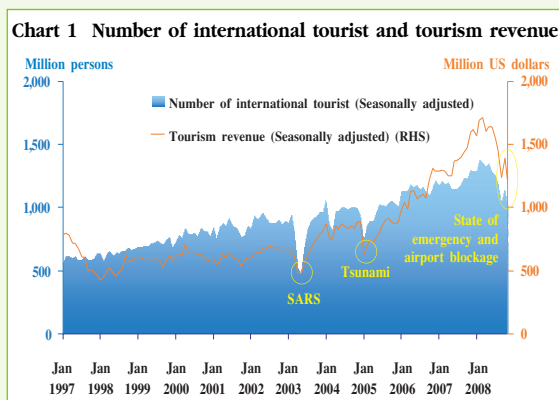


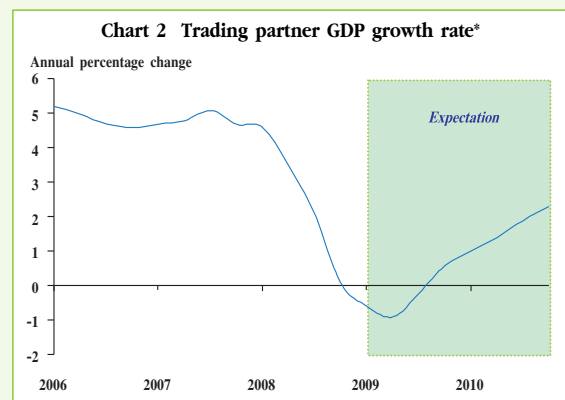
## Impact of the global economic slowdown and political unrest on tourism in Thailand

Tourism in Thailand is expected to perform less satisfactorily as a consequence of the global economic slowdown - particularly in Thailand's major tourism markets - and the political tension that led to the closure of Suvarnabhumi and Don Mueang international airports in late November to early December 2008. In early December 2008, the Bank of Thailand made an assessment of the direct impact of the airport closure on the tourism sector and its extended effect on other related sectors for the Monetary Policy Committee, based on the situation as of 3 December. From this earlier estimation, the number of foreign tourist arrivals in 2008 and 2009 was projected to fall to 14.0 and 12.8 million persons, down by 3.0 and 8.8 per cent respectively. This would result in a loss in tourism revenue (direct impact) of 140 billion baht. This direct loss of foreign tourists' expenditures would affect activities in other related sectors and result in an economy-wide loss in income totaling 290 billion baht<sup>2</sup>, or equivalent to approximately 3 per cent of nominal GDP in 2009.

Nevertheless, this estimation has been revised to take into account the actual turnout in December, with preliminary figures for foreign tourist arrivals indicating a drop of foreign tourist arrivals of 38.5 per cent, lower than our earlier forecast of 60 per cent. Key factors behind this lower reduction included the easing of political tension since mid-December 2008, which was more quickly than expected, and the increase in the number of direct and chartered flights to important tourist destinations in the south of Thailand. As a result, the performance of the tourism sector improved slightly when compared to the previous forecast. The number of foreign tourist arrivals in 2008 and 2009 was therefore revised up to 14.3 and 13.5 million persons, a contraction of 0.8 and 5.6 per cent from the previous year, respectively. Hence, the projected loss to tourism revenue during the November 2008 - December 2009 period was reduced to 100 billion baht<sup>3</sup>. The overall projected loss in income (direct and indirect) incurred to the economy was reduced to 210 billion baht, accounting for 2 per cent of 2009 nominal GDP. The service sector would experience the highest income loss of 91 billion baht, followed by the transportation and the manufacturing sectors which would see income fall by 68 and 42 billion baht respectively.



Source: Tourism Authority of Thailand and Bank of Thailand



Note: \*Using proportion of the number of international tourists of each country as weight

Source: Bank of Thailand

<sup>1/</sup> For further details, see WE-MPG January 2009 vol.10, *Thailand's Tourism Industry after the Blockade of Airports*, available via [http://www.bot.or.th/Thai/Economic Conditions/Publication/Pages/WE\\_MPG.aspx](http://www.bot.or.th/Thai/Economic%20Conditions/Publication/Pages/WE_MPG.aspx) (Thai version only).

<sup>2/</sup> The estimation results are derived from input-output model using 2000 input-output table compiled by the Office of the National Economic and Social Development Board (NESDB). The shock to the model is a revenue loss of 140 million baht. This loss was disaggregated and imposed onto 4 sectors, namely, hotels, restaurants, ground transportation, and air transportation, by proportions of 30, 20, 10, and 40 per cent respectively.

<sup>3/</sup> Although the number of foreign tourist arrivals increased from the previous forecast, tourism revenue did not improve significantly due to lower spending by foreign tourists in line with the weakening world economy and the cheaper tourism packages offered by hotels and travel agents.

To compensate for losses incurred from the decline in foreign tourism revenue, the government set out to promote domestic tourism. In December 2008, the government in collaboration with the private sector, including hotel and airline operators, organized a Thai Travel Fair to promote domestic tourism during both peak and off-peak periods. The policy aimed to rescue the tourism sector and to shelter other related industries and employment. Although the price-cut strategy reduced the average daily expenditure of Thai tourists, it helped to increase the quantity and frequency of domestic travel. The price-cut strategy benefited the tourism industry, as reflected in higher hotel occupancy rates - especially in northern Thailand - during the New Year holidays. In addition, the low oil price environment was another contributing factor which supported domestic travel.

The same amount of spending in the domestic market by Thai tourists, however, did not yield the same impact as spending by foreign tourists, given the differences in structure of spending<sup>4/</sup>. Based on the direct purchase structure, foreign tourists, on average, spent a large proportion of their budget on accommodation and air transportation, whereas Thai tourists normally stayed at mid - to low-end hotels and traveled by ground transportation. The total impact, therefore, would depend on the direct purchases or shocks that are imposed, and the indirect impact which results from the industry's backward and forward linkages. To assess the sectoral and economy-wide impact of the stimulus from domestic tourism, the input-output model is employed. The total shock of 100 billion baht is divided based on the structure of the direct purchases by Thai tourists (information from the Tourism Authority of Thailand (TAT)). These shocks are then broken down and imposed on various sectors corresponding to the structure of the direct purchase. Such analysis found that domestic tourism spending generated a total revenue of 180 billion baht, which was lower than the total impact of 210 billion baht resulting from the same amount of foreign tourist spending. The service sector would gain the most benefit of 93 billion baht, followed by the transportation and the manufacturing sectors which would see their output increase by of 43 and 35 billion baht respectively.

To sum up, the gains from domestic tourism would not entirely offset the losses from foreign tourism, given the different patterns of spending. More importantly, encouraging Thai people to spend more on tourism would be a daunting task, given the current fragility of the domestic economy. Thailand's tourism industry still crucially relies on spending by foreign tourists to help boost the overall economy and support the current account. As a result, government policies to stimulate the tourism industry and restore foreign tourists' confidence are of importance and are especially crucial at this juncture.

**Table: The direct and indirect effect of foreign and domestic tourism**

	Foreign tourism revenue lost (Hundred billion baht)	Domestic tourism revenue (Hundred billion baht)
Direct effect	-1.00	+1.00
Direct and indirect effect	-2.11	+1.80
• Service sector	-0.91	+0.93
• Transportation sector	-0.68	+0.43
• Manufacturing sector	-0.42	+0.35
• Other sector	-0.10	+0.09

<sup>4/</sup> To boost Thai tourists' spending by 100 billion baht, domestic tourism revenue needs to grow by 25 per cent from the previous year, when the revenue base was 390 billion baht (the Tourism Authority of Thailand (TAT)). With the lower average spending of a Thai tourist relative to a foreign tourist, i.e. 4,600 baht per person trip for a Thai tourist compared to 38,000 baht per person trip for a foreign tourist, each missing foreign tourist must be replaced by eight Thai tourists so as to raise the equivalent amount of spending.