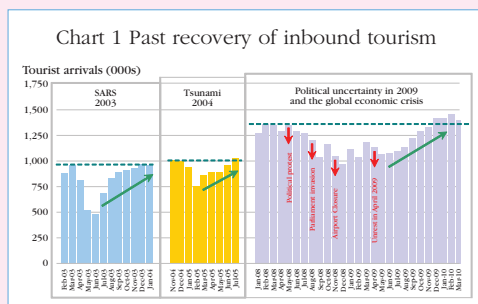


Tourism: significance to the Thai economy and outlook for the second half of 2010

Tourism is one of the sectors that bring in substantial foreign income, accounting for as much as 40 per cent of the service receipts in the current account and approximately 6 per cent of Thailand's GDP. The industry also maintains extensive linkages with other sectors. According to the Input-Output Model^{1/}, one baht spent by foreign tourists translates on average into an increase in manufacturing production by 1.86 baht and an increase in national income by 0.8 baht. One explanation for these relatively large multipliers is the size of employment in the tourism sector. Directly linked to the tourism industry, hotels and restaurants alone employ 6.4 per cent of the country's labour force. In addition, tourism-related employment extends to transportation, tour guiding, retail sales, souvenir production, and recreation.

Historical experience reveals that, although the tourism sector is highly susceptible to shocks, it usually recovers quickly. Some common findings gathered from recent incidents, namely the SARS outbreak in 2003, the December 2004 Tsunami, and the episode of domestic political uncertainties and global financial crisis in 2008-2009, are summarized as follows.



Source: Tourism Authority of Thailand and Office of Tourism Development

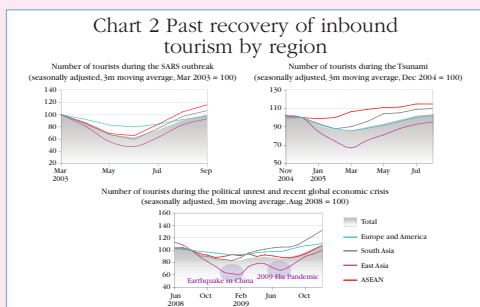
Coefficient values from the error correction model

Short-run model (Adjusted R-Squared = 0.34)			Long-run model (Adjusted R-Squared = 0.87)		
Variable	Coefficient	t-statistic	Variable	Coefficient	t-statistic
$\Delta \text{LOG(TPGDP_SA(6))}$	2.76	(2.25)**	Constant Term	0.95	(1.80)***
$\Delta \text{LOG(PCRUDE_SA(3))}$	-0.20	(-2.38)**	LOG(TPGDP_SA)	1.26	(11.30)*
$\Delta \text{LOG(BS_SA(9))}$	1.25	(2.52)**	DUMMY_SARS	-0.23	(-5.92)*
DUMMY_SARS	-0.13	(-3.26)*	DUMMY_TSUNAMI	-0.19	(-3.35)*
DUMMY_TSUNAMI	-0.21	(-2.81)*	DUMMY_POLITICAL	-0.15	(-4.93)*
DUMMY_POLITICAL	-0.15	(-4.21)*	ARD	0.56	(6.87)*
ECM_NTOURIST (-1)	-0.54	(-2.81)**			

Note: Results are based on monthly data from January 2000 to April 2010
 NTOURIST denotes number of foreign tourist arrivals
 TPGDP denotes gross domestic product of major tourism markets for Thailand, calculated as an index and weighted by the proportion of the number of tourists by country
 P_CRUDE denotes crude oil price (Dubai price)
 BS denotes exchange rate (baht/dollar)
 SA denotes seasonally adjusted
 Dummy variables include: DUMMY_SARS for periods with SARS outbreak; DUMMY_TSUNAMI for the period with Tsunami; and DUMMY_POLITICAL for periods with political unrest
 *, ** and *** indicate statistical significance at 0.01, 0.05 and 0.10, respectively

(1) Inbound tourism was quick to recover, with the rebound to normal levels taking no more than two quarters regardless of the magnitude and duration of the shock. During the SARS outbreak, the number of tourists in May 2003 dropped by as much as 50.5 per cent year-on-year. The Tsunami, however, was a brief incident and only affected tourism in the southern parts of the country. Political uncertainties and the global financial crisis that began towards the end of 2008, on the other hand, were more prolonged, causing the number of foreign tourists to contract year-on-year for 13 consecutive months. Nevertheless, in all these cases the number of foreign tourists managed to bounce back rapidly once the shocks had ended. Econometric analysis also confirms that the impacts of pandemic outbreaks, natural disasters and political unrest on the number of foreign tourists were small in comparison with the effect of changes in foreign tourists' own incomes.

^{1/} Using the 2000 Input-Output Table compiled by the NESDB, the output and income multipliers for the hotel, restaurant and transportation industries were found to be 1.86 and 0.8, respectively.



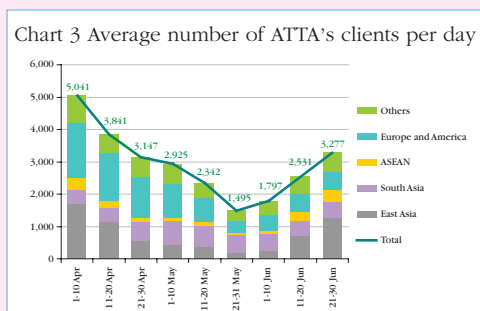
Source: Tourism Authority of Thailand and Office of Tourism Development

(2) **The decline in the number of tourists from East Asia**, namely China, Hong Kong, Korea, Taiwan and Japan, had a large impact on the tourism industry as a whole. This can be explained by the fact that tourists from those countries account for 30 per cent of total inbound tourists, and they tend to be more sensitive to negative shocks. **Nevertheless, the duration of their recovery did not differ from other groups**^{2/}. East Asian

tourists are more flexible in terms of trip arrangement, requiring only 1-3 months of advance arrangement due to shorter travel distances, compared with tourists from Europe and America who require 3-6 months of planning.

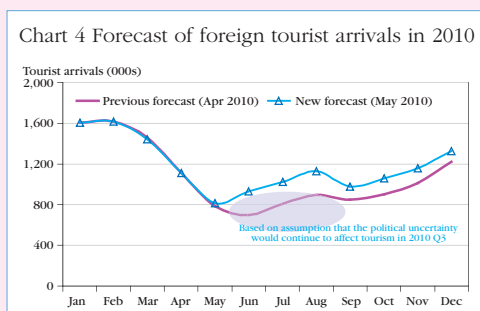
An outlook for inbound tourism

Going forward, the number of foreign tourists travelling to Thailand is expected to increase in tandem with the global economic recovery. Previously, domestic political unrest and the European sovereign debt crisis that could weigh on the pace of the European economic recovery, along with seasonal factors, caused a sharp drop in foreign tourists in May 2010. At the time, the MPC projected the tourism industry to be significantly affected throughout the rest of the year.



Source: Association of Thai Travel Agents (ATTA)

Several countries, however, have since retracted their travel advisory in view of the improved political situation. As a result, foreign tourists have regained confidence in Thailand, and a rise in the average number of tourists per day^{2/} was already observed in June, with the rebound coming mostly from Asian tourists, in particular those from China, Hong Kong and ASEAN countries, reflecting a swift recovery just as in the past.



Source: Bank of Thailand

Barring negative factors which could dent tourists' confidence, the number of foreign tourists is expected to improve steadily in 2010 H2, returning to normal levels by the year-end peak season. For the whole year, the number of tourists in 2010 is likely to be close to the 2009 level. However, competitive pricing to attract tourists is another factor that can cause a decline in total tourism receipts in 2010 relative to the previous year.

^{2/} Based on the number of clients of the Association of Thai Travel Agents (ATTA) travelling through Suvarnabhumi Airport between April and June 2010.