

The tsunami and the Thai economy: One year after

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On that fateful day



Table 1: Loss of life and property damages (million baht)

	Death	infrastructure	Business
Phangnga	4224	367.8	6211.2
Krabi	721	212.7	2683.6
Phuket	279	399.8	3954.1
Ranong	160	41.6	0.83
Trang	5	5.1	2.8
Satun	6	7.1	-
Total	5395	1034.1	12852.5

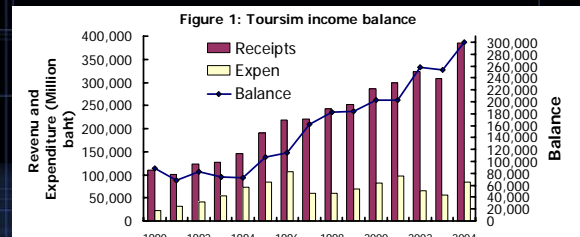
Source: Department of Disaster Prevention and Mitigation

The importance of the six provinces

- Combined GDP is 2.7 % of total GDP
- Combined income from the tourism industry in six provinces was 30% of the total tourism industry's.
- Overall tourism income of the country is 6 % of GDP.
- The adverse impact should not be substantial.

Hit by random shocks

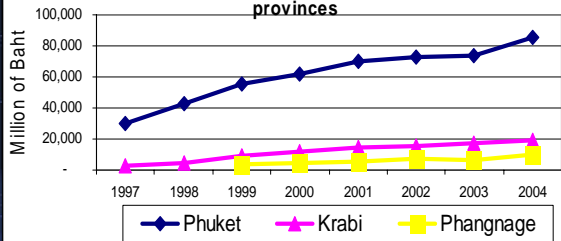
1991: world recession
1997: Asian financial crisis
2003: SARS and Iraq war
2005: Aftermath of the tsunami (Dec 2004)



Source: Tourism Authority of Thailand

Phuket, Krabi and Phangna

Figure 2: Tourism revenue in the three affected provinces



Source: Tourism Authority of Thailand

Immediate impact

Table 2: Immediate tsunami impact on hotels

	Krabi	Phanga	Phuket
Total rooms * (before tsunami)	9867	6369	33587
Remaining# (after tsunami)	8979	1063	26298
%remaining	91.64	16.68	78.31

Source: Tourism Authority of Thailand

Notes: *Total number of available rooms in September 2004
#Number of available rooms on January 12, 2005

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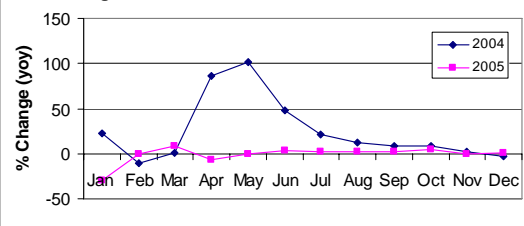
The road to recovery

- Physical destruction by the tsunami still leaves facilities to serve visitors.
- The survival of the industry heavily relies on the demand side.
- How can we revive the industry?
- International visitors dropped by 10 % in Q12005, reducing income by 7.8%

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Lost opportunity

Figure 3A: Total International Tourist Arrivals



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Phuket

- Physical damage was less than 20 percent, but the negative image was difficult to revive.
- The tsunami destroyed the Phuket tourism industry by 40 billion baht, due to a 40% reduction in number of tourists.

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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.
- The hotel occupancy rate has risen to 80% as airlines resume their direct flight to Krabi.

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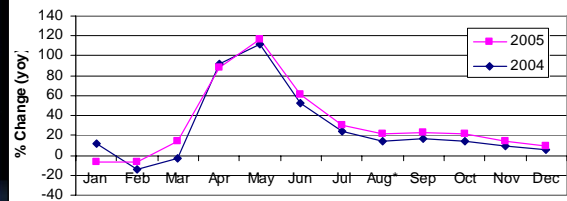
Phanga: kao lak

- The most severely hit province
- The number of hotel rooms was reduced from 6000 rooms to 1200 rooms.
- Revenue declined from 8 billion to just 200 million baht in 2005.
- High season started in November 2005 witnessed a recovery by 100 % fully booked hotels, but the number of rooms was reduced more than half in Kao lak.

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Business as usual in Bangkok

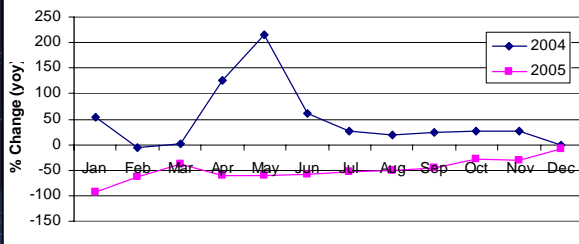
Figure 3B: International Tourist Arrival: Bangkok



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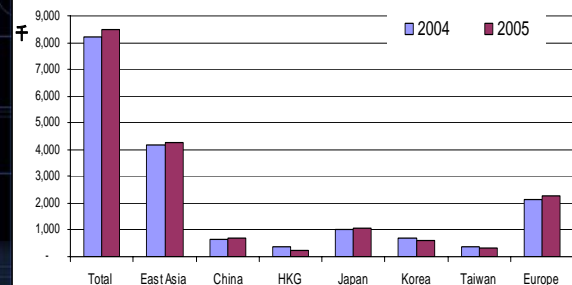
Tourist flight from Phuket

Figure 3C: International Tourist Arrival: Phuket



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Int'l Tourist Arrival to BKK Int'l Airport by Nationality



Source: TAT

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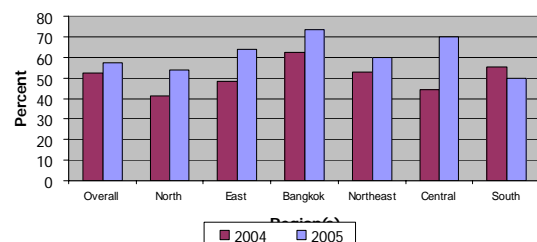
Tourism industry in 2005

- Total number of tourists fell from 11.6 million in 2004 to 11.3 million in 2005, a 2.5 % reduction
- Oil price hikes, economic slowdown, and violence in Southern provinces also contributed to the reduction.
- Domestic visitors responded to heavy discount programs compensated the revenue.
- Superstitious fear of tsunami ghosts and spirits prevent discount incentives to work for foreign tourists.

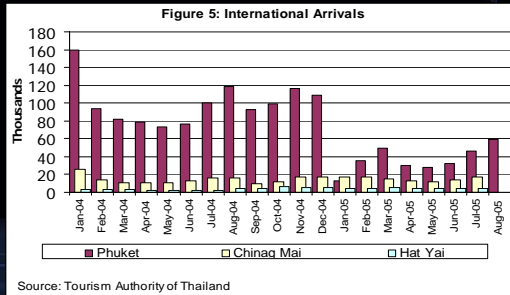
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Substitution is the key

Hotel Occupancy Rate by Region
January - August

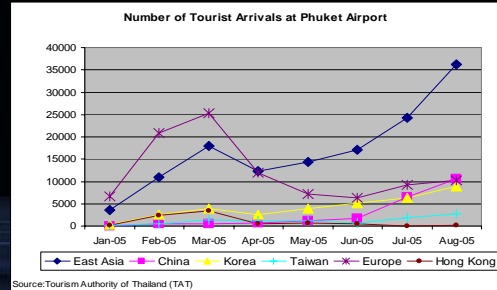


Phuket is slowly back in business



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When fears subside, When confidence returns,



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Exaggeration

- 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 aggravates the depressive tourism industry through fears.
- Thailand does have other sandy beaches aside from Phuket, Phangna, and Krabi

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Other sandy beaches



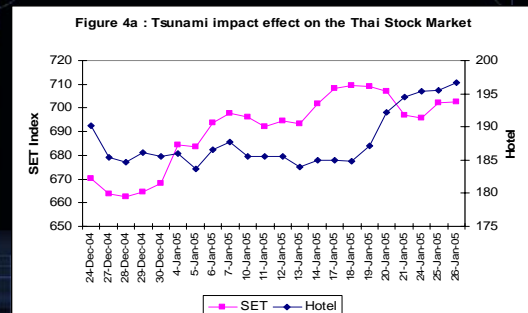
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Impact on the stock market

- 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 regained its ground.

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Investors soon regained composure



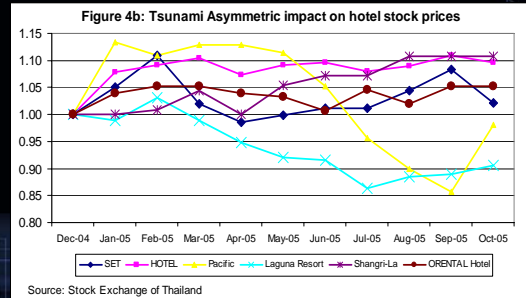
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Andaman exposure

- Hotels with Andaman beach exposure suffer,
- Other hotels benefit from migration of visitors from the three southern provinces.
- Hotel with concentrates their operation in these provinces suffer losses, while other hotels with diversified locations are able to maintain their revenues.

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Some hotels lost, while some gained



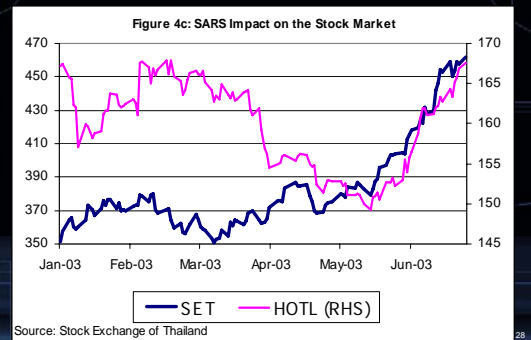
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When SARS attacked in 2003

- Tourism industry suffer more 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 and SARS.
- How would the pattern look like for the Avian Influenza pandemic?

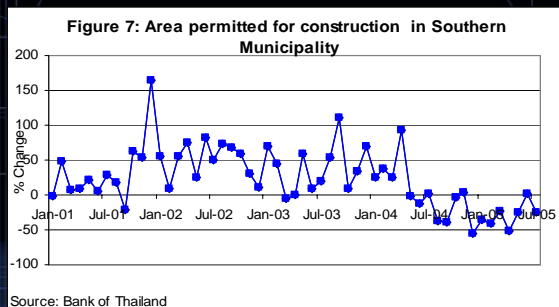
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A different kind of shocks: SARS



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Contracted investment



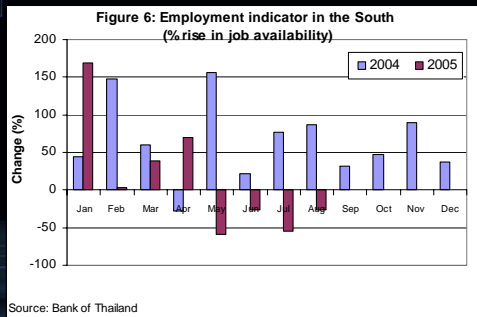
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Southern economy: 2005

- A decline in investment in 2005 caused by oil price hike, southern unrest, and tsunami.
- Employment and growth are affected.
- The high rubber price compensated the loss in tourism revenue.
- As the tourism industry gradually recover, there has been a shortage of labor in the hotel sector.
- Rebuilding the lost capacity requires liquidity.

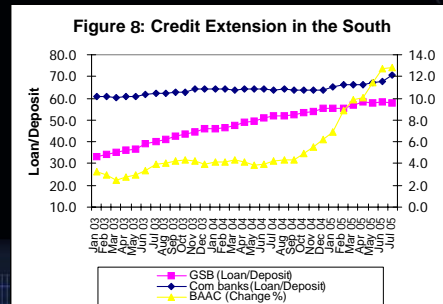
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Southern Job lost



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Massive credit injection



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The role of the government

- 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

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Demand matters most

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

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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.

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A friend in need?

- The EU cut down the tariff rates on imported shrimps 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 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).

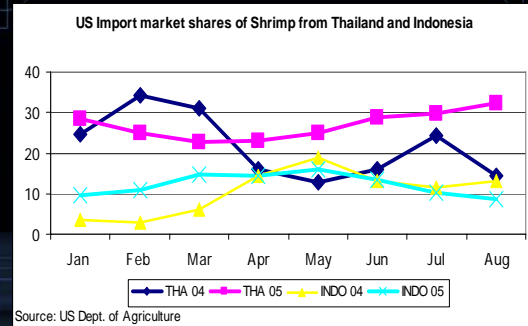
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A friend in need is a friend indeed

- Japan has offered to help by cutting the tariff rates of 20 agricultural products to **zero** to help Thai farmers hit by drought and the tsunami.
- Processed shrimp, boiled pork, tropical fruits and vegetables are included in the list. These products are currently subject to tariff rates between **5 to 12** percent.
- The US also **considered** the removal of anti-dumping duties on imported Thai shrimps.

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Because the share of Thai shrimp in the US is rising,

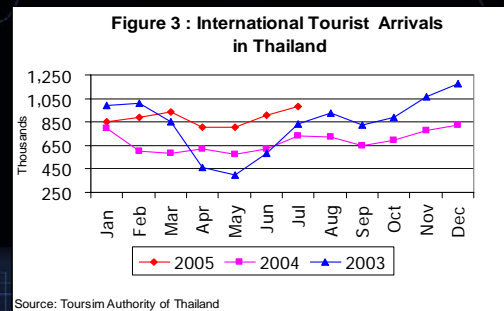


Increased Market access: An illusion?

- Market access can be increased through tariff reduction, removal of conventional non-tariff barriers,
- Continuous bonds (amounted to 100% of total exports values of Thai shrimps) imposed by the US for an anti-dumping allegation.
- Tariff barriers are replaced by a more stringent food safety standard measures.

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Constant shock syndrome



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Sensitive but resilient

- Tourism industry is constantly bombarded by external shocks.
- It is vulnerable to loss of confidence that induces negative spiral.
- SARS, Avian Influenza, oil price shocks, tsunami, terrorist bombing and internal shocks.
- Give it time, the industry will **emerge stronger** when experiencing new unexpected shocks.

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Political crisis and economic consequences

- Internal shocks generated by mobs?
- PAD: People's Alliance for Democracy
- The opposition parties' election boycott
- The supreme Administrative Court ruled against privatization of EGAT, a public enterprise, in March 2006.
- Will PTT, THAI Airways International, and Krung Thai Bank be the next targets for withdrawal from existing listed companies in the Securities Exchange of Thailand?

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Current Political turmoil in the streets of Bangkok

- 60,000 Chinese tourists have cancelled their trips to Thailand, and so did 5,000 Singaporeans.
- There has been a slowdown in Japanese tour booking.
- All government mega projects have been postponed.
- If political stability prolongs, foreign direct investment can be adversely affected.

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What do we learn?

- Random shocks perturb the steady growth path of the economy.
- A random shock can turn a mild recession into a severe recession due to confidence loss.
- If the economy is flexible and resilient (through diversification) enough, it would regain its steady state growth path in time provided that appropriate policy responses are applied.
- 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 good in the Andaman region.

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