



Insight

Thai Tourism: Sustaining Success



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Update and analysis of current issues affecting the Thai economy and business sectors



Note

Short articles on topical events

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Thai Tourism: Sustaining Success

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Executive Summary

Thailand's vibrant tourism sector has played an increasingly important role in the economy in recent years, boosting many related businesses and helping compensate for weak growth in other sectors.

International arrivals here will exceed 30 million in 2016, lifting tourism's share of GDP to 11%. Arrivals should reach 37 million next year. In addition to direct income from tourist spending, the sector contributes to the economy via job creation and investment. The three tourism-related sector— hotel and restaurant, wholesale and retail trade, transportation and communication – together employ more than 10 million workers, adding 1.4% each year and comprising 26% of total employment in Thailand.

EIC expects Thailand's tourism sector to continue expanding in its existing markets, but to better sustain growth in the long run, businesses need to anticipate coming changes and adjust themselves to stay competitive. In market segments where Thailand already has a clear competitive edge, such as leisure travel and medical tourism, Thai businesses must attract new groups of tourists and curb lopsided dependency on some current ones. At the same time, new opportunities with high growth potential, such as promoting locations in Thailand for international film shoots and developing new leisure attractions, will help ensure a sustainable growth path in the long run.

Tourists from fast-growing economies such as India, Indonesia and Myanmar offer high growth potential, especially in segments where Thailand has a competitive edge. EIC believes that to sustain growth in the number of tourists, Thailand cannot rely on Chinese tourists alone and must diversify to other markets. In vacation travel, the Indian and Indonesian markets show strong potential. In the medical tourism






segment, businesses should target countries having high healthcare costs, like Australia, Germany and France, or countries that have low quality of service, like Myanmar and many nations in Africa.

At the same time, development of new segments will support long-term growth. Thailand should entice new visitors by attracting film shoots here. We should build new man-made attractions like amusement parks and host big sports events. These new efforts would require support from both the public and private sectors. For instance, new government incentives can help bring in more film productions. The government can also help incentivize construction of new tourist attractions such as theme parks, water parks and museums. Organizing international sports events would increase arrivals and bolster revenue.

The government and private sector should jointly undertake serious efforts to improve key supply-side factors. This means include developing human capital, maintaining tourism sites and public assets and investing in well-connected transport infrastructure. Tourism personnel need training in ethics, technology, creativity and innovation as well as language skills and service quality. More security personnel must be provided, while laws and regulations must be improved and enforced to ensure public safety. Thailand needs high-quality, convenient public transport systems that connect primary and secondary destinations nationwide. Tourists need complete information on transport modes, routes and online ticketing.



An aerial photograph of a city skyline at sunset. The sky is filled with soft, horizontal bands of orange, pink, and purple. The city below is densely packed with buildings, many of which are illuminated with warm lights. A large, white, stylized number '1' is superimposed on the right side of the image, partially overlapping the city and the sky.

Tourism becomes Thailand's most vital growth driver

Rising demand for travel is generating important economic benefits for countries around the world, bringing in foreign currency, boosting incomes and creating jobs. It is helping drive investment in infrastructure and utilities and supporting growth in trade. It also helps promote cultural exchange and greater international understanding.

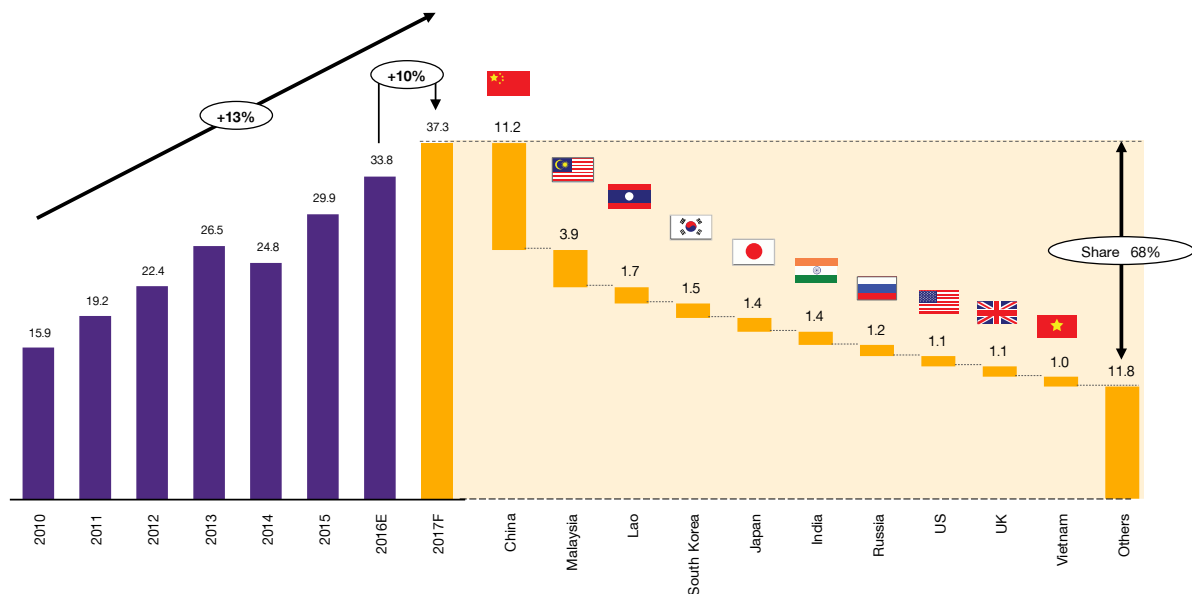


Tourism has boomed throughout the world during the past 20 years, growing 4.6% per year, with annual international arrivals more than doubling to reach 1.28 billion in 2015. Yet Thailand's visitors have grown much faster, at 7.6% annually during that period, thanks to diverse attractions and a reputation for value. Thailand doubled its world tourism market share, growing from 1.3% to 2.5% during those two decades. In 2015, the nation welcomed almost 30 million international visitors, who spent 5,142 baht/day/person, each staying for an average duration of 9-10 days. The industry generated a whopping THB 1.46 trillion of Thailand's commerce that year.

1 Fast growing markets are mainly from intra-asian tourists

Number of international tourist arrivals by top 10 nationalities

Unit: million persons, %YOY



Source: EIC analysis based on data from Department of Tourism

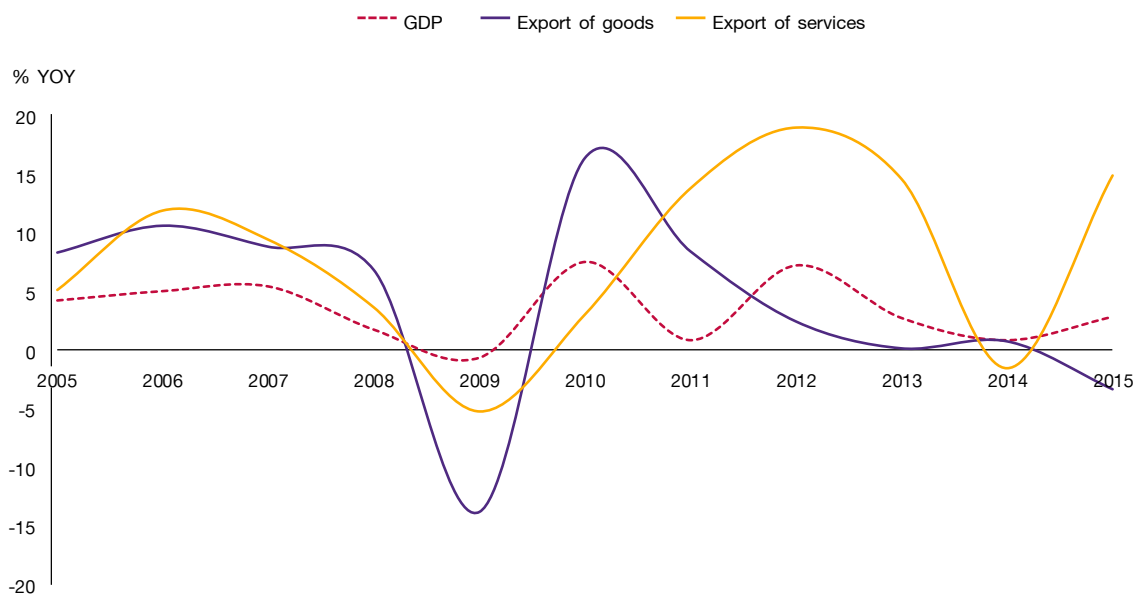
The result is that tourism now rivals manufacturing in economic importance to Thailand, when tourist reached 30 million in 2015 and tourism revenue accounted around 11% of GDP. Manufactured exports remain an economic driver, but they have been slowing since 2010. Last year the slump was a steep 3.4% year-on-year. What kept the overall economy expanding was growth in “exports” of services, driven mainly by tourism. With this arrivals new record high, they helped drive a 14.9% rise in service exports. Revenue from this industry helped prop up overall GDP growth to 2.8% last year, even as exports of goods slumped.

With thanks to the rapid growth of tourism industry in recent years, tourism income is expected to reach THB 2 trillion by 2017. The revenue reached THB 1.5 trillion in 2015, as the number of foreign tourists grew to almost 30 million. As a result, the share of service exports out of total exports (goods and services) rose from 16% in 2005 to 23% in 2015. EIC forecasts 37 million international tourist arrivals in 2017, when the annual revenue from this industry should reach THB 2 trillion.

2 Tourism has become a top Thai ‘export,’ with a big economic role

Annual change in export of goods and services to GDP

Unit: %YOY



Source: EIC analysis based on data from National Economic and Social Development Board (NESDB) and the Bank of Thailand (BOT)

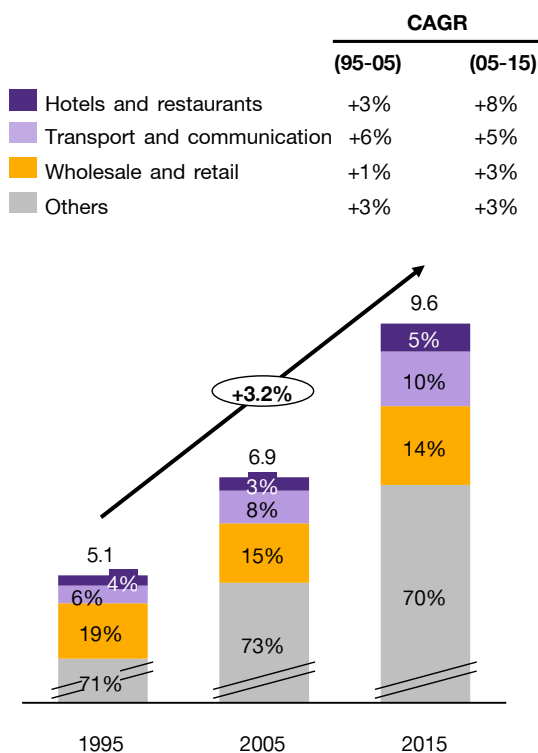
Tourism is a form of consumption that helps drive a wide range of big and small businesses. The three key tourism-supported sectors are hotels and restaurants, wholesale and retail trade, and logistics and transportation. These sectors comprise nearly 30% of GDP. The revenue growth of hotels and restaurants has climbed from 3% per year in 2005 to 8% per year in 2015. Similarly retail and wholesale businesses have grown from a 1% annual rate in 2005 to 3% per year in 2015. In Bangkok and other major destination cities, some 40% of retail and wholesale sales comes from foreign tourists, according to EIC research. Logistics and transportation businesses have expanded at 5-6% annually during that ten-year period as well.

Tourism creates jobs. The three key tourism-related sectors employ nearly 10 million workers, comprising 26% of all employment in Thailand. Based on the Labor Force Survey, the hotels and restaurants sector is creating jobs the fastest, at 1.6% growth per year, rising from 2.3 million jobs in 2005 to 2.7 million in 2015. Next is retail and wholesale trade, whose employment has grown by 1.3% per year, up from 5.4 million to 6.1 million workers.

3 Tourism industry helps bolster both businesses and jobs

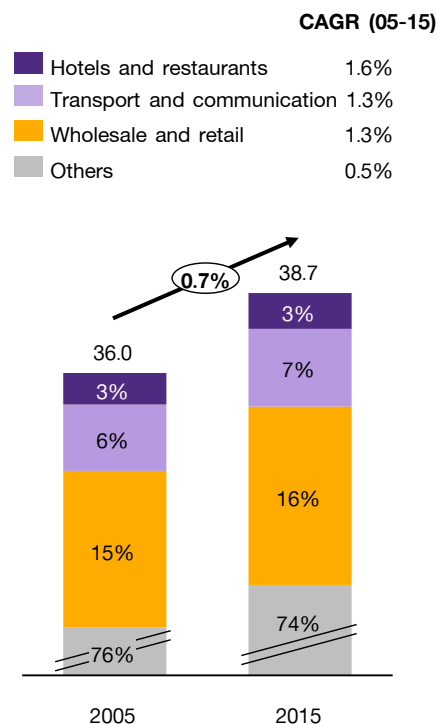
Real GDP by tourism-related sectors

Unit: THB trillion



Employment in tourism-related sectors

Unit: million persons

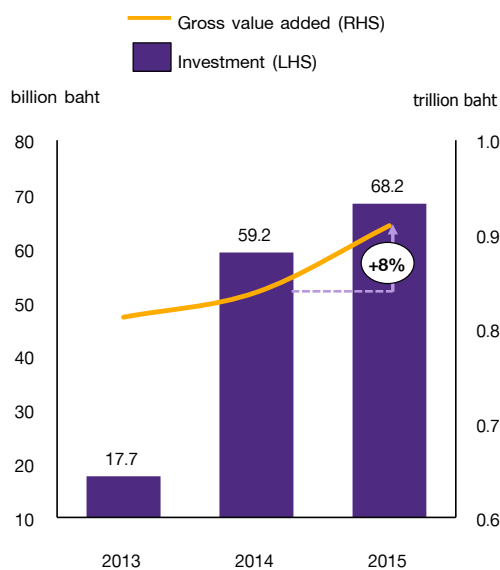


Source: EIC analysis based on data from NESDB and the National Statistical Office of Thailand (NSO)

Tourism also drives capital investment in a variety of tourism-related businesses. This capital spending totaled THB 68.2 billion in 2015, according to the Ministry of Tourism and Sports. Almost half of this sum went into hotels and restaurants. Such capital investment helped generate 8% yoy growth in gross value-added in the tourism industry in 2015. Another indirect benefit, which is namely an induced contribution, accrues to the property sector, which gets a lift when tourists invest in vacation homes.

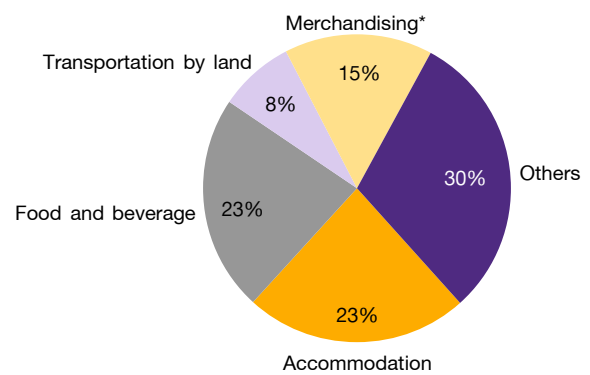
4 Investment is one of the indirect contribution from tourism industry

Investment and gross value-added in tourism sectors



Share of gross value-added in tourism businesses by sector (2013-2015)

Unit: %



Note: only includes goods specifically related to tourism e.g. souvenirs
Source: EIC analysis based on data from Department of Tourism

Given the increasingly key role of tourism in the Thai economy, EIC estimates that a 10% drop in tourism revenue would drag down GDP growth by 0.9 percentage point. Thus tourism growth is now as important as growth of manufactured exports, which no longer serve as the Thai economy's sole engine.

In this issue of Insight, EIC outlines strategies that can help sustain Thailand's remarkable tourism success. We believe that future growth of the nation's tourism will come from: (1) strengthening and expanding segments in which Thailand already has a competitive edge, such as leisure travel, medical tourism and MICE, and (2) developing new segments in which Thailand lags but nevertheless has solid potential. Examples include film-driven tourism, sports tourism and new man-made attractions.



Thailand continues to rely on existing attracting sites



Ever-changing landscape of tourism

Stay ahead of competition

Trend driver

- ★ Internet
- ★ Application
- ★ Accessibility



2005

2015

Ranking

#18

11.6 million persons

#11 ▲

29.9 million persons

Major tourists

Malaysia 12%

Japan 10%

South Korea 7%



China 27%

Malaysia 12%

South Korea 5%

Travel lifestyle and spending

44%

Group tour

Tour agency

81%

Non-group tour: FIT

Online booking



Spending per capita (baht per day) 3,900

Length of stay (days) 8

5,100

9

Source: EIC analysis as of November 2016 based on data from UNWTO, World Bank and Department of Tourism



BOX: Bigger crowds and more Chinese.... but shorter stays, flat prices























Thailand now ranks 11th among nations in international tourist arrivals, up from 18th a decade ago. Soon it will be among the top ten, one of only two Asian countries on the list, along with China.

5 Thailand is mostly reaching one of the top 10 destination during the past decade

Top destinations by international tourist arrivals

Unit: million persons

Rank	Country	2015		2005		
		Total	Share (%)	Rank	Total	Share (%)
	 Globe	1,186	100		823	100
1	 France	84.5	7.1	1	75.0	9.1
 2	 US	77.5	6.5	3	49.2	6.0
 3	 Spain	68.2	5.8	2	55.9	6.8
4	 China	56.9	4.8	4	46.8	5.7
5	 Italy	50.7	4.3	5	36.5	4.4
 6	 Turkey	39.5	3.3	10	20.3	2.5
 7	 Germany	35.0	3.0	9	21.5	2.6
 8	 UK	34.4	2.9	6	28.0	3.4
 9	 Mexico	32.1	2.7	8	21.9	2.7
 10	 Russia	31.3	2.6	7	22.2	2.7
 11	 Thailand	29.9	2.5	18	11.6	1.4

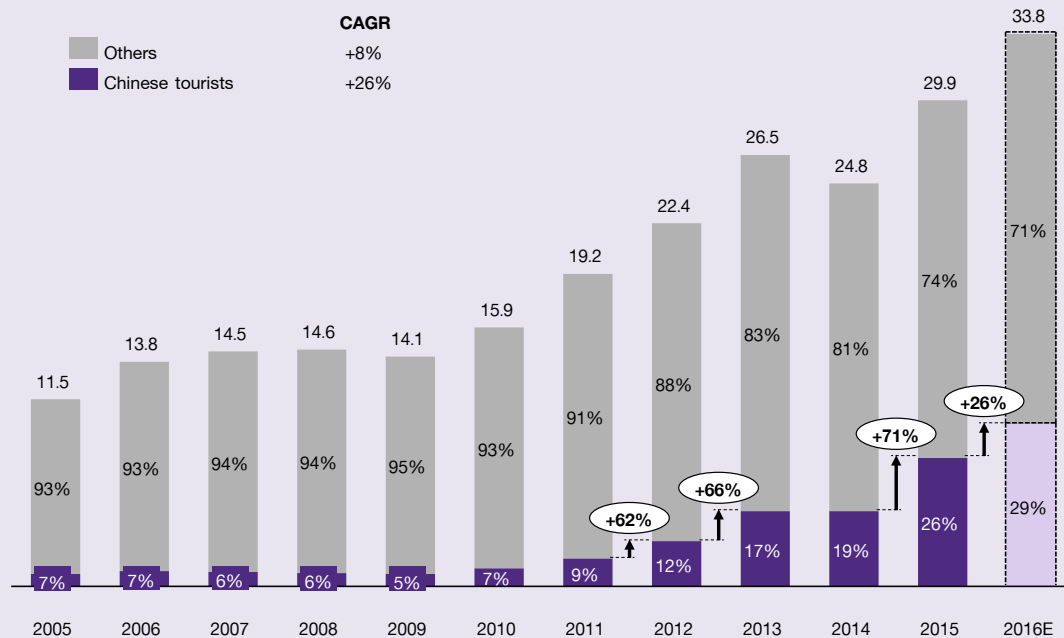
Source: EIC analysis based on data from World Tourism Organization (UNWTO) and World Bank

Thailand is facing structural changes in tourists, led Thai tourism is more risky toward relying on one source of tourist. Thailand's tourism has recently become heavily dependent upon arrivals from China, which account for 30% of the total. Ten years ago, when Japanese and Malaysian tourists were the largest groups, they accounted for just 12% and 10% of all arrivals, respectively. Thailand's industry is nowadays vulnerable to any downturn in Chinese visitors. Moreover, tourists from China, especially tour groups, have gained strong bargaining power, putting pressure on Thai businesses. Thai tour organizers, for example, cannot raise prices when costs, especially wages, go up. Depending heavily on groups of Chinese tourists has other costs, such as a negative spillover on European visitors, who generally prefer to vacation in destinations that are relatively quiet and uncrowded.

6 The surge of Chinese tourist during 2011-2015

Share of Chinese tourists to others

Unit: million persons, %YOY



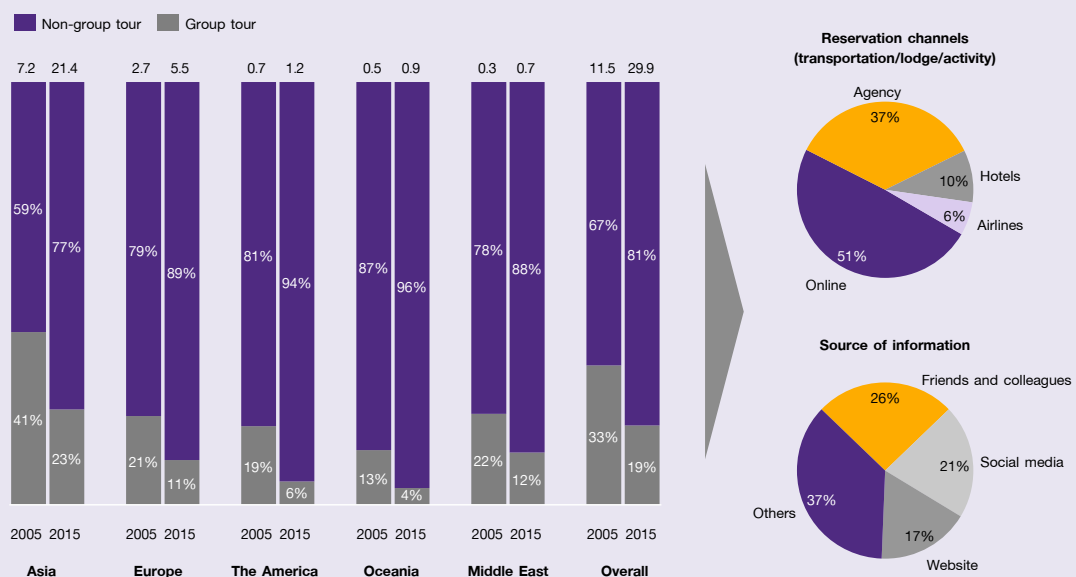
Source: EIC analysis based on data from Department of Tourism

The share of tourists who travel independently has increased to 81% today, up from 67% in 2005, thanks to the internet and lower costs. In recent years, so-called “free independent traveler,” or FIT, who travel without a tour group, have come to predominate. The change is especially noticeable among Asian tourists in Thailand, whose FIT share has surged from less than 59% in 2005 to 77% today. The ubiquity of mobile phones and the internet today has driven this trend by giving travellers ready access to information. Tourism businesses should therefore rely more on online platforms to reach out to potential customers, instead of marketing via guided tours and ticket agencies.

7 Innovative communication induced more travellers coming on their own

Share of Group tour and non-group tour and key determination

Unit: million persons

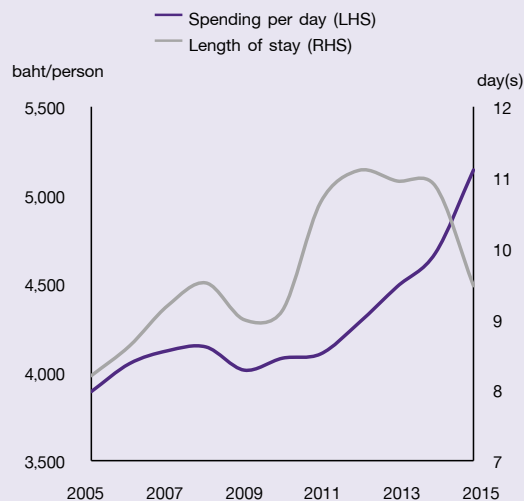


Source: EIC analysis based on data from Department of Tourism

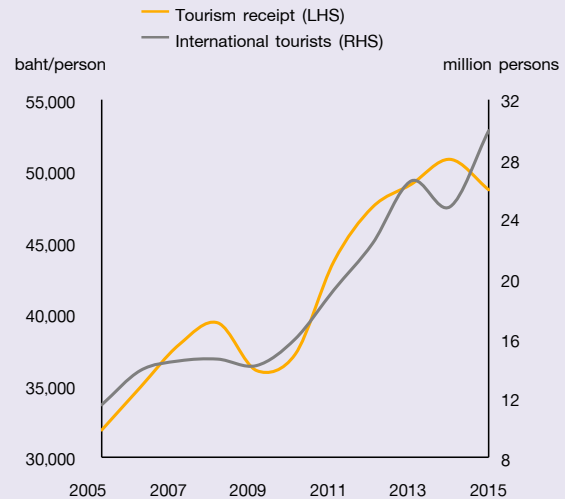
Despite rising arrivals, tourist spending per head has been declining, because visitors have shortened their stays in Thailand. This affects overall tourism income significantly, because the increase in average spending per day does not compensate for the briefer duration. The impact is big for hotels and restaurants, whose revenues comprise 50% of total tourism revenue. This highlights the need for Thailand to increase the quality of its tourism experience, rather than sheer numbers of arrivals.

8 Increasing tourist spending per day but shorter length of stay, resulting in revenue plunged

Average tourist spending per day and length of stay



Tourist revenue per head vs number of international tourist



Source: EIC analysis based on data from Department of Tourism

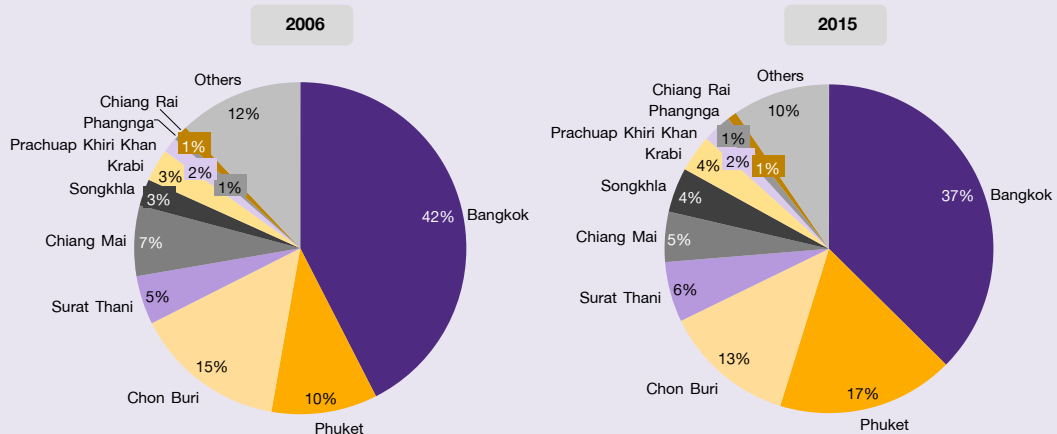
Without new tourist attractions, Thailand may eventually lose its appeal, hurting the industry to sustain in the long run. As the number of tourists visiting major attractions continues to grow, crowded conditions can harm the travel experience and the sites themselves, and recovery can take a long time. Crucially, some areas still lack necessary protective measures. Since Thailand still has many promising but less visited attractions, especially in southern provinces such as Krabi, Phangnga and Ranong, one way around the overcapacity problem would be to develop a tourism connectivity plan that would spread out tourists more evenly among attractions throughout the nation. This would also help distribute income, employment and investment to new localities.

Hotel prices in Asia are in decline, despite strong growth in the number of tourists, as a result of intense competition from newly added supply among low-cost hotels. Asia's number of international tourists has been on the rise in recent years, but the index for hotel prices has fallen. This results from growing investment in budget and mid-price hotels, in line with the trend among Asian tourists to prioritize accommodations less than do their Western counterparts. As such, the market has become more crowded and competitive. Data from Thailand likewise show flat growth in the average hotel room price, despite the rising number of travellers.

9 Thailand continues to rely on existing attraction sites

Share of foreign tourists by province

Unit: %



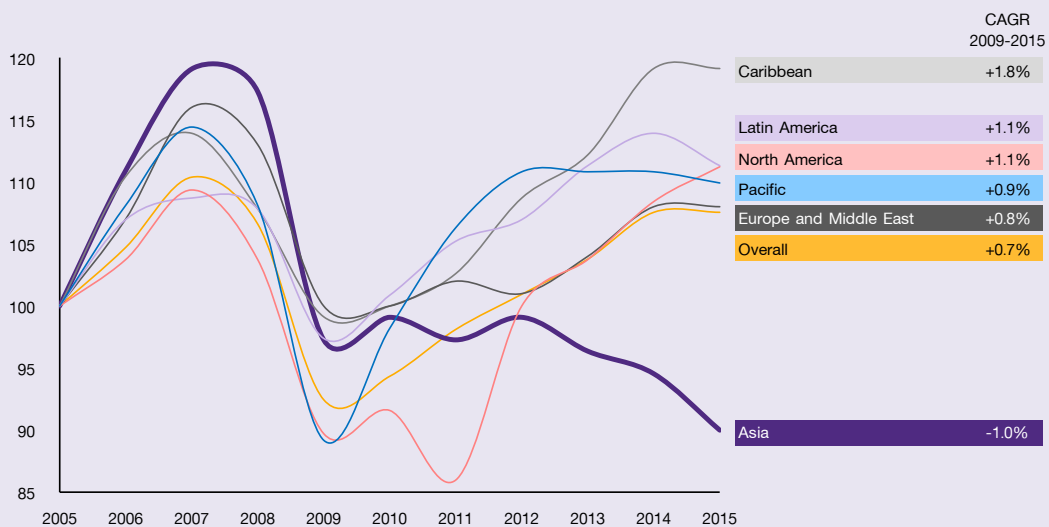
Note: only province exceeding 1 million visitors

Source: EIC analysis based on data from Department of Tourism

10 Only Asia region sought hotel price declining consistently

Hotel price index by region

Unit: %



Source: EIC analysis based on data from Hotel.com





2

Tapping new tourist sources and market segments

Thailand is blessed with a variety of tourist attractions, great value for money and skilled human resources. Thus, it has clear advantages as a destination for leisure and medical tourism, as well as for conferences and exhibitions, another fast growing market. EIC believes that Thailand's tourism industry has large potential to grow, both by attracting more visitors from some under-tapped countries and by developing new segments

In search for new growth markets

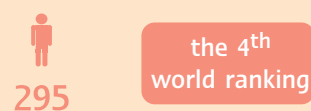


WHY?

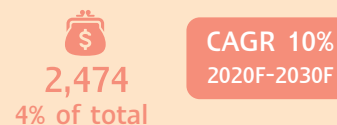
Population (2030F)
Unit: million persons



Indonesia



Spending of middle class (2030F)
Unit: USD billion



BEHAVIOR

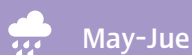
Top 3 provinces



Top 3 expenditure



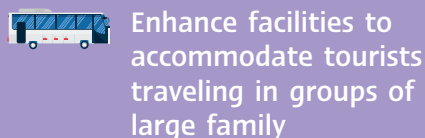
Favorite time



Popular destination



Strategy to attract tourists



BLR HYD CCJ COK

Better accommodate the needs of muslim visitors



Source: EIC analysis as of november 2016 based on data from IMF, Kharas, H. & Gertz, G. (2010) and Department of Tourism



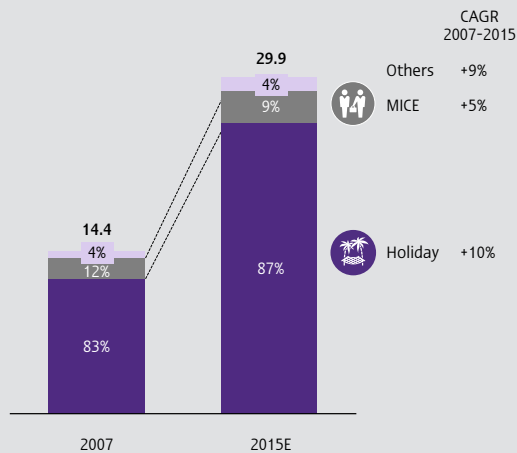
Leisure Tourism

Thailand is magnet for vacationers. Leisure travellers account for nearly 90% of total foreign arrivals here, far above the 50% average worldwide. Vacation travel is on the rise around the planet, growing at an average rate of 4% from 2007 through 2015. Thailand’s leisure travellers are drawn by the abundance of tourist attractions, beautiful scenery, low costs and friendly people. The nation’s traditional sources of visitors in Europe and Asia, such as UK, Russia, Japan and South Korea, are now joined by China, which has seen a huge outflow of tourists since 2010.

11 Some 90% of foreign visitors in Thailand are on vacation, compared to a 50% average throughout the world

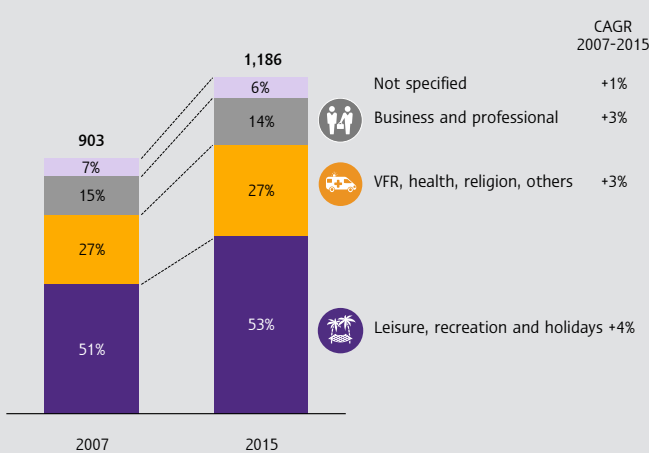
Number of foreign visitors to Thailand, by travel objective

Unit: million persons



Number of travellers in the world, by travel objective

Unit: million persons



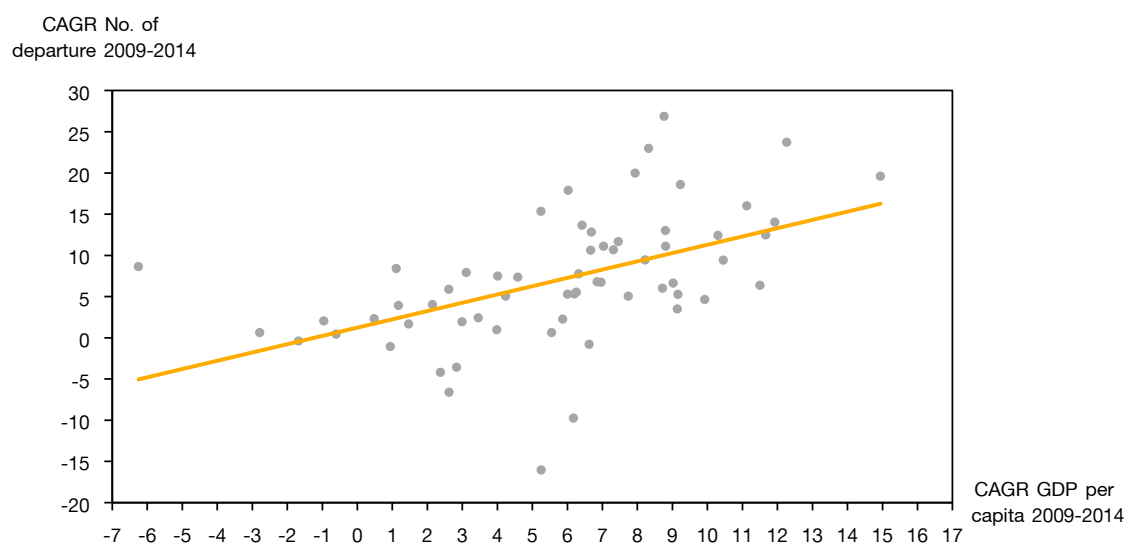
Source: EIC analysis based on data from Department of Tourism and UNWTO

To sustain growth in arrivals, Thailand needs to attract more from within Asia, which offers the highest potential for drawing first-time visitors and whose people prefer travelling within the region. Asian tourists account for one quarter of all tourists around the world today, up from 19% in 2005, for average annual growth of nearly 6%. European tourists arrive in large numbers in Thailand, but are shrinking in terms of growth. Another advantage of Asian tourists is their positive income outlook, because people with more money are more likely to travel abroad. Asia's middle classes are expected to spend more and more through 2020, replacing those in Europe and North America as the world's main driver of consumption by 2030. EIC therefore believes that countries with strong economic growth and expanding middle classes, such as India and Indonesia, will become important new tourist markets going forward.

12 The more people have higher income, the more likely they travel abroad

The relationship between number of tourists and income per capita.

Unit: %



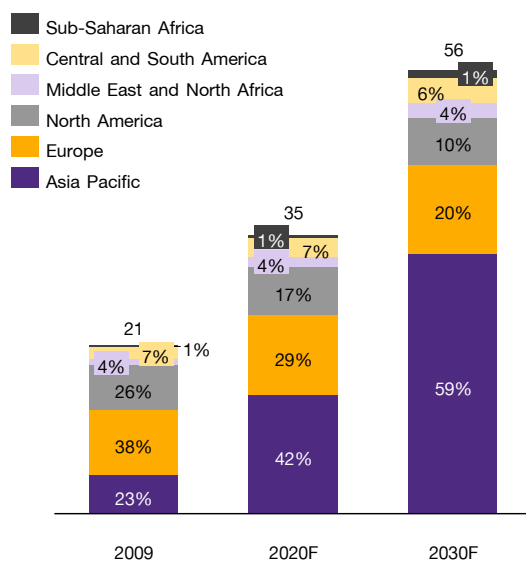
Source: EIC analysis based on data from World Bank and IMF

India, with its fast income growth and large, expanding middle class, is a high-potential market for Thai tourism. India's economy is expected to grow at an average rate of 8% from 2016 to 2021, reaching USD10 trillion by 2018. Spending by the middle-income group is projected to become increasingly important as a growth driver, reaching USD3.7 trillion in 2020 and USD 12.8 trillion in 2030. Since only 10 million Indians travel today, among a population of over one billion, the market has vast growth potential. And these travellers can help boost tourism during Thailand's low seasons, because their favorite time to go is during the Indian school holidays in May and June. Indian tourists tend to vacation for a full week, which is longer than the average stay of five days among other Asian tourists.

13 Asia's middle classes will replace Europeans and North Americans as world's engine of consumption in 2030

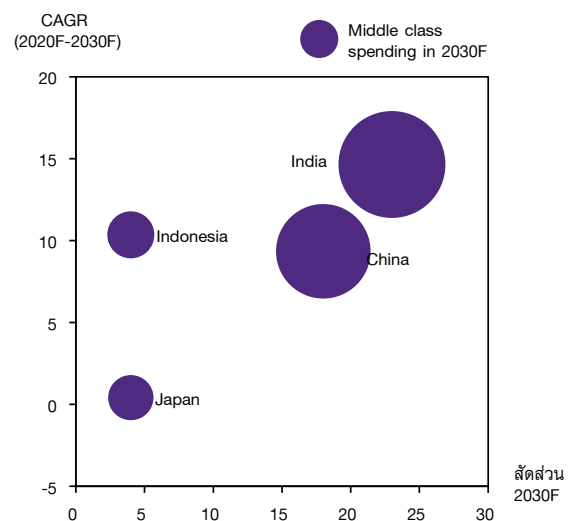
Spending of middle class categorized by region

Unit: USD trillion



Share and growth of spending of each middle class

Unit: %



Source: EIC analysis based on data from Homi Kharas, Geoffrey Gertz (2010)¹

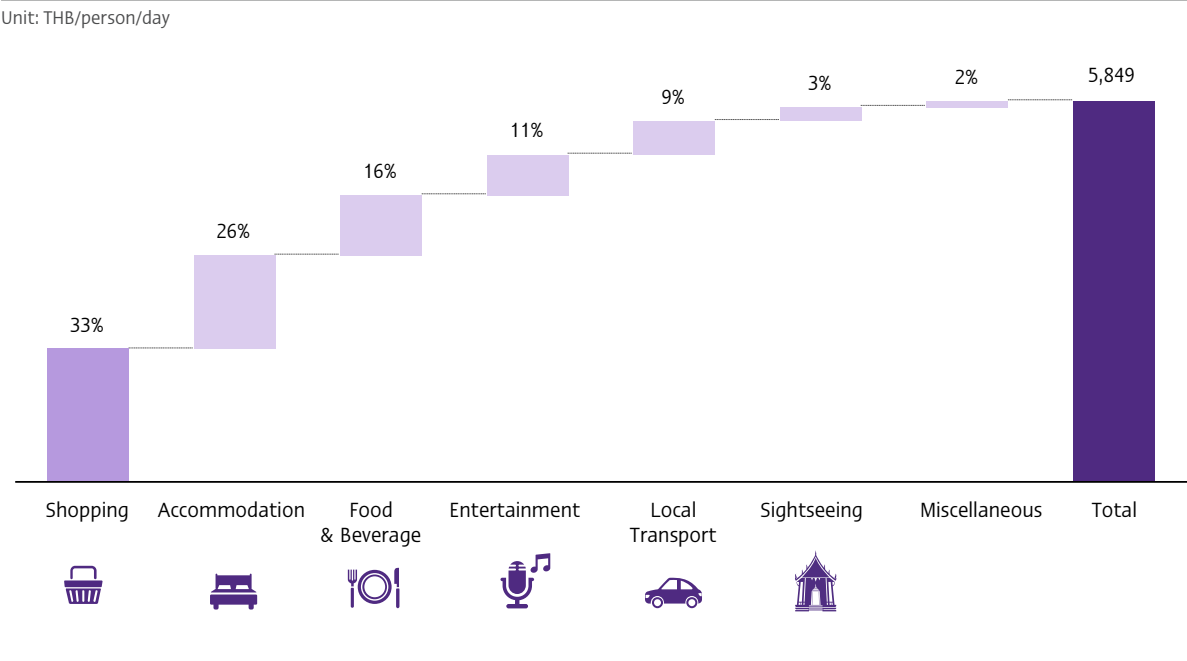
¹ Kharas, H. & Gertz, G. (2010). The New Global Middle Class: A Cross-Over from West to East. Wolfensohn Center for Development at Brookings.

Value for money, beaches and shopping in Thailand could attract Indian tourists. The seaside resort provinces of Phuket, Surat Thani and Krabi are main attractions for Indian tourists, more than half of whom become repeat visitors. This has made Thailand the main destination for Indian tourists since 2011, surpassing Singapore, whose selling points include safety and shopping. In 2013, the number of Indian tourist arrivals here exceeded 1 million for the first time, around half of whom travelled from Mumbai and Delhi, major cities with a concentration of high-income residents. Indian travellers generate a total of THB 37 billion per year in revenue for Thailand, with one third of this total spent on shopping for clothes and leather goods.

Indian tourists often travel in groups of large families. Thailand should enhance facilities to accommodate such groups. In particular, Thailand needs to better link the various modes of transport, including rail, air, water and road, in order to improve efficiency and convenience. The influx of Indian tourists has opened up opportunities for air carriers to add service to Indian cities with high demand, such as Bangalore, Hyderabad, Calicut and Cochin.

14 Thailand’s Indian visitors splurge on shopping

Average spending of Indian tourists in Thailand in 2015



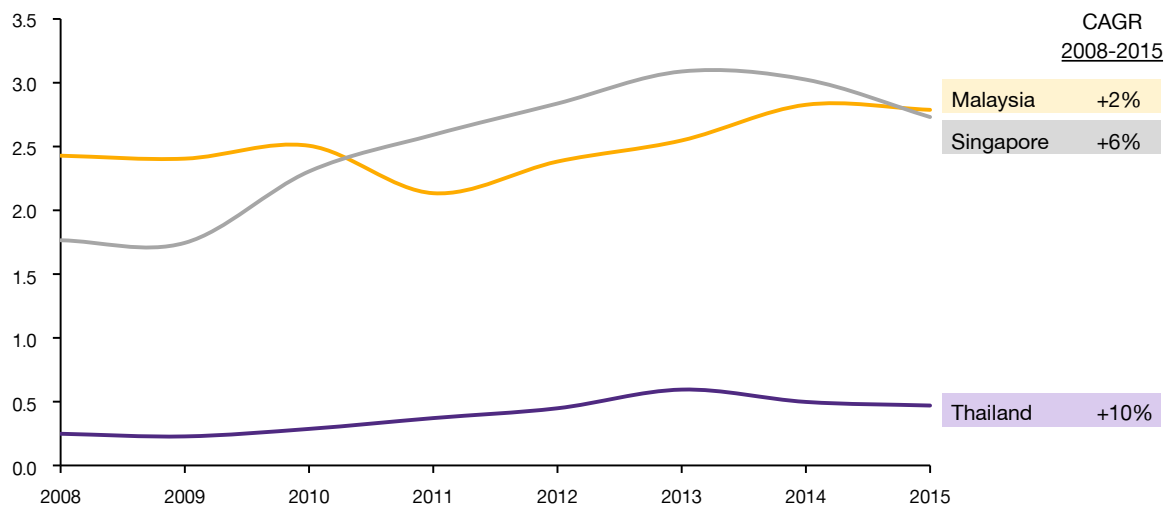
Source: EIC analysis based on data from Department of Tourism

Indonesia is another market with high potential, set to grow in 2020 onward. Indonesia's economy is ASEAN's largest and growing at a rapid pace, with the biggest population in Southeast Asia. During the five years from 2016, Indonesia's per-capita income is expected to climb at an annual rate of 6%, well above the global average of just 4%. Spending by Indonesia's middle class will pick up pace and play a large role from 2020 onward. Indonesia's number of travellers to Thailand has been increasing by 10% per year on average since 2008, much faster than the 2% rate of growth of its travellers to Malaysia and 6% to Singapore. Nevertheless, the number of Indonesian tourists in Thailand is still small when compared to those in Malaysia and Singapore, which remain the top destinations for Indonesians.

15 Indonesians tourists still prefer Malaysia and Singapore but increasingly visit Thailand

Number of Indonesian tourists travelling to Malaysia, Singapore and Thailand

Unit: million persons



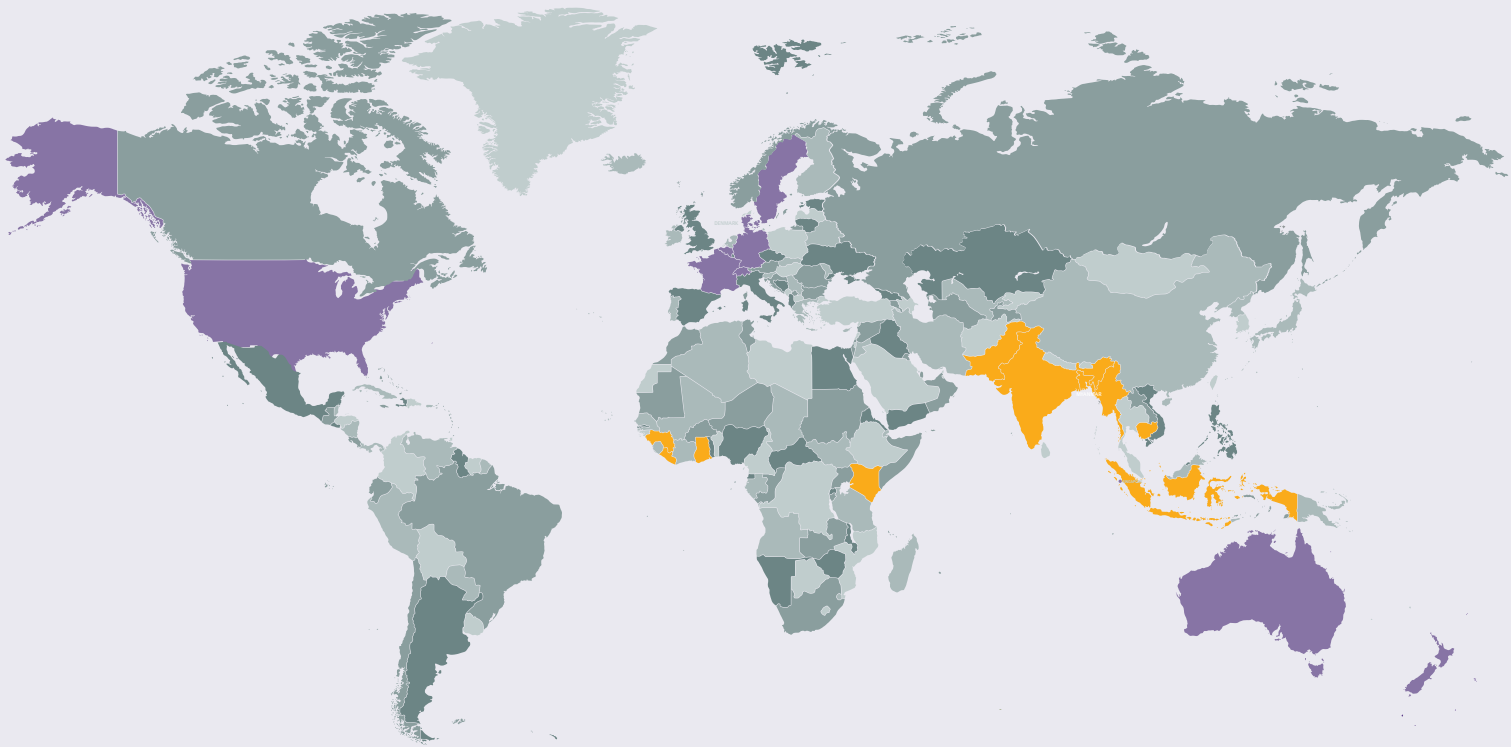
Source: EIC analysis based on data from Singapore Tourism Board, Tourism Malaysia and Department of Tourism



Religion is an important factor to consider in serving tourists from Indonesia, and Thailand needs to better accommodate the needs of Muslim visitors. Up to 90% of Indonesians are Muslims, who comply strictly with religious precepts. As such, they often prefer traveling to Malaysia and Singapore, which are friendlier to Muslim visitors. Thailand needs to put in place facilities that allow Muslim tourists to adhere to their religious practices while travelling in Thailand. For example, more halal dining options should be available in popular tourist destinations, such as Bangkok, Chonburi, and Phuket, so that Muslim tourists need not worry about being able to find a meal. Information on halal restaurants and drinks vendors should be provided online. Hotels should provide prayer rooms and other facilities for religious activities. These amenities will cater to the needs of not only Indonesian visitors but also those from the Middle East, Malaysia and elsewhere.

To target Indonesian tourists, businesses should be prepared to serve family groups and create value-added in beach destinations and historical sites. Value-added can be created by telling the history of each attraction with Bahasa Indonesian language. This will leave a memorable first impression on Indonesian tourists, which will not only increase the chance of a re-visit, but also bring in more first-time visitors through word-of-mouth. Indonesian tourists often travel in large groups of several families, reflecting by their specific needs such as larger rooms, vans and buses.

Where are opportunities in healthcare business?



■ Countries that seek cheaper treatments



- These countries tend to have rising high healthcare expense.
- And large numbers of elder people

	Denmark		Sweden
	New Zealand		US
	France		Singapore
	Germany		Australia
	Switzerland		Austria

■ Countries that seek better healthcare



- These countries have high growing healthcare cost.
- However, healthcare infrastructure and service quality are often poor

	Cambodia		Pakistan
	Ghana		Myanmar
	Guinea		Liberia
	Kenya		India
	Bangladesh		Indonesia

Source: EIC analysis as of November 2016 based on data from World Bank



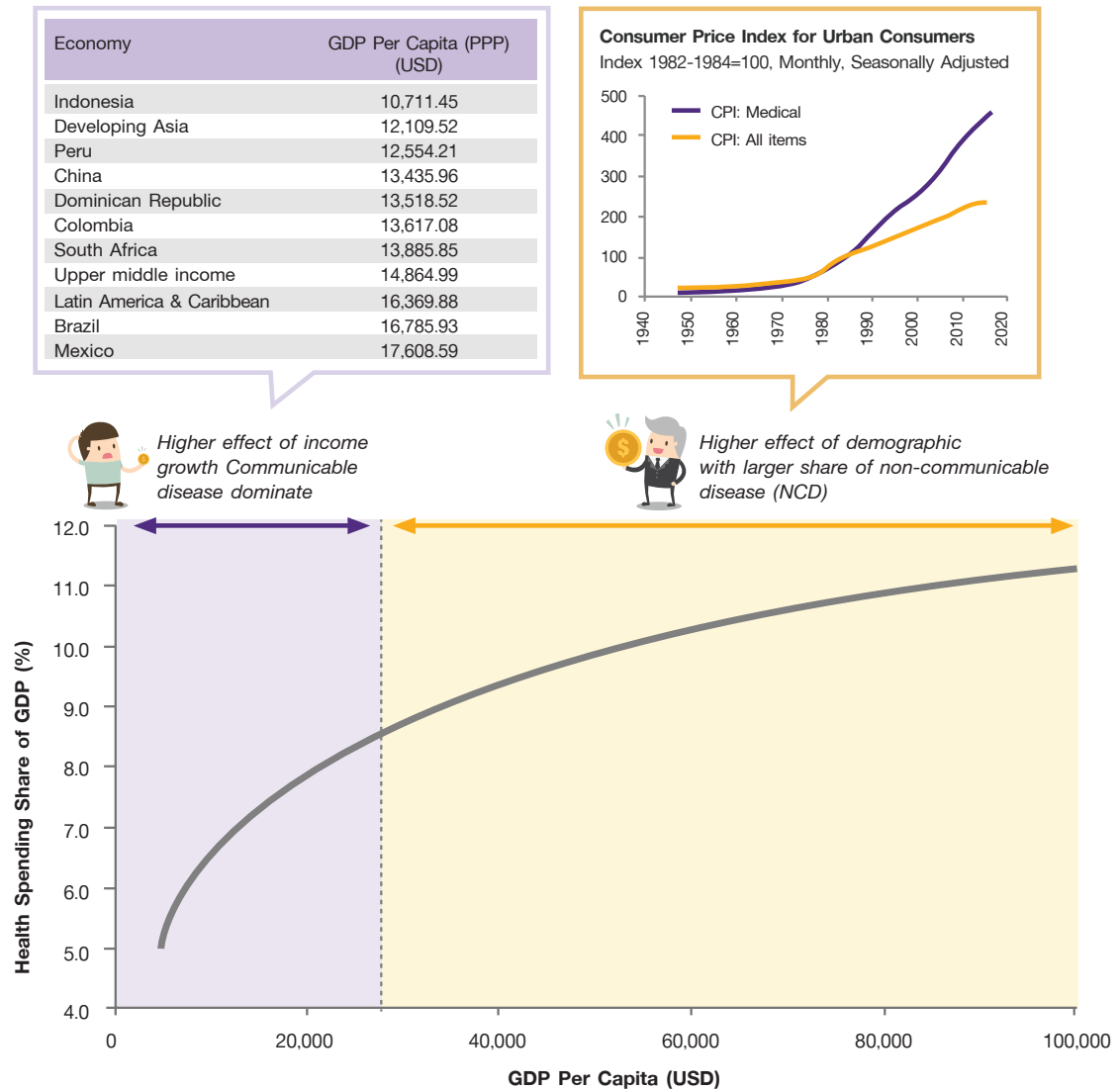
Medical Tourism

Thailand is now Southeast Asia's leading hub for international healthcare services, with the number of foreign patients projected to grow at 9% per year during the next five years. The market for medical tourism worldwide is expanding at 17.5% a year, projected to reach a total value of USD17 billion in 2016. The United States is the largest market. Medical tourists are becoming increasingly important for the tourism industry, because treatments often require visitors to stay in the country for periods that are longer than for other types of travel. The average spending per head is often higher for medical tourists, since they usually seek high-quality amenities, including accommodations, food and transportation. For instance, a tourist travelling to Phuket for plastic surgery spends on average up to THB 150,000 and stays in Thailand for almost two weeks, whereas an average tourist spends only THB 48,000 and stays just nine days. In 2015, the market for foreign medical tourists in Thailand was valued at USD 852 million, growing at an astounding annual rate of 20% during the previous five years. Moreover, Thailand claims a 30% share of the Asia-Pacific medical tourism market, reflecting strong comparative advantage over other countries in the region. Factors that attract medical tourists to Thailand include cheaper healthcare costs than home countries, renowned service quality and internationally recognized healthcare standards.

In general, foreign patients coming to Thailand are seeking either 1) lower costs, or 2) higher quality. Thus, their demands and preferences also differ. 1) Foreign patients seeking cheaper medical services often come from developed countries having high income per capita and costly healthcare. The cost of medical care in most rich countries has risen faster than the prices of other goods, prompting residents to search for cheaper alternatives overseas. 2) Foreign patients from developing countries usually come for treatment that is higher in quality and safer than in their home countries, where medical facilities are inadequate. These patients usually have high incomes, with the financial means to travel overseas.

16 Medical tourists seek higher quality or lower costs

Healthcare cost and income per capita

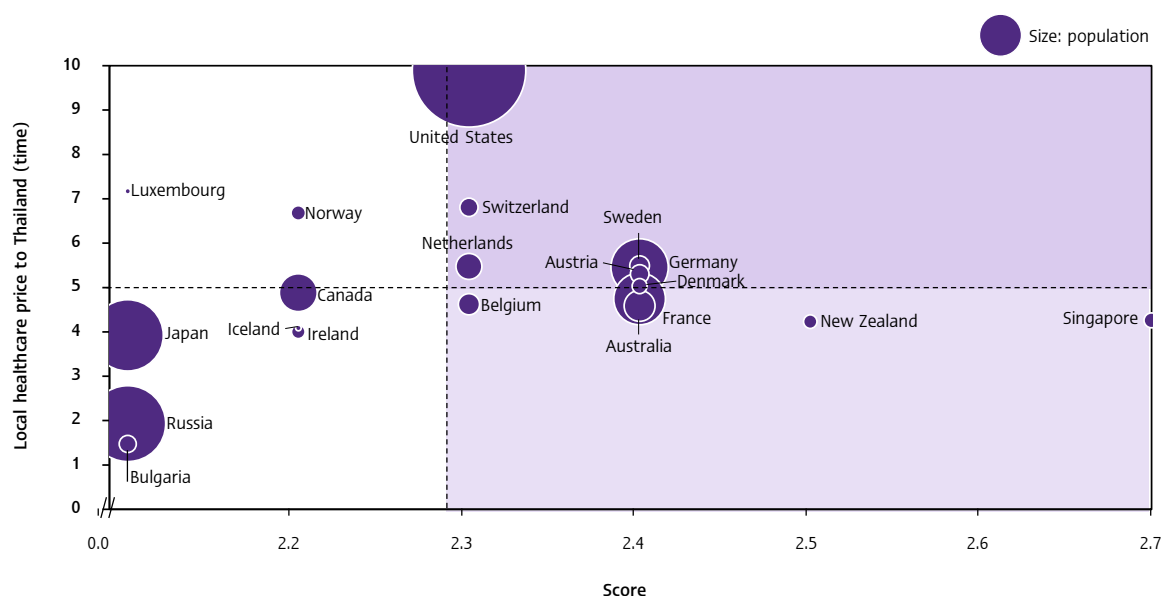


Source: EIC analysis based on data from the Carlyle Group and U.S. Bureau of Labor Statistics

Thailand's potential markets for patients seeking cheaper treatments include the United States, Switzerland, the Netherlands, New Zealand, Australia, Germany and France. Given high incomes and large numbers of elder people, these countries tend to have higher demand for medical services compared to other countries. For example, in Germany and France, the share of the population aged 65 and above is approximately 20%. At the same time, healthcare costs in these countries are extremely high. In Europe the cost is roughly 5 times and in the United States about 10 times that of Thailand. These costs are rising faster than inflation, pushing more and more Americans and Europeans abroad in search of savings on treatment. Even the public sector could be looking for medical treatment overseas, as budget strain on healthcare spending exceeded 10% of GDP in each country in 2014. Thailand is an attractive alternative, with cheaper treatment and at least 53 medical centers having Joint Commission International (JCI) standards, an important consideration for patients going abroad.

17 Patients from United States, Singapore, Switzerland, the Netherlands, New Zealand, Australia, Germany and France are likely to shop abroad for cheaper treatment

Countries opt to find cheaper healthcare abroad

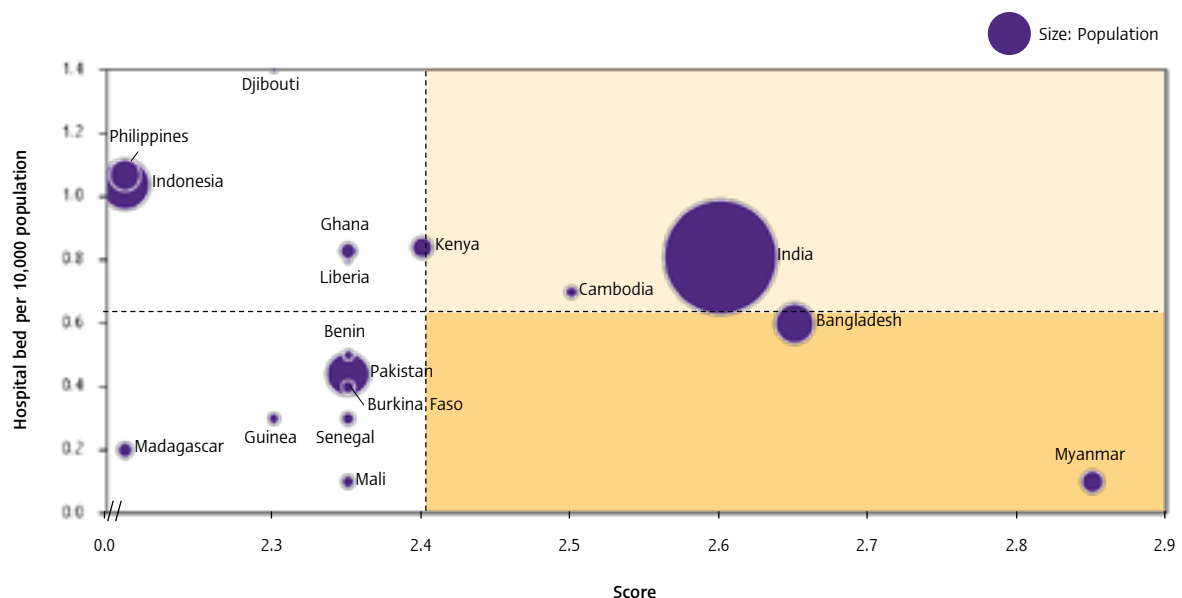


Note: Scoring from 5 attributes: 1) Per capita healthcare cost relative to Thailand, PPP, 2014, 2) Out-of-pocket healthcare cost, 2014, 3) Ratio of population age 65+, 2015, 4) Health expenditure to GDP, 2015, 5) Distance to Thailand
Source: EIC analysis based on data from World Bank

Developing countries with high-income patients seeking better healthcare include Myanmar, Bangladesh, India, Cambodia and Kenya. In these countries, healthcare infrastructure and service quality are often poor, with less than one hospital bed per 10,000 people. And although average income in these countries remains low, there exists a high-income group whose earnings will rise as GDP climbs. This high-income population will be apt to seek better healthcare overseas. Indeed, during the past few years Thailand has seen a sharp influx of patients from countries like Myanmar, Bangladesh and Cambodia. EIC believes that other markets with similar characteristics, such as India and many African countries, can also drive Thailand's medical tourism in years to come.

18 Countries with high-income patients seeking better healthcare abroad include Myanmar, Bangladesh, India, Cambodia and Kenya

Countries with affluent patients seeking better treatment abroad



Note: Scoring from 5 attributes: 1) Ratio of hospital beds to 10,000 population, 2012, 2) GINI Index 2014, 3) GDP growth forecast, 2016-2021, 4) Per capita healthcare cost growth, PPP, 2009-2014, 5) Distance to Thailand
Source: EIC analysis based on data from World Bank

Matrix: Calculating scores to find new markets of the Thai healthcare service industry

Markets in need of affordable healthcare

Attributes	Weight by EIC	Assumption
Per capita healthcare cost relative to Thailand, PPP, 2014	40%	Compare healthcare cost in that market to Thailand
Out-of-pocket healthcare cost, 2014	20%	Burden of healthcare cost for consumers
Ratio of population age 65+, 2015	10%	Aging population in the country
Health expenditure to GDP, 2015	10%	Burden that each country pays for health consumption
Distance to Thailand	20%	Measure time and expense required to travel to Thailand

Markets in need of high quality healthcare service

Attributes	Weight by EIC	Assumption
Ratio of hospital beds to 10,000 population, 2012	40%	Measure infrastructure and healthcare quality in that country
GINI Index 2014	15%	Income equality in that country
GDP growth forecast, 2016-2021	15%	Measure ability to spend in the future
Per capita healthcare cost growth, PPP, 2009-2014	10%	Measure preference for healthcare consumption
Distance to Thailand	20%	Measure time and expense required to travel to Thailand

Note: an indicator of income inequality within the country

Methodology:

1. Each variable is weighted by the level of its importance based on judgement of industry experts.
2. Each variable is assigned a score ranging from 1 to 3 with 1 indicating the worst and 3 indicating the best.
3. A score of 1 is assigned to countries who rank in the 90th percentile for that given variable, 2 to those rank between 70th to 90th percentile, and 1 to those below 70th percentile.
4. Calculate assigned weight times score for each variable.
5. Sum all weighted scores to get a total score for a given country.

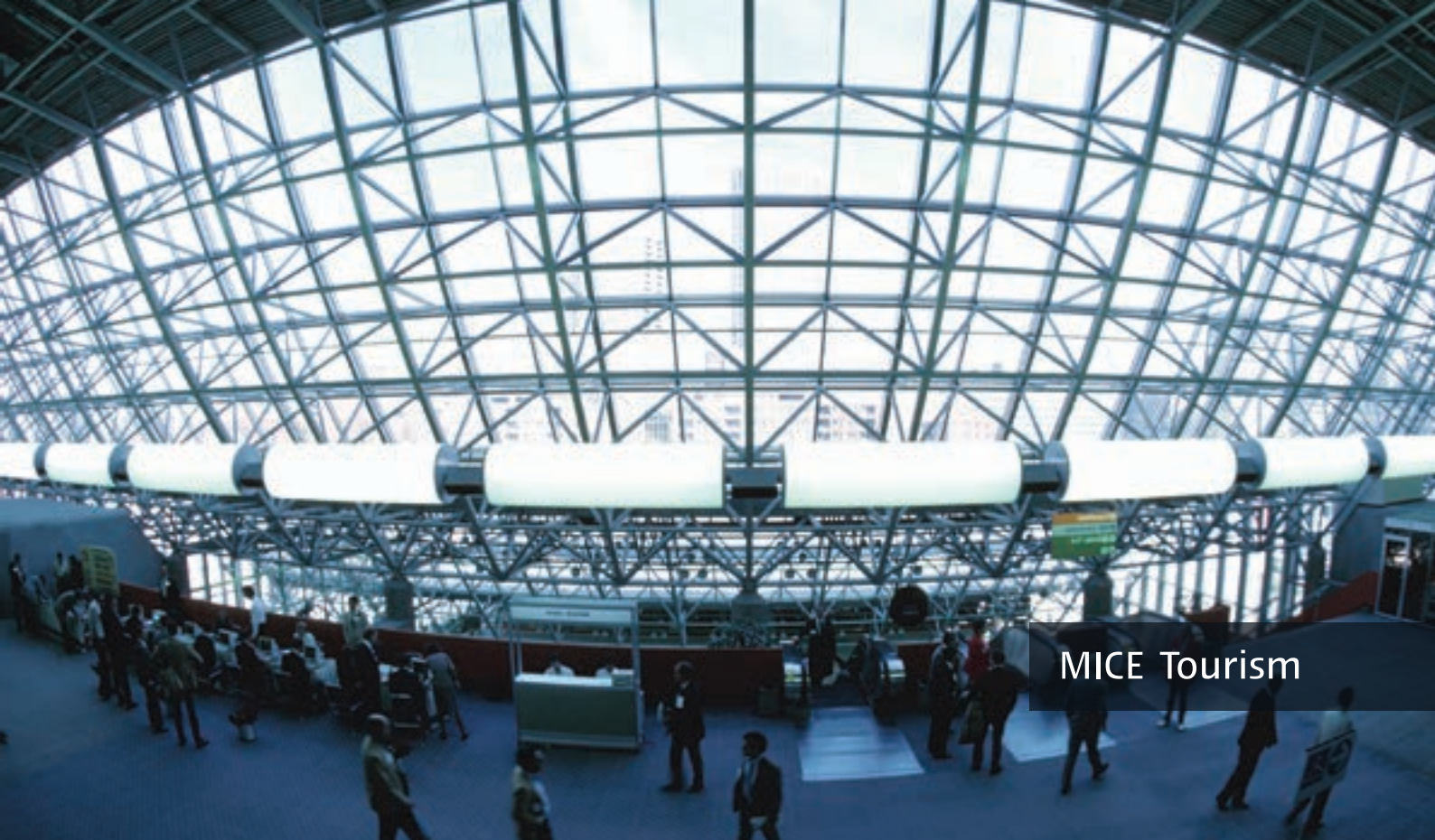


Innovations in travel and health insurance products will boost the number of foreign patients in Thailand by reducing risk.

In the past, patients had to pay in advance for travel expenses, accommodations, and in some cases, medical treatments, before travelling. With medical travel insurance, foreign patients can be insured against the risk of cancellation of surgery or complications from treatment. In countries with expensive healthcare, health insurance or government welfare programs will cut costs by sending patients abroad. The payers will choose only JCI-certified hospitals, since they lack ability to assess standards on their own. Hence, hospitals in Thailand should attain international certification and seek partnerships with insurers abroad in order to expand their customer base. Already, the large Thai hospitals are focusing attention on expanding their foreign customer base. Most recently, World Medical Center Hospital, part of the Bangkok Chain Hospital group, signed an agreement with the governments of several Middle Eastern countries, including Oman, Qatar and Kuwait, to accept patients.



The scarcity of medical personnel in Thailand remains the main challenge for healthcare tourism, limiting its potential growth. Competition for medical personnel will become more intense, as currently there are only 3 doctors for every 10,000 people in Thailand. This lags far behind India, with 7 doctors per 10,000 and Singapore, with 20 doctors per 10,000. Given the scarcity, large hospitals are apt to lure medical specialists away from smaller ones, thereby reducing the quality of service and hurting medical care competitiveness in the future.



MICE Tourism

Thailand is already one of Southeast Asia's top destinations for MICE (meetings, incentives, conferences and exhibitions) tourism. Support for this segment will help raise income and smooth out the tourism industry's seasonal bumps. The number of business tourists in Thailand exceeded 1 million in 2015, and is expected to grow at 8% a year during the next five years. Business tourists tend to spend 1.85 times as much as leisure travellers. Moreover, MICE tourists generate revenue year-round, even during low season. Since business tourists do not need to travel during long holidays or high season, good planning can ensure that tourists arrive all year long.

Business tourism can be categorized into four types. First, (M) meetings of small groups of company employees, or company representatives from a particular industry. Second, (I) incentive trips given as rewards to top-performing employees, such as a brand's top 100 sales persons. Third, (C) conventions, which are large meetings for the exchange of ideas and information in specific industries, professions, technologies or fields of study. And fourth, (E) exhibitions that showcase products or services from a certain industry, including the business-to-business, business-to-consumer, and consumer-to-consumer types.

Yet Thailand is catching too few MICE. Although the number of exhibition venues in Thailand ranks 1st in ASEAN, the number of international exhibitions actually hosted in the country trails that of Singapore, our main competitor. According to the International Congress and Convention Association (ICCA), Thailand was Asia's 6th-largest MICE market by number of international events in 2015, following leaders like Japan, China, South Korea, Australia and Singapore. In Thailand, most exhibitions are held by local clients. For example, the giant Impact Exhibition and Convention Center outside Bangkok gets more than 94% of its business from domestic sources. Facilities in Thailand do not attract many international events mainly because they lack world-class management and service standards. In the market for venues, the ability to serve the client's needs is more important than having the largest facilities. Singapore's venues have more to offer in terms of high-tech infrastructure city-wide and staff with conference planning expertise. Thailand will have to quickly develop qualified personnel and better infrastructure in order to serve the needs of international customers.

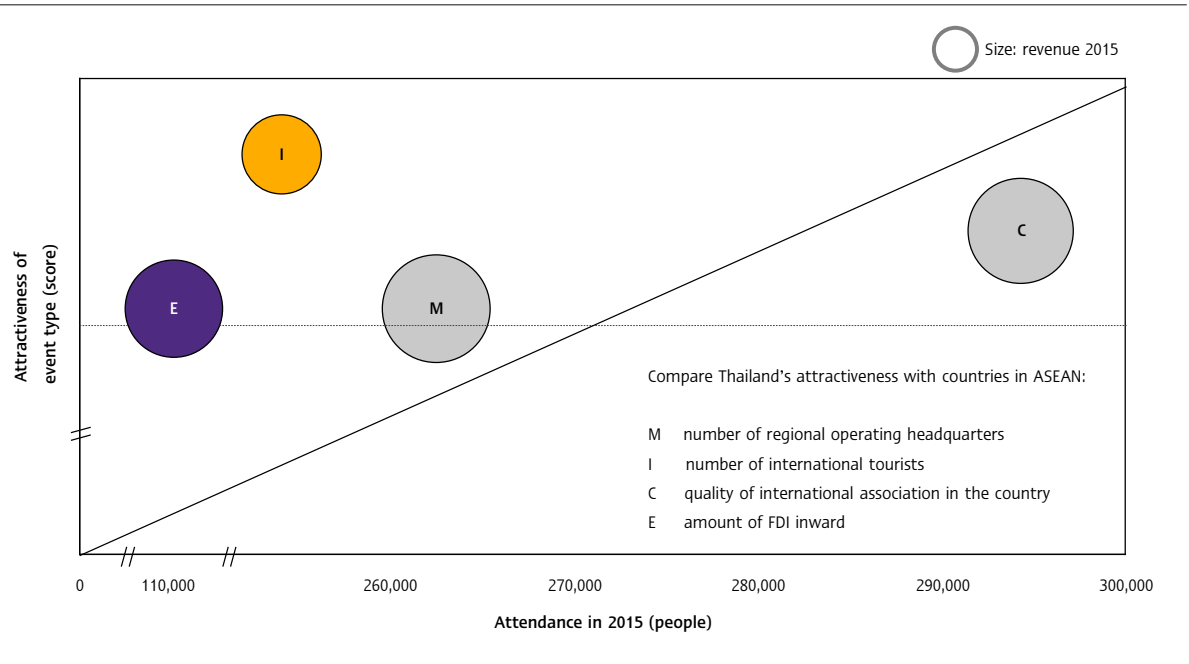
EIC believes that Thailand should particularly focus on the markets for exhibitions and incentive trips.

When choosing destinations for incentive trips, clients usually consider the convenience of each option, which involves ease of travel, visa and entry, and the strength of local attractions. For exhibitions, clients prefer venues in regions that have a promising outlook for their industry, so opportunities to host exhibitions tend to increase with size of GDP and foreign direct investment (FDI).Thailand’s world-renowned vacation sites and tourist attractions make it an obvious choice for incentive travel. At the same time, although the country’s market for exhibitions remains small, there is plenty of room to grow, as suggested by the relationship between FDI and exhibitions. Namely, Thailand has the second-largest stock (i.e., cumulative value) of FDI in ASEAN, yet the number of exhibitions here remains relatively small.

Thailand faces stiff competition from Singapore in hosting conferences and seminars. Since so many regional operating headquarters are located there, Singapore has an edge in hosting international business events. As for seminars, professional associations and other specialist organizations around the world take turns hosting the events in different countries, according to schedules planned years in advance. As a result, the countries with the most active organizations attract the most international seminars. In the future, however, conferences and seminars may decline in number, since new technologies such as teleconferences are substituting for travel.

19 Thailand’s best business travel opportunities are exhibitions and incentive trips

Attractiveness of each type of MICE business



Source: EIC analysis based on data from Thailand Incentive and Convention Association (TCEB), (BOT), Ministry of Finance, and United Nations Conference on Trade and Development (UNCTAD)

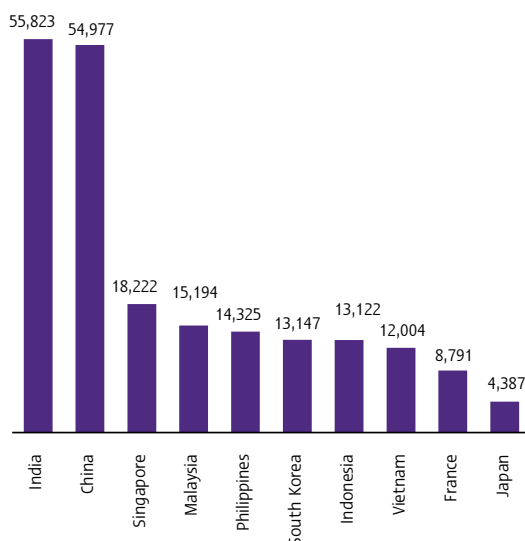
Thailand still has plenty of potential to attract more incentive tourists, especially from China, Malaysia and Japan. On average, incentive tourists account for around 1% of all tourists here. Although incentive tourists from China are the second largest after India in number, they still account for only 0.7% of all Chinese tourists. Similarly, Malaysia's incentive tourists are just 0.4% of its total and Japan's are 0.3%. Thailand can easily expand the number of incentive travellers from these countries, given that they are already the biggest sources of tourists to Thailand. The marketing strategy should vary from country to country, but generally would require Thai businesses to reach out to agencies in each country. That means that developing strong relationship with foreign agencies is as important as ensuring travel satisfaction in Thailand. Foreign corporates prioritize safety. For example, hotels need to have fire exits and smoke detectors installed according to international standards.



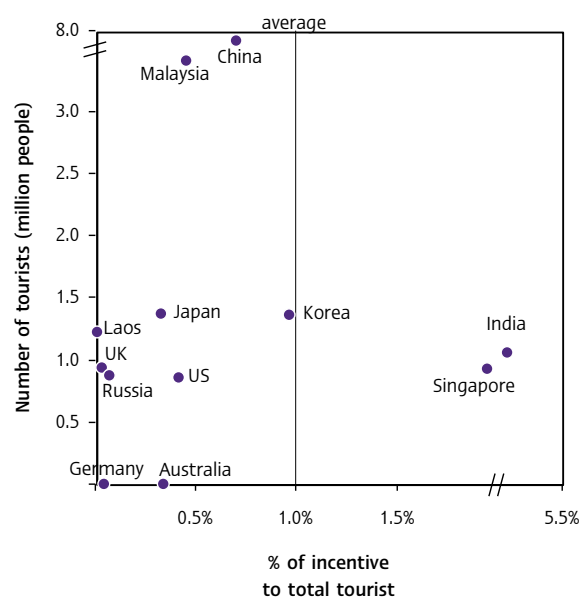
20 Thailand can capitalize on its leisure tourism strengths to boost incentive travel

Number of incentive tourists
in Thailand in 2015

Unit: persons



Shares of incentive tourists to total tourist
by country



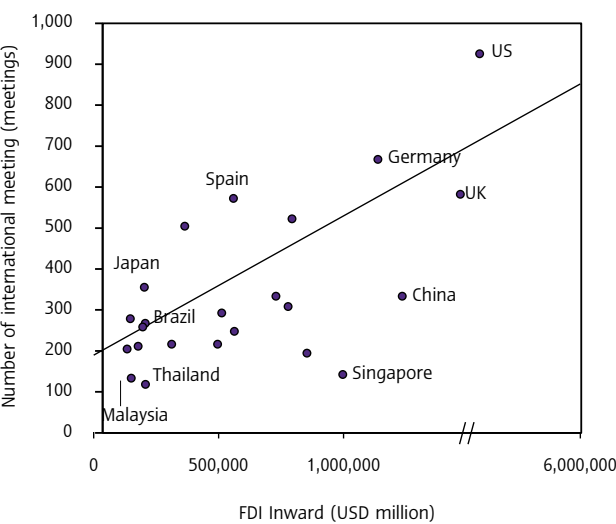
Source: EIC analysis based on data from TCEB and Department of Tourism

The growth of foreign direct investment in the medical industry will spur further opportunities for medical and health-related exhibitions. Currently the majority of trade conventions and exhibitions in Thailand feature manufacturing, electronics, sales, as well as food and agriculture. In each country, the frequency of a particular type of trade exhibition depends on that country's position as the industry's base. Although nowadays there are few exhibitions relating to health and medicine, foreign investment in the industry is projected to increase 50 folds starting from 2010. The government's policy, furthermore, has been to promote Thailand as a global health and medical hub, with the goal of positioning the medical industry as one of 5 key industries of the future, in addition to robotics, aviation, logistics, bio- and biochemical fuel, and the digital economy (all of which bode well for the market for these industries' exhibitions).

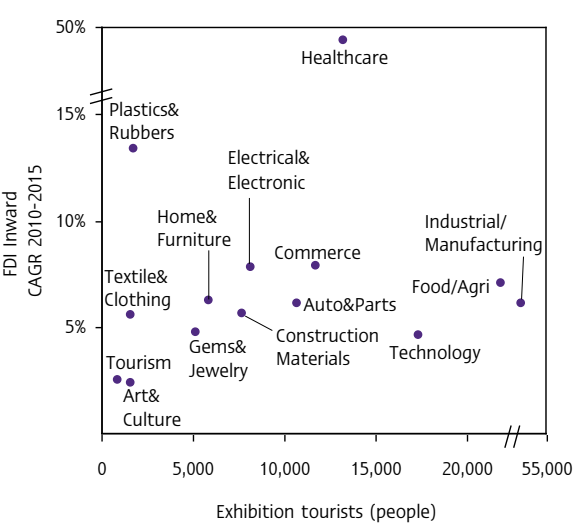


21 The growth of foreign direct investment in the medical industry will spur further opportunities for medical and health-related exhibitions.

Number of international meeting and FDI inward



Number of exhibition tourists and FDI inward growth



Source: EIC analysis based on data from ICCA, TCEB, UNCTAD and BOT

The MICE industry in Thailand still lacks qualified human resources. This is particularly the case for the exhibitions business, which lacks enough professional exhibition/conference organizers (PEO/PCO). There are now fewer than 10 such organizers in Thailand. Most are part of major exhibition halls that offer a complete range of services, such as N.C.C. Exhibition Organizer of the Queen Sirikit National Convention Center, and Impact Exhibition Management. With so few organizers, only a handful of international exhibitions have been approached and brought to Thailand. Besides the quantity problem, there is also room for improvement in the quality of service. Conference and exhibition organizers should pay greater attention to the details of various international standards, which may appear trivial but are important for clients when choosing venues. For example, the event stage must have a presentation screen that is positioned at the right distance from the audience.

Promoting the exhibition business requires active government support, especially in terms of regulations. Many current regulations hinder the hosting of exhibitions. For example, the import of exhibition displays are subject to approvals from multiple government agencies, not only the Customs Department. These regulatory constraints often place serious limitations on international exhibitions. For instance, exhibitors of food and beverages are allowed to import only 2 kg of coffee beans, while displays of cosmetics require permission from the Food and Drug Administration prior to the event.

A vibrant nighttime photograph of a city skyline, likely Bangkok, featuring a wide river in the foreground. The sky is a deep blue with scattered clouds, and the city lights are reflected on the water. Several boats are visible on the river, their lights creating long, horizontal streaks of orange and white. The city skyline is composed of numerous high-rise buildings, some of which are brightly lit. In the bottom right corner, there is a brightly lit, ornate structure, possibly a temple or a festival float, with many small lights.

3

Developing new drivers of tourism

Thai tourism can also branch out into high-potential but under-developed specializations. Topping the list are film tourism, man-made attractions and sports tourism.





Film-driven tourism

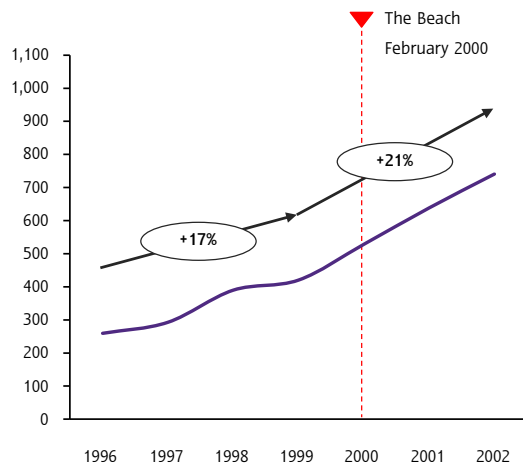
Indirect income can generate amount of money to tourism industry. Film shoots generate direct income from equipment rentals, lodgings and post-production works such as lighting and sound editing, but the sums are relatively small. The big economic benefit comes from publicity. When a TV show or movie becomes popular abroad, new audiences are exposed to scenes from Thailand. This can influence viewers to vacation here, spending on accommodations, food and shopping. This indirect income is many times the direct revenues from film shoots. Some countries in Europe are starting to support film shoots as a means to stimulate tourism, offering incentives to studios, such as subsidies, tax incentives and rebates.

In order to actually boost arrivals, a film must be shot almost entirely here and clearly indicate that the location is Thailand. The number of tourists that foreign films can attract does not depend on the sheer number of films but instead how they are produced. A good example is *The Beach* (2000), set almost entirely at Maya Bay in the Phi Phi Islands, which generated a 21% average annual surge in the number of foreign tourists visiting Krabi Province during 1999-2002, compared to 17% during 1996-1999. Similarly, *Lost in Thailand* (2012), shot mainly in Chiang Mai and Bangkok, started a big trend among Chinese tourists. Thanks in part to this film, the number of Chinese visitors to Thailand reached 4.6 million in 2013, up 66% from the previous year. On the other hand, Thai tourism does not benefit when a film uses locations here but portrays them as some other country. One example is *Good Morning, Vietnam* (1987), which was filmed in Phuket, but set in Saigon, with no mention of Thailand.

22 Films starring Thailand attract travellers

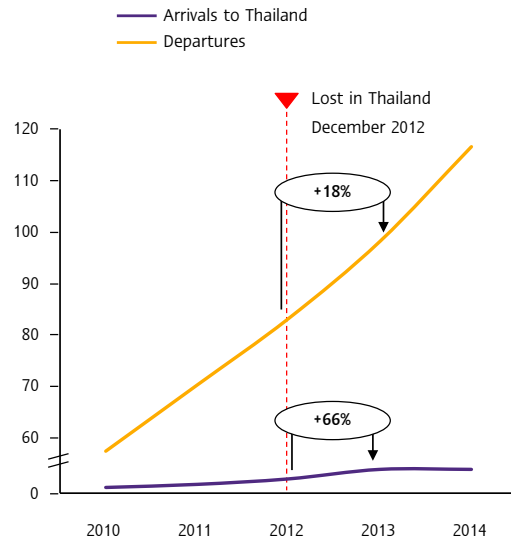
Number of foreign tourists in Krabi

Unit: thousand persons



Number of Chinese tourists

Unit: million persons



Source: EIC analysis based on data from TAT Intelligence Center, China National Tourism Administration and Department of Tourism.



Thanks to ample locations, personnel and production resources, Thailand is an attractive choice for film shoots, especially for productions from Europe and Asia. In 2015, 721 foreign films were shot in Thailand, compared to 658 in 2011, resulting in more than THB 3 billion in direct revenue (i.e., lodgings for crew, production services, equipment rentals, etc.), which is growing at 23% per year. However, half of those films were advertisements, in which the Thai teams are specialized. Another quarter were documentary films, most of them about tourist destinations, local traditions, Thai cuisine, kick-boxing and underwater nature. Among the different types of films, feature films tend to reach the largest audiences and drive the most tourism. Only 54 foreign feature films were shot in Thailand in 2015, but that number was growing annually at 8% over the past five years. One of the most notable recent features was *Detective Chinatown* (2015), a popular Chinese film shot in Yaowarat. It grossed RMB 823 million in China, comparable to the 2012 hit *Lost in Thailand*, which grossed RMB 1.3 billion.

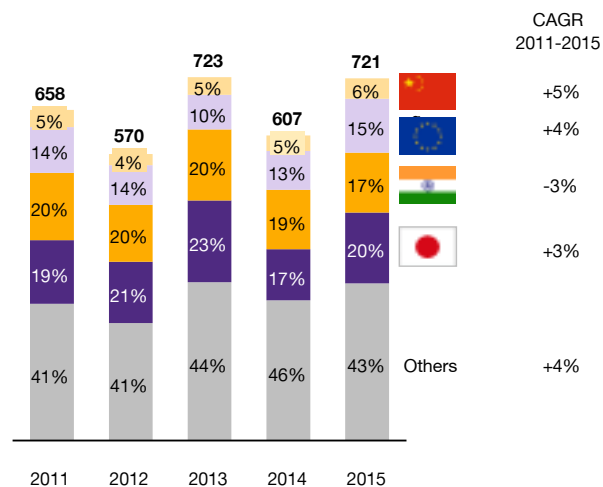
Countries that offer lower costs in film production have a competitive advantage over others nearby. Governments therefore offer incentives. Although the choice of a location is largely determined by the storyline, cost is also an important consideration. If, for example, the story requires an Asian setting, the producer will likely choose the regional location having the cheapest cost and best services. Countries with low costs of living and special cost incentives are the most competitive, as long as they have adequate services. Countries vie fiercely to attract big foreign films.

Although Thailand is rolling out new incentives, it still lags behind neighbors such as Singapore and Malaysia. Beginning sometime in early 2017, Thailand will provide: 1) a 15% rebate to any production having a budget of at least THB 50 million, 2) an additional 3% rebate if Thais are hired to fill key roles 3) an additional 2% rebate for films that promote the country's good image as defined by the government, and 4) an additional 5% rebate if the post-production process is also done in Thailand. However, these incentives still do not measure up to what some other ASEAN countries are offering. Malaysia and Singapore, in particular, have become formidable competitors, rebating production costs at the rate of 30% and 40%, respectively.

23 More and more foreign films are shot in Thailand, generating THB 3 billion in direct revenue in 2015

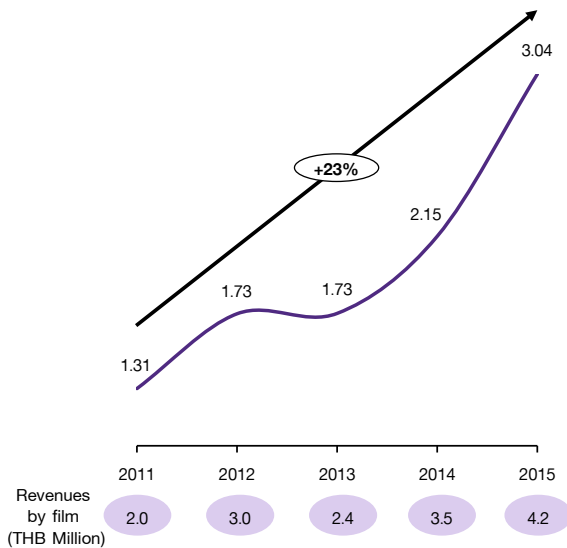
Number of films by country

Unit: film



Revenues generated by film tourism

Unit: THB billion



Source: EIC analysis based on data from Thailand Film Office, Department of Tourism

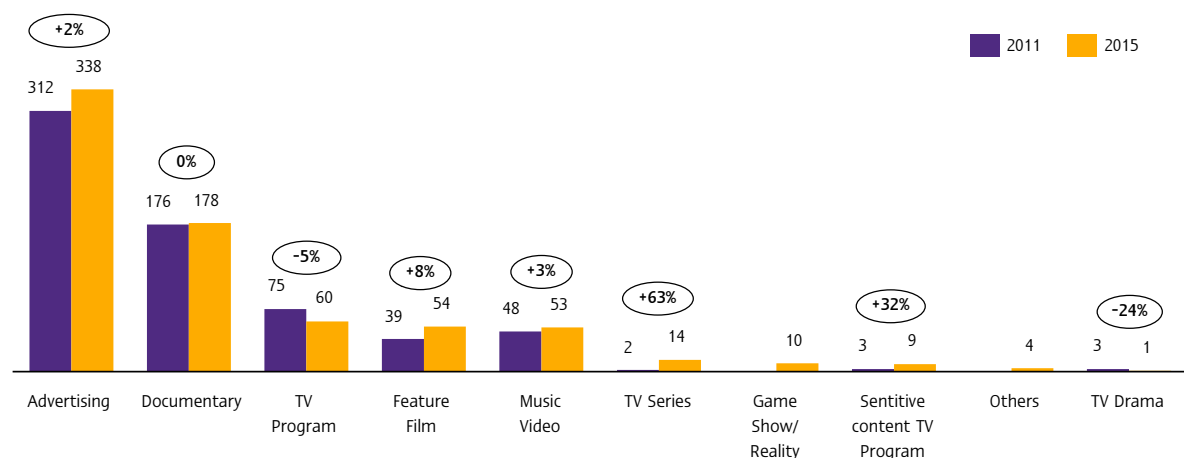
Thailand should provide extra incentives to films that are especially good for tourism. Although more feature films are being shot in Thailand these days, most tend to be independent productions that have small audiences. Better incentives are needed in order to entice mainstream productions, such as big Hollywood films. For example, a higher rebate can be given for productions featuring Hollywood stars, considering that a Hollywood title is likelier to reach a global audience and the top stars are big magnets. If a Hollywood feature shot in Thailand succeeds, it will undoubtedly boost the number of tourists not only from Asia but also from the United States and Europe. In addition, films that actually help support local tourism should receive special treatment. For example, a higher rebate can be offered for any film that is shot more than 50% in Thailand or one that features Thai culture, or “Thainess,” in the story. Last but not least, red tape should be eliminated as much as possible. Approvals of film shoot permits should be expedited. Currently the process takes around ten working days, compared to only three working days in Singapore.

Local production companies should step up their game. Good equipments, studio and human resources help attract foreign productions. Local operators should continually upgrade their studio facilities, production systems, recording systems and editing rooms. In Malaysia, Pinewood Iskandar Malaysia Studios provides large facilities with the latest technology, attracting many foreign producers. The American TV series Marco Polo, for example, was shot there. Human resources, such as production and post-production crews and actors should continually sharpen their skills so as to be ready to work in foreign productions. They should work on upgrading their language skills, acting skills and the technical skills required for production.

24 Ads and documentaries are main types of shoots here

Number of films by genre

Unit: film



Source: EIC analysis based on data from Thailand Film Office, Department of Tourism

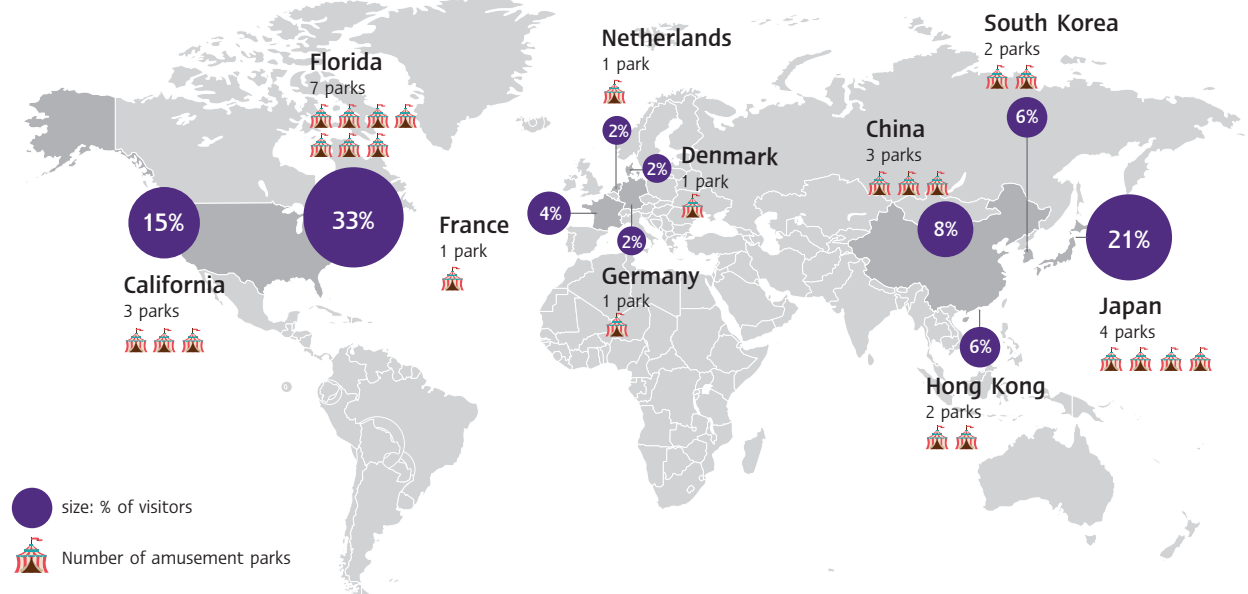


Man-Made Attractions

Man-made attractions rake in revenues and give tourists something to do, so that they stay longer. These attractions also stimulate investments in related businesses. World-famous attractions such as theme parks, water parks and museums can draw tourists from all over the world. Some tourists travel specifically to visit theme parks. The world's 10 most-visited theme park companies together drew more than 420 million visitors in 2015, with growth projected at 8% per year. Asia's theme parks are second only to those in the U.S. in popularity, drawing more than 120 million visitors each year. Most revenues come from admissions, followed by food and beverages. Opening a theme park sparks expansion of other businesses such as hotels, restaurants and shops. Theme parks also create jobs and have trickle-down economic effects in surrounding communities.

25 More than 420 million people visit theme parks each year, and Asia is the second-largest market after the US.

Top Theme Parks and Number of Visitors



Source: EIC analysis based on data from Themed Entertainment Association (TEA)

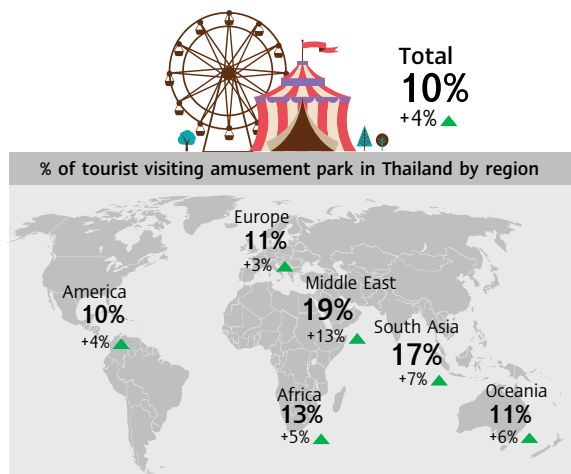
Theme parks attract families, a tourist segment that travels often and spends more. Families travel as many as 4-5 times per year and tend to spend more than tour groups and groups of friends. To capture this market, the Hong Kong government in 2005 decided to build a Disneyland. During its first ten years, Hong Kong Disneyland raked in more than USD74 billion both direct and indirect revenues. Integrated theme parks tend to result in longer stays. For example, when Florida's Walt Disney World Resort first opened in 1971, visitors usually stayed for just 2-3 nights. But following various expansions that included new entertainment attractions, hotels, restaurants and shops, many visitors stayed longer for up to a week.

In Thailand, both local and foreign visitors are increasingly drawn to theme parks. An opening of a new theme park results in an additional 4% jump in tourist spending. Based on a survey by the Tourism Authority of Thailand, 10% of foreign tourists here visited a theme park in 2014, compared to 6% the year before. Theme parks are especially popular among visitors from South Asia and the Middle East; some 17%-19% of them visit a theme park while vacationing in Thailand. Theme parks have regained interest among local visitors in recent years. This is especially the case for water parks, which have seen more investment during the past three years, both in the provinces and in major tourist hubs. Take the case of Vana Nava, a new water park in Hua Hin, which has been operating since late 2014. A study shows that the park boosted tourist overall spending by 7%YOY per head after opening, a big jump from the annual growth rate of 3% in the three years before opening. Most of the extra spending has been on entertainment, which grew by 27%YOY among Thai tourists and 14%YOY among foreign tourists.

Thailand has many theme parks and water parks, but lacks the big global brands. Among the top-ten tourist destination countries, all except Russia and Turkey have large-scale parks by global brands. Although Mexico is a developing country like Thailand, they already has a Six Flags amusement park that is the most visited theme park in Latin America. In Southeast Asia, Singapore has a Universal Studios theme park, while Malaysia has a Legoland Resort. Each attracted more than 4 million visitors in 2015. EIC recommends more investment in global-brand theme parks in order to bring in more visitors, especially considering that two more international parks will soon open in Malaysia, namely 20th Century Fox World in 2017 and Ubisoft Theme Park in 2020.

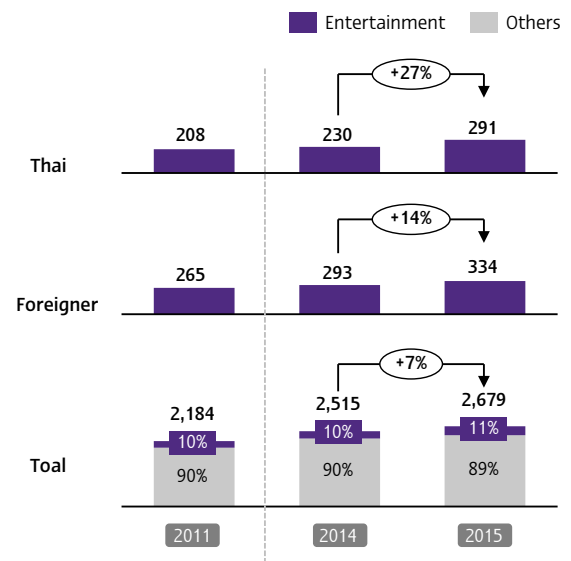
26 More tourists are visiting theme parks in Thailand and spending more per trip

Proportion of theme park visitors among all tourists



Tourism-related spending in Hua Hin

Unit: Baht/head/day

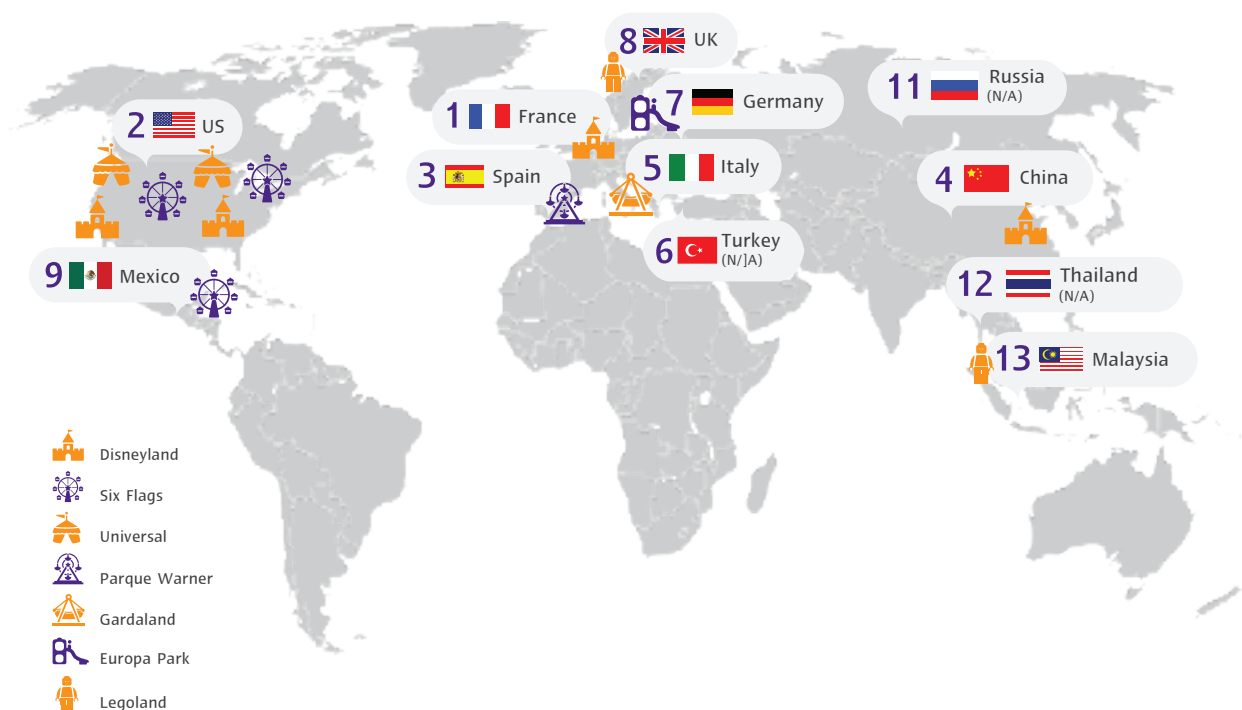


Source: EIC analysis based on data from TAT Intelligence Center, Tourism Authority of Thailand and Department of Tourism

Because building a large-scale theme park requires big investment, state support is necessary. Many countries recognize the economic benefits of having a global-brand theme park and therefore provide numerous incentives for investment in this area, including public-private partnerships, favorable tax schemes, supportive transport infrastructure and land grants. For example, the construction of Hong Kong Disneyland, which cost more than HKD 14.1 billion, was facilitated through a partnership between the Hong Kong government (57%), and The Walt Disney Company (43%). Private companies built a 3.4 km subway line extension covering two stations in order to connect the park with the existing public transport system. None of this would have been possible without collaboration by the government.

27 Most of the world's major tourist destinations have global-brand theme parks except Thailand

International theme park in popular tourist destination countries



Source: EIC analysis based on data from TEA



Sport are another promising attraction. International sports events draw many foreign visitors and can help market a country as a destination. Hosting sports events can generate value-added for tourism and the economy overall. Athletes, coaches and fans from abroad come to stay and spend money locally. Visitors tend to also visit nearby tourist attractions, generating income for locals.

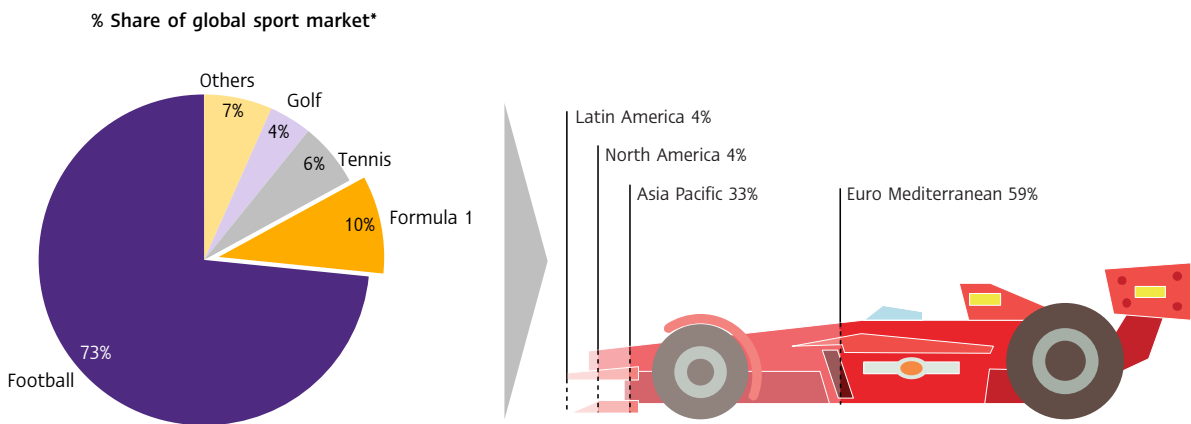


Case study: Formula 1 drives Singapore’s tourism

The market for Formula 1 auto races is second only to the market for football (soccer) matches. Asia-Pacific has an F1 market share of nearly 33%. But in Asia, only Singapore, India, Malaysia, Japan and South Korea have established facilities for these events, which require circuits that meet international standards. Only Singapore can host street circuit races and night races.

28 World sports events are a growth industry, with Formula 1 car racing near pole position

Share of revenues generated by world sports events and F1-generated revenues by region



*exclude US sports
Source: A.T. Kearney

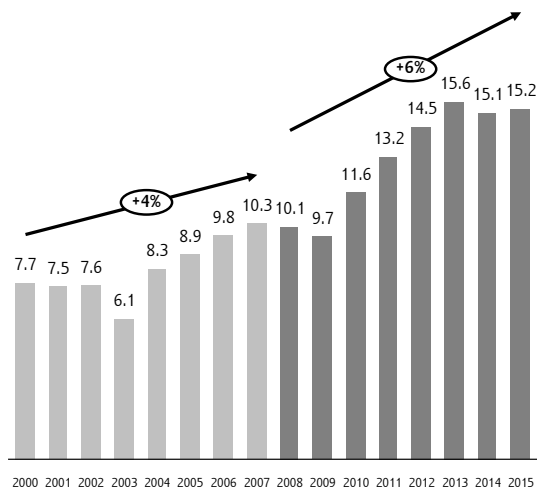
Singapore has had great success with the annual Singapore Grand Prix Formula 1 Championship since its launch in 2008. The championship normally takes place in September and lasts for three days. Each year it draws more than 100,000 visitors, 87,000 of whom are ticket-holders. Of these ticket holders, 40% are foreign tourists, most from Australia and the United Kingdom. Tickets prices range from SGD 250-2,200, depending on viewing location, with eight locations in total. A key factor in the event's greater success, compared to others in Asia, is the use of street circuits, which showcase the city's beautiful garden scenery. Also contributing are tie-in entertainments such as concerts by major artists. Together, these features make the Singapore Grand Prix a major draw.

The Singapore Grand Prix stimulates tourism during the low season. Like such promotions as the Great Singapore Sale in July, the annual Grand Prix helps boost growth during the low season (July-September) to about 6-7% per year, compared to 3-4% prior to the first race in 2008. Thanks to F1, tourism picks up during the period before high season.

29 The Grand Prix nearly doubles Singapore's arrivals each September

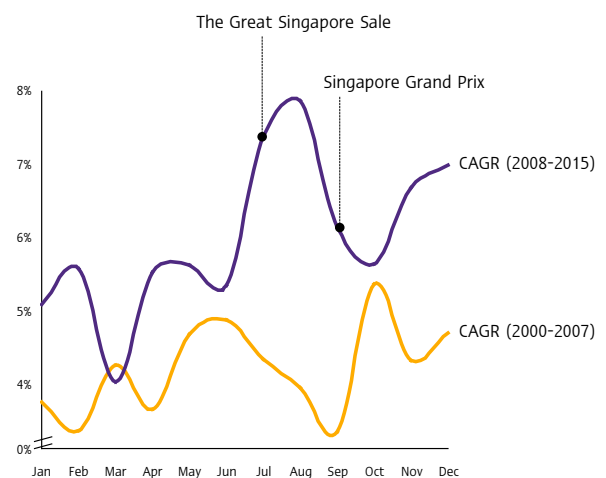
Number of foreign visitors to Singapore

Unit: million persons



Rate of growth in visitors on average - by month

Unit: %



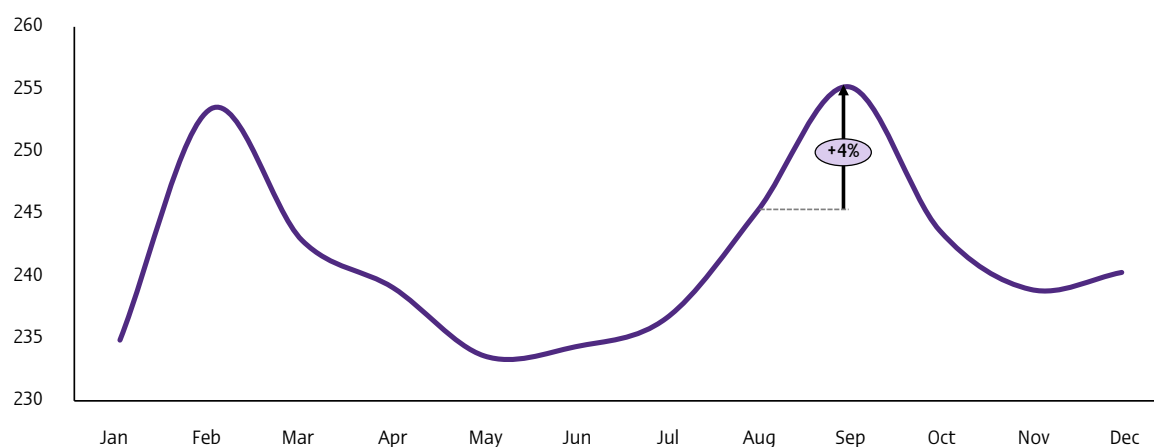
Source: EIC analysis based on data from Singapore Tourism Board

Thanks in part to attracting high-spenders, the Singapore Grand Prix generated over SGD 410 million in revenue for the country in 2015. This sum accounted for almost 2% of the country's total receipts, grew at an average of 7% a year during 2008-2015. The majority of the revenue came from ticket sales and broadcasting license fees (with over 100 million viewers worldwide), accounting for about 33% of total revenue from the event. Grand Prix visitors spend more than others, as indicated by tourist spending numbers that peak in the third quarter. Most of the spending is on accommodations and meals, allowing hotels in Singapore to hike up their prices in September by 4% on average.

30 Singapore's F1 visitors have big wallets which hoteliers could lift up room rates

Average room rate by month (2013-2015)

Unit: SGD/night



Source: EIC analysis based on data from Singapore Tourism Board

Case Study: the Buriram Model

Buriram Province has unexpectedly succeeded in transforming itself into an upcountry sports destination.

Since the Buriram United Football Club was established in 2009, the number of tourists visiting the province has dramatically increased from 0.8 million in 2008 to over 1.4 million in 2015, for 11% average annual growth. Looking only at foreign visitors, the growth is even more pronounced, surpassing 20% annually. Buriram is certainly a case study of success in sports tourism. Buriram United FC home games attract at least 10,000 visitors per match. This FC

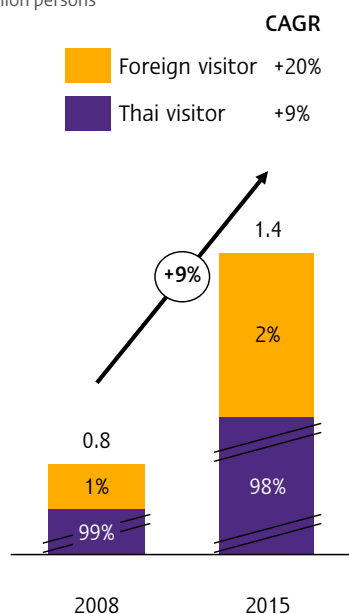


gets the biggest crowds in the Thai Premier League, attracting over 25,000 fans, and also the highest souvenir sales, raking in peak receipts of over THB 1.4 million on a single record day. In 2014, Buriram Province built a motorsport race circuit certified by the Federation Internationale de l'Automobile (FIA). Situated on a site of over 1,000 rai, the circuit has held many international races, including the GT Asia, the Superbike World Championship (SBK), and Japan's Super GT race. Thanks to these attractions, the influx of tourists has helped give the province an over 100% increase in tourism income within eight years, equivalent to 10% growth per year.

31 The increasing visitors help double tourist revenue during 2008-2015

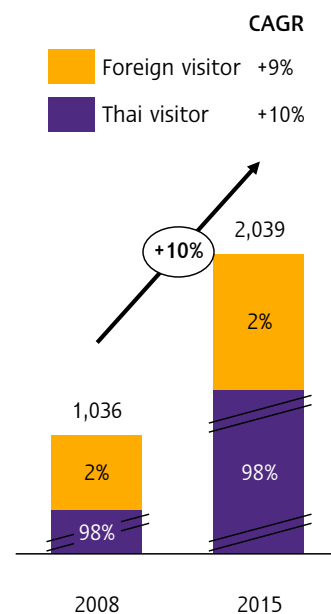
Number of visitor

Unit: million persons



Tourism receipt

Unit: THB million



Source: EIC analysis based on data from Department of Tourism



A photograph of a forest with tall, slender trees in the foreground. Sunlight filters through the dense green canopy in the background, creating a dappled light effect on the forest floor. The scene is peaceful and natural.

4

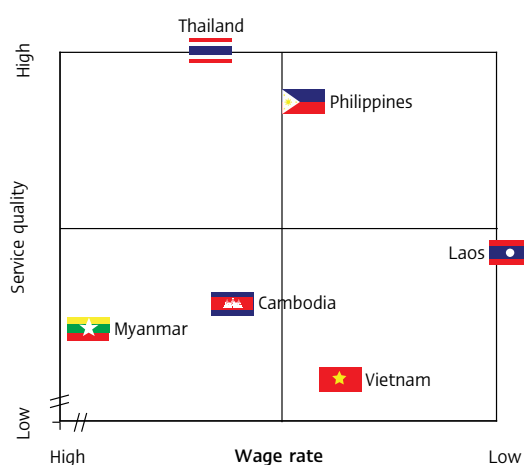
Long-Term Challenges

While Thailand has benefited tremendously from attracting so many Chinese tourists, a group that should continue to expand for some time, EIC believes that many issues need to be addressed in order to ensure sustainable competitiveness in tourism. This will enable Thailand to continue to attract international tourists, from both existing and new markets. The issues include conservation of the natural environment and historic sites, the upkeep of Thailand's renowned service quality and increasing the ease of transport.

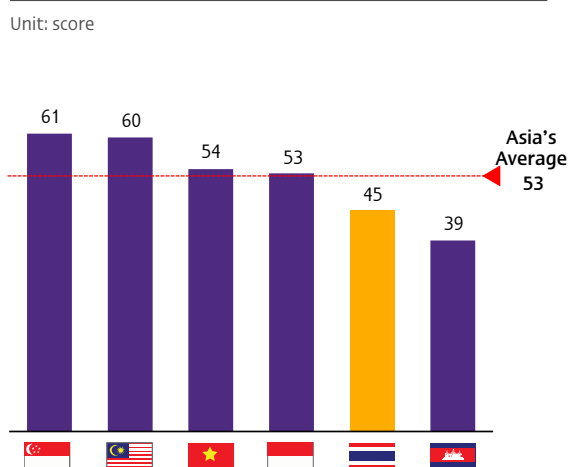
Thailand's tourism industry needs specific skilled human resources, both in terms of quantity and quality. The nation faces various skill shortages. For example, Thai workers lack adequate skills in key foreign languages like English and Mandarin. There are lack of medical personnel and professional convention/exhibition organizers (PCO/PEO). Thai service workers tend to have outstanding service skills, but there are just not enough of them. The industry increasingly needs to rely on migrant workers, thanks to their greater availability and cheaper wages. Yet this solution might come at a cost of lower service quality, which could erode the overall quality of Thai tourism in the future.

32 Thai workers are strong on service but weak on languages

Comparison of wage and service quality between Thai and foreign service personnel



Comparison of English-language proficiency (2014)



Source: EIC analysis based on data from World Economic Forum (WEF) and Education First

Thailand's weak reputation for safety and crime remains a major problem. Some foreigners take a dim view of the safety of travel in Thailand. And, in fact, the country has the second highest casualty rate of traffic-related deaths in the world. This stems mainly from weak law enforcement, which results in speeding, drunk driving and recklessness. Crime is rampant, and there is a lack of reliability of security services. As a result, tourists, especially female and those FITs, have a low level of confidence in the safety of travel in Thailand.

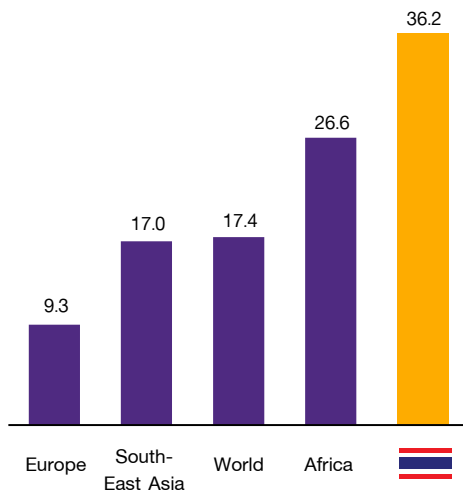
Thailand's transport infrastructure is still inadequate. Reaching tourist attractions is often inconvenient and time-consuming. The quality of Thailand's transport infrastructure is deteriorating, falling behind countries like Singapore, Malaysia and India. Particularly problematic is the lack of connectivity in the public transportation system, including buses, trains and taxis. Another major issue is the quality of the rail system. Thailand's outdated trains travel at only 50 km/hr, in stark contrast to high-speed trains elsewhere that run at over 200 km/hr. Thailand's airport expansion plan is falling behind the growth of tourist arrivals. Suvarnabhumi International Airport, for example, received 53 million inbound travelers in 2015, well over

its rated capacity of 45 million by 118%. As things stand, the expansion to increase this airport's capacity to 60 million tourists per year will begin in 2017. In contrast, Singapore and Kuala Lumpur both have mandated to expand its airport capacity consistently though the current capacity rate for both only reaches 83% and 65%, respectively.

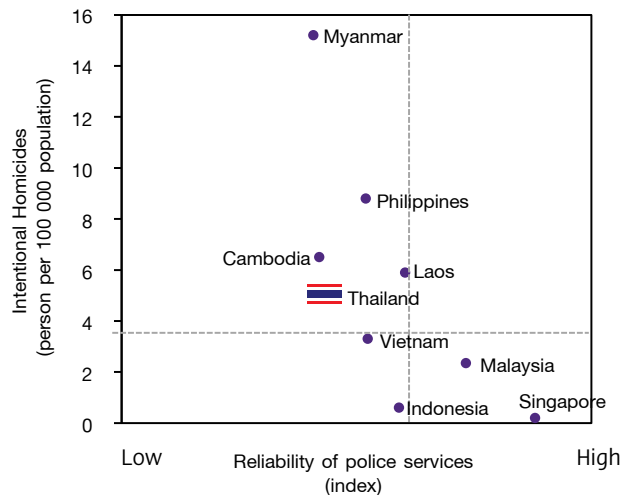
33 Thailand's weak transport infrastructure is deteriorating, falling below the average quality in Asia.

Road traffic fatality rates 2013

Unit: persons per 100 000 population



Homicide rate and reliability of security service index

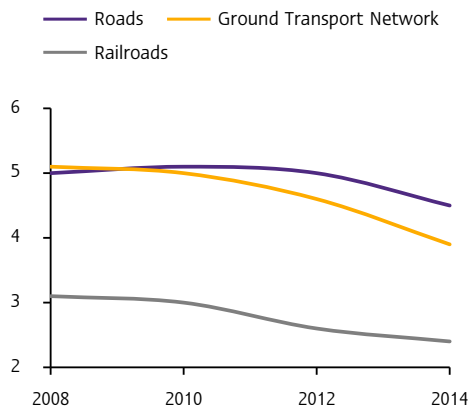


Source: EIC analysis based on data from World Health Organization (WHO) and WEF

34 Thailand's weak transport infrastructure is deteriorating, falling below the average quality in Asia.

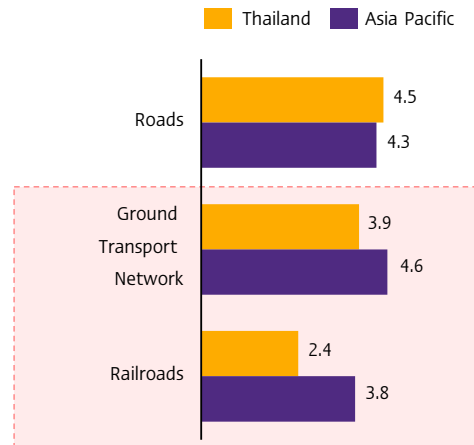
Quality assessment of Thailand's transport infrastructure

Unit: score (1 = The lowest, 7 = The highest)



Comparison of transport infrastructure quality

Unit: score (1 = The lowest, 7 = The highest)



Source: EIC analysis based on data from WEF

BOX: Fast tourism growth comes at a cost



Even though Thailand's tourism income has shown rapid, steady growth, the associated social and economic costs, both tangible and intangible, need to be clearly understood and taken into account in planning. In fact, these costs may ultimately hurt the tourism industry itself.

The absence of effective management and controls will destroy natural resources and historic areas.

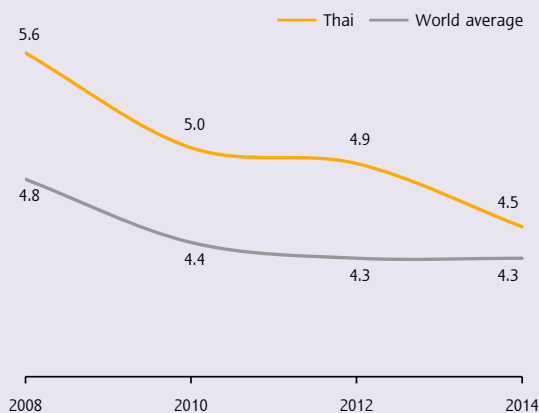
The World Economic Forum has pointed out that Thailand has become less concerned with tourism sustainability, and needs to do more to conserve its natural environment. The Phi Phi Islands make for a good case study. In 2015, the number of visitors there grew by 133% from the previous year, reaching over 300,000 in total. But management of the destination could not keep up with this surge. Tourists began to complain about litter at Nopparat Thara beach in the national park there. If the government and local groups are unable to resolve the problem, it will surely drag on tourism. In the case of the Phi Phi Islands, it might be worthwhile to sacrifice part of the tourism income by limiting the number of visitors to a level that is manageable and more conducive to conservation efforts. Many top tourist sites around the world have already put such limits in place. For example, Greece's Santorini Island and Peru's Machu Picchu limit the number of visitors to 8,000 and 2,500 per day, respectively.



35 Thailand needs to concentrate more on sustainability of tourism growth

Sustainable tourism index

Unit: score (1 = The lowest, 7 = The highest)



Number of visitors to Phi Phi Islands

Unit: thousand persons



Source: EIC analysis based on data from World Tourism Organization (UNWTO) and World Bank

The rapid growth in tourism has eroded the integrity of culture in many communities across the country. Given rising interest in cultural tourism, local communities are developing more and more travel-related businesses, including homestays, hotels, shops and restaurants. This has created jobs and generated income for locals. However, it has often also changed the local ways in a manner that erodes long-term tourism potential. For instance, Koh Kret Island, just north of Bangkok in the Chao Phraya River, is known for the unique culture of the Mon people. These are historically agricultural ethnic communities who live in traditional wooden stilt houses designed to cope with flooding. But since the wave of “cultural” tourism has arrived, Koh Kret locals have changed their ways. They now live in concrete houses that double as shops and restaurants catering to tourists. Touristy areas become densely populated and overbuilt, while others are deserted and left undeveloped. This problem has also occurred in Amphawa District, Samut Songkhram Province. Once a quaint, traditional waterside market that catered to locals, Amphawa floating market has lately been transformed into a full-blown tourist site. Various problems have emerged, including a rise in crime and the influx of non-locals settling in the area. Now nearly 60% of shop owners in the market are outsiders. The population density has increased and some newcomers have built large-scale businesses that are out of character with the old neighborhood. Unavoidably, this has compromised the quality of the touristic experience there.

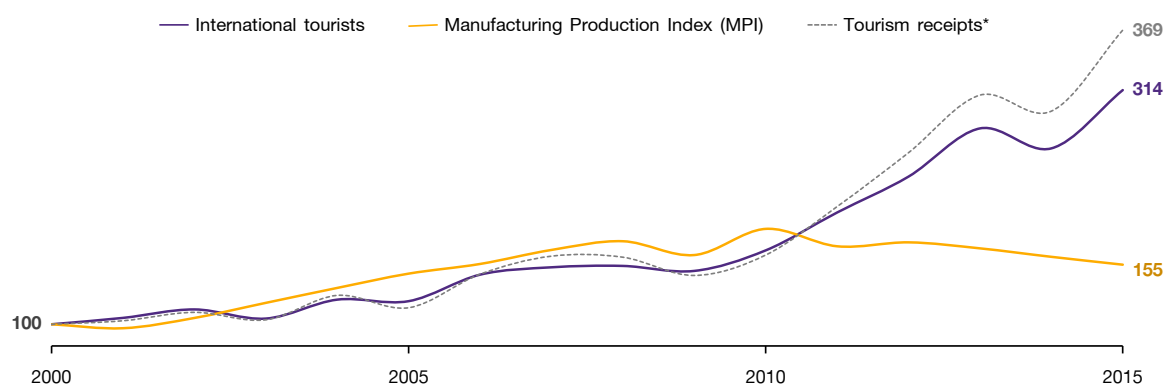
Epilogue

To properly accommodate the constantly growing number of visitors, Thailand's tourism industry should take steps today to ensure sustainable growth in the future. The nation's manufacturing sector provides a cautionary tale. Whereas it used to be highly competitive, with steady growth, Thailand's manufacturing is now in decline, at risk of recession. Tourism can grow sustainably only if infrastructure, planning and conservation are improved.

36 Thai GDP will rely more and more on the service sector as manufacturing continues to decline

Growth comparison: Thailand's manufacturing versus tourism

Unit: Index (base year: 2000)



**Inflation-adjusted*

Source: EIC analysis based on data from Bloomberg, IMF, and the World Bank

In the short term, the Thai tourism industry will continue to be able to expand by relying on existing markets, but in the long run, a variety of improvements are needed, supported by cooperation from all sectors. Growth is now mainly driven by Chinese tourists, but these visitors may move on to other destinations. Hong Kong and Macau, for example, used to be magnets for Chinese tourists, but fewer visit there nowadays. Relying too heavily on the Chinese market will expose the industry to great risk in the long term. Instead, Thailand should focus on substantive improvements here that will strengthen the tourism industry's integrity and growth potential going forward.

Thailand should emphasize long-term benefits rather than short-term income, to ensure timely supply-side development. Although more visitors certainly mean more income, there are also downsides to operating at overcapacity levels, especially since the industry is still largely concentrated in the same tourist attractions and operating under the same models as in the past. The same limited resources serve an ever-growing number of visitors in which both the public and private sectors should focus on developing crucial supply-side factors: human resources, connectivity between sites, safety, historic conservation, environmental protection and facilities maintenance.

Human resources are at the heart of the service sector. Capacity enhancement should be provided beyond language skills and service quality. The training of service workers must also emphasize ethics. Beyond basic knowledge and business management skills, tourism operators should develop capacity in IT skills, innovation and creativity. Other types of personnel must be included. For example, more security workers are needed as travellers increase.

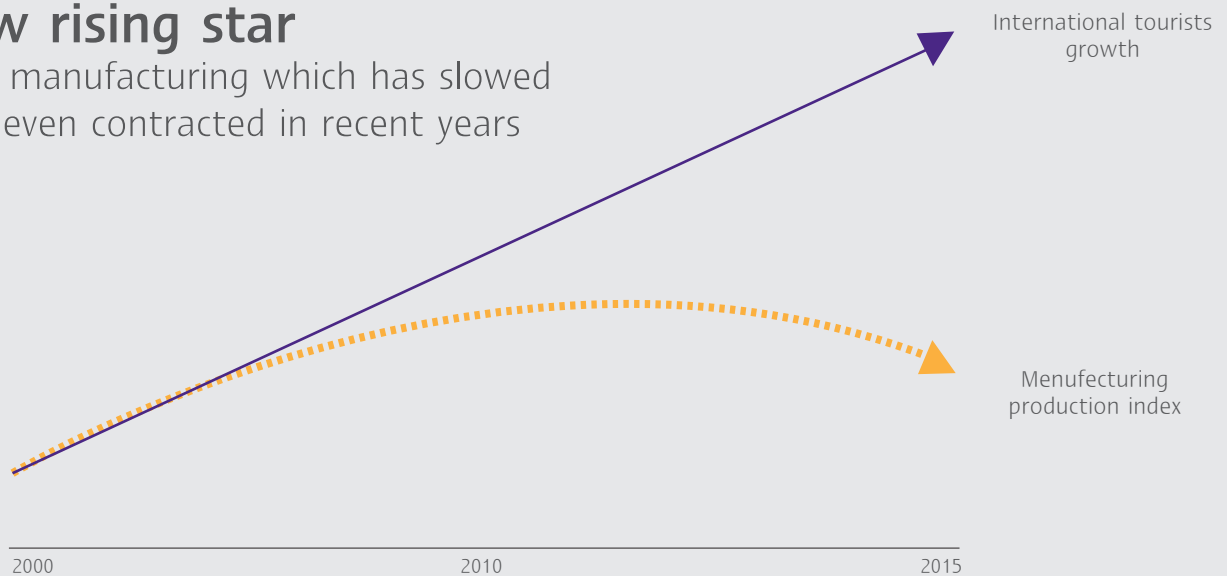
Safety, and the safeguarding of tourist sites, should be taken seriously. Regulations should be up-to-date and strictly enforced. In today's social media-driven world, these measures are imperative because the Thailand's image is at stake. Safety is a key consideration for tourists. The government should set service and safety standards for all tourism-related activities, including public services such as mass transit. Tourist attractions may also need to be better regulated; for example, by limiting the number of visitors during peak times. Above all, rules and regulations have to be strictly enforced and wrongdoers punished according to law.

Investment in transport infrastructure should be prioritized to improve connectivity and convenience. Other infrastructure necessary for the development of new tourist areas should also be built. Airports need to be expanded before they reach capacity once again. Efficient, tourist-friendly public transport that connects primary and secondary sites should be introduced. This means better integrating transport systems overall, with clear information about vehicles, routes, online booking systems and so on. Transport connections should take into account the different types of travelers. Since more senior citizens are travelling these days, facilities should be well prepared to include paved, non-slip sidewalks large enough for wheelchairs.

Strategy for sustainability of tourism growth

Thai Tourism has become the new rising star

in place of manufacturing which has slowed down and even contracted in recent years



Expand

Current market



Leisure

India and Indonesia



Health Care

Market that seek higher quality or lower cost



Mice

Exhibitions and incentive trips

New market



Film

Shoot in Thailand and feature Thainess



Man-made Attraction

International Theme parks



Sport

International sporting events

Improve

Human Resource



Develop personal
to have global standard



Promote Innovation and new idea
more than basic language skills



Expand number of personal
to be in line with number of tourists.

Infrastructure



Connectivity
between tourist attractions



Standardized Security System
and take it seriously



Design system with online and universal design

ที่มา: การวิเคราะห์โดย EIC ณ พฤศจิกายน 2016 จากข้อมูลของ Bloomberg, IMF และ World Bank

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Chief Economist and FEVP

Sutapa Amornvivat is Chief Economist and First Executive Vice President at Siam Commercial Bank (SCB), where she leads the Economic Intelligence Center. She previously set up and led Risk Analytics Division under Risk Management Group. Sutapa currently sits on Subcommittee on Finance, Banking, Financial Institutions and Capital Markets, The National Legislative Assembly.

Before SCB, Sutapa founded Risk Analytics and Research Group at TMB Bank during her secondment from ING Group, where she worked in various departments in risk management. Prior to joining the banking industry, Sutapa was Economist at the International Monetary Fund (IMF) in Washington, DC. She had also served as Director of Macroeconomic Analysis Section at the Thai Ministry of Finance.

Sutapa's academic contribution includes lecturing at various universities in Asia including Hitotsubashi University, the Indian Institute of Technology, Chulalongkorn University, and National University of Singapore.

Sutapa holds an undergraduate degree in Applied Mathematics from Harvard University and a doctorate degree in Economics, Management, and Policy from Massachusetts Institute of Technology (M.I.T.) She was a recipient of Thailand's most prestigious King's Scholarship, awarded to five scholars in an annual nationwide competition.



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Viithan has previously held positions at the Fiscal Policy Research Institute, Ministry of Finance, working on the development of the medium-term government expenditure framework and the budget allocation model as well as conducting studies on fiscal policies. He also worked in the Research and Information Department and the Strategy Development Department at the Stock Exchange of Thailand.

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Pavaris received a Bachelor's degree in Business Administration in Real Estate from Assumption University, a program which has been accredited by the Royal Institute of Chartered Surveyors (RICS), and received a Master's degree in Business Modeling and Development from Mahidol University International College (MUIC).



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Kanchanok has prior work experience as a strategic planning analyst at the Siam Cement Group. She also has past experience working at the Science and Technology Development Program at TDRI. Kanchanok was selected to be an intern in the SCG Excellent Internship program by the Siam Cement Group and received an SCG Innovative Suggestion Award.

Kanchanok received her Bachelor of Economics (First Class Honors) from Thammasat University. While studying, Kanchanok won an Economics Quiz Competition.



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