AN ANALYSIS OF FOREIGN TOURIST EXPENDITURE IN THAILAND

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INTRODUCTION

Tourism, especially inbound tourism, has long been recognized as an important industry to Thailand. Income from international tourists climbed from 3% of GDP in 1985 to almost 6% in 2001. Tourism receipts rank a close second to computer and parts exports and they are many times that of rice exports. Since the industry covers numerous and diverse local participants, including hotels, restaurants, and retail stores, its impact on the Thai economy is tremendous. Sussangkarn, Jitsuchon, and Vajragupta (2002) estimated that each additional dollar export income from tourism generated two dollars more real GDP, the highest multiplier among the industries investigated. The government targets inbound tourism revenue to increase by 8% in fiscal year 2004. In 2000, 7.7 million tourists visited Thailand making it one of the top twenty destinations in the world. At a regional level, Thailand ranks behind only China and Hong Kong in tourist receipts and arrivals (Table 1).[2] Tourists to Thailand spend relatively less per day and stay relatively longer than tourists to some other Asian destinations.

TABLE 1
Tourist Arrivals and Receipts in Top Asian Tourist Destinations

	Arrivals (thousands)	Receipts ($US millions)	Length of Stay (days)	Daily Expenditure ($US)
China, 1999	27,047	14,098	na	na
Hong Kong, 1999	11,328	7,210	3.4	187
Thailand, 1999	8,651	6,695	8.0	97
Singapore, 1999	6,958	5,974	3.2	268
Malaysia, 1998	5,551	2,456	5.5	80
Indonesia, 1997	5,185	5,321	10.6	97
Japan, 1999	4,438	3,428	8.0	97
South Korea, 1998	4,250	5,890	4.9	283

Sources: Singapore and Malaysia figures from Singapore Department of Statistics Length of stay from *Statistical Yearbook for Asia and the Pacific 2000*, United Nations. Other data from *Thailand in Figures* 7th ed *2001-2002*, Alpha Research.

[1] The authors thank Dr. Nipon Poapongsakorn who provided constructive criticism. Any errors are ours.

[2] Daily expenditure of tourists in Japan in Table 1 seems low given that country's high cost of living. Data from UNCTAD (http://unctad.org) for 1990-2000, show that arrivals increased from 3.2 million to 4.8 million tourists, average length of stay decreased from 13 days to 8 days, and tourism receipts fluctuated around US$3,500 million, making daily tourist expenditures around US$100.

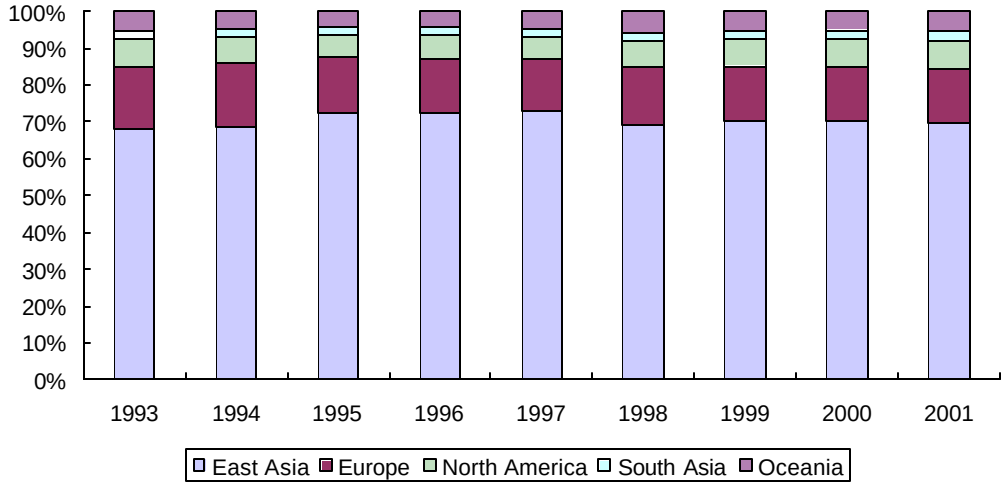
Tourist arrivals in Thailand accelerated from 1997 to 2001 while length of stay and daily expenditure declined somewhat (Table 2). These changes were not due to a change in the composition of tourists coming to Thailand (Figure 1). This is an alarming sign because, assuming a fixed per capita cost of tourism, an increase in the number of tourists may result in degradation of the environment and natural resources. As a result, the marginal benefit to Thailand from the tourism industry is declining. The Tourism Authority of Thailand (2001) seems to acknowledge this trend and targets to increase daily expenditure by 9.3% and to maintain length of stay at 7.86 days during the period 2002-06. For this reason, it is worth investigating more deeply the factors that affect daily spending by tourists.

TABLE 2
Tourist Arrivals and Receipts for Thailand in Current US dollars, 1993-2001

	Arrivals (thousands)	Receipts ($US millions)	Length of Stay (days)	Expenditure ($)
1993	5,760	5,047	6.94	126
1994	6,166	5,774	6.98	134
1995	6,951	7,655	7.43	148
1996	7,244	8,657	8.23	145
1997	7,293	7,039	8.33	116
1998	7,842	5,855	8.40	89
1999	8,651	6,692	7.96	97
2000	9,578	7,112	7.77	96
2001	10,132	6,731	7.93	84

Source: Tourism Authority of Thailand (TAT).

FIGURE 1
Composition of Tourist Arrivals in Thailand by Region of Origin, 1993-2001



Source: Tourism Authority of Thailand (TAT).

Our investigation is divided into two fronts. One is an empirical analysis relating tourist spending to macroeconomic indicators and tourist profiles. Lee, Var, and Blaine (1996) analyzed time-series data for tourist-generating countries and found income, price, and exchange rate were significant in explaining expenditures of tourists visiting South Korea. Durbarry (2001) and the British Tourist Authority (1998) also found income, price, and exchange rate significant in explaining tourism receipts in the UK. The common finding in these papers is that tourism receipts rise along with income and also rise as the cost of a visit, in the currency of the origin country, goes down. Perez and Sampol (2000) studied variables affecting daily spending per head, which is the same dependent variable used in this study. They used survey data on age, occupation, type of accommodation, reservation, and opinions for tourists from various countries visiting Spain's Balearic Islands in 1996.

The second front of our investigation focuses on categories of tourist expenditures. Major categories are listed in Table 3, which indicates that total daily expenditure has shrunk since 1993. Of all categories, accommodation, food and beverage, and local transportation are "must pay" items for most tourists. Factors affecting the price of these items will be discussed after the empirical investigation.

TABLE 3
Daily Tourist Spending in Thailand by Type of Expenditure, 1993 and 2000
(Real Thai baht)

	1993	2000
Accommodation	814	760
Food and beverage	536	477
Sight seeing	185	144
Local transportation	195	232
Shopping	1,521	1,089
Entertainment	181	326
Miscellaneous	124	113
Total	3,953	2,554

Source: Calculated from TAT.

The rest of this paper is organized as follows. The next section discusses an estimating model and analyses the results. This is followed by a qualitative analysis of the decline in some major categories of tourist spending. The next part is dedicated to analyzing the current government's policies toward the tourism sector in Thailand while the final part presents some conclusions and recommendations.

MACRO-ECONOMIC ANALYSIS OF DETERMINANTS OF TOURIST SPENDING IN THAILAND

Model

The variables postulated to affect average daily spending by tourists to Thailand are price, income, length of stay, gender, frequency of visits, and travel behavior of tourists from various countries. The model is

$$\begin{aligned} \ln EXP_{it} = {} & b_{0i} + b_{1i} \ln P_{it} + b_{2i} \ln GDP_{it} + b_{3i} \ln DAYS_{it} + b_{4i} \ln FEM_{it} \\ & + b_{5i} \ln REP_{it} + b_{6i} \ln TARR_{it} + b_{7i} DASIA * \ln TARR_{it} \\ & + b_{7i} D97 + u_{it} \end{aligned} \quad (1)$$

where ln is the natural logarithm, subscript *it* refers to country of origin *i* (*i* = 1 to 15) at time *t* (t = 1985 – 2001). *EXP* is expenditure per tourist per day in real Thai baht or in real US dollars. *P* is the relative price variable, about which more will be said later. *GDP* is gross domestic product per capita in US dollars deflated by the GDP deflator. *DAYS* is the average length of stay. *FEM* is the percentage of female tourists. *REP* is the percentage of tourists that visit Thailand more than once. *TARR* is the percentage of tourists that came on a group tour. *DASIA*LNTARR* is a variable that represents Asian tourists (*DASIA*) that come to Thailand on group tours. This variable accounts for a striking fact that a high proportion of tourists from most Asian countries travel on group tours. *D97* is a dummy variable to account for the effects of the 1997 financial crisis (*D97* = 1 since 1997, and 0 otherwise) and *u* is the error term.

We use either the Exchange Rate Index (*EXI*) or the Price Index (*PI*) as a proxy for the price of tourism as perceived by an international traveler (*P*). The Exchange Rate Index indicates the value of country *i*'s currency per Thai baht with the rate in 1995 set at 100. A decrease in the index means country *i*'s currency appreciated with respect to the Thai baht, and, consequently, the cost of tourism in Thailand is lowered in the foreign currency. The alternative measure for the price variable, the *PI* accounts for the cost of living in Thailand as perceived by travelers from various countries. It is constructed as follows:

$$PI_i = P_{TH} / E^*_i P^*_i$$

where P_{TH} is the CPI in Thailand, P^*_i is the CPI in country i, and E^*_i is the nominal exchange rate in baht per unit of country i's currency. As with an increase in EXI, an increase in PI means a higher cost of tourism in Thailand as perceived by visitors from country i.

We assembled data on these variables for fifteen countries that send tourists to Thailand; they are Malaysia, Singapore, China, Hong Kong, Japan, South Korea, Taiwan, France, Germany, United Kingdom, Canada, the United States, India, Australia, and New Zealand. GDP and price data for all but Taiwan come from the IMF's *International Financial Statistics;* data for Taiwan are from http://stat.gov.tw. Data for all other variables are taken from *Thailand Tourism Statistical Report* 1985-1994 and *Statistical Report* 1995-2001 published by the Tourism Authority of Thailand. It is worth noting that data on daily expenditures come from TAT's annual survey at major frontier checkpoints. Data for the fifteen countries for 1985 to 2001 are combined into a pooled cross-section time-series.

Results of Estimation

The model in (1) is tested in four combinations with expenditure in Thai baht or US dollars and price proxied by the Exchange Rate Index (EXI_{it}) or the Price Index (PI_{it}). As a starting point, the ordinary least squares (OLS) estimator is employed on the pooled data. Then the least-squares dummy variable (LSDV), or fixed effect, adds dummy variables for each country to the OLS. The null hypothesis is no country effect. The assumption of LSDV is that all tourist-originating countries are included in the sample. To justify this assumption, note that tourists from countries in the sample represented 78% of total tourist arrivals to Thailand in 2001. By relaxing the equal variance assumption and using the FGLS technique, each country's variance is unequal. The null hypothesis is that each country's variance is equal.

In all four cases, estimates overwhelmingly rejected the null hypothesis that the country dummies are equal. Therefore, LSDV is preferred to the OLS technique. Proceeding, the likelihood ratio statistic is used to justify the null hypothesis of group-wise homoskedasticity. Again, the null hypothesis is rejected at 99.5 % confidence. Hence, the four model cases are estimated with country dummy variables and group-wise heteroskedastic variance. Results are reported in Table 4.

TABLE 4
FGLS Coefficient Estimates for Daily Expenditure per Tourist

	Dependent variable:			
	Log of expenditures in baht/person/day		Log of expenditures in US$/person/day	
	(1)	(2)	(3)	(4)
LNEXI	0.156		0.215	
	(0.070)**		(0.078)***	
LNPI		0.182		0.264
		(0.106)*		(0.118)**
LNGDP	0.289	0.289	0.118	0.200
	(0.051)***	(0.068)***	(0.062)*	(0.082)**
LNDAYS	-0.099	-0.097	-0.176	-0.209
	(0.059)*	(0.064)	(0.066)***	(0.071)***
LNFEM	0.022	-0.024	-0.022	-0.382
	(0.053)	(0.147)	(0.070)	(0.172)**
LNREP	-0.136	-0.176	-0.291	-0.406
	(0.093)	(0.101)*	(0.108)***	(0.118)***
LNTARR	0.267	0.271	0.361	0.391
	(0.073)***	(0.074)***	(0.088)***	(0.088)***
D97	0.007	0.001	-0.493	-0.475
	(0.031)	(0.033)	(0.036)***	(0.038)***
DASIA*LNTARR	-0.288	-0.313	-0.560	-0.612
	(0.102)***	(0.107)***	(0.118)***	(0.126)***
Weighted regression statistics:				
R-squared	0.996	0.997	0.985	0.987
Adjusted R-squared	0.996	0.997	0.983	0.986
S.E. of regression	0.164	0.167	0.186	0.189
Log likelihood	120.52	115.67	88.84	86.43
Durbin-Watson	1.933	1.941	1.921	1.923
Sum squared residuals	5.673	5.688	7.312	7.292

Notes: Standard errors are shown in parenthesis. *, **, and *** indicate significance at the 10%, 5%, and 1% levels respectively.

In most models, the gender variable (*LNFEM*) is not able to explain daily expenditure. Length of stay (*LNDAYS*) and frequency of visit (*LNREP*) negatively affect daily expenditure amount, with high statistical significance in dollars (Model 3 and 4) and marginal significance in baht (Model 1 and 2). This makes sense, in that tourists who stay longer or come more frequently have more local information about where to stay, what to buy, and what to eat. The percentage of tourists that come with group tours (*LNTARR*) positively affects daily receipts at the 1% level of significance. However, Asian tourists who come with group tours (*DASIA*LNTARR*), tend to spend less per day than other group tourists.

Among the macroeconomic indicators, both relative price (*LNEXI* or *LNPI*) variables and income per capita (*LNGDP*) are significant and have a positive effect on daily expenditure per tourist in all four models. The results for the relative price variables are discussed in more detail below. The

financial crisis (*D97*) did not affect daily spending in Thai baht, models 1 and 2, at any conventional level of significance. In contrast, though, the crisis did negatively affect daily expenditure in US dollars, Models 3 and 4, at the 1% level of significance. In short, the crisis influenced the amount of daily spending only in US dollars, but not in Thai baht.

The results on the income and price variables are worth some additional consideration. First, the more income tourists have, the more they spend per day. The implication from this result of a positive income elasticity with respect to daily tourist expenditure is that Thailand should target high-income growth countries to attract tourists. This conclusion is in line with most of the literature, makes intuitive sense, and needs no further discussion.

Second, the finding of a positive price coefficient appears odd a first glance. According to the law of demand, a change in relative price that raises the cost of tourism would be expected to lower the quantity purchased. Price inelasticity, on the other hand, would result in a proportional increase in expenditure so the total amount of spending moves in the same direction as the price change. That is, daily expenditures by international tourists in Thailand may be inelastic to the cost of tourism because the total amount the expenditure is small relative to their income. This result implies that tourists perceive tourism in Thailand to be rather cheap. They do not rigidly constrain their budgets in response to a relative price increase. At least two facts support this argument. First, each tourist-originating country in the sample except China has a higher GDP per capita than Thailand. Malaysia's per capita GDP is almost twice that of Thailand and U.S. GDP per capita is 17 times Thailand's. Second, daily tourist spending in U.S. dollars was significantly lower after 1997, while spending measured in Thai baht was quite unchanged.

The above discussion leads us to undertake a qualitative investigation into the factors that influence tourist expenditures in three major categories, accommodation, food and beverages, and local transportation.

MAJOR FACTORS AFFECTING THE COST OF TOURISM

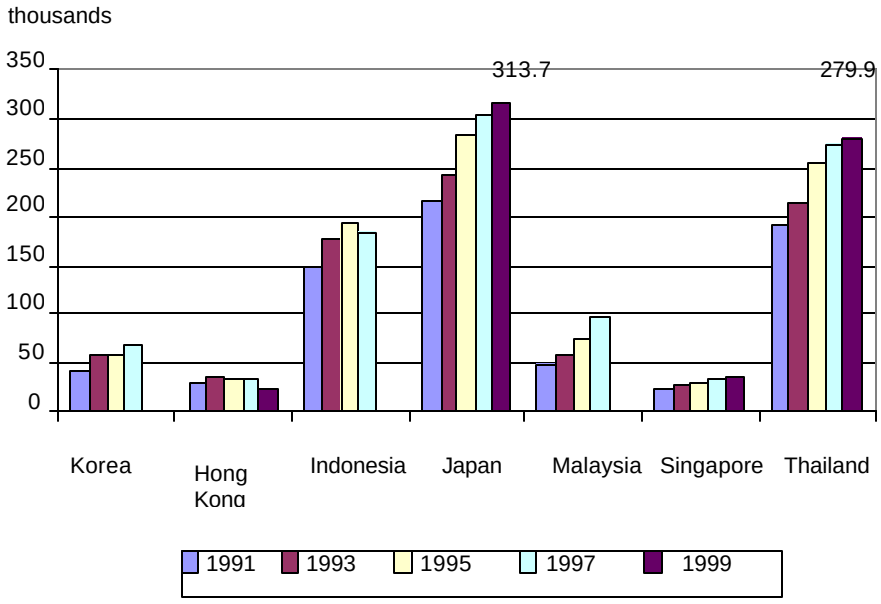
This section discusses factors affecting the cost to tourists of services in three major expenditure categories, accommodation, food and beverage, and local transport. These categories constitute a

major portion of tourist's expenses in Thailand. This section discusses certain conditions in each category that may explain why tourist expenditures are declining.

Accommodation expenditures

Hotel construction in Thailand expanded continuously since the early 1960s. It was given a boost by the Board of Investment (BOI) since the late 1960s. In the early 1970s, there were some 58 hotels in total, including 22 first-class ones, 13 second-class, 17 third-class, and 6 fourth-class hotels. By 2001, Thailand was reported to have approximately 2,600 hotels, 400 resorts, and 800 bungalows (Phupoksakul, 2002). Thailand ranks second behind Japan in the number of hotel rooms in Asia (Figure 2).

FIGURE 2
Number of Hotel Rooms in Selected Asian Countries, 1991-99



Source: United Nations. 2001.

Room rates for hotels in Thailand are considered the cheapest in South East Asia. According to the price hotel index (PHI) constructed by the World Travel and Tourist Council (WTTC), the average room rate in Thailand is $US99.92 per night which was lower than average rates in Singapore, Malaysia, Hong Kong, and Japan (WTTC, 2002).

Provided with these facts, there are two major factors that put pressures on the room rate: a

surplus of hotel rooms and asymmetric information.

A surplus of hotel rooms

The hotel business continued to expand capacity after the financial crisis in 1997, and the disparity between the total number of rooms and occupancy has been increasing since then. Rapid construction of rooms is believed to have killed the hotel business everywhere in Thailand except Phuket. According to the Tourism Authority of Thailand (TAT) the average occupancy rate is around 50 percent and occupancy is mainly concentrated in the high-class, quality hotels (Table 5). Low occupancy rates jeopardize prices in the hotel industry as a whole.

TABLE 5
Number of Rooms and Occupancy Rate by Class of Hotel for Selected Years

	All Hotels		1st Class Hotels		2nd Class Hotels		3rd Class Hotels	
	Number of rooms	Occupancy (%)	Number of rooms	Occupancy (%)	Number of rooms	Occupancy (%)	Number of rooms	Occupancy (%)
1997	191,287	46.58	22,848	56.86	28,613	51.28	16,973	52.08
1999	204,939	48.86	37,251	61.30	30,468	54.47	15,559	55.15
2000	215,582	50.84	40,447	64.64	28,805	56.19	15,968	55.59
2001	230,031	51.94	42,315	68.30	28,229	58.18	16,610	56.26

Notes: The number of hotel rooms is based on rooms available in 52 major travel destinations in Thailand. Class of hotel is determined by the rate for a single room: first class (2,500 baht and up); second class (1,500-2,499 baht); third class (1,000-1,499 baht); fourth class (500-999 baht); fifth class (499 baht and below).
Source: Tourism Authority of Thailand, various years.

Asymmetric information

Competition causes a substantial price dampening in all hotels, but the pressure does not fall evenly. For independently operated hotels, including all types of local fringe operators, the effect of increased competition is compounded by a lack of networks to distribute information about the hotel to potential overseas tourists. Hotels that belong to chains can share information, with both international and local operations, and can effectively reduce the cost of delivering information to international tourists. The problem is acute for small and less well known hotels. Unless independent hotels adapt to become part of a wider group, they will easily lose their markets to chains, which are much more widely known.

Hence, independent hotels depend critically on travel agents, who act as middlemen in this market. This creates another problem, however. There are many claims that independent hotels are exploited by travel agencies. If a hotel declines to offer a considerable discount, travel agents can easily switch to other hotels that do offer better prices.

Food and beverage expenditures

Both macro- and micro-economic factors concurrently play a key role in the determination of food and beverage prices faced by tourists. From the macro perspective, for example, several factors contributed to driving down the cost of tourism in Thailand. Until the late 1990s, with the baht pegged to the US dollar and the Thai government's conservative monetary and fiscal policies, the inflation rate in Thailand was close to the inflation rate in the United States. With the economic crisis of 1997, however, domestic aggregate demand collapsed resulting in considerable excess economic capacity in Thailand.

In addition to the macroeconomic factors, two main micro-economic factors affect food and beverage prices. First, Thailand is a major food supplier to the world and aims to become a kitchen for the world. The local restaurant industry benefits from the low prices of food ingredients. Second, Thailand has a large number of restaurants. In 2001, there were 15,000 registered restaurants including 700 international restaurants, 400 Thai restaurants, 1,500 fast food outlets, 500 bakery and coffee shops, and 12,000 family-style restaurants (Phupoksakul, 2002). The number of restaurants and bars is growing despite the economic crisis since they cater not only to middle to high-income Thai businessmen but also to tourists. The high growth appears in areas where tourists gather, mostly in Bangkok. These restaurants and bars offer pretty much the same services provided in hotel restaurants and bars but at considerably lower prices. This results in price dampening or service improvement among local entrepreneurs.

The 700 restaurants serving international food deserve special comment. Their large number is due to the open investment policies of the Thai government toward foreign investors. Moreover, restrictions on foreign workers have been made more flexible than in previous days. Nowadays, it appears that Thailand has comparatively more international food restaurants, including franchised-restaurants, than many other countries in the region.

Expenditures for local transportation

The market for local transportation in Thailand has become more competitive due to the increase in the number of various types of passenger vehicles. Moreover, in addition to remaining a dominant

operator of domestic air and railway services, the government, a public service provider, also plays a key role in regulating ticket prices in local transport. These factors all contribute to making local transport expenditure account for less than 10 percent of tourists' daily spending.

The share of trips by road mode has also been consistently high in Thailand. In 1984, for example, some 90 percent of regional passenger trips were by road, about two-thirds by bus (Pacific Consultants International, 1998). The absolutely dominance of the road mode is consistent with the increasing number of vehicles (Table 6). The number of registered vehicles, including motorcycles, grew substantially from 17.6 million in 1997 to 22.5 million in 2001. During the same period, the number of registered sedans as well as taxis and buses increased by substantial percentages (Table 7). The growing numbers of these kinds of vehicles would increase competition in the local transport market and consequently lead price dampening.

TABLE 6
Vehicle Registrations by Type, 1997-2001
(Number and Percentage of All Registrations)

	1997		1998		1999		2000		2001	
	thousands	**%**	**thousands**	**%**	**thousands**	**%**	**thousands**	**%**	**thousands**	**%**
Sedan	1,812	10.3	1,974	10.5	2,124	10.6	2,111	10.1	2,281	10.1
Van	538	3.0	555	2.9	527	2.6	554	2.7	583	2.6
Pick-up	2,587	14.6	2,779	14.7	3,098	15.4	3,210	15.4	3,341	14.8
Taxi	65	0.4	70	0.4	75	0.4	77	0.4	82	0.4
Tuk-Tuk	48	0.3	47	0.3	50	0.3	47	0.2	47	0.2
Bus	93	0.5	97	0.5	96	0.5	101	0.5	108	0.5
Truck	613	3.5	621	3.3	613	3.1	653	3.1	674	3.0
Other	257	1.5	249	1.3	266	1.3	261	1.3	236	1.0
Subtotal	**6,014**	34.0	**6,393**	33.9	**6,849**	34.1	**7,014**	33.7	**7,351**	**32.5**
Motorcycle	11,650	66.0	12,464	66.1	13,245	65.9	13,817	66.3	15,236	67.5
Total	**17,664**	100.0	**18,858**	100.0	**20,094**	100.0	**20,831**	100.0	**22,587**	**100.0**

Note: Taxi category includes motor-tricycles, and inter-province, fixed route, and urban taxis. Bus and truck categories include vehicles in revenue-producing operation. Other category is principally farm equipment.
Source: National Statistics Office.

TABLE 7
Annual Change in Motor Vehicle Registrations by Type
(percent)

	1997 / 98	1998 / 99	1999 / 00	2000 / 01
Sedan	8.9	7.6	-0.6	8.0
Van	3.1	-5.0	5.2	5.2
Pick-up	7.4	11.5	3.6	4.1
Taxi	8.1	6.5	3.4	5.7
Tuk-Tuk	-1.5	6.9	-6.4	-0.9
Bus	3.8	-0.9	5.3	6.6
Truck	1.4	-1.3	6.4	3.2
Other	-3.0	6.8	-1.8	-9.9
Subtotal	**6.3**	**7.1**	**2.4**	**4.8**
Motorcycle	7.0	6.3	4.3	10.3
Total	**6.8**	**6.6**	**3.7**	**8.4**

Source: National Statistics Office.

Although competition in the local transport market, especially in the road mode has been increasing, suggesting that prices have been falling, daily spending by tourists for local transport has increased overtime, from 195 baht in 1993 to 232 baht in 2000. Such increase should have been attributed to the impact of higher gasoline prices after the deregulation of oil prices in 1991, which brought an adjustment to the world price. Poapongsakorn (1998) found that the liberalization policy had the greatest effect on those sectors with heaviest use of oil products, especially of diesel products: land and air transportation, fishery, mining, agricultural services, and electricity generation and distribution. In these sectors, the cost of oil ranges from 14 to 31 percent of total costs. Since the retail price is adjusted to the Singapore price, which is the world market price for Thailand, as a consequence, transport operators suffer more from a gasoline price hike, as they are reliant on energy-consumption. Gasoline price increases can be, and often are, magnified by adverse baht currency depreciation, which leads to higher operating costs and raises the price level.

POLICY TOWARDS SUSTAINABLE TOURISM

The following section examines the development of the tourism sector from the perspective of national planning. The discussion focuses on threats resulting from the misconception of tourism development in Thailand and the current policy that is pushing tourism in Thailand towards quality destinations.

National Plans[3]

The promotion of tourism in Thailand dates back to 1924, when the Royal Railway of Siam established a Public Relations Section to advertise Thailand and assist foreigners traveling in Thailand. The independent national tourism office, the Tourism Authority of Thailand, was established in 1959, along with the Board of Economic Development and the Board of Investment.

Since the tourism sector is considered important, it is part of the National Economic Development Plan. Thailand's First and Second National Economic Development Plans (1961-1971) focused primarily on investment in basic infrastructure; emphasis was placed on hydropower projects,

road construction, and irrigation works. The Third Plan (1972-1976) introduced the need for social development, but tourism was not mentioned explicitly until the Fourth Plan (1977-1981). During this period, tourism was considered, first and foremost, a major means of earning foreign exchange. The Fourth Plan targeted an increase in the number of international tourists from 1.4 million in 1977 to 2.2 million by 1981. To achieve this goal, it called for making tourism sites, human resource development for tourism-related industries, and participation of local communities the priorities.

The Fifth Plan (1982-1986) further stressed the need to utilize incoming tourism as a foreign exchange generator. This Plan recognized the effect of outbound tourists on the national economy and called for measures to reduce the number of Thais touring abroad. It also recognized the environmental effects of tourism for the first time and emphasized land-use and building controls as necessary measures to prevent further negative impacts.

The period of the Sixth Plan, spanning 1987 to 1991, was one of high and sustained growth in Thailand. TAT launched a highly successful "Visit Thailand Year" international campaign in 1987. The Seventh Plan (1992-1996) was formulated and implemented at the height of Thailand's economic boom. Two major strategies were proposed: the promotion of Thailand as a regional tourism centre for Indochina and the restoration and conservation of tourism resources.

The latest, Eighth Plan adopted a more integrated and bottom-up approach for the planning and design process. It stressed three major strategies: increased international competitiveness, human resource development, and environmental conservation. It no longer identified measures for each sub-sector and as a result, several government agencies have resorted to a Sectoral Master Plan as a guiding policy document.

The ten years spanning Thailand's Sixth and Seventh National Economic and Social Development Plans (1986-1996) can be referred as the "Golden Age of Thai Tourism." While the rapid growth of tourism income during this period is certainly not solely due to government policies and the "Visit Thailand Year" campaign, the 1987 marketing strategy did enhance the labor-intensive component of the tourism sector. The overall increase in tourism income can be attributed to a

[3] For more details on individual National Development Plans, see Kaosa-ard (1998), pp. 22-28.

number of factors. First, the world economy was expanding at a high rate which contributed to greater purchasing power. Second, Thailand was recognized around the world as approaching the status of a Newly Industrialized Country (NIC). Expanded trade and foreign investment also attracted tourists to the country. Finally, in the mid 1980s, Thailand's production structure underwent a dramatic transition from being based on an abundance of natural resources to one based on abundant labor supply.

Crisis in the Thai tourism sector

As demand for tourism goods and services has not been matched by an appropriate increase in infrastructure, tourism products and services in Thailand have become degraded and are losing their attractiveness. Moreover, the spread of "zero dollar" tours and cutthroat competition has driven Thailand into a low-price trap and a vicious cycle of low-cost, low-investment, and low-value tourism. As a result, Thailand has gained an image that as a cheap destination. Interestingly, a study of 28 international markets revealed that in 18 markets Thailand's advantage in tourism declined from 1995 to 2000 (Kaosa-ard, 2001). This decline involved some important markets such as Malaysia, Germany, Spain, Italy and Belgium. It could be explained by greater competition or product degradation, or both.

It is not very evident at present that the Thai tourism sector is gradually entering a silent crisis brought about by over-utilization and mismanagement of tourism resources. However, the pressing issues concerning tourism can be divided into two broad groups, namely, maximizing income from tourism and solving the prolonged management problem that led to resource degradation.

The way to increase income from tourism significantly and quickly without more capital investment is to promote tourism during the green (rainy) season. It is possible to market the wet season with more flexible touring arrangements. Thailand could also attempt to expand into high-value markets as well as to attract more first time tourists.

To solve the second problem of resource degradation, "Sustainable Tourism" must be promoted as an item on the national agenda and is a national goal in the Ninth Economic and Social Development Plan. A new concept such as cluster development, which involves collective action by

the public and private sectors to achieve a shared version, must be introduced. Greater investment must be made in knowledge and IT related to the tourism sector to ensure sustainability with continual improvement in quality.

Action Plan for Sustainable Tourism

For successful implementation of tourism-related policies, TAT unveiled its tourism action plan for 2003. There are two main categories of action plan prepared under the national agenda for sustainable tourism: promotion and expansion of the tourism market and promotion of sustainable tourism in Thailand.

Promotion and expansion of the tourism market

To promote Thailand as a "Quality Destination", the plan will aim at high-quality tourism, with special emphasis on eco-tourism, such as by encouraging tourism in the rainy season, especially to travelers from semi-arid areas. It will also emphasize specific market segments, such as woman tourists and tourists travelling with their families, particularly from Japan, China, and the Middle East. Moreover, campaigns are also planned for high-return and high-quality markets such as MICE, health tourism, and marriage-related travelers such as weddings, honeymoons, and anniversaries. In addition, TAT will launch a campaign to urge Thais to travel within their country and to target "home-coming" visitors, especially Thais living overseas in developed countries, to come back home. Highlights of two targeted markets are described below:

Meetings, incentives, conventions and exhibitions (MICE).

The MICE market is composed of two main markets—conventions and incentive travel, which is more closely related to leisure travel. The International Congress and Convention Association anticipated that the global revenue generated by MICE travel would total more than US$280 trillion in 2000. For each dollar spent on MICE activities, the convention venue gains approximately 10 cents, with the remaining 90 cents going to other related activities, such as transportation, accommodation, and shopping. According to the ICCA study the United States is the most popular place for organizing MICE and has the largest number of MICE activities in the world market. It ranked Thailand 24th globally and fifth in the Asia Pacific region, behind Australia, Japan, South

Korea, and Israel.

The contribution of MICE industry to the tourism sector in Thailand is still low. From 1996 to 2001, MICE tourists accounted for about three percent of total inbound tourists every year and about five percent of revenue generated (Table 8). The market has grown remarkably during last few years, however, bringing 335,390 visitors to Thailand in 2001 compared to only 214,169 in 1996. The income generated by the MICE industry has more than doubled from 11 billion baht in 1996 to 26 billion baht in 2001.

TABLE 8
Number of Visitors and Revenue from MICE Industry, 1996-2001

	1996	1997	1998	1999	2001
Numbers					
International tourists (thousand persons)	7,192.1	7,294.0	7,764.9	8,580.3	10,133.0
MICE tourists (thousand persons)	214.2	205.3	202.,2	237.9	335.4
MICE share of total international tourists (%)	2.98	2.82	2.60	2.77	3.31
Revenues					
Total tourism sector revenue (million baht)	219,364	220,754	242,177	253,018	301,126
MICE industry revenue (million baht)	10,755	10,269	11,271	13,241	26,164
MICE share of total tourism sector revenue (%)	4.90	4.65	4.65	5.23	8.68
MICE industry revenue per tourist (baht/person)	50,217	50,009	55,732	55,670	55,657

Note: MICE industry revenue excludes revenue gained from accompanying persons.
Source: Tourism Authority of Thailand.

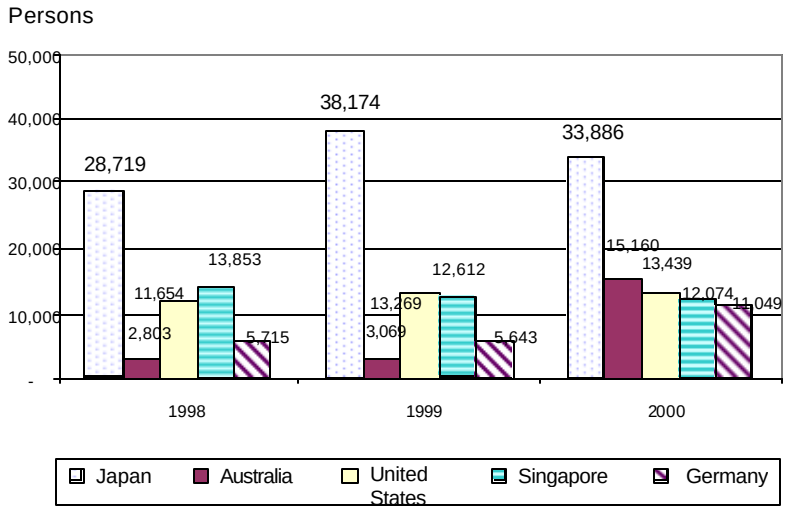
More than 50 percent of MICE tourists are Overseas Incentive Travelers, who whose trip is a reward for good performance or achieving set targets (Table 9). Japan, Australia and Singapore are the biggest customers of Thailand for incentive travel (Figure 4). The economic slump from 1998 to 1999 in Japan caused the number of incentive travelers to Thailand to decline the following year. With the improvement in the Japanese economy from the end of 1999, incentive travel to Thailand is expected to increase.

TABLE 9
Number of MICE Tourists by Activity

	1993	1994	1995	1996	1997	1998	1999
Association Meeting	24,415	35,911	69,477	51,354	46,312	46,133	77,205
Corporate Meeting	39,402	52,615	69,477	26,188	22,277	20,909	77,205
Incentive Travel	39,646	106,773	112,062	112,762	115,648	118,539	134,605
Exhibition/Trade Show	24,699	11,351	41,601	23,865	21,105	16,652	26,092
Total	128,162	206,650	223,140	214,169	205,342	202,233	237,902

Source: Asia Association of Convention and Visitor Bureaus.

FIGURE 4
Overseas Incentive Tourists in Thailand by Country of Origin



Source: Information Provider and Consultants Co., Ltd.

At present, Thailand is considered a major regional hub for the MICE industry. This is not only because of the many modern convention/exhibition centers and four- and five-star hotels that can accommodate large group meetings, but also to the strong promotion by the government. The Thai government recently established the Convention and Exhibition Bureau (CEB) to provide consultancy and advisory services as well as research and statistics to member companies. The CEB is expected to help boost competitiveness through training courses and to coordinate the development of the MICE business with public and private agencies.

A first step in promoting Thailand as a venue for international conventions and exhibitions will aim for moderate-sized events with no more than 10,000 participants. The promotion will focus on existing, well-known tourist centers, such as Bangkok, Pattaya, Chiang Mai, and Phuket. Some athletic stadiums and convention centers in major provincial educational institutions will be improved to serve temporary needs.

Although, the MICE industry has been promoted and has developed to some extent, a survey conducted by Information Provider and Consultants (2000) revealed four negative factors inhibiting the development of MICE industry in Thailand:

1. Several countries in the Asia-Pacific Region have emerged as competitors, becoming

aware of the potential of MICE tourism and improving and developing their convention premises and facilities. For example, China and Singapore have expanded airports to facilitate the tourists.

2. The transportation system in Thailand is inconvenient for foreign tourists. The government needs to build a more convenient transportation network that links all modes of transportation to attract tourists.
3. The current global economic slump has affected the budgets of convention organizers and attendees around the world.
4. The global economic problem has also intensified competition in business service for international convention organizations. Several competing countries have tried to support and enhance their international convention organizations through measures to assist the private sector.

Health tourism.

Each year, about 500,000 foreigners come to Thailand for medical care. Some private hospitals admit as many as 100,000 foreign patients a year. Among international tourists visiting Thailand, 10 percent seek medical in addition to tourism services. Such tourists come from neighboring countries, other Asian nations, the Middle East, Europe, and the United States. Other than Thailand, Singapore and Hong Kong are popular centers for healthcare and long stay (Public Relations Department, 2003).

The government has recently announced a policy to develop Thailand, especially Phuket Island, into a health service center for the region (Public Relations Department, 2003). The policy mainly targets long-stay tourists and health services including both medical treatment and cosmetic surgery. Spa service and traditional Thai massage, natural medicine, and herbal products have been cited as examples of areas of development to promote health tourism. Although policy measures to promote health tourism have not yet been formulated, the Ministry of Commerce and the Ministry of Public Health have been working out marketing strategies to promote health services in combination with tourism activities for foreign patients and tourists. They aim to attract up to one million foreign patients by 2005 and bring in between 25 and 30 billion baht a year.

Promotion of sustainable tourism

Beside the expansion of tourism markets into high-value markets, the government also announced the national agenda for "Sustainable Tourism" in the Ninth Social and Economic Development Plan. The Plan is expected to stimulate collective action to solve the problems of resource degradation and to make the public and private sectors coordinate more effectively.

For successful implementation of tourism-related policies, action plans have been prepared under some proposed strategies (Kaosa-ard, 2001):

Strategy for restructuring and administration of the plan.

Under the tourism master development plan, an amended Tourism Act will be introduced as a blueprint for industry development, while a national co-ordinating body will be established to oversee state initiatives and streamline budget allocations across agencies.

The amended Tourism Act will spell out the roles, powers, and duties of various government agencies concerned with the management of tourism. It is recommended that there should be coordinating government agencies to monitor problems related to the management of tourism, and as well as a body to coordinate among various ministries and locals governments to make the management of tourism efficient and sustainable. However, local governments equipped with better knowledge and understanding in planning and managing tourism for the long-term conservation of tourist attractions within their jurisdiction should also be empowered to impose tourism fees, such as island fees.

Strategy for developing information system and electronic commerce.

Today's consumers are better able to differentiate tourism products based on information accessed through information technology and especially the Internet. TAT will establish a comprehensive information system on tourism in Thailand to serve both entrepreneurs and tourists. Moreover, it will also provide links to information systems in competing countries, alliances, and major markets of the Thai tourism industry to enhance potential competition for general and niche markets.

TAT is planning to increase the volume of electronic information by initiating on its website comprehensive content and effective marketing channels that help tourists and create marketing opportunities for tourism enterprises that want to join the TAT e-commerce project. For example, it will introduce specific web pages for Thai SMEs, for business travelers, and for tourist packages, and it will add an on-line guidebook.

Strategy to develop tourist communities and SME entrepreneurs in the tourist industry.

A special characteristic of the tourism industry in Thailand is the large number of small- and

medium-sized enterprises. But a large number of SMEs also implies a high level of competition. Cost-reduction will be a crucial strategy for each enterprise but it may be a negative factor for long-term, sustainable tourism. Therefore, the strategy for SME-development in the future will aim at both cost-reduction and promotion of innovation. Accordingly, a cluster of tourism businesses will be promoted, be evaluated the productivity and innovation capacity of the group. Data and technical assistance will be provided to small enterprises, coupled with human resource development in service provision. In addition, the establishment of community-based tourism will be promoted via participation and proper planning (Kaosa-ard, 2001).

Strategy to use tourism to promote a learning society.

Tourism can be a more effective mechanism than classroom teaching to stimulate young people and other citizens to become aware of their ancestors, their national history, and their cultural heritage. Measures to raise the population's level of knowledge and consciousness about cultural heritage are not only important for long-term resource- and environment-preservation, but also supplementary for a learning opportunity in various forms, namely, self-learning, learning about traditional wisdom, as well as gaining tourism management know-how.

CONCLUSION AND POLICY IMPLICATIONS

Tourist arrivals seem to be a widely used indicator of a country's inbound tourism industry, but the health of the industry does not depend only on the number of tourists. Tourism's contribution to the host country is also affected by the amount of spending tourists do. Recently, daily expenditure by tourists in Thailand, which is a direct measure of revenue per tourist, has shown a declining trend due to a falling relative price. A possible reason is that the cost of tourism in Thailand is relatively low. Investigation into certain categories of tourist spending indicated high competition in the hotel industry, abundant supply and proliferation in the restaurant industry, and cheap and competitive local transportation services. The large public investment in an extensive network of roads and highways not only has provided access to the major tourist attractions, but also has helped reduce travel time and cost. Since the markets are likely to be competitive, whether it is intended or not, the government should neither worry nor adopt any intervening measures. At least, competition in the

Thai tourism industry is likely to sustain the growth of total receipts in local currency. Still, government should take actions to boost daily spending by tourists.

An intuitive action is to induce tourists from high-income countries. A supplementary action comes from the finding that overseas tourists do not tightly constrain their daily expenditure while staying in the Kingdom. Given this unconstrained budget, more activities and attractions should be encouraged. A policy to become a fashion hub may contribute to extra spending. Niche markets are also worth pursuing. Becoming an international convention center is achieved not only by adding an airport but also by building a convenient transportation system. The distribution of benefits and costs of programs should be considered seriously, for example, because a program to encourage health tourism may constrain medical services to the local population. In effect, any policies aimed at inducing extra spending by tourists should receive careful consideration, because the health of the industry depends on the net contributions of foreign tourists to the host country, not on tourist expenditure per se.

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