

Thailand's political crisis: What it means for ASEAN tourism

Rough guides to the economic effects of tourism

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Ongoing political turmoil in Thailand is obviously having significant and varied consequences on the economy. In this report, we consider the potential impact on Thai tourism – a key driver of exports and economic growth in recent times. At the same time, we examine the potential spillover on tourism in other ASEAN countries, while discussing the associated economic and market implications.

- **Revising up our 2014 Malaysia's GDP and current account forecasts, while highlighting downside risks to Thailand's numbers.** We have raised our Malaysia's real GDP growth forecast to 5.3% from 5.0% earlier, and current account surplus projections 3.3% of GDP from 2.8% previously (3.8% in 2013). In Thailand itself, we estimate that the negative shock to tourism this year could shave around 0.6pp from real GDP growth and have incorporated this into our recent 2014 GDP growth downgrade to 2% (from 3%). The impact on GDP growth and current account will likely be relatively small in Indonesia and Singapore.
- **Thai tourism sector is more exposed to mainland Chinese and Hong Kong tourists than before.** These tourists appear to be more sensitive than others to political turmoil and now account for around 20% of total visitor arrivals in the country, compared to 8-9% just a few years ago. We have already seen a notable drop in arrivals from China even before the political situation worsened in the early part of this year.
- **Thai political turbulence is a bane to Thai and Singapore tourism, but potentially a boost to Malaysian and Indonesian tourist arrivals.** Our analysis suggests that visitor arrivals in Malaysia and, to a lesser extent, Indonesia enjoyed a statistically significant lift during political unrest in Thailand. On the contrary, Singapore's tourist arrival growth tends to suffer during these episodes.
- **Visit Malaysia Year (VMY) 2014 also helping Malaysia but could hurt Singapore and Thailand visitor volume.** We also find that previous VMYs provided a major lift to Malaysian tourist arrivals, while sapping volume growth to Singapore and especially Thailand, other factors being equal.
- **Malaysia tourism looks most promising in 2014 among key ASEAN destinations, followed by Indonesia, Singapore and Thailand.** Our statistical models suggest Malaysia's tourist arrivals will gain strongly in 2014 due to: 1) VMY, 2) depreciation of the ringgit, and 3) political turmoil in Thailand. In contrast, we did not find the exchange rate to be a statistically important driver of Thai tourist arrivals, while it will be negatively affected by the two other factors.
- Our fixed income team remains cautious on MYR and THB as well as Malaysian rates but more constructive on Thai duration. We also summarise our equity strategists' views on areas that are likely to benefit/lose from this tourism theme.

DISCLOSURE APPENDIX AT THE BACK OF THIS REPORT CONTAINS IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS.

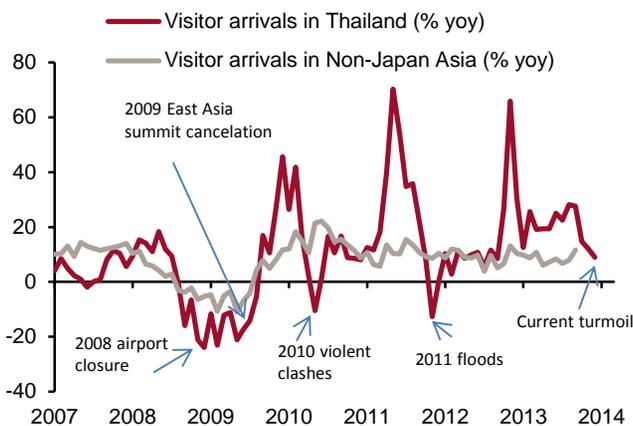
Thailand's political turmoil: Tourism strain, growth pain

We have previously written about the impact of Thailand's political problems on the economy in [Focus Asia \(1Q 2014\): High conviction calls for 2014](#), 22 January. In this note, we focus specifically on the impact of the political situation on tourism –a key driver of exports and economic growth in recent times.

Tourism sector in Thailand is known for its resilience..

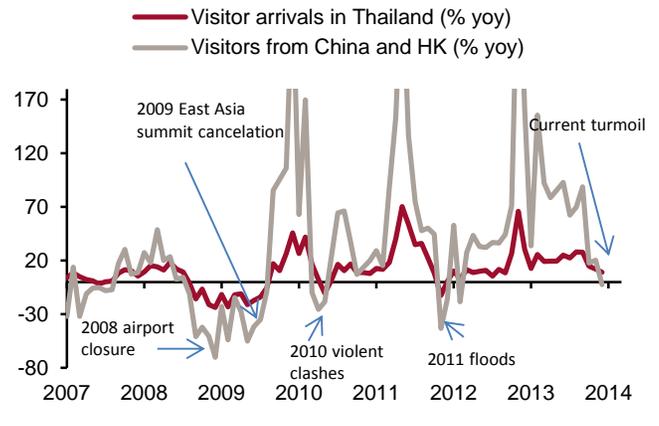
Thailand's tourism sector has seen no shortage of major negative shocks in the past decade and is well known for its remarkable resilience. Historically, the growth of visitor arrivals has tended to rebound strongly, following a major collapse during periods of political turbulence (Exhibit 1). In addition, during 'normal' periods, tourist arrivals in Thailand usually grow faster than the Non-Japan Asia average, allowing Thailand to expand its market share relative to other Non-Japan Asian countries despite frequent turbulence.

Exhibit 1: Despite numerous negative shocks to tourism, Thai visitors arrivals tend to bounce back strongly, outgrowing the region



Source: CEIC, Credit Suisse

Exhibit 2: Chinese tourist arrivals, which have become more important in recent years, tend to be particularly volatile



Source: CEIC, Credit Suisse

... but there are causes for concern about tourism growth in 2014

History shows that tourists from China and Hong Kong have been the most sensitive to political turmoil and natural disasters (e.g. 2011 floods), driving much of the volatility in overall tourism growth (Exhibit 2). This is particularly important in the current context for two reasons. First, this group has become more important to Thailand in recent years, now accounting for around 20% of total visitor arrivals in the country, compared to 8-9% back during 2008-2010 when the country experienced several rounds of political shocks. Secondly, data for December 2013 already showed a collapse in Chinese and Hong Kong visitor arrivals, even before the current political crisis intensified earlier this year. Our Thai equity strategist and in-house political analyst Dan Fineman also expects the political situation to remain jittery in coming months.

Lastly, 2014 is a "Visit Malaysia Year" (VMY), when the Malaysian government invests heavily to promote tourism, potentially drawing tourists away from Thailand and other ASEAN countries. The previous VMY in 2007 resulted in a significant surge in tourist arrivals in Malaysia, seemingly at the expense of Singapore and Thailand (we discuss this issue in more detail in the next section).

Partly for these reasons, our Thai tourism sector analyst Thaniya Kevallee has already highlighted the risk that, if political instability lasts for most of this year, the volume of visitors may stay roughly flat in 2014 versus a projection of 7.5% yoy growth earlier.

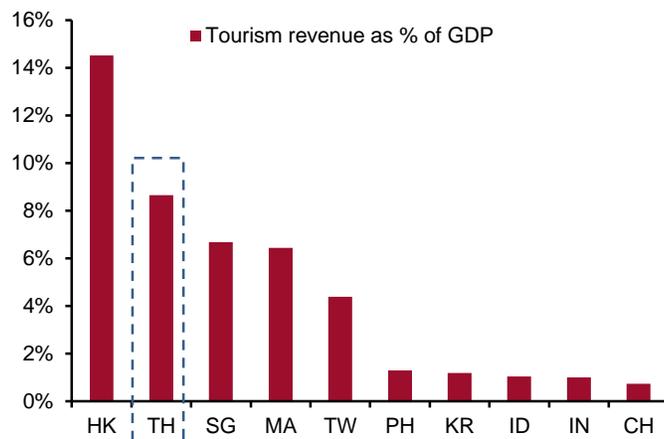
Thai economy had also become more dependent on the tourism sector

More importantly, we have been highlighting that given the dire private consumption growth outlook and lukewarm exports, the Thai economy has become more dependent on tourism revenue (*Focus Asia 1Q 2014*, 22 January). In fact, now the share of tourism revenue as a percentage of GDP in Thailand is the second highest in the region after Hong Kong (see Exhibit 3), while the share of tourism receipts in total exports of goods and services is already the highest in Non-Japan Asia (Exhibit 4). Roughly speaking, a decline in tourist arrivals of 1 mn would shave about 0.4% from GDP growth and 0.5% from exports of goods and services, holding all other factors fixed.

Based on this, our tourism sector analyst’s view would imply a 0.6 and 0.7 percentage point (pp) reduction in 2014 GDP and overall export growth forecasts, respectively. We have incorporated this risk in our recent GDP growth downgrades to 2% (from 3%; versus the consensus of 3.2%). We also see some downside risk to our 2014 current account forecast of 0.5% of GDP, although weak import growth will likely help cushion some of the hit from tourism.

Exhibit 3: Tourism revenue is particularly important for Hong Kong, Thailand, Singapore and Malaysia’s economies

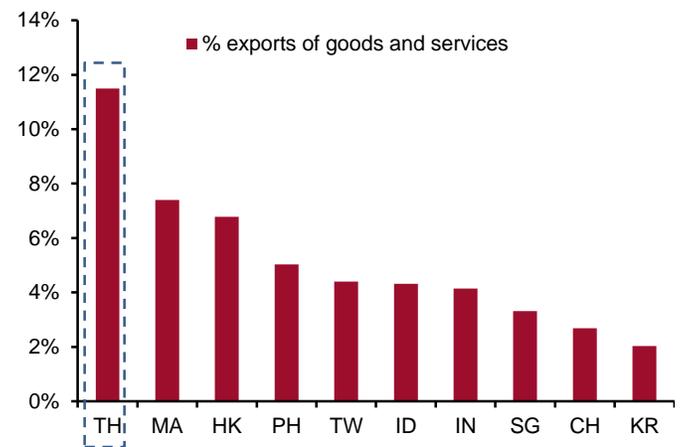
2012 data except for China and Philippines where the latest data available = 2011



Source: CEIC, Credit Suisse

Exhibit 4: Tourism receipts are a major contributor to the export of Thailand, Malaysia, and Hong Kong

2012 data except for China and Philippines where the latest data available = 2011



Source: CEIC, Credit Suisse

Spillover impact on other ASEAN economies: Where will the tourists go instead of Thailand?

Substitutes or complementary?

We now turn to the potential effects weaker Thai tourism will have on neighboring ASEAN countries, which are major players in tourism, judging from the regional market share (see Exhibit 11). For this reason, we focus our analysis on Indonesia, Malaysia, and Singapore.

Negative shocks to the tourism sector in Thailand could have two types of spillover effects on other ASEAN countries.

1. **Substitution effects.** Some tourists might choose to go to other locations such as Malaysia instead of Thailand, so negative events for tourism in Thailand could boost visitor arrivals in other countries.
2. **Complementary effects.** On the other hand, certain countries might be viewed by visitors as ‘complimentary’ to Thailand, and so canceling trips to Thailand could also result in dropping the trip to these locations.

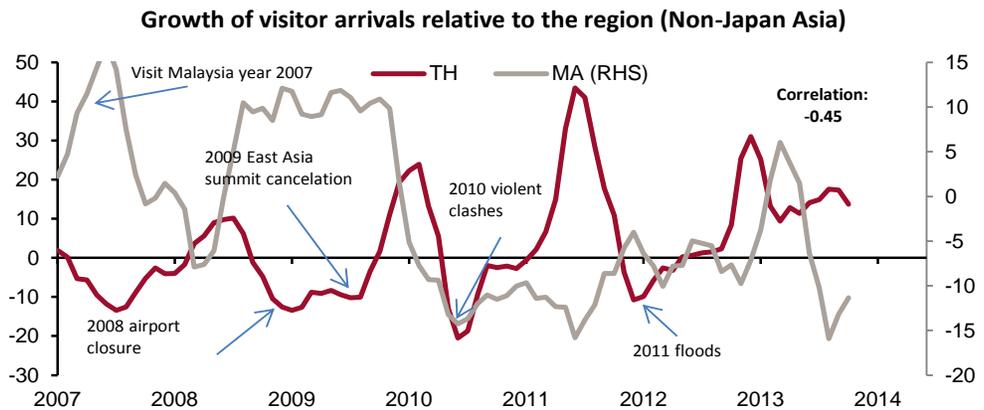
Malaysia and to a lesser extent Indonesia will likely get a boost in visitor arrivals ...

History suggests Malaysia, and to a lesser extent Indonesia, generally benefit from the substitution effects, while Singapore appears to suffer from complementary effects from a negative tourism shock in Thailand.

To focus on countries' relative tourism performance and remove the common global influences (e.g. impact of changes in global income growth), we subtracted from each country's visitor arrival growth, the Non-Japan Asia regional average growth rate. We then plot the relative performance of Thai tourism growth with that of other countries to examine if there is any discernible relationship. Exhibit 5 to 7 illustrate the results. Thailand and Malaysia's relative tourism growth tend to move in the opposite direction. Malaysia outperformed the region whenever Thailand's tourism sector experiences negative shocks, with the exception of the 2010 Thai street violence episode, which coincided with the opening of the Marina Bay Sands Casino in Singapore. The correlation between the two series is -0.45. We also find similar, albeit somewhat less stark anti-cyclical pattern between the relative tourism performance in Indonesia and Thailand, with the correlation between the two series -0.34.

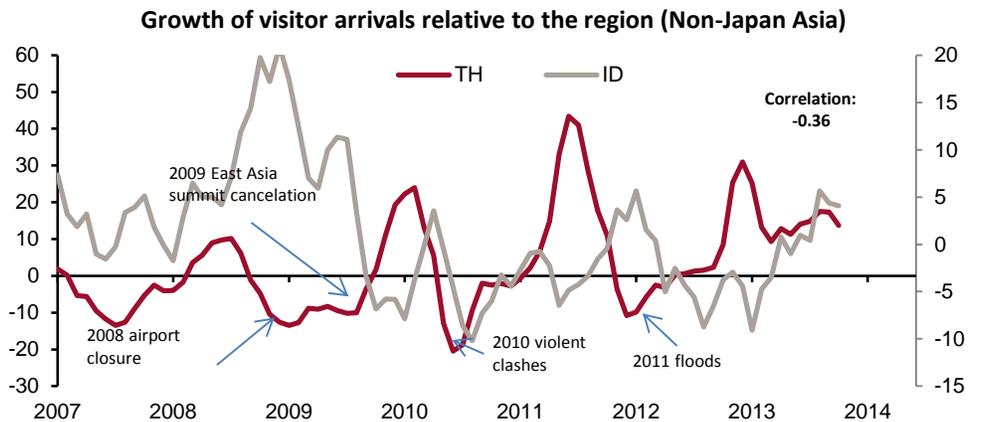
Exhibit 5: Thailand and Malaysia tourism sector performance historically tended to move in the opposite direction

To focus on countries' relative tourism performance and remove the common global influences (e.g. impact of changes in global growth), we subtracted from each country's visitor arrival growth, the Non-Japan Asia regional average.



Source: CEIC, Credit Suisse

Exhibit 6: The same went for Thailand and Indonesia, albeit to a lesser extent

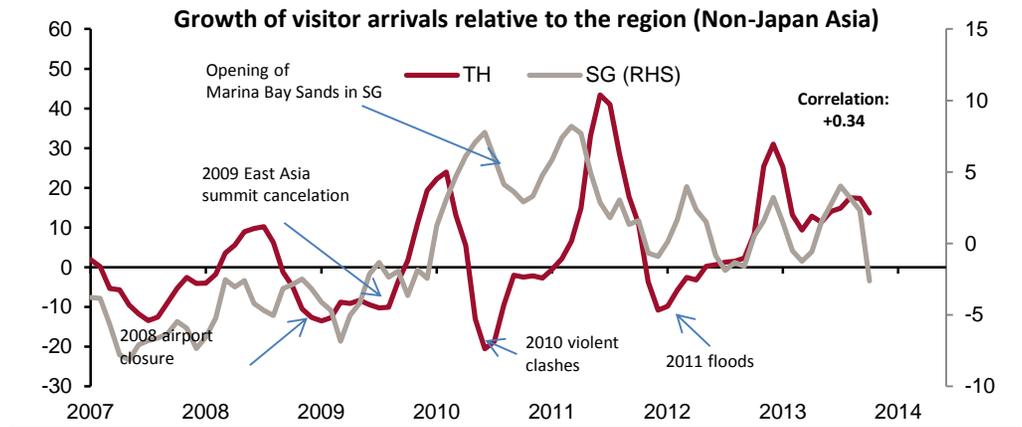


Source: CEIC, Credit Suisse

... while Singapore tourism could be negatively hit by the situation in Thailand

In contrast, we found that relative tourism growth in Singapore tends to correlate positively with that of Thailand, suggesting that when Thai visitors arrivals underperform the region, Singapore tends to suffer a similar fate (to a smaller extent). One important exception was in 2010, when the street violence in Thailand coincided with the opening of the Marina Bay Sands Casino, which likely boosted Singapore’s tourist arrivals significantly (Exhibit 7). This Singapore-specific event could also explain why Malaysia and Thailand underperformed the region at the same time in 2010, breaking from their usual pattern as discussed earlier.

Exhibit 7: Meanwhile, Singapore and Thailand tourism growth is positively correlated, with the notable exception of 2010



Source: CEIC, Credit Suisse

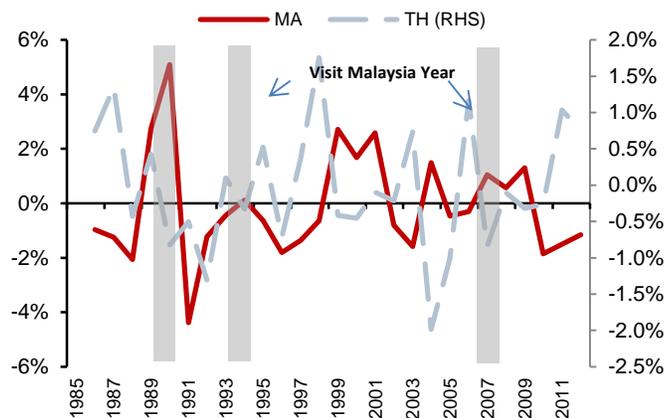
Another factor to watch – Visit Malaysia Year 2014

More visits to Malaysia in 2014 ...

As noted in our Malaysia equity strategist Tingmin Tan’s report [Tourism boom in 2014: Visit Malaysia Year and weak Ringgit](#) (October 2013), VMY tends to give a large boost to tourism arrivals in Malaysia, with over 200 events organized. Our equity team noted that previous VMYs in 2007, 1994 and 1990 saw tourist arrivals up by 19%, 11% and 54% respectively (vs long-term CAGR of 8%). It is also worth noting that the government is targeting 36 mn tourist arrivals (CAGR of 4.7%) and RM168 bn tourist receipts (CAGR 13.6%) by 2020, under the Malaysia Tourism Transformation Plan.

Exhibit 8: Historically, VMY boosted Malaysia visitor volume but at the expense of tourist arrivals in Thailand

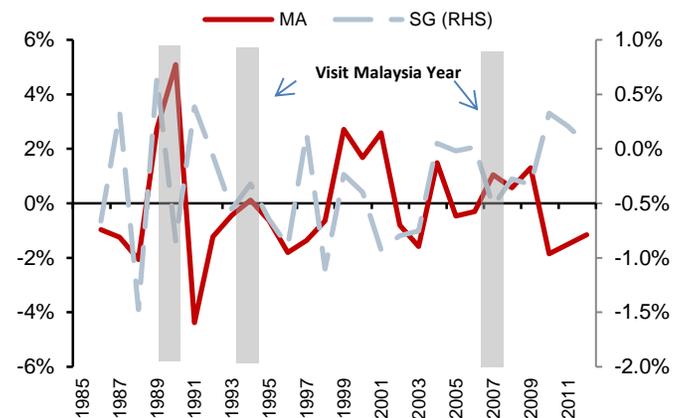
Percentage point change in the market share of tourist arrivals within NJA



Source: CEIC, Credit Suisse

Exhibit 9: Similar patterns also observed for Singapore

Percentage point change in the market share of tourist arrivals within NJA



Source: CEIC, Credit Suisse

... means less visits to other ASEAN countries?

However, the VMY scheme appears to have some negative impact on Singapore and Thailand. Exhibit 8 and 9 show the percentage point change in the market share of tourist arrivals of these economies during the previous three VMYs. While Malaysia’s market share rose temporarily during the three episodes (especially during the 1990 VMY), Thailand’s market share dipped on all three occasions. Singapore’s share also appeared to suffer during the 1990 and 2007 episodes, but not the 1994 VMY. In contrast, we did not find any evidence that previous VMYs hurt Indonesia’s market share.

Which ASEAN country's tourism sector looks most promising in 2014?

Exhibit 10: Drivers of tourism growth –summary of the key regression results

Ns = not statistically significant; + = statistically significant positive relationship; ++ = highly statistically significant positive relationship; All variables in YoY change; sample period 2001-2012

Drivers of /Events affecting tourism arrivals	TH	MA	SG	ID
NJA visitor arrival growth	++	++	++	++
Inflation-adjusted trade weighted exchange rate	ns	-	ns	-
Airport closure 2008 in Thailand	--	++	ns	++
Cancellation of the East Asia Summit 2009 in Thailand	--	++	-	ns
Violent clashes in 2010 in Thailand/Opening of Marina Bay Sands in Singapore	--	--	++	+
Thai floods 2011	--	ns	-	++
Visit Malaysia Year 2007	--	++	--	ns

Source: Credit Suisse

To examine the significance, in a statistical sense, of our findings, we constructed a simple regression models to analyze tourist arrival growth in the main tourist destinations in ASEAN (Indonesia, Malaysia, Singapore and Thailand). The model for each country has the same basic structure – tourist arrival growth is a function of: 1) the common regional trend, 2) the inflation-adjusted trade weighted exchange rate and 3) dummy variables for the key events including Thai political turmoil episodes and VMY in Malaysia. The first variable is included to capture common factors that are affecting tourism for the whole region (e.g. global economic growth). We present the outcomes in Exhibit 10.

The results support our earlier findings and can be summarized as follows:

- Negative shocks to tourism in Thailand tend to have a statistically significant positive impact on tourist arrivals in Malaysia and, to a lesser extent, Indonesia. Meanwhile, they appear to have small but still statistically significant negative impact in Singapore.
- Visit Malaysia Year has a statistically significant negative effect on visitor arrivals in Singapore and Thailand, but not in Indonesia.
- Exchange rate movements appeared to play a statistically significant role in driving visitor arrivals in Malaysia and Indonesia but not in Singapore and Thailand.

Implications for the economies and markets

Revising up GDP growth and current account surplus in Malaysia; downside risks to our Thailand GDP and current account forecasts.

We highlight three key implications for the ASEAN economies report.

1. **Malaysia upgrades.** Tourism in Malaysia will likely get a major boost from VMY 2014 as well as the *positive* spillover impact from political turbulence in Thailand. Partly for this reason, *we have revised upwards our 2014 real GDP growth forecast to 5.3% from 5% earlier, and 2014 current account surplus projections to 3.3% of GDP from 2.8% previously (versus 3.8% in 2013).* This is based on our expectation that tourist arrival growth will accelerate from around 4% last year to double digits this year. Strong tourism growth, together with the anticipated pick-up in merchandise exports from a global recovery, should provide a boost to both overall exports of goods and services and GDP growth this year.
2. **Downgrade to Thailand's GDP projections.** Partly based on these findings, we have incorporated this risk in our recent GDP growth downgrade to 2% (from 3%; versus the consensus of 3.2%). We also see some downside risk to our 2014 current account forecast of 0.5% of GDP, although weak import growth will likely help cushion some of the hit from tourism.

- 3. Small risk surrounding Indonesia and Singapore projections.** While the analysis above suggests VMY and Thai political turmoil will likely have some negative impact on Singapore tourism and positive effects on Indonesia visitor arrivals, the effects on GDP and current account balance should be limited. In Singapore's case, this is because the estimated magnitude of impact from these two shocks on tourist arrivals is relatively minor. In Indonesia's case, tourism sector revenue as a percentage of GDP is relatively small.

Implications for rates and FX: Our fixed income team remains cautious on THB, MYR, and Malaysian rates but constructive on Thai duration

Macroeconomic conclusions from this report further support our rates strategist, Ashish Agrawal's views. He remains constructive on duration exposure in Thailand given the favorable combination of slow growth, low inflation, an accommodative central bank and potentially reduced bond supply. He also continues to be bearish on duration in Malaysia given expectations of policy tightening as a result of rising inflation. The markets huge dependence on foreign demand also keeps it vulnerable in an environment where investors are generally reducing exposure to duration.

Our FX team continues to position for THB underperformance near term given political stress and downside risks to growth. Although weak domestic demand is working to depress imports and limit the negative impact on the current account from a fall in tourism revenue, prolonged political uncertainty will likely increase the incentive for capital flight, asserting upward pressures on USDTHB.

For Malaysia, they expect the ringgit to find some support in the near term On the basis of the anticipated better growth and current account dynamics as well as BNM intervention. However, high foreign ownership of Malaysia's local currency debt will continue to leave MYR exposed to bouts of sell-offs in US rates.

Implications for equities: Our country equity strategy teams see the Malaysian tourism sector benefiting from the developments we discussed above, while they are cautious on the Thai tourism sector's outlook in the short run

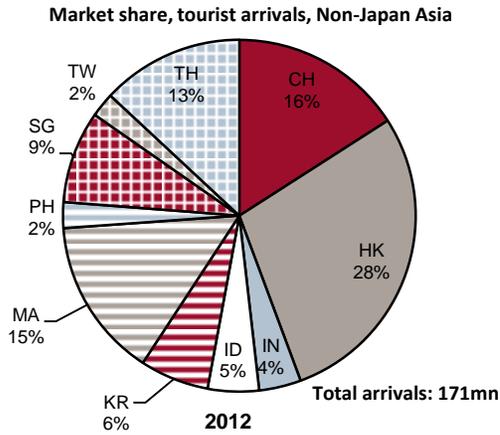
In addition to the cyclical tailwinds for tourism in Malaysia highlighted above, our Malaysia equity strategy team also highlights that the country should benefit from the following positives: (1) KL was voted the fourth best shopping city in the world for two consecutive years (CNN). (2) Malaysia was the tenth most visited country in the world in 2012 (United Nations World Tourism Organisation). (3) tourist arrivals from China are rising 25% YoY. (4) Three of the world's largest shopping malls are in Malaysia - One Utama, Mid Valley then Sunway Pyramid – all situated in the Klang Valley.

Our Malaysia equity research team suggests the main beneficiaries of stronger tourist arrivals would be the airports, the airlines, casinos and hotels. Other potential proxies include travel insurance and in-flight catering. Indirect proxies could include retail REITs and medical tourism. For more details, please see equity strategist Tingmin Tan's 18 February 2014 report entitled [Malaysia Market Strategy: Thailand's tourism bane could be a boost for Malaysia](#).

The main impact of weaker tourist arrivals to Thailand would be on airlines, hotels and airports. Nevertheless, our Thai equity strategy team considers tourism Thailand's best *long-term* growth industry. With populations aging, leisure time rising and budget airlines making travel more affordable, they consider tourism a global growth industry, and Thailand has some significant competitive advantages. They consider it to be relatively cheap, with it having a highly developed tourist infrastructure and being close to key growth markets. The Thai tourism sector has tended to recover from shocks within six months, and the team expects a V-shaped recovery as and when the political situation stabilizes. For more details, please see equity strategist Dan Fineman's 7 January 2014 report entitled [Thailand Market Strategy: Short-term downside, long-term value](#).

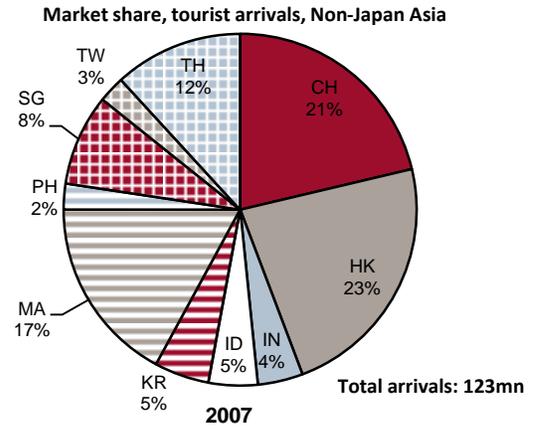
Appendix

Exhibit 11: NJA market share of tourist arrivals 2012



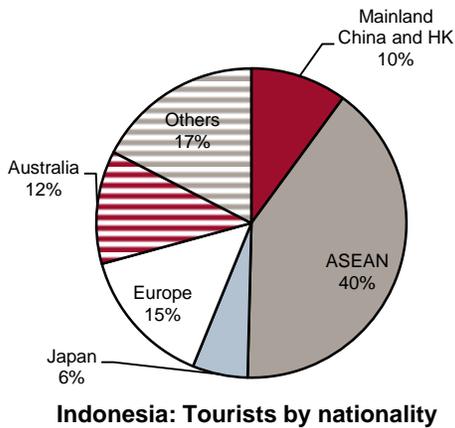
Source: CEIC, Credit Suisse

Exhibit 12: NJA market share of tourist arrivals 2007



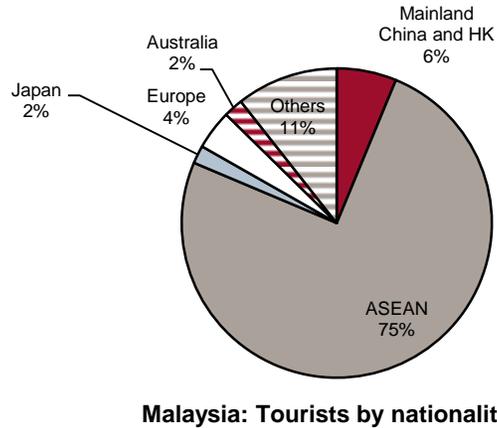
Source: CEIC, Credit Suisse

Exhibit 13: Share of tourists by nationality



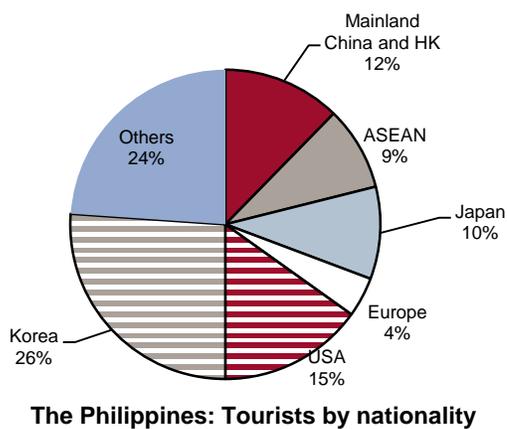
Source: CEIC, Credit Suisse

Exhibit 14: Share of tourists by nationality



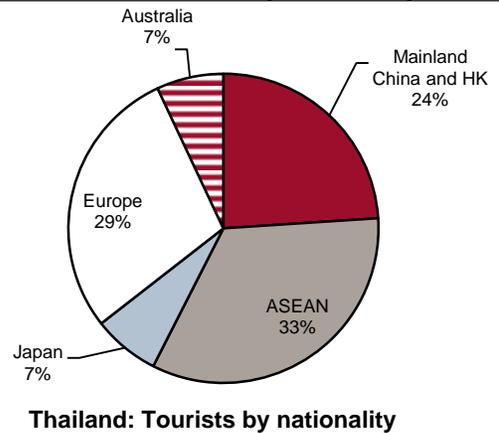
Source: CEIC, Credit Suisse

Exhibit 15: Share of tourists by nationality



Source: CEIC, Credit Suisse

Exhibit 16: Share of tourists by nationality



Source: CEIC, Credit Suisse

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Disclosure Appendix

Analyst Certification

I, Santitarn Sathirathai, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

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