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ASEAN Travel & Hospitality

The Great Tourism Drive



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Executive Summary

- ✘ **Travel and tourism sector is a significant contributor to ASEAN's GDP and GDP growth.** Travel and tourism accounted for 12.4% of ASEAN's GDP in 2015, according to the World Travel & Tourism Council (WTTC), compared with an average of 8.5% in Asia Pacific and 9.8% globally. The ASEAN Tourism Strategic Plan (ATSP) targets tourism to make up 15% of ASEAN GDP by 2025 and to account for 7% of total employment, from 3.7%.
- ✘ **Thailand to remain ASEAN's tourism crown jewel.** Tourism directly and indirectly accounted for over 20% of Thailand's GDP in 2015, accompanied by a 20% year-on-year (y-o-y) increase in international tourists to 30 million. In the first quarter of 2016, international arrivals rose by more than 15% y-o-y, heralding another strong year for Thai tourism. Over the longer term, Thailand's strength as a tourist destination with multiple cultural attractions, coupled with strong government support for the sector, means that it should continue to shine as a tourism play.
- ✘ **Room to improve in the rest of ASEAN.** With the exception of Myanmar (5.9%) and Brunei (7.4%), tourism accounts for at least 10% of total GDP for the other ASEAN nations. We believe that Malaysia, Indonesia, and the Philippines have room to boost tourism's contribution to their economies, by easing visa requirements further and/or through increasing support, promotions, and infrastructure for tourism in their respective countries. Meanwhile, Singapore continues to innovate, especially on new attractions and events, to sustain its tourism sector.
- ✘ **Chinese tourists to the fore.** According to the United Nations World Tourism Organization (UNWTO), the number of China's total outbound travellers rose 10% y-o-y to 128 million in 2015, while their spending jumped 25% y-o-y to US\$292 billion. For the first three months of 2016, Chinese arrivals increased by 29% in Thailand, 47% in Singapore, and 35% in Malaysia, indicating firm growth momentum.
- ✘ **Multi-pronged efforts to lure Chinese tourists.** Thailand continues to be a role model for efforts in attracting tourists to its shores. These include a) building quality attractions and promoting culture, b) relaxing visa requirements, and c) improving connectivity and infrastructure, i.e. its open-sky approach and improved capacity at its airports. Singapore, meanwhile, has a strong track record of coming up with new attractions, e.g. integrated resorts, Jewel Changi Airport, Mandai nature hub, etc. Most ASEAN countries have adopted a number of such measures to attract more tourists.
- ✘ **Rising number of Chinese visitors to ASEAN...** We believe that the number of Chinese tourists visiting ASEAN will continue to grow in the medium to long term, driven by: a) the growing middle class in China and their propensity to travel for leisure, b) ASEAN's attractiveness as a leisure destination and continued efforts by ASEAN governments to attract Chinese tourists to their shores, and c) the proliferation of low-cost carriers (LCCs) and spending on infrastructure to support tourism.

Firm Growth of Tourism in Asia

The Asia Pacific region is now the second most visited and fastest-growing region in the world. Boosted by rapid economic expansion, growing affluence, and a burgeoning middle class increasingly opting for travel as a leisure activity – most notably in China, a key source market – the Asia Pacific region has been one of the world’s most vibrant tourism markets over the past decade.

According to UNWTO, the number of international tourists rose 4.4% y-o-y, or by 50 million, to hit a record 1.18 billion in 2015.¹ The Asia Pacific region and Americas & Europe both reported the strongest growth of 5%, with the former attracting 13 million more international visitors than in 2014.

Diagram 1. World tourism growth (1990-2015)

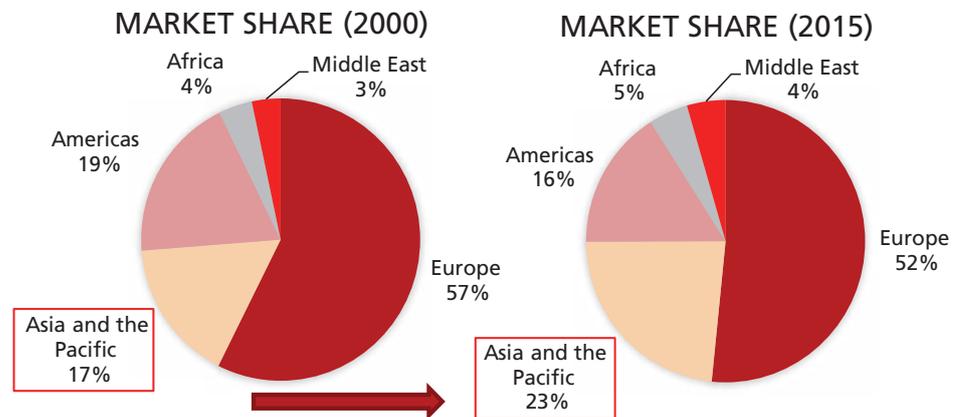


Source: UNWTO

The Asia Pacific region has seen tourism growing firmly at a compound annual growth rate (CAGR) of around 6-7% since 1995. Over 2010 to 2014, the region was the fastest growing at 6.4%, higher than the 4.5% growth reported by the global travel industry. As a result of the sustained growth in international visitors, the Asia and the Pacific region has also seen a 6-percentage-point increase in its market share of global international arrivals to around 23% in 2014 (versus 17% in 2000).

The Asia Pacific region has been one of the world’s most vibrant tourism markets over the past decade

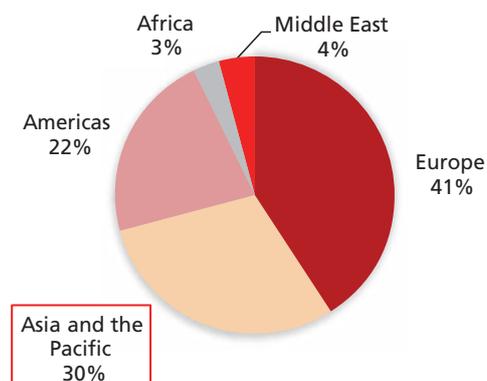
Diagram 2. Market share of global tourism by region



Source: UNWTO, DBS Bank

International tourism receipts grew by 4% y-o-y to US\$1.245 trillion in 2014, with Asia and the Pacific region receiving US\$377 billion (up 4.5% y-o-y), or around 30% of the total. On a per-capita basis, we note that tourists to the region are the second most generous spenders (slightly behind visitors to the Americas).

Diagram 3. Share of international tourism receipts (2014)



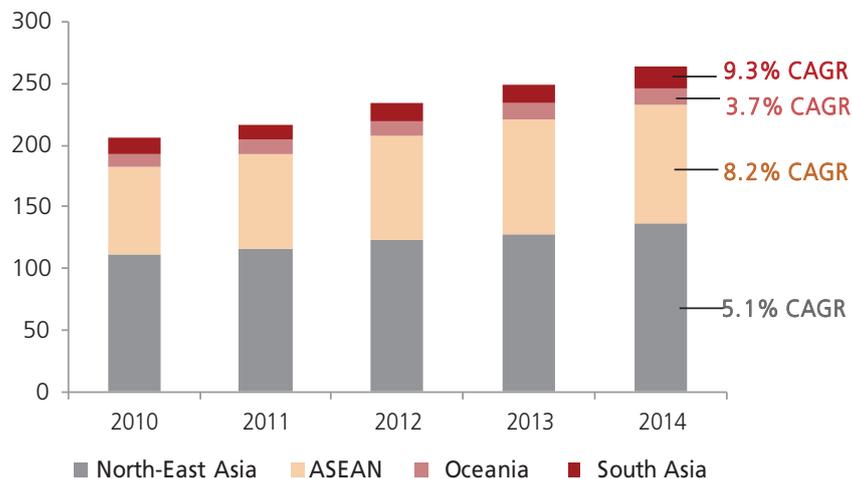
Source: UNWTO

Within the greater Asia and Pacific region, most of the growth in tourist arrivals came from ASEAN and the Northeast. Between 2010 and 2014, international tourist arrivals in ASEAN grew at a CAGR of 8.2%, outpacing the greater Asia and Pacific region's 6.4% CAGR. Northeast Asia also saw a respectable CAGR of 5.1%.

Delivering more than 45% of the growth in tourist numbers for the Asia and the Pacific region, ASEAN's tourism sector warrants a deeper look. We will consider its key source markets in the following segments.

The economic significance of travel and tourism to the ASEAN bloc is indisputable

Diagram 4. Growth of tourism arrivals (2010-2014)



Source: UNWTO, DBS Bank

Travel and tourism sector plays an outsized role in ASEAN's economy. The economic significance of travel and tourism to the ASEAN bloc is indisputable. Based on statistics published by the WTTC, the travel and tourism segment accounted for 12.4% of ASEAN's GDP in 2015 – above the global average of 9.8%.

Diagram 5. Tourism's contribution to ASEAN and selected regions (2015)

Country	Receipts (US\$ bn)	% of GDP
Maldives	2.6	96.5%
Macau	33.2	71.2%
ASEAN	301.8	12.4%
Hong Kong	60.6	19.5%
New Zealand	29.2	17.4%
Australia	132.2	10.8%
China	853.8	7.9%
Japan	326.1	7.9%
India	129.5	6.3%
South Korea	69.5	5.1%
Asia Pacific Average		8.5%
World Average		9.8%

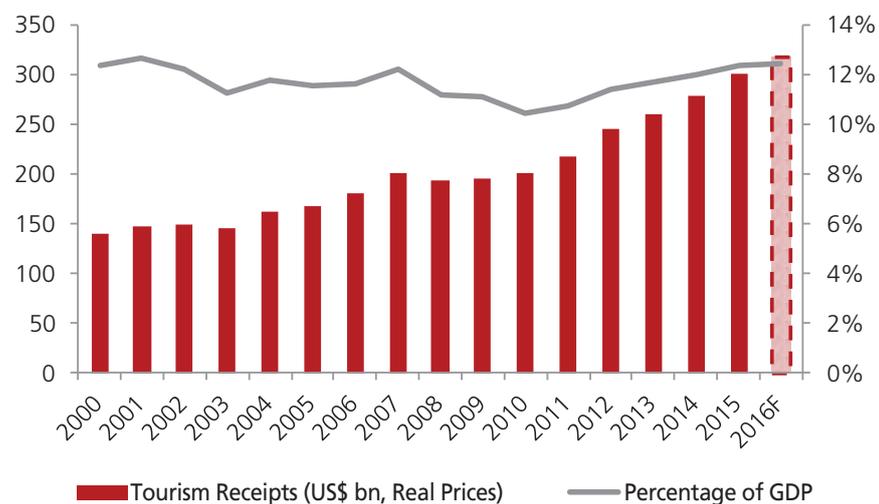
Source: WTTC

Tourism's Importance to ASEAN

A critical growth engine. According to the WTTC, the travel and tourism sector of ASEAN member-states generated US\$301.7 billion in value-add in 2015. In real terms, contributions from ASEAN's travel and tourism sector have almost doubled over the last 15 years, from US\$141.1 billion in 2000 (also representing around 12.4% of regional GDP then).

For 2016, the contribution from travel and tourism is expected to grow 5.2% y-o-y to reach US\$317.3 billion, outpacing the projected 4-4.5% GDP growth for ASEAN in 2016.

Diagram 6. Tourism's contribution to ASEAN's GDP (2000-2016F)



Source: WTTC

Over the last 15 years, Thailand has emerged as the clear leader among ASEAN nations

Economic contributions from travel and tourism grew for almost all member-nations... With the exception of Brunei, which has seen a decline in real tourism contributions over the last 15 years, growth for the other member-states ranged between 4.2% and 12.8% CAGR.

Contributions from travel and tourism grew by an average of 6.5% across ASEAN countries, mainly led by developments in frontier markets Cambodia, Myanmar, Laos, and Vietnam, which grew at 15-year CAGRs of 12.8%, 11.2%, 8.7%, and 8.7%, respectively, as these countries progressed toward more open market structures.

...with Thailand the standout beneficiary of ASEAN's travel boom. Over the last 15 years, Thailand has emerged as the clear leader among ASEAN nations, after registering the highest absolute growth in travel and tourism contributions of US\$44.6 billion, from just US\$37 billion in 2000 to almost US\$82 billion in 2015.

On a relative basis among the ASEAN 5, Thai travel and tourism also delivered the strongest cumulative growth of 5.4% per annum between 2000 and 2015, followed by Malaysia, Singapore, the Philippines, and Indonesia at 5%, 4.9%, 4.7%, and 4.2%, respectively.

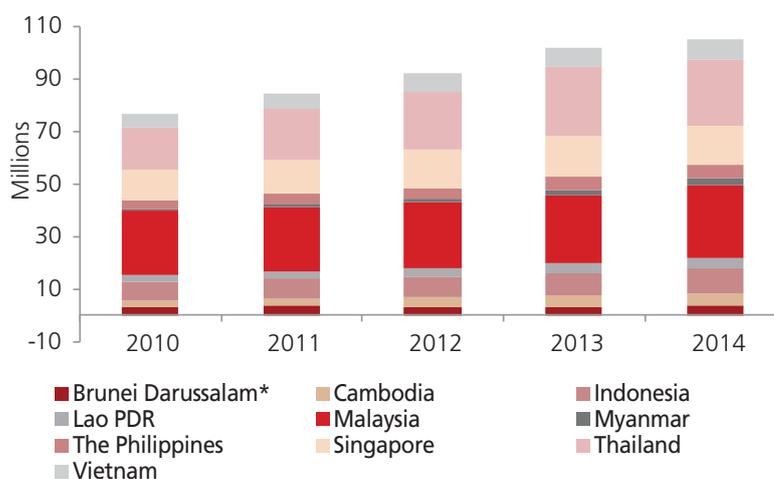
Diagram 7. Growth in tourism contributions (2000-2015)

Rank	Member-State	Contributions (US\$ bn)		15-year CAGR
		2000	2015	
1st	Cambodia	0.89	5.4	12.8%
2nd	Myanmar	0.77	3.8	11.2%
3rd	Laos	0.49	1.7	8.7%
4th	Vietnam	7.62	26.7	8.7%
5th	Thailand	36.95	81.6	5.4%
6th	Malaysia	18.81	38.9	5.0%
7th	Singapore	14.01	28.7	4.9%
8th	Philippines	15.68	31.5	4.7%
9th	Indonesia	44.53	82.4	4.2%
10th	Brunei	1.30	1.2	-0.7%

Source: WTTC, DBS Bank

International arrivals grew 37% between 2010 and 2014. Between 2010 and 2014, tourist arrivals into ASEAN grew at a CAGR of 8.2%, beating the global pace of 4.5%, to reach a record 105 million visitors.

Diagram 8. ASEAN's tourist arrivals (2010-2014)



*adjustments made to Brunei Darussalam statistics
Source: ASEAN Tourism Statistics Database

Singapore's hospitality market is likely to be nearing bottom

Speed bump in 2014. According to data compiled by the ASEAN Tourism Statistics Database, tourist arrivals grew around 2.8% in 2014 – a stark contrast to the annual growth of between 9.8% and 10.1% registered in the three preceding years.²

The weakness was led by Singapore and Thailand, which saw international visitors drop about 3% and 6.7%, respectively. The drop in arrivals in Thailand was mainly due to the coup in the country in May 2014, while the overall decline in visitors to ASEAN was a result of a spate of air accidents that year.

Impact of currency on arrivals. While incentives for travel to frontier markets such as Cambodia, Laos, Myanmar, and Vietnam tend to be independent of currency movements, we observe a distinctive relationship between demand for travel to non-frontier ASEAN destinations and movements in their respective currencies (relative to the US dollar), particularly for movements that are sustained over a two-year period.

Diagram 9. Correlation between currency movements and arrivals

Non-frontier member-state	Correlation between international arrivals and:	
	1-year currency movement	2-year currency movements
Brunei	79.7%	84.7%
Indonesia	52.4%	94.6%
Malaysia	68.1%	96.5%
Philippines	59.8%	86.5%
Singapore	72.7%	72.3%
Thailand	67.0%	94.8%

Source: ASEAN Tourism Statistics Database, Bloomberg Finance L.P., DBS Bank

Contributions of the tourism industry to the GDP of ASEAN nations vary quite widely. For instance, we observe that tourism made the single biggest sectoral contribution to Cambodia's economy around 30% of GDP (up from 15% in 2000), but only made up around 6% of Myanmar's GDP.

We believe that there is potential for tourism in Malaysia, the Philippines, and Indonesia to further grow its share of GDP, while Singapore's hospitality market is likely to be nearing bottom. Thailand, ASEAN's largest tourism market, is our preferred proxy to the region's tourism growth and is well positioned for continued expansion.

Diagram 10. Contribution of tourism to GDP (2015)

Rank	Member-State	Receipts (US\$ bn)	% of GDP
1st	Cambodia	5.42	29.9%
2nd	Thailand	81.6	20.8%
3rd	Laos	1.74	14.0%
4th	Vietnam	26.68	13.9%
5th	Malaysia	38.86	13.1%
6th	Philippines	31.45	10.6%
7th	Singapore	28.69	10.0%
8th	Indonesia	82.36	9.6%
9th	Brunei	1.18	7.4%
10th	Myanmar	3.78	5.9%

Source: WTTC

ASEAN Tourism 2025

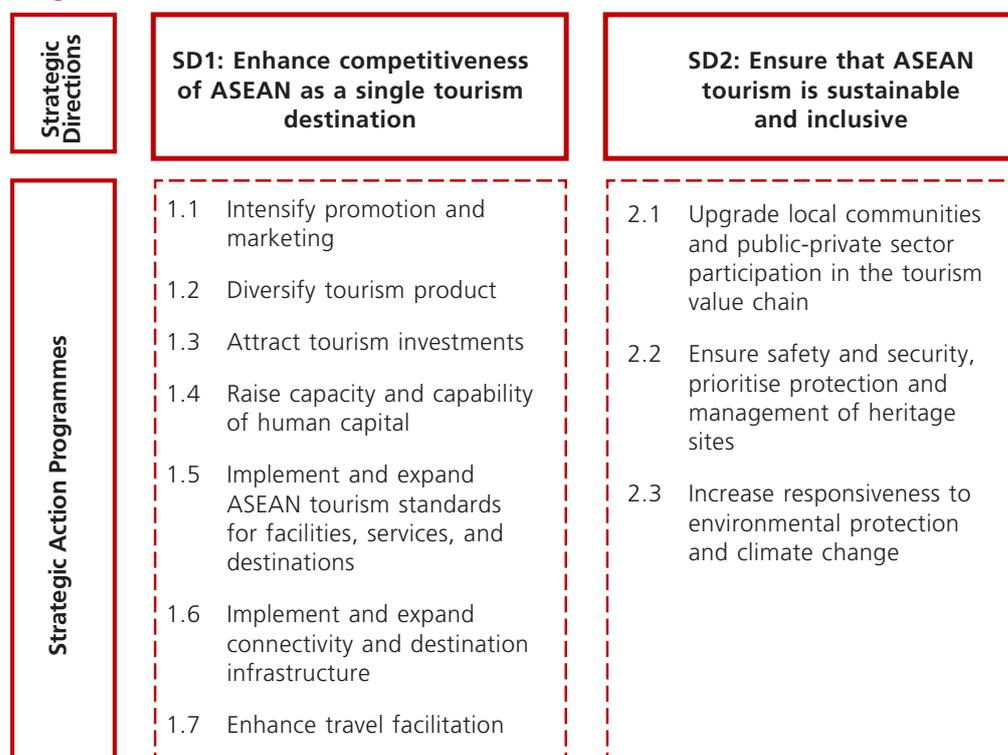
Tourism to remain a core component of ASEAN's growth. Prior to 2011, the tourism industry traditionally contributed 8-13% of ASEAN's GDP and 2-4% of the region's total employment, and was thus identified as one of the priority sectors for integration by 2015 under the ASEAN Economic Community pillar.

The ASEAN Tourism Strategic Plan (ATSP) 2016 – 2025 outlined that “by 2025, ASEAN will be a quality tourism destination offering a unique, diverse ASEAN experience, and will be committed to responsible, sustainable, inclusive and balanced tourism development, so as to contribute significantly to the socio-economic well-being of ASEAN people.”³

Integration efforts under the ATSP 2011-2015 have yielded good results – real contribution surged more than 50% from US\$200.4 billion in 2010 to US\$301.7 billion in 2015, while tourism's share of total employment increased from 3.3% to 4.1% (or 30% growth in tourism jobs from 9.5 million to 12.5 million). We believe the tourism sector will play an increasingly important role in ASEAN's economy.

Onward to 2025. Building on the momentum and achievements of ATSP 2011-2015, the ATSP 2016-2025 has identified ten strategic programmes for implementation to deliver the following core strategic objectives:

Diagram 11. General framework of ATSP 2016-2025



Source: ASEAN Tourism Strategic Plan 2016-2025

Goals of ATSP 2016-2025. If the identified programmes and projects are fully resourced and implemented as planned, anticipated results by 2025 (as highlighted in the ATSP 2016-2025⁴) include:

- (1) Contribution of tourism to GDP expected to rise to 15% from 12% in 2013
- (2) Tourism's share of total employment expected to increase to 7% from 3.7% in 2013
- (3) Increase in per-capita spending by international tourists to US\$1,500 from US\$877 in 2013
- (4) Number of accommodation units could increase to 0.60 units per 100 head of population in ASEAN from 0.51 units in 2013
- (5) Number of community-based tourism value chain project interventions could increase to more than 300 from 43 in 2013

Arriving at the milestone of US\$1,500 per tourist by 2025 would require the development of quality tourism products and destinations

Challenges lie ahead... Arriving at the milestone of US\$1,500 per tourist by 2025 would require the development of quality tourism products and destinations, which could be a challenge for ASEAN in the near term.

Major hurdles to the competitiveness of ASEAN as a single tourism destination include the limited availability of air, sea, and road connectivity infrastructure (existing infrastructure in the less-developed destinations, if any, is also often poor) and lack of seamlessness in cross-border travel between member-countries.

...but still a boon for local aviation and hospitality plays over the long term. Despite near-term impediments, we believe that investments in connectivity and destination infrastructure (i.e. airports, cruise terminals, tourist accommodation, and attractions) are necessary to support sustainable and inclusive tourism.

As the ASEAN tourism sector undergoes greater integration and pushes toward higher-quality tourism, we expect local aviation and hospitality sectors, especially those with exposure to secondary gateways and sub-regional points, to see higher yields.

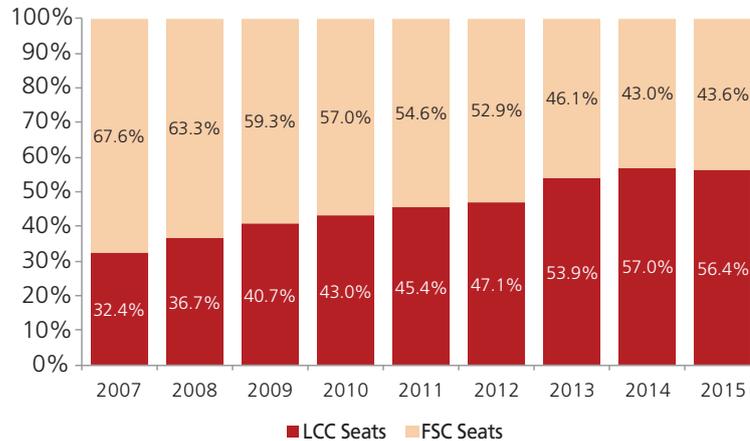
Growing on ASEAN's Open Skies

ASEAN is a key beneficiary of the emergence of LCCs in Southeast Asia. Led by strong growth in LCC seat capacity, which quadrupled from 50.3 million seats in 2007 to 194.1 million seats in 2014 (which implies an impressive CAGR of 21.3% over seven years), ASEAN saw a jump of around 69% in international tourist arrivals from 62 million in 2007 to 105 million in 2014.

LCCs preferred for intra-ASEAN air travel... ASEAN has benefitted from the strong growth in intra-regional travel over the last decade, as the emergence of LCCs led much of the improved connectivity within the region.

We observed that since 2007, LCCs have quickly gained traction to replace full-service carriers (FSCs) as the preferred mode of air travel within ASEAN, especially to secondary or sub-regional points, as the proportion of LCC to FSC seats peaked in 2014 at 57:43.

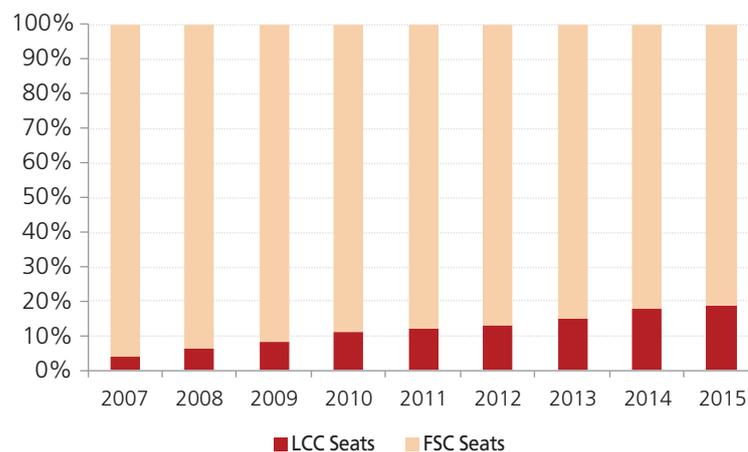
Diagram 12. LCCs' market share of intra-ASEAN routes



Source: Centre for Asia Pacific Aviation

...and have been gaining market share in ex-ASEAN routes. Apart from their stronghold in the intra-ASEAN market, LCCs have been gaining traction in mid- to long-haul flights (ex-ASEAN routes), as evidenced by the steady growth in their market share from 4% in 2007 to 18.6% in 2015, helped by the expansion of AirAsia X and Scoot.

Diagram 13. LCCs' market share of ex-ASEAN routes



Source: Centre for Asia Pacific Aviation

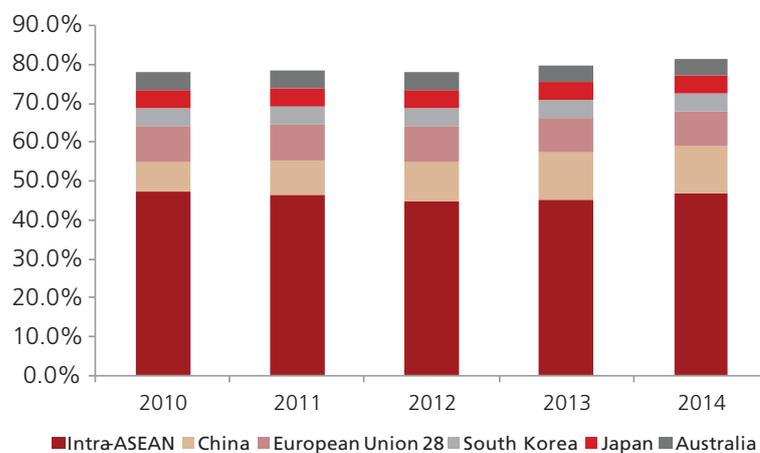
The push for more open skies has extended beyond the intra-ASEAN market. Over the past decade, ASEAN's push toward the liberalisation of the domestic aviation market through its open-skies programme has extended beyond the intra-ASEAN region as member-nations have also signed similar air services arrangements with dialogue partners to enhance air connectivity.

Most notably, the establishment of the open-skies agreement between ASEAN and China in 2010 has led to double-digit growth in inbound seat capacity, which has in turn fuelled Chinese tourist arrivals to ASEAN.

Spike in inbound seat capacity from China into ASEAN. Weekly seat capacity of inbound flights from China into ASEAN has grown significantly since the establishment of open-skies arrangements between China and selected member-nations, particularly for Chinese carriers, whose seat capacities appear to have more than doubled from 92,000 weekly seats in June 2013 to 188,500 weekly seats in June 2016. (Based on statistics for the weeks of June 3, 2013 and June 6, 2016, respectively.)

Unsurprisingly, China is now ASEAN's largest single source market. Outside of intra-ASEAN arrivals, which typically represent the bulk of ASEAN's international arrivals (or around 46.8% in 2014), China serves as the region's largest single source market. In 2014, around 12.4% of ASEAN's tourist arrivals originated in China.

Diagram 14. ASEAN's source markets for tourists (2010-2014)



Source: ASEAN, DBS Bank

LCCs will be the likely beneficiaries of regional travel, especially given the smaller aircraft they fly and their appeal to more budget-conscious travellers

ASEAN Open Skies achieves full ratification. After delays of the initial goal of the ASEAN Single Aviation Market by end-2015, ASEAN reached a significant milestone toward establishing an ASEAN Economic Community as it finally achieved full ratification from its member-nations of the ASEAN Open Skies (AOS) agreements in April 2016.

But obstacles to actual implementation remain. While the ratification of AOS agreements signifies member-nations' commitment to a regional open-sky arrangement to support regional economic integration, we reiterate our view that the achievement of this milestone is more symbolic and could lack economic substance. This is because several obstacles to true fifth freedom of the air remain:

(1) Slot restrictions

Despite air agreements translating into unlimited flights among ASEAN airlines, the allocation of these slots is limited by the lack of slot capacity (especially in capital cities) and subject to approval from airports.

(2) Lack of infrastructural support

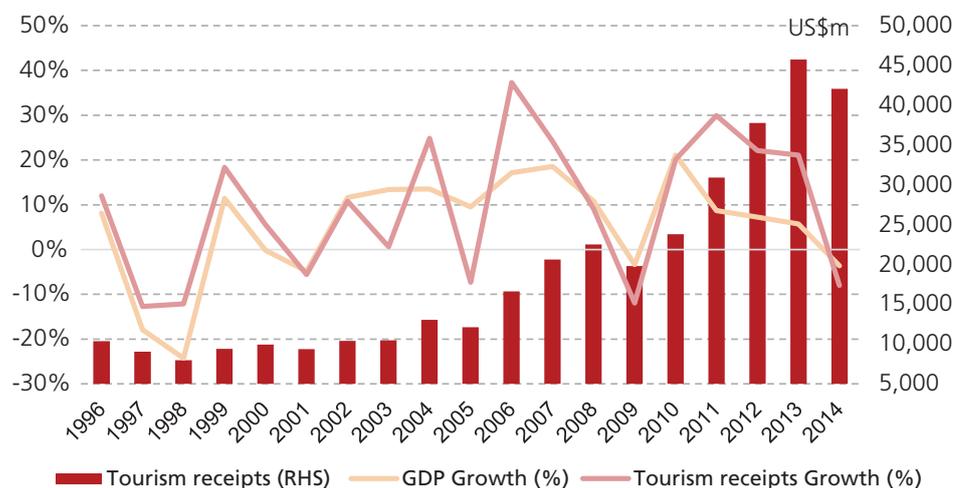
Progress will take time as ongoing efforts to build critical air infrastructure and capacity are still preliminary; but as new facilities and capacity are gradually constructed and deployed, LCCs will be the likely beneficiaries of regional travel, especially given the smaller aircraft they fly and their appeal to more budget-conscious travellers.

Tourism: Thailand's Personal Goldmine

According to the WTTC, tourism made a remarkable 9.3% (US\$36.4 billion) direct contribution to Thailand's GDP in 2015 (a total contribution of 20.8% to GDP and 15.4% to total employment), outpacing the country's economic expansion (16.2% CAGR from 2010 to 2015 compared to 7.5% growth in GDP). This, combined with a correlation factor of 0.75, indicates tourism is a critical driver of the Thai economy.

Foreign visitor spending accounted for 75% of direct travel and tourism GDP while domestic travellers are responsible for the remaining 25%. Meanwhile, travel and tourism revenues are mainly fuelled by leisure travel spending from inbound and domestic travellers, accounting for 84% of direct travel and tourism GDP in 2015.

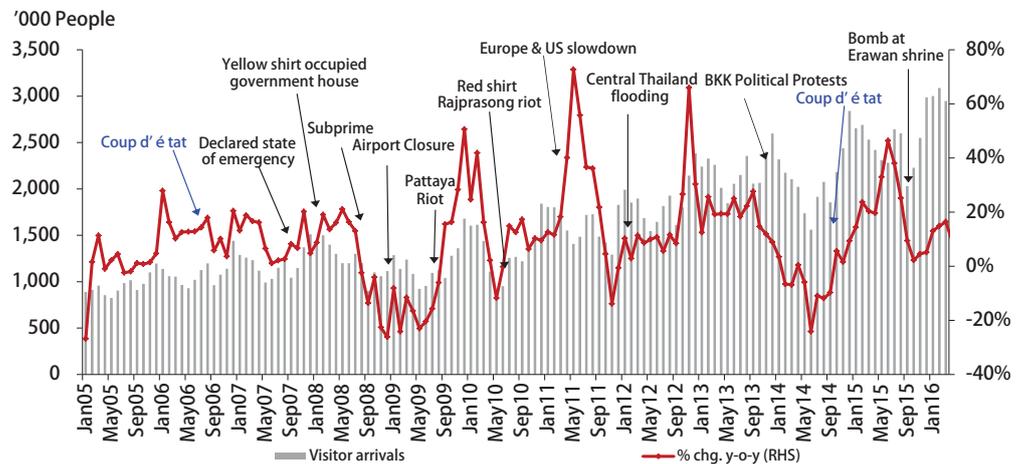
Diagram 15. Tourism and GDP of Thailand (1996-2014)



Source: World Bank, DBS Bank

Thailand's tourism industry is resilient. Thailand is well known for its variety of destinations and low cost. It offers cultural, natural, and historical attractions with beautiful beaches and mountains, as well as a unique cuisine. Its tourism industry has proven to be resilient, having quickly recovered from several unfortunate events such as floods and political unrest.

Diagram 16. Thailand's ups and downs



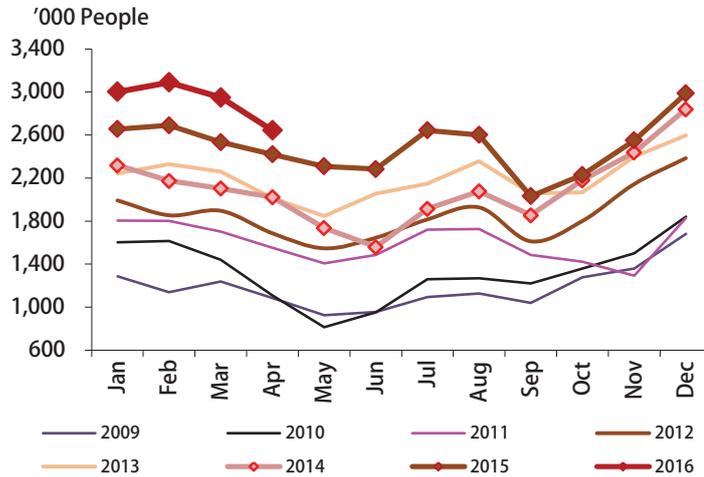
Source: Tourism Authority of Thailand, DBS Bank

Despite the Global Financial Crisis in 2008-2009 and political turmoil in 2014, international tourist arrivals contracted in those periods by only 3.4% and 4.3%, respectively. In 2015, international arrivals to Thailand rebounded by 20.4% y-o-y to 29.9 million, thanks to a calmer political situation, the government's 2015 Discover Thainess campaign, and the country's competitive tourism offerings.

For 2016, the government is focusing more on increasing revenue and quality tourists by improving management, marketing, and services.

Expect tourist arrivals growth to continue. In the first four months of 2016, international tourist arrivals to Thailand rose by 13.5% y-o-y to 11.7 million. The Department of Thailand Tourism expects the number of visitors to reach 32 million (up 7% y-o-y) by the end of 2016.⁵ From 2015-2020, the Pacific Asia Travel Association estimates international tourists will grow at a CAGR of 10.7%.⁶

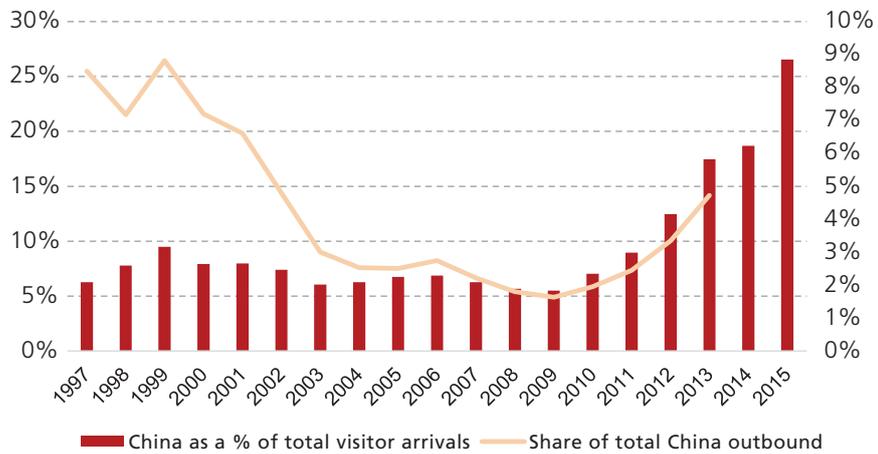
Diagram 17. International tourist arrivals to Thailand (2009-2016)



Source: Bank of Thailand

Explosion of arrivals from China. Visitors from China have grown exponentially since 2010 (a CAGR of 47.9% from 2010-2015) and accounted for 26.5% of total visitors to Thailand in 2015, up from merely 5.5% in 2009. Prospects also remain positive, given Thailand’s historical resilience as a value-for-money leisure and business destination.

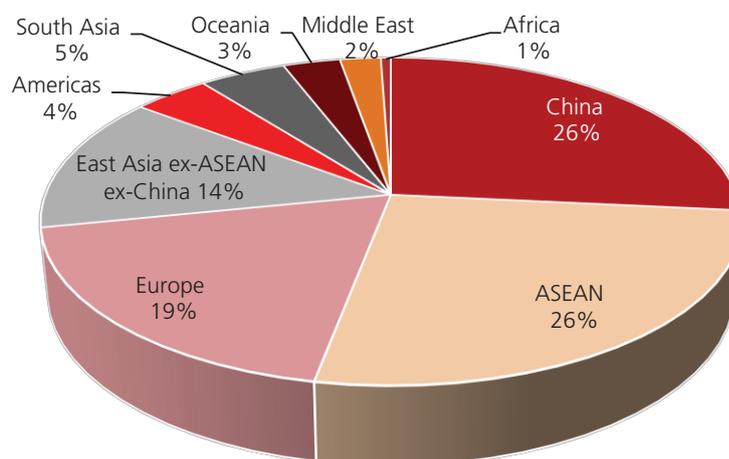
Diagram 18. China as a percentage of total visitor arrivals (1997-2015)



Source: Tourism Authority of Thailand

The new terminal at Phuket airport will double passenger capacity to 12.5 million per annum and is expected to open this year

Diagram 19. Sources of visitor arrivals to Thailand (2015)



Source: Tourism Authority of Thailand

Visitors from ASEAN countries have also helped drive growth. In recent years, increasing arrivals have largely come from East Asia (including China, Japan, and South Korea) and ASEAN, which together comprised 66.5% of total visitors to Thailand in 2015, up from only 50% in 2009. We believe that, given these trends, international visitor growth to Thailand should continue to be powered by East and Southeast Asia. ASEAN, which has been seeing incremental contribution to total visitors, with a CAGR of 11.8% from 2010-2015, will be particularly important.

We note that the majority of visitors from ASEAN are from Thailand's neighbours: Malaysia (43.6% – a large portion of which are overland), Laos (15.3%), Singapore (11.9%), and Vietnam (9.5%). Visitor arrivals from these countries also grew at a significant rate in 2015 – 31.9%, 15%, 11%, and 34.3%, respectively.

Accommodation, shopping, and food and beverage are major expenditures. Along with the total average expenditure, we observe that major components such as daily accommodation expenditures (particularly for hotels) have also been rising – from 1,190 Thai baht in 2008 to 1,473 baht in the first half of 2015.

Government policies to promote tourism. Thailand's government has launched applicant-friendly visa procedures to attract more international tourists. In September to November 2014, visa-free travel was granted to Chinese and Taiwanese tourists. In November 2015, six-month visas were granted to allow tourists multiple and unlimited entries for up to 60 days per stay. Recently, visas-on-arrival were granted to citizens of 19 countries, including China, to allow them to enter Thailand as tourists for 15 days.

Additionally, the government is also trying to boost domestic tourism by extending a 15,000-baht tax deduction allowance this year for those who spend on hotels, tour packages, and travel within the country. Meanwhile, there are also special tax privileges for investments made in tourism and services.

Expanding the airport. Major airport development plans are in the pipeline to cater to growing tourist arrivals. The new terminal at Phuket airport will double passenger capacity to 12.5 million per annum and is expected to open this year. Additionally, construction of Suvarnabhumi phase 2, which will increase the airport's capacity from 45 million per annum to 60 million, will start in the second half of 2016.

Rising demand would easily absorb a moderate growth in hotel room supply.

As at the end of 2015, hotel supply in Bangkok stood at 42,000 keys. CBRE, an international real estate consultant, expects the supply to grow to 48,800 rooms by 2020 (five-year CAGR of 3%).⁷ Most of this supply will be luxury hotels with an average room rate of 4,500-5,500 baht. Tourist arrivals to Bangkok will continue to be strong as the city offers a range of experiences ranging from old charm (palaces and temples) to modern shopping, nightlife, and fine dining. As the capital city, it is also a starting point for international travellers to explore the rest of the country. With a high occupancy rate of almost 75% currently, hotels in Bangkok should be able to increase room rates. China is the biggest source market to Bangkok, followed by Japan, South Korea, and India. In 2015, the number of Chinese tourists surged 82.5%.

In Phuket, there were 18,223 hotel rooms at the end of 2015 and another 3,948 keys are expected to be added by 2020 (five-year CAGR of 4%), according to CBRE.⁸ Nevertheless, demand for hotels should continue to grow as Phuket remains a world-class resort destination and as new retail complexes, duty-free stores, as well as a new terminal at Phuket airport come on stream. Chinese tourists are now the top feeder market, followed by Russians, Australians, South Koreans, and Malaysians. In 2015, Chinese travellers to Phuket jumped 34.8% to 1.3 million, offsetting a decline in Russian tourists. Additionally, the Tourism Authority of Thailand is promoting growth in international arrivals to Phuket by targeting first-time visitors from Europe.

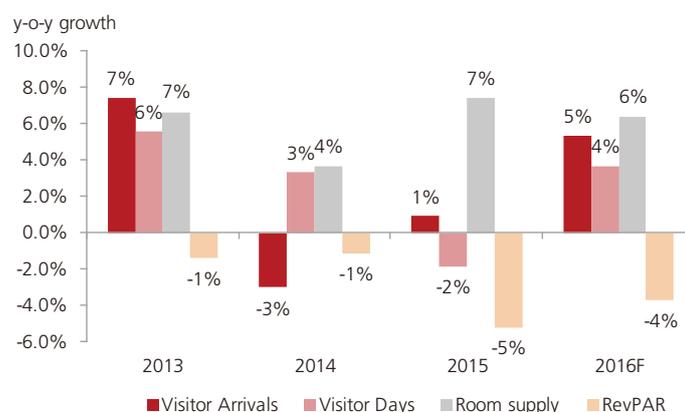
Singapore Hospitality: Nearing a Bottom

Corporate demand, which typically generates higher yield per guest, remains soft

We expect 2016 to remain a challenging year for the Singapore hospitality market. While we project tourist arrivals to increase in 2016 by 5% to 16 million, largely on the back of the continued rise in Chinese visitor numbers and an increase in conferences which are held biannually, we expect total visitor days to rise only 4% due to the shorter average length of stay. In addition, we remain cautious on the revenue per available room (RevPAR) outlook as new room supply remains a concern. Approximately 3,930 rooms (6% of existing supply) are due to open in 2016. In addition, corporate demand, which typically generates higher yield per guest, remains soft. Thus, we project a 4% y-o-y drop in 2016 RevPAR to S\$201.

Potentially more balanced market from 2017. With supply pressures easing from 2017 due to lack of new land released by the Singapore government for hotel developments over the past two years, there are prospects for a more stable or improving RevPAR outlook. Thus, we believe 2016 may be the bottom in the Singapore hospitality market following a difficult 2014 and 2015 where RevPAR fell 1% and 5%, respectively.

Diagram 20. RevPAR in Singapore (2013-2016)

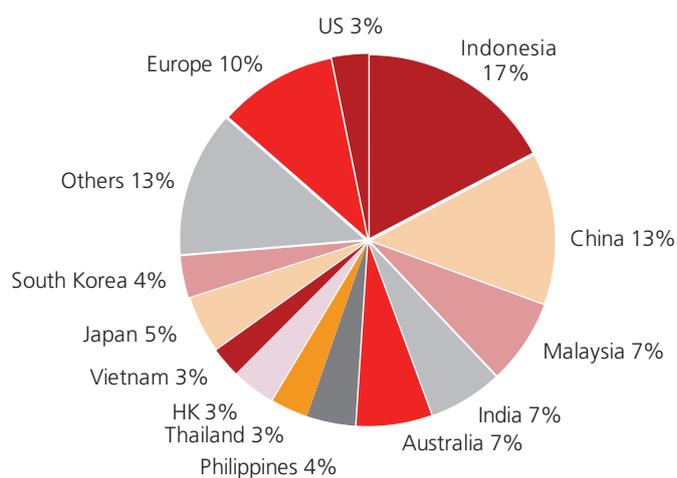


Source: Singapore Tourism Board, DBS Bank

Chinese tourists continue to arrive. Following an extremely weak 2014 when tourists from China (Singapore's second-largest source market) dropped 24% y-o-y to 1.7 million as Chinese tour groups avoided Southeast Asia due to the MH370 incident and the political situation in Thailand, the number of Chinese visitors recovered in 2015, rising 22% y-o-y to 2.1 million. We expect the recovery to continue in 2016 and, given the 47% growth in Chinese arrivals in the first quarter of 2016, we estimate a 20% y-o-y increase this year.

Earlier-than-expected recovery in Indonesian visitors. Contrary to our earlier expectations for a flat outlook for visitor arrivals from Indonesia (Singapore’s largest source market) in 2016, arrivals in the first quarter of 2016 were robust, rising 11% y-o-y. This may be due to strengthening of the Indonesian rupiah versus the Singapore dollar, despite airline seat capacity dropping 3% y-o-y in the first quarter. While we have had a strong start, we are cautious on being outright bullish as overall seat capacity between Indonesia and Singapore is projected to decline 1-2% y-o-y over the second and third quarters of 2016 – according to data from the Centre for Asia Pacific Aviation (CAPA) – and the rupiah has started to weaken again. We now project 4% y-o-y growth in tourist arrivals from Indonesia in 2016.

Diagram 21. Sources of Singapore’s inbound arrivals



Source: Singapore Tourism Board, DBS Bank

Greater cultural attractions and sporting events to draw new tourists. Following the opening of the Singapore Sports Hub in 2014, the variety of sporting attractions as well as music events and concerts on offer will continue to expand. The Rugby Sevens will be added in 2016. Such yearly events, including the Formula 1 and Women’s Tennis Association’s finals, should provide a steady stream of visitors each year. The push toward a more diversified base of attractions has also seen the opening of cultural attractions including the National Gallery Singapore. With a greater mix of sporting and cultural options adding to well-known attractions such as Orchard Road and the Singapore Zoo, the country’s competitive position against other markets should be enhanced.

Overall seat capacity to Singapore points to recovery this year. Based on CAPA's data, seat capacity between Singapore and the rest of the world is projected to increase 4% y-o-y in the second and third quarters. We believe this will support a sustained recovery in Singapore arrivals; this underpins our forecast of a 5% increase for tourist arrivals in 2016, higher than the 0-3% growth projected by the Singapore Tourism Board (STB).⁹ However, given the lower "quality" of tourists coming in, i.e. tour groups which typically stay only 1-2 days in Singapore, we forecast total visitor days to rise only 4% due to the shorter average length of stay.

Expanding airport capacity points to growth in medium term. Recent plans to grow the tourism sector include the building of a new Terminal 5 at Changi. This, together with the planned opening of Terminal 4 in 2017, is expected to double the current airport's capacity to 135 million passengers per year by 2020. We believe this points to sustained growth in tourist arrivals into Singapore in the medium term.

Pressure from new room supply. While new supply in 2016 will be lower than the 4,237 rooms added in 2015, supply pressures should still persist with 3,930 net new rooms added. Nevertheless, going into 2017, with only 2,727 rooms to be added, the demand and supply situation in Singapore could potentially be more balanced.

Expansion in 2015 largely in mid-tier category with 2016 more evenly balanced. In 2015, the growth in supply was driven by the mid-tier segment, which represented 64% of total net new supply in 2015 and 20% of existing mid-tier stock. For 2016, the new supply of 3,930 rooms is more evenly spread across all four categories: Economy (20% of new 2016 supply), mid-tier (41%), upscale (22%), and luxury (17%). Nevertheless, similar to 2015, we expect the mid-tier and economy categories to face the greatest pressure on average daily rate and occupancies.

In 2016, we expect the mid-tier and economy categories to face the greatest pressure on average daily rate and occupancies



Courting the Chinese Tourist

Due to the geographical proximity of member-countries, the lion's share of arrivals into Southeast Asia has historically originated within ASEAN itself. As such, the region was a key beneficiary of the strong growth in intra-regional travel over the last decade, as the emergence of LCCs drove connectivity within the bloc, especially to secondary gateways and sub-regional points.

Apart from the arrivals from Russia, which was largely skewed by the much lower base, Chinese arrivals into ASEAN grew rapidly at a CAGR of 24.6%, as they more than doubled from 5.4 million in 2010 to 13.1 million in 2014. China has become ASEAN's largest single source market outside of intra-ASEAN arrivals. At the end of 2014, Chinese arrivals represented 12.4% of ASEAN's total arrivals, rising from just 7.3% in 2010.

Diagram 22. ASEAN's visitors by market share (2010-2014)

	2010	2011	2012	2013	2014
Intra-ASEAN	47.5%	46.5%	44.7%	45.2%	46.8%
China	7.3%	9.0%	10.4%	12.4%	12.4%
European Union 28	9.5%	9.1%	9.1%	8.5%	8.8%
South Korea	4.5%	4.8%	4.5%	4.8%	4.8%
Japan	4.5%	4.5%	4.8%	4.6%	4.4%

Source: ASEAN Tourism Statistics Database

Explosive growth in Chinese tourism. Chinese outbound tourism has been growing at a breakneck CAGR of 16.6% from 2009-2015 to 120 million and, more importantly, expenditure by outbound tourists grew at a CAGR of 31.8% to US\$229 billion. The strong growth in Chinese outbound tourism, measured by both the number of people and expenditure, is largely driven by China's growing middle class, firm economic growth, and the greater propensity to travel.

China's fast-growing middle class. Since China joined the World Trade Organization in December 2001 and opened up its economy, it has enjoyed tremendous economic expansion. This has naturally led to high income growth for its population and lifted millions of people into the middle class. In terms of gross national income per capita, as measured by the World Bank, China has seen its per-capita income rise from US\$330 in 1990 to US\$7,400 by 2014. This was close to the World Bank's upper-middle-income benchmark of US\$7,926 in 2014.

According to Discover China's Emerging Middle Class survey released by ZenithOptimedia, China's emerging urban middle class totalled 125 million in 2012, and the number is expected to reach 356 million by 2020.¹⁰

Rising propensity to travel for leisure in China. It was estimated in the MasterCard Insights 2014 first quarter report that outbound leisure trips (excluding Hong Kong and Macau), as a percentage of total households in China, came in at 9.1% in 2014 – a figure which is projected to rise to 18.8% in 2020. This is in comparison to 35% for Japan, 99.6% for South Korea, and 566% for Singapore in 2014. According to the same report, the inflection point for the propensity for international leisure travel for emerging markets is around the US\$10,000 mark (for household income), after which it continues rising rapidly until the US\$30,000 level.¹¹

Diagram 23. Outbound travel growth versus real GDP growth

Country/Region	Trip Type	2011	2012	2013	2014	2020
China	Leisure	9.9%	11.7%	14.0%	16.3%	29.7%
China (excl. HK & Macau)	Leisure	5.1%	6.3%	7.9%	9.1%	18.8%
India	Leisure	2.2%	2.5%	2.7%	3.0%	5.8%
Japan	All purpose	34.4%	37.4%	34.7%	35.0%	37.7%
South Korea	All Purpose	68.9%	73.8%	80.2%	82.3%	99.6%
Singapore	All purpose	548.4%	564.4%	562.3%	566.1%	696.4%
Hong Kong	All purpose	283.7%	305.9%	332.5%	334.9%	427.8%

Source: MasterCard Insights First Quarter 2014

The Chinese are also spending more per tourist. Since 2010, expenditure per Chinese tourist has grown rapidly in tandem with rising disposable income in China.

ASEAN countries among top ten destinations visited by Chinese travellers. According to Bloomberg, the top destinations for Chinese outbound tourists in 2015 included several ASEAN countries such as Thailand, Singapore, and Malaysia, which had shares of 5.9%, 1.6%, and 1.1%, respectively.

Diagram 24. Top destinations for Chinese outbound tourists (2014-2015)

Destination	Tourists (in millions)		Y-o-Y	2015% share	2014% share
	2015	2014			
Hong Kong	45.8	47.2	-3.0%	34.4%	40.6%
Macau	20.4	21.3	-4.0%	15.3%	18.3%
Thailand	7.9	4.6	70.1%	5.9%	4.0%
South Korea	6.0	6.1	-2.3%	4.5%	5.3%
Japan	5.0	2.4	107.3%	3.7%	2.1%
Taiwan	4.2	4.0	5.0%	3.1%	3.4%
France	2.5	1.9	29.6%	1.8%	1.6%
USA	2.4	2.2	11.4%	1.8%	1.9%
Singapore	2.1	1.7	22.3%	1.6%	1.5%
Malaysia	1.5	1.6	-3.3%	1.1%	1.3%
Germany	1.4	1.0	37.7%	1.0%	0.8%
Australia	1.0	0.8	23.3%	0.8%	0.7%
Others	33.0	21.5	53.5%	24.8%	18.5%
Total	133.2	116.3	14.5%	100.0%	100.0%

Source: Bloomberg Finance L.P.

We believe that Thailand, Singapore, and Malaysia were the largest beneficiaries of the growth in outbound Chinese tourists over the last few years as the proliferation of LCCs and aggressive expansion by Chinese carriers improved their connectivity to Chinese cities.

Seat capacity between Thailand and China more than tripled... From June 2014 to June 2016, total seat capacity between China and Thailand has more than tripled as Chinese carriers added seats by around 350%.

...while growth in total seat capacity was relatively less pronounced for Singapore-China and Malaysia-China. The two country pairs show similar growth patterns in seat capacity between June 2013 and June 2016, with sluggish growth in 2014 and 2015. However, growth appears to be picking up in 2016, with capacities for the Singapore-China and Malaysia-China routes growing 10.2% and 11.3% y-o-y, respectively.

Chinese carriers were the driving force for seat capacity growth in Malaysia-China routes as their total seat capacity grew 91.2%, more than offsetting the 1.7% decline in seat capacity of Malaysian carriers.

Big jump in arrivals from China to Thailand. Visitor numbers from China have grown exponentially since 2010 (a CAGR of 47.9% from 2010-2015), and accounted for 26.5% of total visitors to Thailand in 2015, up from merely 5.5% in 2009. Prospects also remain positive, given Thailand’s resilience as a value-for-money leisure and business destination, as well as government efforts to promote tourism.

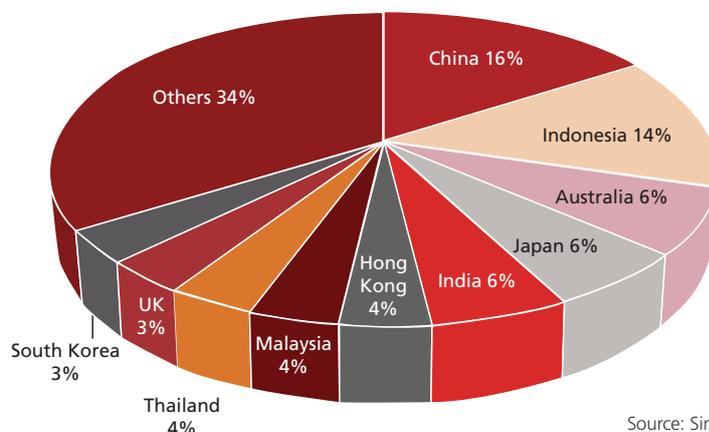
Singapore leverages on China’s growing outbound travel market. After creeping up steadily from 2% in 2009 to 2.3% of total Chinese outbound travel in 2013 (based on reports by the World Bank), Singapore’s share of China’s outbound tourists appears to be plateauing. The country, however, remains one of the most popular destinations for Chinese tourists.

Given the sheer size of China’s tourism market, and supported by the fast-growing middle class, Singapore has potential to become a premier holiday destination for the Chinese.

China is the third-largest source of visitors to Malaysia, behind Singapore and Indonesia. Visitor numbers from China to Malaysia have grown from under 800,000 in 2007 to nearly 1.7 million in 2015, representing a CAGR of 9.9% over the period. As a percentage of total tourist arrivals into Malaysia, Chinese tourists have risen from 3.8% in 2007 to 6.5% in 2015. In the first three months of 2016, the number of Chinese tourists into Malaysia rose by an impressive 35% y-o-y and could rise more during the rest of the year, following the official launch of e-visas for Chinese tourists from March to December 2016.

Chinese are among the biggest spenders in Singapore... Although Indonesian tourists are higher in numbers (17.9% of arrivals in 2015 compared to China’s 13.8%), Chinese tourists are collectively the largest single contributor to total tourism receipts – dwarfing the expenditures of Indonesians on a per-tourist basis.

Diagram 25. Singapore’s tourism receipts for first nine months of 2015 by country

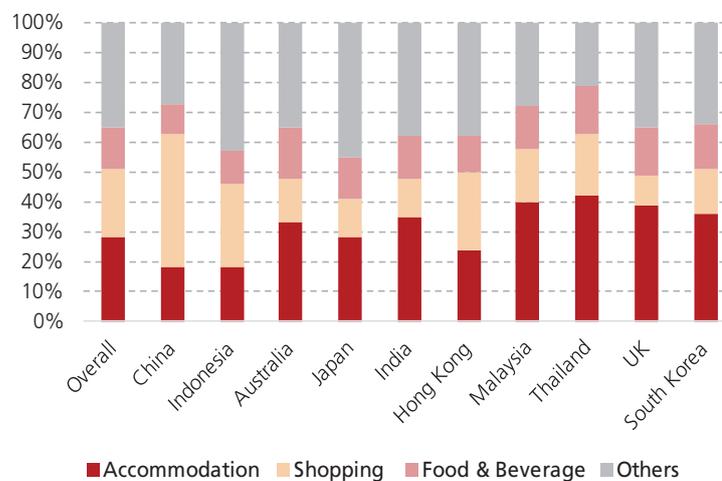


Source: Singapore Tourism Board

In Singapore, Chinese tourists spend an astounding 45% of their total expenditure on shopping

...as they splurge on shopping. In contrast to the overall average of 23% in the first nine months of 2015, Chinese tourists spend an astounding 45% of their total expenditure on shopping, effectively allocating a smaller proportion of their budget for accommodation relative to peers from other regions.

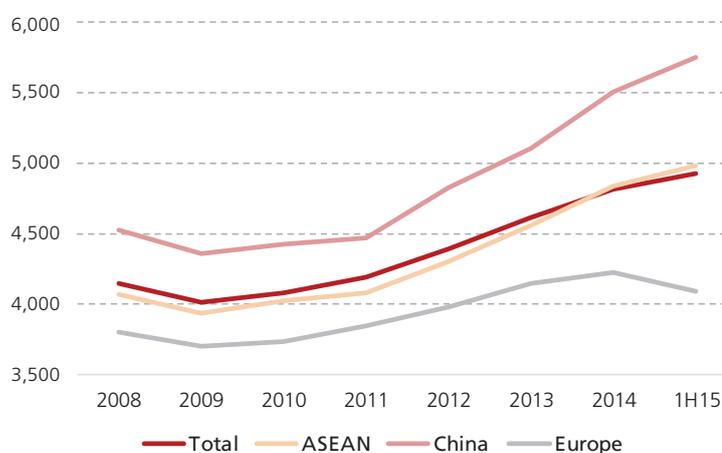
Diagram 26. Tourism expenditure in Singapore by top 10 countries for first nine months of 2015



Source: Singapore Tourism Board

Similarly for Thailand... Following the brief dip in per-capita tourism receipts observed in 2009, the daily expenditure of visitors has been rising consistently, which implies that Thailand has been seeing some success in its ongoing efforts to attract higher-quality tourists (as opposed to its traditional image as a low-cost destination).

Diagram 27. Tourism receipts (Thai baht per day per capita)

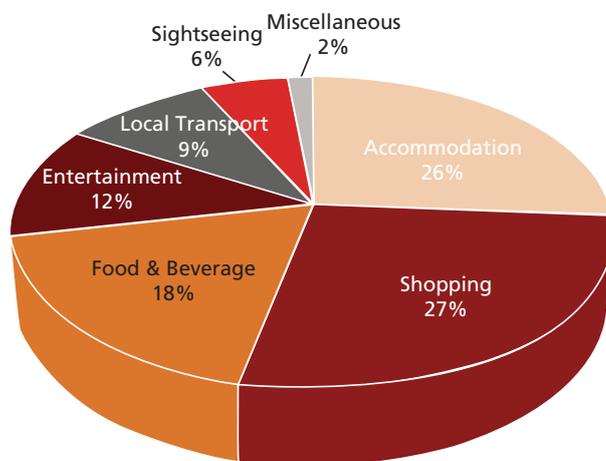


Source: Tourism Authority of Thailand

Accommodation, shopping, and food and beverage (F&B) are major expenditures.

On average, for the first half of 2015, accommodation, shopping, and F&B accounted for more than 70% of Chinese tourists' expenditure. Most notably, average expenditure on accommodation has been trending steadily upward from 1,190 baht in 2008 to 1,473 baht in the first half of 2015, which appears favourable for Thailand's hotel industry.

Diagram 28. Spending pattern of Chinese visitors in Thailand in the first half of 2015



Source: Tourism Authority of Thailand

Chinese arrivals into Thailand, Singapore, and Malaysia remain strong, indicating firm growth momentum. In the first three months of 2016, the number of Chinese tourists visiting Malaysia rose by an impressive 35% y-o-y. Meanwhile, Singapore saw 47% y-o-y growth in Chinese tourists. Over the same period, Chinese arrivals into Thailand also grew by more than 29% y-o-y.

Making ASEAN Even More Attractive

Rising consumerism – Chinese travellers a force to be reckoned with. China's outbound tourist numbers has grown rapidly at a 14.5% CAGR over the last decade, as departures surged from 31 million in 2005 to 120 million by 2015.

With rising disposable incomes and changing consumer habits – especially with the growing proportion of working-age millennials – fuelling consumption, the rise in outbound Chinese travel shows no signs of stopping and is likely to extend its formidable growth ahead.

To capitalise on the expected growth in the lucrative Chinese tourism segment over the long term, we have identified three critical areas of development for ASEAN:

(i) Build quality attractions and promote culture

Building on the ASEAN edge. Comprising ten member-nations, ASEAN is home to 37 UNESCO World Heritage sites – boasting a host of natural attractions such as Ha Long Bay in Vietnam, Angkor Wat in Cambodia, and the historic city of Ayutthaya in Thailand – and is also rich in cultural diversity. With plenty to offer, ASEAN needs to step up marketing efforts to cohesively promote the region as a single destination for well-heeled Chinese.

Investing in tourism infrastructure. The availability of, and accessibility to, modern comforts, amenities, and attractions could further cement the allure of ASEAN as a destination. Over the last five years, some of the key attractions that were launched or refreshed by member-countries include:

Country	Attraction	Launch
Brunei	River Cruise MV Sentosa	2014
	Revamped Jerudong Park Playground	2014
Cambodia	Grand Panorama Museum	2014
Indonesia	Indonesia International Convention and Exhibition Center	2014
	Ancol Dreamland	2011
Malaysia	The Shore Oceanarium Meleka	2014
	Legoland® Malaysia	2012
Philippines	City of Dreams Manila	2014
Singapore	Gardens by the Bay	2012
Thailand	Central Plaza Nakhon Ratchasima	2015
Vietnam	Grand Ho Tram Strip	2013

Source: Various news agencies

Major upcoming tourism infrastructure planned over the next two years include:

Country	Attraction	Launch
Indonesia	Fantasy Island Resorts	2016
Malaysia	Movie Animation Park Studio	2016
	20th Century Fox World	2017
Philippines	Manila Bay Resorts	2016
Singapore	Changi Jewel	2016
Thailand	Rama IX Super Tower	2018

Source: Various news agencies

(ii) Have tourism-friendly policies in place

Stimulating demand with the right policies. According to WTTC, visa policies are among the most important policies that influence international tourism.¹² Leisure travellers see visas primarily as a formality with inherent costs – both direct and indirect – and, when deemed to be too high, could serve as a major deterrent to prospective visitors.

While most governments prefer to maintain the use of entry visas – which are often useful in enhancing border security, controlling the length of stay and activities of travellers, as well as generating revenue – we believe that there is room to improve existing visa policies and processes, which could boost visits significantly.

Recommended visa reforms. An analysis jointly conducted by the UNWTO and WTTC identified some important areas of opportunity for entry visas such as improving the delivery of information, facilitating current visa processes, instituting eVisa programmes, and establishing regional agreements.

Regional agreements would essentially allow travellers from a third country to move freely between member-countries, once they have been admitted by one of the participating countries. We also note that such agreements have already been ratified for some members of the ASEAN region.

Pulling Chinese visitors through easier tourist visas. With the rising prominence of China as a key source market, most governments have been easing visa requirements for Chinese tourists progressively.

Diagram 29. Visa policies for Chinese tourists visiting ASEAN

Country	Visa policy	Max. Duration
Brunei	Visa on arrival (subject to prior approval through travel agent or local guarantor)	14 days
Cambodia	Visa on arrival	30 days
Indonesia	Visa-free	30 days
Laos	Visa on arrival	30 days
Malaysia	Visa-free (Mar to Dec 2016 only) Visa required (E-Visa available)	15 days 30 days
Myanmar	Visa required (E-Visa available)	30 days
Philippines	Visa required	30 days
Singapore	Visa required (E-Visa available)	30 days
Thailand	Visa on arrival	15 days
Vietnam	Visa required (E-Visa* available)	90 days

*Note that the E-visa application process for Vietnam varies slightly
 Source: Embassies and tourism agencies of respective countries

(iii) Increase connectivity

More direct flights between ASEAN and Chinese cities. In the hope of generating higher Chinese inbound travel, the tourism boards of various ASEAN member-countries have been working more closely with LCCs and Chinese carriers to increase connectivity between their respective countries and Chinese cities, especially Tier 2 and 3 cities, whose growing middle class populations would have higher disposable income and greater propensity to travel.

In 2016, AirAsia commenced new flights from Wuhan to Kota Kinabalu, while AirAsia X shared plans to launch two more routes to China in the second half of the year.

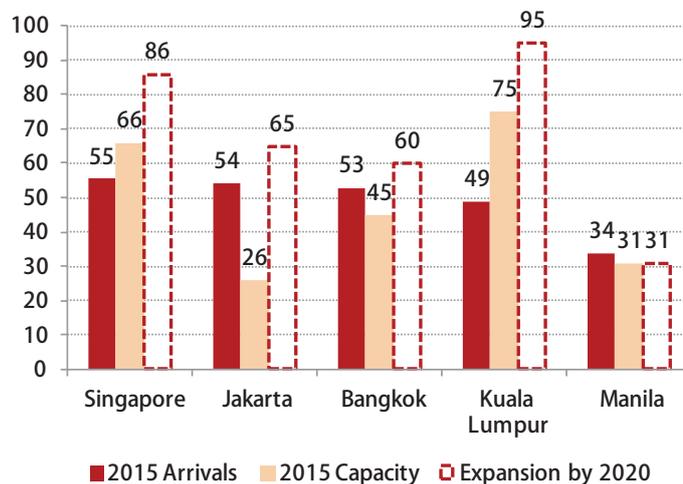
Boosting airport infrastructure. ASEAN governments are making concerted efforts to expand major airports to cater to growing visitor arrivals, and for some countries, to alleviate already congested airports. These efforts generally involve:

- a) expanding the current airport;
- b) promoting and upgrading a secondary airport; or
- c) a combination of both.

Singapore and Malaysia are focused on expanding capacity at the current capital airports (given ample land around the current sites), while Indonesia and Thailand are employing a combination of upgrading works and the use of nearby secondary airports to cater for future growth.

In the case of the Philippines, the government has been trying to persuade more airlines to use the nearby Clark International Airport as a gateway, while also planning to upgrade other regional airports around the country.

Diagram 30. ASEAN 5's capital airports arrivals versus capacity



Source: CAPA, Innovata

For Thailand's Suvarnabhumi Airport, demand (53 million passengers in 2015) has quickly exceeded capacity (45 million passengers) despite a recent upgrade and plans are afoot to increase capacity to 60 million by 2017. At the same time, Don Mueang Airport (the previous capital airport of Thailand) officially reopened in 2012 and can handle up to 30 million passengers currently with its two terminals, helping to ease the situation at Suvarnabhumi.

Indonesia has ongoing expansion plans for its Soekarno-Hatta Airport, to upgrade its capacity to 65 million passengers by 2020, against its end-2015 capacity of 26 million (by end-2016 this should improve to 38 million). This should help ease the situation for ASEAN's most congested airport, which handled 54 million passengers in 2015. The fact that secondary airport Halim Perdanakusuma started serving domestic flights from 2014 also alleviated the crunch.

The Philippines' main airport Ninoy Aquino International Airport has operated at or beyond its capacity of 31 million passengers for a number of years. Short-term plans to lessen congestion have revolved around promoting Clark International Airport as an alternative gateway. The government is also studying a proposal to develop the Danilo Atienza Air Base into Manila's new international gateway with a terminal that can handle 50 million passengers a year and two runways.

Singapore already has plans to expand its Changi Airport from the current capacity of 66 million passengers per year to 86 million by 2020 (and 132 million by 2025). Assuming 5% per annum growth in arrivals, this would cater for growth beyond the next decade. Meanwhile, Malaysia's Kuala Lumpur International Airport is also catering for future growth by planning to hit an annual capacity of 95 million passengers by 2020, nearly double the actual throughput of 49 million passengers in 2015.

Besides plans for the capital airports of the ASEAN 5, there are numerous other planned expansions or new airports in the works around the region, as well as recently completed expansions. These recent completions or plans are definitive proof that ASEAN governments are planning well ahead to cater for the expected growth in travel, particularly in tourist arrivals.

Diagram 31. Other significant recently completed or planned airport expansions in ASEAN

Airport	Location	Status	Comments
Thailand			
Phuket Intl	Phuket	Expansion	Recently upgraded capacity to 12.5 million passengers from 7.5 million
Krabi	Krabi	Expansion	To raise capacity from 3 million to 5 million; date T.B.D.
Vietnam			
Noi Bai Intl	Hanoi	Expansion	US\$1.7 billion expansion planned, for two new terminals and one runway
Long Thanh Intl	Ho Chih Minh	New	New airport to replace current Tan Son Nhat Intl Airport
Philippines			
Mactan Cebu Intl	Cebu	Expansion	Increase capacity from 4.5 million to 25 million by 2018
Indonesia			
Juanda Intl	Surabaya	Expansion	Plan to increase capacity six-fold to 75 million passengers by 2020
Buleleng	Bali	New	New airport in Bali with two runways in Buleleng, still unnamed
Kuala Namu Intl	Medan	Expansion	To increase capacity from 8 million in 2013 to 25 million by 2020
New Yogyakarta	Yogyakarta	New	New airport to handle 30 million passengers by 2020
Malaysia			
Kota Kinabalu	Sabah	Expansion	Plans to increase capacity from 9 million to 16 million
Penang Intl	Penang	Expansion	Plan to increase capacity from 6.5 million to 10 million by 2018 in two phases
Singapore			
Seletar	Singapore	New	New passenger terminal by 2018 for turboprop aircraft operations
Myanmar			
Yangon Intl	Yangon	Expansion	Recently upgraded to handle 6 million passengers a year, from 2.7 million
Hanthawaddy Intl	Yangon	New	New airport to handle 30 million passengers a year by 2022
Cambodia			
Phnom Penh Intl	Phnom Penh	Expansion	Doubled capacity in 2016 to handle 5 million passengers
Siem Reap Intl	Siem Reap	Expansion	Doubled capacity in 2016 to handle 5 million passengers

Source: CAPA, Innovata

What Is Standing in ASEAN Tourism's Way?

Threats to security and safety concerns

Perceived threats to security, and safety concerns could pose direct challenges to the development of ASEAN's travel and tourism industry. Mass reported acts of terror in ASEAN over the last year include the January 2016 Jakarta attacks and the deadly blast in Bangkok in August 2015. The latter led to a 26% decline in visitors (from 80,000 to 59,000 arrivals a day) in the weeks following the blast. Post-attack, Thailand's Ministry of Tourism and Sports estimated a loss of US\$149 million in contributions from travel and tourism, on a projected decline of 1.33 million in international arrivals. Other more common forms of terrorism include kidnapping.

Such high-publicity events, coupled with travel alert advisories issued by foreign governments, could provoke knee-jerk reactions from tourists and affect ASEAN's regional tourism growth.

Political instability

Tourists are often deterred by political instability, which if sustained, could hamper the attractiveness of tourism destinations and be detrimental to their tourism revenues. For instance, the Tourism Authority of Thailand estimated that the political unrest in the first half of 2014 could have cost Thailand approximately US\$2.7 billion in lost revenues.

Pandemic

Tourism growth is particularly susceptible to the emergence of pandemics, which often has immediate effects on tourism and hospitality. Over the past decade, we have faced numerous global pandemics: Severe acute respiratory syndrome (SARS) in Hong Kong, H1N1 influenza, Ebola in Africa, Middle East Respiratory Syndrome in South Korea, and most recently, Zika in Brazil. While diverse in nature and largely contained within their respective regions, these events have had serious implications for the tourism industry. For instance, the SARS outbreak in 2002 saw Hong Kong's occupancy rate tumble to 15% from 82%.

Lack of infrastructure

While the full ratification of ASEAN Open Skies signifies a big leap toward intra-ASEAN connectivity and a potential tourism boost, several infrastructure constraints remain.

(1) Over-congestion

Limited capacity of runways and airports appears to be a prevalent issue among several ASEAN gateways. Most airports are operating well beyond their designed capacity. Planned expansions at several airports would merely alleviate congestion and address short-term increases in demand, but are not sufficient to address long-term projected needs and growth.

For instance, Bangkok's Suvarnabhumi Airport and other major airports such as Jakarta's Soekarno-Hatta International Airport have reached full capacity and delays are fairly frequent. The spillover effects of these delays also create obstacles for other smaller airports in the region.

(2) Slot restrictions

As mentioned previously, slot allocation is a function of both regulatory approval and air traffic capacity. Allocation of slots is still limited by a lack of landing slot capacity, management of air traffic channels, as well as approvals from airport authorities.

Until the issue of slot congestion is sufficiently alleviated, we think that positive externalities from "unlimited flight capacity" among member-nations will likely be lacking in economic substance.

Accessibility

Security concerns and stringent immigration policies among ASEAN countries could prove to be a regulatory roadblock as the region moves toward more liberal intra-region travel. The creation of a "Schengen" – the treaty which led to the abolition of border controls between 26 European countries – in ASEAN would be the ultimate goal, but execution could prove to be more difficult.

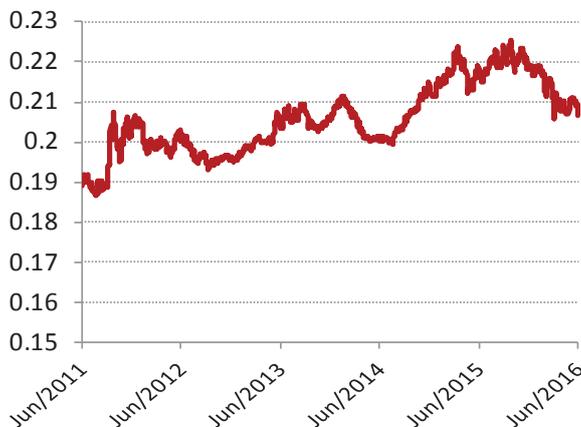
In fact, security concerns, drugs, and illegal immigration issues caused by the huge income disparity among ASEAN member-countries could derail an ASEAN common visa which

Diagram 32. Thai baht to Chinese yuan



Source: Thomson Reuters

Diagram 33. Singapore dollar to Chinese yuan



Source: Thomson Reuters

gives easier intra-region access. This could be a drag on tourism and industry and, possibly, growth within the region.

Risk of a substantial China slowdown. Much of the high growth in outbound Chinese tourism in the last decade can be attributed to the strong growth in the country's economy, and hence disposal incomes of the Chinese. We might see Chinese arrival growth into ASEAN decelerate or even decline if China slowed down substantially.

A weaker Chinese yuan could affect Chinese arrivals into ASEAN. The yuan has generally been strengthening against major ASEAN currencies such as the baht and Singapore dollar, making it more affordable for Chinese tourists to visit these countries. A significant weakening of the yuan versus ASEAN currencies could slow the growth of Chinese arrivals into the region.

Regulatory and security risks. While ASEAN's borders have increasingly become more open to Chinese travellers, especially tourists, the reversal of this progress due to regulatory changes or increased security concerns would have a negative impact on arrivals. For example, an escalation of the South China Sea dispute could potentially result in the tightening of entry into certain countries. When Thailand imposed martial law in May 2014 following a political coup, the number of inbound tourists, including the Chinese, fell.

Unforeseen incidents and accidents. Negative publicity can have an adverse effect on tourism. For example, the disappearance of Malaysian Airlines flight MH370 and perceived slow government response received poor press in China, and the negative publicity from the incident led to a sharp decline in Chinese tourist arrivals for a period after. The coup and protests during periods of social unrest in Thailand also severely hindered Chinese arrivals.

Backlash against cultural differences and behaviour. With many Chinese travelling abroad for the first time in large numbers, there will inevitably be instances of cultural differences and misunderstandings, which could lead to local backlash or resistance to such travellers. This could in turn lead to lower visitor arrivals either due to local resistance or reluctance to visit due to the bad press. In a more pronounced example, backlash in Hong Kong towards Chinese visitors led to a decline in arrival numbers to the city in 2015, even as the Chinese ventured abroad in record numbers.





Notes

- 1 UNWTO Tourism Highlights 2015, <http://www.e-unwto.org/doi/pdf/10.18111/9789284-416899>
- 2 http://www.asean.org/storage/2015/11/tourism/Table_28.pdf
- 3 <http://www.asean.org/storage/2012/05/ATSP-2016-2025.pdf>
- 4 <http://vietnamtourism.gov.vn/dmdocuments/ASEAN-Tourism-Strategic-Plan-2016-2025.pdf>
- 5 <http://www.reuters.com/article/us-thailand-tourism-idUSKBN0UK0IU20160106>
- 6 <https://www.pata.org/tag/asia-pacific-visitor-forecasts-2016-2020/>
<https://www.pata.org/wp-content/uploads/2016/03/3.jpg>
- 7 http://cdn.cbre.co.th/media/research_lang_file/2375/q4_15_bangkok_luxury_hotel_market_view.pdf
- 8 http://cdn.cbre.co.th/media/research_lang_file/2384/q4_15_phuket_hotel_market_view.pdf
- 9 <https://www.stb.gov.sg/news-and-publications/lists/newsroom/dispform.aspx?ID=643>
- 10 ZenithOptimedia, "Discover China's Emerging Middle Class", 2012
- 11 <http://www.masterintelligence.com/content/dam/intelligence/documents/Future-of-Outbound-Travel-in-Asia-Pacific.pdf>
- 12 http://www.wttc.org/-/media/files/reports/policy%20research/impact_asean.pdf

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