HOTELS AND TOURISTS
IN AN INTERNATIONAL POLITICAL ECONOMY PERSPECTIVE:
the case of Thailand

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ABSTRACT

The thesis represents the analysis of a specific international sector, namely tourism and hotels, using perspectives drawn from international political economy (IPE). The major purpose is to illustrate the application of the emerging conceptual framework of IPE to demonstrate the value of this new approach in understanding international relationships. The central argument is that the conventional approaches of the discipline of international relations (IR) are too limited to account for change in social action at the international level and that the approach offered by new developments in IPE offers a more productive method of analysis and leads to more satisfactory explanation.

A key issue in IR theory is the degree to which the conventional perspectives of the discipline are able to capture the full range of variables that influence outcomes in the international system. The new IPE attempts to resolve this issue through the concept of a set of power structures that broaden the scope of analysis beyond the restrictions imposed by traditional approaches in IR. International relationships are categorised through the structures of security, production, finance and knowledge, thus expanding the range of enquiry across a much more comprehensive spectrum of variables. A related issue is the relationship between politics and economics, which is conceptualised in the new IPE through the unifying concept of power, whether it is derived from wealth or the ability to coerce. Central to the new approach is an examination of sources of power within the structures, the use to which it is put and the outcomes that the use of power generates, within and between the structures.

The empirical work was designed to demonstrate the strength of this approach through the analysis of a specific sector of the global political economy. The choice of a sector as the unit of analysis permits an examination of all key actors and relationships operating within the four structures. The case of the international hotel and tourism industry in Thailand illustrates the value of this approach by demonstrating the multicausal nature of observed outcomes and by revealing the source and relationship of multiple causal factors. The analysis thus brings out the roles played both by states and by the private sector and the way in which changes in the global financial system and, particularly, technology have generated change within the sector in varying ways and at varying times. The historical approach thus also brings out the dynamic nature of international relations as the changes within Thailand's tourism sector are described and explained through the analysis offered by the new IPE.

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Note: It is a common convention in Thailand for people to be known by their first names only and for the title "Khun" to be used for both male and female, and hence this convention has been adopted in the thesis.

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INTRODUCTION

International Relations or International Political Economy

A key issue in international relations (IR) theory is the degree to which the conventional paradigms of the discipline account for observed social action at the international level. This raises the central question: to what extent can satisfactory explanations of change at this level be derived using the analytical methods of conventional IR? The dominant argument of this study is that the perspective of IR theory has remained too narrow to capture the full range of variables that affect outcomes in the international system, and that a much broader approach is required in order to interpret chains of international causality. Such approaches are offered by the emerging frameworks of the new international political economy (IPE), (see Strange 1984, 1988, Barry Jones 1983, Murphy 1991) and particularly by the structural framework developed in a seminal work by Susan Strange (1988). This thesis argues that such a framework offers a more fruitful approach to the problem of understanding international events than the traditional paradigms of IR and attempts to demonstrate the validity of this argument through an IPE analysis of a specific international sector.

The adoption of a sector as the unit of analysis, it is argued, permits a more comprehensive range of international relationships to be examined and, hence, immediately expands the scope of enquiry beyond the narrow confines of the state-centred international politics of traditional IR theory. Consequently, in addition to the role of the state and the politics of diplomacy and international trade, this IPE approach encompasses commercial, or market-based relationships, as potential causal factors. This, then, addresses a wider issue in social theory, namely the relationship between politics and economics. The approach assumes a dynamic and interactive relationship and, in so doing, denies the notion of analytical separation which forms the basis of liberal social science paradigms. In order to conceptualise the relationship between economics and politics, IPE initially follows IR theory by adopting power as the central construct, but goes further by considering other sources of power beyond the coercive and bureaucratic powers of the state. Hence the power to purchase or persuade, through control over resources, is added to the power to pressure. Finally, the framework enlarges the scope of analysis through one further, critical, dimension. That is by adding to the concept of relational power the notion of structural power. In other words, the power to "... change the range of choices open to others, without apparently putting pressure directly on them to take one decision, or to make one choice rather than others..." (Strange, 1988:31).

The structural framework is discussed in detail in Chapter 3. The Chapter also examines the genesis of this new IPE through a review of earlier thinking about the direction of international relations theory. The subsequent chapters represent the major focus of this study, which is the application of the framework to the analysis of the international tourism industry. The specific case study concentrates on Thailand, for reasons that will be examined shortly. Prior to this, however, it is necessary to address both the selection of international tourism as the overall unit of analysis and also the specific case of Thailand as the detailed empirical focus. This, then, is clearly rooted in the general question of what properly forms the empirical focus of studies in IPE.

The question of the unit of analysis is also discussed in Chapter 3, drawing particularly on the work of Roger Tooze (1983). The discussion suggests that a concentration on specific actors should be replaced by a focus on sectors of the international political economy. In this way, analysis may "... link different levels of political economy, focus on factors that would otherwise be discounted and make us look at IPE in a non-territorial organizational way." (*ibid.*, 236). This thesis argues that this approach overcomes the limitations inherent in a focus restricted to specific political or economic actors. Thus the interactive nature of the international political economy is emphasised, allowing the analysis to include a far wider range of potentially critical causal relationships. Categorising the broad IPE in this way also overcomes the problem of manageability inherent in the structural framework. In attempting to capture the full range of variables, this approach leaves open the question of limiting the scope of enquiry. Yet for analysis to proceed in a manageable way, some boundaries are necessary, especially so when questions are asked of the international domain of social action. As Staniland (1985:4) points out, the complexities posed by the maze of relationships within the global complex makes the task of the theorist so much more difficult than that posed in summarising "... in theoretical form the complex of political and economic relations obtaining within one nation-state." By confining attention to a single international sector some of the problems of size are thereby reduced, without sacrificing the scope required by the new IPE. Hence within the sector, the behaviour of all salient actors is available for scrutiny, including states, producers, consumers and industrial and financial markets, irrespective of their national identity or location. This then also recognises that essentially domestic issues and actions may have implications for international outcomes and that the reverse is also true. By raising the connection between the domestic and the international, the new IPE adds a further dimension when compared to traditional IR, which is also brought out through the choice of a sector as the unit of analysis.

The specific sector studied in this paper was chosen for a number of reasons, the first being the clearly international nature of so much of the varied activities that make up the international tourism industry. To begin with, it is possible to claim that international tourism as a whole represents the largest single item in world trade. Preliminary results from the World Tourism Organisation (WTO) for 1992 indicate that total receipts from international tourists reached US$279 billion, 6.8% higher than 1991, when growth in world tourism activity was interrupted by the Gulf War. The sector also encompasses a wide range of actors. Governments are involved, in a number of different policy areas both internationally and domestically, as too are international and domestic producers and consumers, and, in addition, the sector also engages a number of International Organisations. Whilst the hotel industry is at the core of the sector, outcomes in international tourism are critically a function of transportation and especially international air transport, which highlights the complexity of an otherwise neglected area.

For, despite these considerations, international relations as a discipline has almost totally ignored international tourism, leaving analysis to other domains of the social sciences. Thus tourism has been the province, largely, of sociologists and development economists, who have raised the issues and explanations germane to their areas. The result has been an academic literature that emphasises consequences, rather than causality, with sociologists focussing on detrimental outcomes, particularly for the developing world, and economists concentrating on benefits, especially in terms of international payments. Chapter 2 reviews this literature, which demonstrates both the neglect of IR theorists in examining the tourism sector and, more generally, illustrates the way that such approaches limit explanation by fragmenting the social world into conventional disciplines. The new IPE attempts to avoid such fragmentation and, through a consideration of a more complete set of factors and relationships tries to achieve a better understanding of the international social world. As a preface to the analytical approaches, however, a descriptive background to the international tourism industry is outlined in Chapter 1, for readers unfamiliar with the sector.

This descriptive approach illustrates the scope of the tourism sector and, hence, the size of the task inherent in the analysis of the sector worldwide. Consequently, this study focuses on one specific country, partly in the interests of manageability, but also to draw out the detailed and multiple interactions within the political economy that contribute to observed outcomes. Thailand was selected as the focus for three principal reasons. First, the dominant demand for the sector in Thailand is provided by international markets with domestic tourism playing a relatively minor, and more recent, role. Secondly, tourism in Thailand has exhibited considerable change. From insignificant beginnings in the first years after World War II, both tourism demand and hotel supply have expanded to such a degree that tourism has been the country's biggest single source of foreign exchange for almost a decade. Hence its importance in Thailand's international relations offers the third major reason for choosing to study the sector in the context of the new international political economy.

However, before examining the Thai case in detail, Chapter 4 applies the new IPE framework to the global tourism sector as a whole, which generates a different perspective to those examined in Chapter 2. Chapter 4 also provides the overall context for the detailed case study that follows. Chapters 5 to 10 then utilise the framework to derive explanations for the observed changes in the Thai experience, culminating in the sector's dramatic episode in 1987, when the outcomes associated with "Visit Thailand Year" generated imitative behaviour in almost every other Asian state. These chapters adopt a historical perspective, emphasising the way in which causal factors and relationships alter over time and highlighting the shift in the relative importance of "political" and "economic" zones as determinants of observed outcomes. This changing relationship is accounted for through the emphasis on power that lies at the heart of the structural framework, and the changes in the nature and salience of key variables is managed, theoretically, through the classification of the sources of power. Chapter 5 provides the background to the specific case of Thailand. This brings out the critical role that post-war international relations played in later developments in tourism, thus highlighting the importance of security and the strategic concerns of dominant powers in the explanation of change in specific sectors.

Chapter 6 demonstrates the influence of events within the structure of knowledge and, in particular, the critical importance of technology. As the dominant agent of change in the airline industry, technological developments altered the structure of the tourism sector worldwide. These changes, consequently, had an impact on the sector in Thailand, where a further feature of the knowledge structure, namely the structure of beliefs and ideology was also instrumental in effecting change in local hotel and tourism developments. This section, and also the following chapter, furthermore illustrate the dynamic nature of the distribution of power between state and market, and hence the necessity of capturing both zones of social action within a conceptual framework.

Chapter 7, however, returns to the domain of security to explain the rising markets that characterised the major growth phase of Thailand's hotel and tourism sector that occurred in the 1960s. This also illustrates the impact of America's hegemonic role at that time and the way in which the objectives of dominant states acted structurally to shape agendas in other political economies. It was not simply Washington's containment policies that altered the nature of the hotel sector in Thailand, however. As the same chapter reveals, American market operators, in both the airline and hotel sectors, also formed a key part of the explanation of the massive expansion observed in the latter part of the decade.

As productive capacity grew in Thailand, so did risk. Chapter 8 discusses the behaviour of producers in the sector when faced with declining demand, and the way in which the principal locus of causality then moved to the production structure. The chapter also indicates the continuing salience of security issues, however, and the need to follow the chain of causality through the different structures. Thus the decline in demand that forced producers to react in search of new markets, had its roots in the reversal of US foreign policy towards communism in general, and towards China in particular. The ensuing American withdrawal from the region left a vacuum, not only in terms of market demand, but also in political terms that had major implications for the structure of power in Thai society.

Chapter 9 considers the reasons behind the violent outcomes in Thailand in the mid-1970s that formed a part of this redistribution of power, and the consequences of these changes for the hotel and tourism sector. For the first time, domestic insecurity played a direct part in depressing demand. Further scrutiny reveals, however, that this was not uniform across all Thailand's major tourism markets, but had differential effects on specific national market segments. In part this was a result of social unrest and protests targeted at, in particular, Japan and America which lowered demand. To explain the resilience of other national markets, however, requires consideration of changes within the international system of airline regulation that followed changes to the balance of power in IATA. The change in production conditions in aviation that followed the first oil shock had an impact on the authority/producer balance in IATA, resulting in greater freedom to set pricing on certain routes. Besides emphasising the impact of global market conditions within the international political economy, the analysis at this point also illustrates the link between global market conditions and structures of regulatory authority. Hence this chapter demonstrates the way in which the structural framework accounts for the complex interactions that characterise the international political economy.

The final chapter of the case study goes further, reinforcing the explanatory power of the framework. The events of the ten years from 1977 were strongly influenced by the growing importance of the structure of global finance. The new volatilities in the finance structure, beginning in the early seventies, accelerated sharply in the early eighties, introducing new uncertainties for both authorities and market actors. These structural changes had a major impact on the Thai tourism sector, and form a critical element in the explanation of observed outcomes. However, a satisfactory explanation also requires investigation of the events within the production and knowledge structures as supply conditions altered and technological changes reshaped the structure of international aviation. These changes, allied to stable security conditions, generated a rapid resurgence in demand in the late eighties and, together, were responsible for the success of "Visit Thailand Year".

The value of the framework, and its strengths in the analysis of international affairs, is discussed specifically in Chapter 11, which relates the key features of the framework to evidence within the body of the case. This concluding chapter also brings out the central argument that relative relational and structural power relationships amongst multiple actors are critical elements of the analytical process. Secondly, that a focus on power as a unifying concept resolves the dichotomy between economics and politics, thus permitting more fruitful levels of explanation. In addition, this chapter illustrates the value of adopting such a broad scope in the analytical process and the effectiveness of the structural taxonomy in theorising international relationships. This chapter also demonstrates the value of international relations theory, as conceptualised through the new IPE, in generating a satisfactory understanding of specific zones of social action at the international level. An additional strength of the new IPE is also demonstrated here, namely its applicability to the wide range of international relationships that include, but then go beyond, the state/state relations that characterise conventional IR. As markets have increased in relative power over the past decades, and producers have moved increasingly beyond the reach of nationally-bounded regulations, then both have a steadily increasing impact on all forms of outcomes in the international political economy. As such changes proceed, the discipline of international relations requires methods of analysis to cope with the new variables and the critical relationships in which they play a role. As this study argues, the new IPE represents a major development in this direction.

CHAPTER 1

Hotels and Tourists: evolution

The international tourism industry demonstrated significant growth during the period following the Second World War, and continues to expand at the present time. In a little over four decades from 1950, the number of international arrivals worldwide rose from 25 million to 476 million in 1992, an average increase of almost 43% per year. As an aggregate item in international payments tourism generated an estimated US$279 billion in 1992 (WTO, 1993). To comprehend this phenomenon it will be helpful, first, to examine the historical patterns of evolution of the hotel and tourism sectors in general, before reviewing the way in which these developments have been analysed. This chapter describes the changes that have taken place, tracing the growth of the industry from its very early days. Many of the features of contemporary tourism and hotel-keeping originated in a previous era and hence an appreciation of modern practice will be improved through an examination of its historical antecedents.

Early Historical Background

The origins of modern hotel-keeping can be traced back to Ancient Greece, where tavernas offered food and drink to the Athenians (Lundberg, 1984). Travel, however, was limited by the intrinsic hardships of the journey and the dangers posed by continual warfare between the Greek kingdoms. Pleasure travel was therefore virtually unknown; those who did undertake journeys had specific reasons for their trips, such as visiting the great religious centres of Delphi and Olympia to take part in games or to consult oracles. Leisure travel only developed later, thanks to the security provided by the Pax Romana and the development of the Roman road network. As with many later developments in this field, military imperatives provided a bonus for travellers, as the roads were constructed, primarily, to assist the movement of the Roman legions (Turner & Ash, 1976).

The increase in travel was accompanied by the development of lodging facilities, with the caupona and hospiteum offering accommodation for the travellers of the Roman Empire. These early hotels would also serve occasional basic meals, but in general eating and drinking was the province of the popina, the thermopolium and the taberna, forerunners of the modern cafe, bar and restaurant (Lundberg, *op.cit.*). As the road system spread from the capital, resorts sprang up, most notably along the Bay of Naples, and became popular with the rich as places of relaxation and pleasure. Cultural tourism also flourished, with destinations chosen for their historical and literary interest. Greece, particularly the cities of Athens and Rhodes, and Egypt both became favoured destinations. Alexandria was only twelve days by sea from Rome and from there the early tourists were able to venture along the Nile to see the Pharos, Pyramids and the temples of upper Egypt at Memphis and Thebes (Turner et al, *op. cit.*).

With the decline of the Roman Empire, both travel and trade were severely curtailed and so the need for inns and hotels also declined. The church then took over the role of innkeeper, offering accommodation in the monasteries and hospices in return for donations. By the end of the Crusades, however, the art of private innkeeping revived, flourishing particularly in Northern Italy. The trade grew rapidly and was soon large enough to support the formation of guilds which then proceeded to regulate the business. By 1282, Florence, for example, had enough innkeepers to form a guild for that city alone (Lundberg, *op. cit.*).

Italy's popularity grew rapidly, as a fascination with its classical heritage and contemporary ideas spread amongst the European aristocracy and intelligentsia. By the sixteenth century the "Grand Tour" was beginning to develop, representing cultural tourism rather than pleasure travel. Those who took part did so to complete their education and, hence, universities such as Padua and Bologna featured prominently in their itineraries. The "Tour" was most popular for around thirty years from 1763, at which time the intelligentsia were joined by the English bourgeoisie. As the numbers of English visitors grew, Rome's innkeepers adapted to the demands of the market and English pensions, cafes and restaurants opened to cater to foreign tastes (Turner et al, *op. cit.*).

In England itself, the development of inns had been greatly facilitated by the actions of the state. The first boost had been provided by Henry VIII's suppression of the monasteries in 1539. With the loss of its land, the church also lost its role as host to travellers and pilgrims and was replaced by the inn. The second major boost was provided by the Mail Act of 1784, which decreed that mail should no longer be carried by horseback riders, or postboys, but by stagecoach. With this, coach travel expanded rapidly, as did the staging inns that provided fresh horses for the coaches and beds for the stagecoach passengers. At its height, the coaching era supported over 100 mail coaches serviced by 30,000 men and 150,000 horses operating throughout the British Isles. Speed was of the greatest importance in the carriage of mail, as the fastest company received the greatest volume of business. As a result, the network of staging inns expanded as the coach operators demanded fresh horses every ten miles

(Lundberg, op.cit.).

Powered Transport

This growth in innkeeping was reversed as it had been begun. New legislation shifted the carriage of mail from horse drawn vehicles as steam changed the technology of transport. In 1838, Parliament transferred the postal system to the railways, thus ending the age of the mail coach and the staging inns (*ibid.*). Those inns located in the main towns, or close to a railway station, were able to survive the loss of their stagecoach passengers by aligning themselves with the needs of the railways. By 1880, however, much bigger hotels were needed, as the railways were then carrying over 600 million passengers each year. The rail companies, concerned that a shortage of accommodation would depress their traffic, became involved in the hotel business, ensuring that larger hotels were constructed both in the cities and in the newly developing seaside resorts.

In addition to its impact on hotel operations, the growth in rail travel led to two innovations that remain as features of contemporary travel and tourism. Both were changes in methods of organisation, one being the creation of a clearing house and the second, the package tour. Over one hundred rail companies were operating in Britain and a clearing house was needed to simplify ticketing procedures. This institution centralised the issuing of tickets, thus permitting passengers to travel on different lines without having to carry numerous tickets, thus predating the clearing house operated by the International Air Transport Association (IATA). The railways also led to Cook's tours. Thomas Cook, then a book salesman, began his business with a chartered train. His first venture, in 1841, was a special train that ran between Leicester and Loughborough carrying 570 temperance supporters for one shilling each. He later followed this with more complex group travel arrangements that were the forerunners of today's group charter and package tours (Burkart et al, 1981).

In Europe too, the railways and hotels were expanding, prompting Mr. Cook to instigate a system of coupons which could be used for hotel payments on the Continent. These hotel vouchers, first introduced in the 1860s, allowed travellers to pay for hotels abroad without having to resort to carrying cash. The popularity of the system grew rapidly and thirty years later, over one thousand hotels accepted them worldwide. The next area of expansion was into the Near East, where the company organised package tours of Egypt. These were conducted on board the Nile steamers, in a manner reminiscent of the Roman Imperial tourists of a previous age (Turner et al, *op. cit.*). Shortly after, the company ventured across the North Atlantic with tours to America as steam-powered shipping was extended to intercontinental journeys (Burkart, et al, *op. cit.*).

The initial development of the steamship had been based on the British inventions of coal power and iron hulls, which, for a time, established the country as the leader in world shipping. The British Government also took action to protect this lead through the provision of subsidies, in the form of mail contracts, which were awarded to the shipping lines. By the end of the century, however, international competition across the Atlantic was growing, thanks partly to the demand for transatlantic travel from the rising numbers of emigrants who were leaving Europe for the New World. In response to the growth in new shipping lines, the companies organised cartel-like arrangements known as liner "conferences". These set uniform fares and conditions of service and created "pools" where revenue on certain routes was shared between carriers, irrespective of which line carried the passengers (*ibid.*). As we shall see, both mail subsidies and traffic conferences continued as features of transportation, as they were later adopted by the emerging airline industry. Innovations in the technology of transport thus affected patterns of travel and, in addition, generated new forms of organisation.

American Innovations

Enduring innovations in forms of tourism and hotel organisation were also taking place around this time in America, with changes in ways of moving money across the continent and through new methods of hotel-keeping. American Express, which had been founded by Henry Wells and James Fargo for the carriage of baggage and valuables, was faced with a decline in demand for currency transhipments following the end of the American Civil War. The company responded initially by introducing money orders, which were then becoming widespread and, then, in 1891, American Express introduced travellers' cheques into the American domestic travel market (*ibid.*).

American hotels were also changing. Previously, in the earlier years of the nineteenth century, they had been places where people met and conducted business deals. The early hotels were less concerned with travel and accommodation and instead paid greater attention to the needs of their business clientele, even acting as stock exchanges and providing banking services. At the turn of the century, however, the accommodation industry was transformed with the appearance of new hotels consisting of hundreds of rooms, each with a private bathroom. One of the early innovators was Ellsworth Statler, who opened a 300 room, 300 bathroom hotel in Buffalo in 1908. In addition to the private bathrooms, each bedroom was equipped with its own telephone and with flowing iced water. The complexity of operations introduced by a hotel of this size then generated a need for cost control and hence for uniform and consistent accounting standards. In response, Statler introduced standardised accounting methods which were eventually adopted throughout the American industry. Such methods were repeated as the group built hotels in Cleveland, Detroit, St. Louis and Pennsylvania (Lundberg, *op.cit.*).

Statler's expansion was completed by the early 1920s, fortunately coinciding with a post-War boom that raised American hotel occupancy rates to a record 86 per cent. The boom bred imitators and hotel construction flourished, much of it financed through credit. With the onset of the Depression, however, demand collapsed and occupancies fell to around 50 per cent creating serious financial difficulties. In many cases, banks foreclosed on their mortgages, repossessed the properties and sold them cheap in the depressed market. This provided an opportunity for new entrants into the hotel industry, amongst whom were the Sheraton and Hilton hotel groups. Sheraton began with the purchase of the Continental Hotel in Cambridge, Massachusetts for a third of its million dollar construction cost. Conrad Hilton, who had lost his first hotels at the start of the Depression began buying hotels again in 1937, commencing with the Sir Frances Drake in San Francisco.

At the same time, the American motel developed as a distinct type of accommodation, thanks to the emergence of the automobile. Since the introduction of the "Model T" Ford in the 1920s, travel by train had been increasingly replaced by the car, thus generating a demand for roadside accommodation. With the end of the Depression, such demand increased and, by 1935, 10,000 motels were registered, with growth in supply continuing over the next four years. Further expansion was constrained, however, by America's entry into the Second World War, as shortages of oil and rubber severely restricted road travel. With the end of the War, however, road travel boomed and the motel industry expanded to meet the demand for clean, low cost accommodation. By 1951 almost 45,000 motels were operating in America, an increase of more than 300% on the pre-war industry.

This rapid expansion was made possible through the use of franchising, which had previously been used successfully in the food industry by the Howard Johnson stores. TravelLodge of San Diego was amongst the first to use the system for its motel operation, starting in 1948, and this was imitated in 1952 by Holiday Inns. The latter also copied the product standardization that had been a feature of the Howard Johnson restaurants, extending the concept to all aspects of accommodation. The Holiday Inn franchisees, despite owning the motels, had to agree to the chain's strict operating policies, including high standards of cleanliness and a strict attention to maintenance. In addition they were also required to provide television and a telephone in each room, a swimming pool and free ice. As a result, the product was predictable, hygienic and safe, and consequently appealing to the newly mobile American middle classes (*ibid.*).

International Tourism and Aviation

International travellers also developed greater mobility in the years after the War. The technological and organisational changes in transportation that began in the late 1940s facilitated the development of a mass, international tourism industry that had a major impact on both tourists and hotels worldwide. Several earlier features of the industry, including the package tour, travellers' cheques, franchising and standardised hotel operations, were initially incorporated, and later extended, in the new developments. As with earlier developments, however, the part played by changes in forms of transportation were of great significance, and in the post-War era changes in aviation were of the utmost importance.

Civil aviation developed rapidly in the immediate post-War years, partly as a result of technological developments during the War that had led to a larger and longer-range aircraft. In addition the objectives of the airlines also changed from the prewar era. Commercial passengers had previously been of little interest, especially to the state owned airlines of Europe. Instead, early state concerns were with the carriage of mail and, especially, with maintaining contact with the colonial possessions. Beginning in the late 1940s and 1950s, these attitudes gradually changed and the carriage of passengers became the chief priority and the core business of the airlines (Burkart et al, *op. cit.*). This was partly the result of the scale of the new operations: aircraft were much larger, there was a large volume of available equipment following the War and the range and speed of the new planes were much greater than before. No less important were the new concrete airstrips that had been built around the world to service the bombers and transports required by the war effort. These public goods, in peacetime, greatly increased the number of destinations that could safely be reached by air (Hudson & Pettifer, 1979). Other airlines, increasingly entrants unconcerned with colonial ties, also influenced the organisation of international air transport. But the most influential role was America's. In the late 1940s, largely as an outcome of the War, the United States dominated the global aviation industry. A huge aircraft manufacturing base and access to the world's biggest market for domestic and international air travel provided enormous advantages. As the world began to recover from the hostilities, only the Americans had the money to fly overseas in large numbers (Sampson, 1984).

This increase in tourism produced a demand for hotels abroad that could offer American standards of security and sanitation. The American hotel industry was slow to respond, however, and state encouragement was required to stimulate overseas operations. It was only after this that the American international hotel industry was created, with the formation of two new companies, Hilton International and Intercontinental Hotels. The latter, a subsidiary of Pan American Airways, was formed in response to a request from the American President. In 1946, Roosevelt asked Juan Trippe, the founder and head of Pan Am, to start a subsidiary hotel company in order to promote tourism and trade, and to strengthen diplomatic relations with South America (HRI, 1984). Hilton's first international venture followed similar suggestions. Conrad Hilton (1957:285) commented that "... the State Department and the Department of Commerce suggested that the Hilton organization could make a substantial contribution to the government program of Foreign Aid by establishing American-operated hotels in important world cities. These hotels could stimulate trade and travel, bringing American dollars into the economies of the countries needing help." Both companies opened their first hotels in 1949 : Intercontinental in Belem in Brazil (HRI, *op. cit.*), and Hilton International in San Juan, Puerto Rico (Hilton, *op.*

cit.). This genesis of the international chain hotels followed American patterns of operation, and in particular established the widespread separation of ownership from control. Following the methods of franchising developed in the American domestic industry, these international chains adopted contractual arrangements whereby they secured management control, but left ownership of the property, and hence a substantial part of the risk, to local interests.

Package Tours

Europeans, whilst unable to travel abroad as easily as the Americans, were given the opportunity through the development of cheap holidays based on charter flights. These simply transferred to the air the principles of the package tour established by Thomas Cook. One of the earliest ventures took place in 1949, when the British company, Horizon Holidays, offered inclusive holidays to the island of Corsica in the French Mediterranean. The price was the same as the scheduled airfare, but included accommodation, albeit in tents, and a return flight by chartered Douglas DC3 of British European Airways[1]. The British Government then extended the right to operate inclusive tour flights to the private airlines which had been formed to provide additional capacity for the Berlin airlift. Package tours by charters offered convenience and, more important, low prices and as a result air travel became accessible to a large volume of the British public (Wheatcroft, 1964).

The market grew strongly through the 1950s with the entry of more tour operators, offering relatively cheap holidays in the sun. The focus of attention changed from the islands of the Mediterranean to the Spanish mainland, where resorts were developed along the southern coast (Turner et al, *op. cit.*). A hotel building boom took place, thanks to the advance payments made by the growing numbers of British tour operators who were willing to pay in advance for the accommodation required by their customers[2]. By 1964, the popularity of Spain had increased to such an extent that it had become Europe's most visited country. From 1955 to 1960, the number of arrivals more than doubled to over 5 million, whilst the number of visitors to Italy, which had regained its previous popularity after the War, rose by only fifty per cent in the same period. In 1964, Spain received almost 12 million visitors, 2 million more than Italy. By this time, the British had been joined by Germans and Scandinavians, and cheap package holidays expanded in volume and range though continuing to concentrate on the provision of southern sun for northern visitors.

Europe was also a popular destination for American tourists, although their motivations differed from the northerners. The chance to revisit places seen during the War, as well as culture and history, all contributed to the contemporary American "Grand Tour". Quite frequently the aim was to take in as many sights as possible and, in one single vacation, to include the Acropolis, the Sistine Chapel, the Uffizi, the Louvre and the Changing of the Guard.

Americans also chased the sun on holiday, but did so closer to home. Domestic resorts were popular and nearby foreign destinations such as Mexico and the Caribbean also became fashionable. An added attraction, particularly in the Caribbean, was gambling, and the combination of casinos and expanding air access led to a boom for these destinations. Cuba led the way in the 1950s, when the Batista regime adopted tourism as a remedy for the country's economic ills. Hotels and casinos multiplied, largely financed by Miami-based credit and linked to Mafia interests. The boom came to an abrupt end, however, with the Castro revolution of 1958, after which the gambling interests moved on to the Bahamas, where hotels and casinos were quickly developed (Turner et al, *op. cit.*).

Long-haul Developments

Thus expansion in the international hotel and tourism sectors during the 1950s was a function, principally, of short-haul operations, both in the Caribbean, which relied on American markets, and in the Mediterranean, where the northern European markets predominated. Such long-haul tourism as existed was chiefly composed of Americans travelling to Europe, although the volume was constrained by the limitations of the type of aircraft then available. The introduction of new aircraft in the 1960s, namely the long-range, high capacity Boeing 707s and Douglas DC-8s, altered this pattern and long-haul tourism began to grow. Initially this was through an expansion of transatlantic travel as greater capacity became available. A further change was in the opportunity that the new jets created for travel to more distant, third world, destinations. A major organisational influence in the development of tourism to the developing world was the extension of charter air travel to long-haul tourism. Charters allowed the operators to offer much lower fares than those available on scheduled flights, although government regulations continued to restrict the minimum price of the total holiday to the level of the scheduled air fare. Package holidays to exotic destinations began to grow in popularity as tour operators expanded their existing short haul operations to a wide range of worldwide destinations[3].

Europe and North America, however, remained the world's major destinations. Of the 25 million worldwide arrivals in 1950, and the 69 million in 1960, visitors to Europe and America accounted for over 90 per cent of the total, with Europe's share dominating. However, during the 1960s the overall rate of growth in both continents declined, falling below the world average of 130 per cent. In contrast, much higher rates were recorded in the rest of the world, namely in Asia, Africa, the Middle East, Latin America and the Caribbean. By 1970 the number of visitors to these destinations had increased by almost 300 per cent, with arrivals to the Asia/Pacific region showing the highest increase of 615%. Despite the low base from which this growth occurred, in 1970 the number of arrivals to these destinations then represented 12 per cent of the world total, almost doubling market share in a single decade. Thus, of the 160 million visitor arrivals recorded in 1970, almost 20 million reached destinations outside Europe and North America (WTO, 1986).

The growth in the number of tourist arrivals led to an increasing demand for hotel accommodation, particularly in third world destinations where the development of tourism had previously been limited. The major scheduled airlines, which were rapidly expanding their jet fleets and global operations, were particularly concerned. They were amongst the first to take action to increase the supply of hotels in developing countries, which were almost exclusively built in western style. Pan Am (1966:9), complained of the "... gap between available airline seats and existing hotel accommodations..." and initiated a major expansion of the Intercontinental Hotel Corporation. In 1966, new Intercontinental Hotels in Accra, Bangkok, Bali and Dacca were opened and construction was under way in ten more locations as far apart as Managua, Manila, Nairobi, Papeete, Lahore and Lusaka (*ibid.*). By 1967, the company was operating 40 hotels in 29 different countries and planned a further 50 per cent rise the following year (PAA, 1967). At the same time, TWA also entered the hotel business through the purchase of Hilton's international hotel chain, thanks to a similar concern about the lack of foreign hotel rooms. This acquisition gave the airline immediate control of 36 hotels in 24 foreign countries, a further 8 foreign hotels under construction, plus properties in Hawaii, Puerto Rico and the US Virgin Islands (TWA:1967). BOAC (1967:12) was also concerned that "..the success of air transportation generally is creating problems of shortage of hotel accommodation at various places throughout the world, not only in the big cities but also in the newly created holiday resorts that are attracting visitors in increasing numbers...". The British airline announced plans to copy the Americans, and to enter the hotel industry, albeit in a more limited fashion.

This expansion of the tourism and hotel industries, both in size and scope, took place during the Development Decade declared by the United Nations, which supported tourism's role in the process of development. A special conference on tourism held in 1963 concluded that "... tourism is an important factor contributing to the strengthening of the economies of all countries, and particularly of the developing countries" (United Nations, 1963:17). The industry was seen as a generator of foreign exchange, with linkages into other industries, such as building and transport, that would also develop in response to the stimulus of tourism. State intervention was recommended, especially in areas such as hotel construction, if the private sector was not willing to take part. As far as third world was concerned, the UN recommended that the government should be willing to "... do everything reasonably within its power to assist its tourism industry" (*ibid.*: 35). Governments of third world countries were also eager to embrace tourism. They saw the Spanish experience as a model to be followed, assuming that it would be capable of similar success elsewhere

(Cleverdon, 1979).

This official enthusiasm towards the industry coincided with intensely optimistic projections for travel and tourism and particularly for air travel. By the middle of the 1960s, air traffic was growing at 15 per cent per year and projections for 1980 suggested a 200 per cent increase in the number of passengers (Bender & Altschul, 1982). Partly as a result of these expectations, further changes in aircraft technology were planned, leading eventually to the introduction of the wide-bodied jets: the Boeing 747s, Douglas DC10s and Lockheed Tristars. This heralded a major shift in the development of the industry, as tourists could now travel in greater numbers to ever more distant destinations, more quickly and more cheaply than ever before.

The Jumbo Era

The immediate consequence of the airlines' acquisitions of the new jets was a massive expansion of available airline capacity. This occurred in two ways, the first through the quantum leap in the number of seats available per aircraft, from under two hundred in a 707 to over three hundred and fifty in a 747. The second expansion arose from the fact that the existing fleets were still well within their productive life, and hence the number of available aircraft also increased dramatically. Having bought the new jets, the scheduled airlines were then faced with the problem of either finding a use for the older intercontinental fleets of Boeing 707s and Douglas DC8s, or else disposing of them. One solution lay in charter operations, which were mounted both by the scheduled airlines and by the independent charter operators, the latter being assisted by an oversupplied second-hand market for long-range aircraft. This trend began with the inaugural flight of the Boeing 747 in 1970, the first by a wide-bodied jet, and accelerated over the next few years as more of the world's airlines entered the jumbo era.

In response, global arrivals rose sharply in 1970 to a total of 160 million, an increase of over 11 per cent on the previous year. However the rate of growth declined over the following four years, falling to under 5 per cent in 1973 and to a low of 3.4 per cent the following year (WTO, *op. cit.*). Thus the airlines were faced with a situation of expanding supply whilst overall demand was in decline. At the same time the first oil shock of 1973/74, in addition to depressing demand, had massively increased the airlines' operating costs through a quadrupling of the price of fuel (Sampson, 1984).

These conditions led to a changes in the structure of the market for tourism which derived from the airlines' response to the economic crisis. As often happens in cyclical downturns, the previously strong system of fare-fixing operated by the International Air Transport Association broke down (Cleverdon, *op. cit.*). The result was a greater freedom for competing operators to lower prices. The scheduled airlines then began to offer an array of discounted, incentive fares, designed to fill their excess capacity and to meet the low price of charter competition (Jonsson, 1981). As a consequence, tour operators were able to take advantage of attractive discounts, particularly for group bookings, and could thus offer cheap package holidays using scheduled, rather than charter, services[4]. For the tour operator this removed the risk, inherent in chartering, of not filling the aircraft sufficiently to achieve a profit. That risk was now passed to the scheduled airlines, thus allowing the tour operators greater freedom to expand.

The airlines also introduced discounted fares for direct sale to the general public. Whilst part of the incentive came from the above changes, the expansion of direct sales of discounted fares was more the result of Laker Airway's Skytrain service. Advance purchase fares, at a discount from the IATA rates, had been developed in the early years of the decade, largely on the British colonial routes, and had been accepted by IATA in 1975 for use on the North Atlantic (BOAC, 1975). Two years later, however, fares on this route fell dramatically, thanks to Laker's radically low fares on Skytrain (Banks, 1982). The result was to open up a new era of cheap travel and to change the pattern of official air tariffs, which were widened to permit fares that could compete with charters both for group travel and for individuals. This changed the structure of long-haul travel in particular, as charter arrangements on the old narrow-bodied planes were replaced with much more flexible group arrangements on the long distance scheduled routes operated by the more comfortable wide-bodied jets.

Destinations outside Europe and North America then witnessed a marked growth in the number of arrivals, thanks in part to these developments. Starting in 1976, the annual rate of increase in arrivals to these, predominantly third world, destinations was considerably higher than both the world average and the rate of increase to the two dominant continents of America and Europe. By 1980, America's share had fallen to just over 12 per cent, whereas the rest of the world outside Europe received almost 20 per cent of the 285 million total. Once again growth in the Asia/Pacific region was significantly higher than in other regions of the world, exhibiting a rise of more than 310 per cent over 1970. By comparison, America and

Europe exhibited rates of 30 and 74 per cent respectively, against a world average of 78 per cent (WTO, *op. cit.*). This growth was also a function of the rise of outbound travel from countries outside Europe and America, and in particular from Japan which, in the mid-1970s, emerged as a major source market (Burkart, et al, *op. cit.*).

In 1981 however tourism growth slowed, following the second oil shock and the subsequent global recession. The following year tourist arrivals fell for the first time in two decades, with the global number of arrivals declining by almost 1 per cent. At the same time Laker Airways went out of business, removing the competition that had so seriously affected the scheduled airlines. Virtually all other airlines were also facing serious financial problems at this time, which led to changes in the structure of the international hotel industry. Pan American Airways, which had been the leader in vertical integration in the hotel and airline business, made its exit from the hotel industry. Faced with mounting financial losses, the airline's bankers forced the sale of Intercontinental Hotels, Pan Am's last remaining profitable asset, to Britain's Grand Metropolitan Hotel Group (Banks, 1982).

Conclusion

This chapter has chronicled the major changes and developments in the hotel and tourism sectors that have shaped present conditions and practices. Early historical developments continue to influence the industry, particularly through the use of package holidays in tour operation and franchising and product standardisation in the hotel industry. Post-War developments have been dominated by changes in civil aviation, which have been both technological and organisational, and which have underscored the influence of transportation on the tourism and hotel sectors. The widespread development of tourism in more remote, and predominantly third world, countries has been one in which aviation has played a major role, although political concerns of both international organisations and national governments have also influenced outcomes. Just how outcomes have been analysed and explained will be examined in the following chapter. This will review the academic literature on the subject of hotels and tourists to consider the questions that have been asked and the significance of the answers.

NOTES

(1)Interview: former chairman of Horizon Holidays; June 1985.

(2)Interview: *ibid.*, June 1985.

(3)Interview: Chairman & Manging Director, Kuoni Travel Ltd.; January 1987.

(4)Interview: *ibid.* January 1987.

CHAPTER 2

Hotels and Tourists: explanation

The post-war expansion of the hotel and tourism sectors has attracted a degree of academic attention, much of which has focussed on outcomes in the developing world where changes have been most rapid. A literature has emerged within several disciplines of the social sciences, although the range of enquiry has been somewhat limited when compared to other industries and sectors. Tourism's image as a luxury good, and by implication therefore as a trivial element in the social world, may have been responsible for this relative lack of scholastic endeavour. Mathews (1983:304), suggests that an academic interest in tourism has been viewed by many social scientists as little more than "..dabbling in frivolity...", whilst Leiper (1979) asserts that attempts to study tourism have been met with derision in academic circles. On those occasions when academic analysis has been undertaken, the major focus of enquiry has been on the consequences of tourism, often in isolation from an analysis of how the system operates. The principal set of outcomes that have stimulated attention in the literature have been economic, where the issue has been the relative cost and benefit of tourism at the macro-economic level. Recognition of the non-pecuniary costs of playing host to foreign visitors has also generated academic work, principally amongst sociologists, much of which is critical of the social problems that tourism and the development of hotels may cause. This chapter reviews the literature to examine the set of questions asked, the methods chosen and the conclusions offered by the social sciences when considering tourism and hotels.

The main body of the literature, generated from the perspectives of economics and sociology, has tended to focus on consequences, especially in the third world, thus stressing outcomes rather than analysing causation. During the 1960s, positive economic outcomes were ascribed to tourism; conclusions that were consistent with the United Nations' insistence on the benefits of tourism in the development process. More critical work appeared in roughly the period following the first oil crisis, when onerous economic costs and unwanted social outcomes were discussed. Later, an additional issue was added to the development agenda. A growing literature that criticised the impact of manufacturing multinationals in developing countries was extended to embrace the effects of the large chain hotels. This in turn led to a perception of tourism as "..a vast globe-encircling 'system'..." with an undefined locus of control and with unanticipated and unexplained consequences (Lengyel, 1980:7).

Tourism Data - issues and problems

Before examining the literature in more detail however, one further issue must be raised that bears directly on the conclusions that have been suggested by various disciplines, and that is the reliability of tourism data. Not only does this have implications for academic conclusions, but it also affects the perception of decision-makers. In both private and public sectors decisions can be influenced by the relative importance of tourism as suggested by the data. Amongst the most frequently cited statistics are those already given in this text to indicate the dimensions and growth of the tourism sector, namely the aggregate arrivals and receipts which have been compiled by the World Tourism Organisation (WTO), an organ of the United Nations. This body superseded the International Union of

Official Travel Organisations in 1975, when the centralisation of tourism data became its responsibility. The statistics originate from each individual country's data-collection agency, which is frequently the government-sponsored national tourism organisation (NTO).

So far the estimates of global tourism have been presented unquestioningly, a trap that many writers on tourism fall into. The necessary caveat, which must be spelt out before proceeding, is that there are such substantial measurement problems involved in compilation, that the accuracy of the data, and its comparability, is seriously in doubt (White and Walker, 1982). There are problems with both the accuracy of the statistics on arrivals and, even more so, with those on tourism receipts. The two major problems with the arrivals data are first, what constitutes the basic definition of a tourist and, second, that methods of data collection are not uniform across all countries. Further, the same country may vary the method used at different times.

The basic definition of a tourist was accepted by the UN Conference on Travel and Tourism in 1963, and has since been generally adopted as the international standard. This has created a hierarchy of travellers for definitional purposes: all persons who move into another country are classed as travellers, with the majority being classified as "visitors",unless they are in transit or the visit is connected with military or diplomatic service, when the classification is "others". More important is that this group of visitors is then split into "tourists" and "excursionists",the difference being that tourists spend one night or more in the country whilst excursionists do not. The difficulties of comparability appear when an examination of the "arrivals" figures for individual country data reveals that some countries report "tourists", whilst others report "visitors". Furthermore, there are different methods of data collection in use. Some countries obtain their statistics by means of a frontier check, others use registrations at registered hotels only, and some count registrations at hotels plus other forms of accommodation (Withyman, 1985). Not only is tourism data not collected on a comparable basis by different countries, but there have also been occasions when individual countries have changed their methods or definitions, thus rendering their own data non-comparable over time. Consequently the aggregated data give a poor indication of the functioning of the industry, especially when global trends, regional comparisons or comparisons between the industrialised countries and the LDCs are required.

The statistics also undergo steady revision by WTO. One consequence is that changes may then invalidate previously held conclusions. As an example, the downturn in tourism that followed the first oil shock was estimated to be far more severe in 1979 than a later review would indicate. Cleverdon (1979) reported that in 1974 there was a decline in international arrivals for the first time in over twenty years, citing the WTO figures which then showed that global arrivals fell by 2.8%. De Kadt (1979) considered this fall to be the principal reason why the World Bank changed its lending policy towards tourism development in the third world. Yet a review of the data published in 1986 supports a different conclusion, as these figures indicate that tourism arrivals, far from declining, actually grew by 3.4% (WTO, 1986).

The problems increase when the flows of money, rather than people, are considered. In the first instance, the data are generally gathered from some form of sample survey and total receipts derived using the survey results and the estimated number of arrivals. Given the preceding comments on the problems associated with estimating the numbers of people, it is clear that the same problems will then be reflected in the estimates of receipts. Morgenstern (1963:180), whose study focused on the accuracy measurement of gold flows between countries, found major discrepancies even with this relatively measurable item in balance of payments accounting. When invisibles were considered however he commented on the "wild"estimates of tourist's expenditures, and raised concerns about the way in which the final results were accepted. "Any one who has ever sat through meetings (as the author has) in which final balance of payment figures for most invisible items were put together, can only marvel at the naivete with which these products of fantasy, policy, and imagination, combined with figures diligently arrived at, are gravely used in subsequent publications". White and Walker (*op. cit.*) consider that this practice of accepting the data as reasonably correct is still common, and with it the consequent danger of incorrect conclusions.

This is most evident when comparisons are required. There are three major problems associated with the accuracy of financial data: first is the problem of finding some common index as a basis of comparison, second the effects of inflation and finally the different definitions and methods of data collection used by different countries. The common denominator is the US dollar, which is used as the point of reference when aggregating the data. As a measure of performance however this is subject to the movement of the dollar against other currencies over time and to the way in which the dollar may move against individual currencies in particular years. As an example of the problem, Withyman (*op. cit.*) cites the case of Spain and Japan. In 1983, Japan's receipts from tourism, when measured in local currency, increased by 3.7%. In Spain, on the other hand, the growth was almost seven times greater in terms of pesetas with an increase of 25.7%. If these results were expressed in US dollars however, Spanish receipts actually fell by 3.8%, whilst Japan's increased by 8.7%. Not only does this raise problems when making comparisons between two countries, it has clear implications for comparisons of regional performances, for example between Europe and the East Asia/Pacific region.

When considering the rate of growth over time, this too is subject to error, as tourism receipts are reported in current, rather than constant, prices. As an example, Cleverdon (*op. cit.*) cautioned that the 1975 and 1976 rates of growth in receipts of almost 20% and 30% respectively, were due principally to inflation. Further problems are introduced by the different inflation rates in different countries, and, finally by the different methods and definitions in use in different countries. Given the resources available in North America, it would be reasonable to assume that the data would be quite reliable, and hence, for example, the expenditures of US residents in Canada (measured by the US Department of Commerce) would equal the Canadian receipts from US travellers (measured by Statistics Canada). However, thanks largely to different definitions of what should be included in the travel account, there is a major discrepancy between the two results (White et al, *op. cit.*). Finally, not all countries use the same method of data collection. Whilst the majority use sample surveys, others use bank records of foreign exchange transactions, which raises equally perplexing problems, and which again compounds the problems when comparison or aggregation is required.

Such problems concerning the accuracy of tourism data raise questions about claims in the analytical literature that put the industry's growth rate and size above all others. For example, Weaver (1983:47)) states categorically that "Few industries can boast a growth rate as high as that displayed by international tourism since 1945. Tourism is the world's leading major growth industry...".Waters (1984) is also able to state that international tourism grew faster than merchandise exports in the second half of the seventies, the former at a rate of 170%, the latter at 140%. In addition, the economic value of tourism has been used as the basis for policy decisions, including those taken within international organisations such as the World Bank and the European Commission. The World Bank cited the relative growth of merchandise exports and tourism receipts in developing countries as supporting evidence for its increasing involvement in tourism projects in the early seventies (World Bank, 1972). By the eighties, World Bank activities in the tourism field had ceased, but the European Commission began to expand its aid programme for tourism. Internal documentation focused on the "importance of world wide tourism", evidenced by the 1982 gross financial receipts of US$100 billion[1]. Given the problems associated with the data, however, the figures are just as likely to underestimate the actual magnitude of the tourism sector as to overstate it. There has been some concern in the literature that the balance of payments on the tourism account is organised so that indirectly-related international transactions are not captured in the definitions (Baretje, 1982). Hence the measurement of tourism at this broad level, and consequently the impact of the sector, are debatable, which should be borne in mind when considering the conclusions reached in the literature.

The Tourism Literature - an introduction

These conclusions have often been contradictory, whether tourism's outcomes have been judged from a purely economic perspective, or from a broader social viewpoint. The principal emphasis in the literature has been on the costs and benefits of tourism, with a growing concern over the role of tourism in developing countries. The benefits have most frequently been viewed as financial and economic, whilst the costs have been considered partly pecuniary and partly social. Following the oil crisis of the early seventies, a body of literature developed that was highly critical of tourism's role in economic development, and began to lay stress on the both economic and social costs.

Following the growth of the academic literature on the behaviour of multinational corporations (MNCs) in manufacturing, attention began to focus on their role in the service sector. Chain hotels, that had expanded internationally, sometimes through airline affiliations and sometimes independently, were also analysed. A clear concern of much of this literature lay with the implications for developing countries of this international extension of the hotel sector, and the role that it would play in both the tourism sector and in economic development. This concern with the international organisation of the hotel sector also stimulated an examination of the structure and process of the industry at the global level. In addition to the internal mechanism of the industry, a small literature developed around this theme, laying stress on the political implications of tourism and the way in which control could be passed from the national to the international level.

The main thrust, however, derives from economics, followed by sociology and, to a lesser degree, political science. International relations has chosen largely to ignore tourism, despite the implications of the international movement of millions of people. The interplay between the international security system and tourism has also been neglected, despite the fact that, as Chapter 4 will discuss, there is a close relationship between the two through the role of the airlines. The first task, however, is to review the literature on tourism to appreciate the extent and scope of mainstream analysis to consider the degree of explanation that it offers. The section that follows begins with the tourism industry in general, examining the way in which the different social science disciplines have considered specific issues, before moving on to the hotel industry and then the role of multinational corporations in the sector.

Tourism and Economics - a macro approach

The reason for the economists' interest in tourism lies in its use as a possible vehicle for development. As Cohen (1979:19) points out, at first it was the economists who "...were generally positively oriented to tourism as a relatively painless, quick and labour-intensive avenue to rapid development...", whilst criticisms tended to come from sociologists and anthropologists. Such criticisms have been largely directed at the non-pecuniary outcomes, particularly tourism's effect on the incidence of crime and prostitution. Mathieson et al (1982) support this view, but assert that even critics of the industry accept that economic benefits exist.

The focus on economic development in the early literature adopted methodologies based upon the concept of the economic multiplier. The "tourism multiplier" purported to analyse how the overall economy could benefit from the introduction of tourist spending. Two classic uses of the multiplier, which were influential in the early years of tourism development, were both produced by American consultant groups. Zinder (1969) analysed the impact of tourism in the Caribbean, and Clement (1961), in what has become known as the "Checchi Report" after the company that performed the analysis, made great claims for the beneficial effect of tourism development in Asia and the Pacific. In the Caribbean, the multiplier was estimated to be 2.3, and in the Asia/Pacific region anything between 3.2 and 4.3 depending on the specific country. More recent work continues to quote multiplier values of this order of magnitude (see Burkart et al, *op. cit.*), despite the disrepute that later dogged both Zinder and the Checchi Report. The latter has been also praised as "one of the true classics in tourism literature ...[which]... has been cited constantly over the years for its data on multipliers" (Goeldner and Dicke 1980:27).

These same multipliers, however, have been subject to considerable criticism by other academics on methodological grounds. Levitt and Gulati (1970) and Bryden and Faber (1971) criticise Zinder in similar terms that Gray (1970) employs in his attack on Clement. Thus the values of the multiplier were derived by adding together the nominal value of a number of transactions, rather than summing the value added in a sequence of economic transactions. The latter would have provided an indication of the addition to national income generated by additional tourist expenditure. The former simply provides a wild exaggeration of the impact of tourism spending on future transactions. However, this was used by Zinder as if it indicated the addition to national income. As Bryden (*op. cit.*:67) comments, the Zinder multiplier "..bears very little relation to any multiplier employed by Samuelson or any other competent economist". The effect of employing the faulty methodology was to exaggerate the value of the multiplier, and hence the possible impact on wages, jobs and taxes, by a factor of over two. This is supported by Levitt (*op. cit.*), who used the same data to derive a value of 1.073 for the Caribbean, rather than Zinder's figure of 2.3.

Whilst multiplier analysis continues to be promoted as a valid analytical tool (see for example WTO, 1981), the emphasis has shifted away from the national income effects, concentrating instead on the implications for the balance of payments. This emerged in the literature during the seventies, when support was given to the notion that foreign exchange earnings were a necessary prerequisite for economic development, and that tourism could be a valuable conduit in this process. As Wood (1979:274) comments, "..the alleged foreign exchange contribution of international tourism constitutes its most fundamental rationale". Tourism's value as a foreign exchange earner was promoted by the World Bank in the early part of the decade, a position that has continued to find support into the eighties, although this has by no means been unanimous. The Bank's view was that, "The *net*, as a percentage of *gross*, foreign exchange earnings... [from tourism]... vary considerably but tend to be high relative to many other exports" (World Bank 1972:13). Archer (1979:14), lends support, commenting that "..foreign currency earnings from tourism can contribute considerably to the development of other sectors...", and Burkart et al (*op. cit.*:65) also conclude that for "..a developing country tourism offers the prospect of substantial foreign currency earnings". Mathieson et al (*op. cit.*:86), whilst recognising that there have been few studies which "..have attempted to identify and describe the economic costs of tourism in a systematic fashion..." nevertheless state that, "..tourism generally requires relatively little, by value, in imports for every unit of foreign exchange which it generates..." (*ibid.*:45).

Other costs, in addition to those incurred through imports, have also been considered. Conclusions reached by some writers are that, again, these are low, and that therefore tourism constitutes a valuable economic activity. The costs and benefits that have been highlighted relate first to labour and the implications for employment. Second the use of tourism "assets", including land, has been debated along with the question of the degree of capital that is required to create tourism plant, in the form of hotels and attractions, and the infrastructure that is required to support the plant.

The intuitive conclusion to the employment issue is that tourism, being a service industry, is naturally labour-intensive (Mathieson et al, *op. cit.*). Consequently, tourism creates jobs, which can be filled by unskilled labour (Casson 1982). Thus developing countries can easily transfer labour from traditional sectors of the economy (Mathieson et al, *op. cit.*). This implies, therefore, that there are low opportunity costs when creating jobs through tourism, and that the limited skill levels required renders the industry particularly suitable for the third world. When turning to land, the arguments in favour of tourism as consist of two elements. The first is that tourism can make use of otherwise unproductive land (Burkart et al, *op. cit.*), and the second is that natural tourism assets are free goods (Gray, 1982). Thus the beach or the mountain may be of little value to manufacturing industry, but both are freely provided by a provident nature and are attractive to tourist consumers. Hence, as in the case of labour, the land required for tourism developments also has a low opportunity cost.

Such conclusions have, however, attracted criticism from other writers who have questioned the economic value of tourism, whether in terms of financial flows, employment or its ability to use free goods. In particular doubts have been raised about the real effect of tourism on the balance of payments, and whether there are hidden costs in the form of foreign exchange leakage. Again the focus of enquiry was on the role of tourism in LDCs. In the wake of the first oil crisis, a number of critical concerns were debated [2] (de Kadt, 1979). In Bali, for example, where the Bank had been active in the development of tourism infrastructure, Noronha (1979:190) complained that, "..no study has carefully estimated leakages and how much of the earnings remain in Bali or in Indonesia". Leakages could occur because of the imported goods that tourists consumed, goods which would not have been imported in the absence of tourists. A similar concern was raised in the case of Malta, where again there was a lack of information regarding the import content of the income from tourism (de Kadt, *op. cit.*). But beyond this lay the fear that it was not only the import of goods that affected the net foreign exchange earnings, but that there were other, less tangible costs that further reduced the benefits to the balance of payments. Richter (1981:30) complained of the "..tendency - still unstudied - for a significant percentage of foreign exchange to remain in or be remitted to the tourist's own country". An attempt to study the problem of foreign exchange leakage was carried out in Fiji, and concluded that the direct and indirect import requirements of tourism to be 50% of gross revenue. However this study did not attempt to estimate the additional leakages from payments made abroad to any non-resident owners of hotels or other tourism-related businesses (UNCTC, 1982). The question of non-resident, and especially foreign, ownership in the tourism and hotel industry generated an interest in the multinational hotel chain, which was seen to play a significant role in the leakage process. This issue is somewhat complex, given the peculiar structure of the MNC in the hotel industry, and will therefore be examined in more detail later in the chapter.

Before turning to the hotel industry, however, other costs will be considered, particularly in the areas of land, labour and capital. To recap, the argument in favour of tourism is that it can use otherwise unproductive land, requires little in the way of manpower skills and employs the two in a labour-intensive manner. The flaw in the argument over land, however is that access must be provided, which usually means roads must be constructed, as well as other public services, including water treatment and security. Tourism developments, particularly those aimed at affluent tourists, attempt to provide modern, Western, comforts. In LDCs, this could therefore be a costly, and indeed import-prone, course of action (Mathews, 1978). Infrastructure costs for tourism projects have been estimated to be 80% of hotel capital costs (Wood, *op. cit.*), but clearly this could vary greatly, especially when degrees of access to the area being developed are considered.

To put this into perspective in the context of the developing countries, the Philippine case provides a relevant example. Hotels were constructed with government encouragement to accommodate delegates to the IMF/World Bank Conference of 1976 then held in Manila. Thirteen new luxury hotels were built, for which government loans of between US$410 million and US$545 million were provided (Richter, 1980). On the basis of Wood's (*op. cit.*) estimate, and even with no additional private funding, infrastructure costs could therefore have been between US$328 and US$436 million dollars. To put this into context, these figures should be compared with the Philippines' total loans from the World Bank in 1976 which amounted to US$315 million (*ibid.*.).

The cost of providing infrastructure can also influence conclusions about the relative degree of capital and labour required by tourism. If these costs are included, then the concept of tourism as a labour-intensive industry becomes somewhat less certain (Jenkins, 1980). Critics of tourism as a development industry have raised further questions over the employment issue. John Bryden (1973:73) in an analysis of the effect of tourism on the islands of the Caribbean, argued that tourism does require skilled labour, and consequently that it "...will tend to have a high opportunity cost". His study found that one area of significant opportunity cost was in the traditional agriculture sector, where competition for resources resulted in a decline in agricultural production and exports.

Tourism and Hotels - a Micro Approach

In addition to analysis at the level of the national economy, there is also a body of literature that offers an analysis at the level of the industry and the firm. One of the central areas of interest of this analysis lies in the differences that the tourism product exhibits compared to tangible goods. The discussion that follows begins with the peculiarities of the product and then examines the process of tourism production in general, before considering in more detail the product of the hotel industry.

A radical view is that tourism has no product *per se*, but rather that it brings together a set of intangible services and images into a single concept (Lanfant, 1980). Thus tourism draws upon a number of different production sectors that may be secondary to the accommodation core of the industry. Tourists consume food and drink, take sightseeing trips, buy physical goods for use or souvenirs, climb mountains and visit attractions, all in addition to occupying hotel beds. Whilst some of the total consumption pattern consists of tangible goods, the greater part is made up of intangible experience goods. It is this intangibility that raises a number of issues for both consumers and producers. For the consumer, it means that the product cannot be resold following consumption of the service (Booms and Bitner, 1980), nor can it be returned for refund or repair, should it be found to be substandard. In addition, and in common with other services, the return on investment for the consumer is itself intangible (Mathieson et al, *op. cit.*) and therefore exists largely as a memory.

The problems that face producers arise first from this intangibility, and second from the role that time plays as an inherent attribute of the product. In the first case, since the consumer cannot sample or directly inspect the product prior to purchase, then at the time of sale, what is being purchased is an expectation of what will lie ahead. The problem here is that the producer must convince the buyer of the value of the product using methods that cannot include its physical demonstration. Time then plays a critical part as it is impossible to hold stock if there is no consumer around to experience it, and it is therefore impossible store the product beyond certain time limits. In the case of the hotel room, for example, the limit is set by the night or day by which the room is let, and for the airline seat, by the moment of take off. Thus if the total output capacity of the physical production plant has not been fully used, then some product has been lost forever. The converse of this is also true, in that the component industries that make up the tourism product have a fixed upper limit for their potential rates of output (Gray, *op. cit.*). It is impossible to expand production in the short term to cater for a sudden increase in demand, and hence changes in output capability have to be planned well in advance. In addition to this temporal dimension, the tourism product also exhibits a peculiar spatial requirement, namely that the consumer must be physically present at the point of consumption. Unlike the physical goods market therefore, where the product can be distributed to the point of purchase, with tourism it is the consumer who must be distributed to the product.

A further contrast follows from this which yields advantages for producers in services compared to their counterparts in manufacturing. In the latter, production can be directly controlled through the management process, whereas consumption cannot. Hence the process that follows the point of purchase, namely the use and subsequent evaluation of the product, takes place away from the production line and outside the control of the producer. With tourism however, producer and consumer interact through the whole cycle of creation, purchase, use and evaluation. As a result of this the producer is able to make adjustments to the product at the time of consumption with the opportunity, therefore, to enhance customer satisfaction (Booms et al, *op. cit.*). Customer satisfaction leads, potentially, to repeat purchases and to the dissemination of favourable advertising, thus overcoming some of the problems associated with persuading consumers to purchase an intangible product.

Hotels and Tourism - the hotel product

If the hotel industry is examined in more detail, the relevance of these issues becomes clear. A critical problem is that the hotel product is highly perishable. The room night cannot be stored, and hence unsold product is lost forever at the start of each new day (Mathieson et al, *op. cit.*). In the hotel sector, this problem is compounded by the very high ratio of fixed to variable costs which is a feature of the hotel industry; overall, the fixed assets can represent as much as 90% of total capital invested (Burkart et al, *op. cit.*). As a consequence of this high operating leverage, profits are highly sensitive to the rate at which capacity is utilized (Gray, *op. cit.*). Furthermore, medium term fixed costs include not only the capital costs of land and buildings, but also manpower, as wages must be paid irrespective of the number of rooms that are occupied. As a result of such problems price discounting is often used to fill otherwise empty rooms.

Hotels therefore engage in price segmentation, adopting the concept that the market can be segmented through deliberate pricing policies. Thus high prices are charged for market segments which exhibit a strong desire for the product, with discounted prices used as an incentive in other, less dedicated markets. It is feasible to offer discounted rates that are actually below average cost, as these will still make a valuable contribution as the variable cost element is so low. Clearly, however, the higher-priced segment is vital for profitability, as otherwise the hotel would be operating with revenues below average costs. In the absence of market segmentation, there exists a danger that, in the attempt to increase capacity usage, hotels will reduce prices to the point where none can make a profit (*ibid.*.).

Hotels also face additional problems that follow from the homogeneity of the core product, a room for the night. Hence hotels in a given class operate in a highly competitive market. In order to introduce variety, strategies of product differentiation have been developed, so as to reduce the degree of direct competition. Britton's (1979: 222) study of the industry in the South Pacific considered that the principal way in which thus could be achieved was through advertising. This, he concluded was an attempt "..to create an illusion of diversity... [that conceals]... virtually identical properties". The conclusion is reminiscent of a similar comment that concerned the sister industry of aviation, where "..all airline advertising, like all petrol advertising, is based on an attempt to prove that two identical substances are in fact different..."(Bernard Levin, cited in Young, 1973:90).

A second way in which the hotel product can be differentiated is by means of restaurants. These are generally far less profitable than the accommodation operations: rooms can account for profit rates of around 80%, whilst food and beverage operations return only a quarter of this (English Tourist Board, 1982). The importance of the restaurant operation however is seen by Taylor (1977) as being the attraction to bring in customers who then spend money on rooms. However, it would appear from Tiltscher's (1983:181) study that only "..an extremely small number of hotel room occupants actually use the hotel's own food and beverage facilities". He estimated that, whilst between sixty and seventy per cent of hotel guests want to eat breakfast in the hotel, only ten or fifteen per cent use the hotel's restaurants for lunch or dinner. Thus hotels are faced with having to provide substantial restaurant and kitchen facilities for one meal per day. Thus differentiation may be achieved, but only at a significant cost.

A further factor affecting profitability in the industry is the level of demand, which is subject to seasonal fluctuations (de Kadt, *op. cit.*). Seasonality however implies a predictability in the pattern of demand, but this is not, unfortunately, always the case. Demand may be highly elastic, to the point at which it has been described as so volatile as to be even capricious (Lengyel, 1975). Market demand for the hotel product in particular locations can vary with changes in economic or political conditions or simply because fashions change. Hotels however are fixed in space and cannot move along with an itinerant market. Furthermore, alternative uses for hotel plant are not available, at least in the short term, and consequently changes in demand pose severe problems for the hotel industry (Doswell and Gamble, 1979).

These problems add to the risks faced by the hotel industry, that Dave (1984) considers inevitable, given its high level of capital intensity. Tiltscher's (*op. cit.*:101) survey of financial institutions in the City of London, supports this view, having revealed a reluctance on the part of traditional sources of finance to lend to the industry. The reasons were summarised as a "..lack of alternative use, non-transferable assets, volatility in earnings streams... and heavy discounting". However, this conservative approach by lenders may change if factors beyond solely hotel operations are taken into account. Chief amongst these are, first, the real estate markets and, second, the impact of government intervention.

The property market can act as a major incentive for hotel development. This can be so important that, in certain cases, the profit on the hotel operation is "..in many instances never brought into question, for the protection and security of the hotel as a property asset is sufficient to obviate the need..." (Tiltscher, *op. cit.*: 283). The salience of property values can of course vary, but to some developers it has been paramount. The British hotel group, Grand Metropolitan, for example, prospered initially through an expertise in property acquisition displayed by the then Chairman, Maxwell Joseph, rather than through the success of its hotel-keeping (*ibid.*.). This followed a much earlier trend in Britain when the seaside resorts were first created. The profit then lay in rising land values as hotel development changed rural villages into popular holiday townships (Taylor, *op. cit.*).

Governments may also influence hotel investment. This was seen in Britain in the early 1970s when the Labour Government offered financial incentives to stimulate hotel construction. The Development of Tourism Act provided a subsidy of Ł1,000 per room for any new hotel completed before April 1973. Prior to the Act, the number of first class hotel rooms in London was less than 600. Five years later however there were 50,000 more rooms available throughout England, an achievement that cost the taxpayer an estimated Ł60 million (Taylor, 1983). Intervention policies are also evident in developing countries. In Tunisia, for example, the hotel industry was encouraged through a package of investment incentives. These included a five year tax exemption on profits, exemption from rates, government guarantees for construction loans and favourable interest rates. Foreign investment was given an extra incentive through assurances of unlimited repatriation of capital and profits and guarantees on currency convertibility. As a final lure, when taxes eventually became due, they could be reduced by carrying forward any losses incurred in the first five years.

It would appear, therefore, that there is a consensus in the literature that hotel investments are inherently risky, and that as a consequence, there is a need for alternative rewards or incentives. The analysis of the international hotel industry that follows indicates that similar factors have been taken into account when considering hotel developments abroad, as foreign operations gathered momentum during the post-war decades.

The economics of international operations

The academic literature on internationalisation in the hotel sector has concentrated primarily on the chain hotels, such as Hilton International, which have expanded abroad since the late 1940s. The dominant issue has been the structure of operations of these multinationals, focussing on the separation of ownership and control that is a recurrent feature of this industry. Early developments in American hotels and motels, as outlined in Chapter 1, utilised franchises and management contracts as instruments of management control that leave ownership of the physical asset in other hands. Before turning to the issues raised in the literature, it will be instructive to consider the these two instruments in more detail.

Both franchises and management contracts have in common the lack of a financial commitment on the part of the franchisor or contractor. But there are major differences in the manner in which the two subsequently operate. In the case of franchising, the franchisee invests in the fixed assets of the business as well as managing at the level of the individual unit. Operations are however dictated by the franchisor and, hence, management control rests at the level of the organisation as a whole. Thus day to day operations and marketing plans must comply with the standards and procedures of the franchisor. Hence the owner maintains at least a quasi-independent status and achieves some degree of control over the business. Management contracts, on the other hand, require that the owner relinquish control to the contractor, who will generally appoint a management team in the hotel with a responsibility to the contractor's head office and not to the hotel's owner (Housden, 1984).

Such relationships have implications for the international hotel industry, particularly when considering the question of who bears the greatest risk: the foreign or domestic partner. Both management contracts and hotel franchises have been used extensively, although not exclusively, by the international hotel chains as they have extended their global reach in the past decades. This has given rise in the literature to a concern with the distribution of the costs and benefits of such operations. Both arrangements require that the management company or the franchisor be paid a fee for their services. There are several ways in which this can be done, but generally owners are obliged to pay a fee, irrespective of profitability. This is especially common in the case of management contracts, where usually fees are made up of two elements: a percentage of gross revenue and a percentage of profits. The first is a basic fee that typically lies between 2 and 10% of gross revenue, and the second is the incentive fee which may be 5 to 20% of operating profit. In such cases, the management company is guaranteed an income irrespective of profit, on top of which, the company may charge specific expenses, such as marketing, reservation and technical services, directly to the owner (*ibid.*). As a result, the benefits to the management company include not only a virtually guaranteed operating income, but also a limitation of risk. The principal financial risks and major costs are thus borne by the owner. On the other hand, the benefits accruing to the owner derive from the expertise that the management company provides in the business of hotel-keeping. If the owner either lacks the required expertise or is uninterested in the hotel operations, perhaps having made the investment for tax or real estate reasons, then the contractual arrangement provides the necessary service.

The final details of the contract will be the result of a bargaining process, with the outcome depending on the relative negotiating strength of the two parties (*ibid.*.). Thus the respective rights and obligations, including the level of the fees, will vary with each contract. Contracts however may not be totally explicit, thus leaving subsequent interpretation open to further variations. Tiltscher (*op. cit.*:286) points out that whilst the contracts are very precise in setting the percentage of operating profit that the management company will take, they are "...somewhat less than precise on what constitutes that operating profit". Thus there exists the possibility of an uneven bargain between the owner and the operator, particularly where the owner is unfamiliar with the business of hotel-keeping and with foreign markets. Hence this asymmetry may be more pronounced in the international hotel industry than in the domestic context, and this may be especially acute in the case of hotels in developing countries.

International chain hotels have demonstrated a marked preference for contracts over ownership when operating in developing countries. In contrast, however when the same chains operate in the developed world, there is a much higher degree of full ownership or equity participation. The only large-scale empirical survey of the international hotel industry that offers relatively current data on the international hotel industry was undertaken by the United Nations Centre on Transnational Corporations in 1979 (UNCTC, 1982). The report analysed foreign participation in the industry, with particular attention to the mode of involvement. These were classified as either equity, lease, management contract or franchise. Examination of the data revealed that equity involvement was found in only 18 per cent of "foreign" hotels located in the developing countries, whereas in the OECD countries the chains held equity in 48 per cent of their operations. This discrepancy has been somewhat ignored in the literature, which has concentrated on the developing country case, without fully considering the comparative modes of involvement.

The arguments centre, rather, on the positive effects of this relationship for the developing countries. International hotel chains contribute human rather than finance capital, in the form of operational expertise and the knowhow involved in the design, construction and furnishing of the properties. The indigenous hotel sector may then benefit as the skills of marketing and organization are dissipated from the foreign controlled hotel and a form of technology transfer, or perhaps technology leakage, takes place (Dunning et al, 1982a).

McQueen (1983:143) goes further, and implies that financial investment on the part of the hotel chains is hardly necessary, since there is a ready availability of capital. This is forthcoming "..either from local private investors, governments or international agencies...",who are then content to leave the hotel operations to the chains. Dunning (*op. cit.*:87) perceives a harmonious relationship, as "..there is no conflict of interest between the objectives..."of the owner and the chain. This is a questionable conclusion, however, particularly given the likely differences in bargaining strength between the two parties particularly in the case of developing countries. From the earlier discussion of management contracts it can be seen that operators are more likely to profit than are owners. An additional benefit enjoyed by the former is that they are able to expand without having to raise additional capital. As Housden (*op. cit.*:109) comments, the lack of equity permits the chains to achieve a high degree of market penetration for little capital outlay. Existing specialist personnel and central services are thereby spread over additional units, and the chains gain wider exposure "..to potential custom, an increased number of outlets to accommodate brand-loyal guests and a broader revenue base for marketing and sales promotion". Overall, this increase in sales with a limited capital base means that the hotel chains can achieve a high return on capital employed (Tiltscher, *op. cit.*), and do so with limited risk.

Distribution of risk has received only limited attention in the literature, even though it could act as an important reason for the predominance of contracts in developing countries. Dunning's (1982b) argument is that the hotel chains have no need to exercise the 'stronger' form of control that equity would provide. However, this only holds if Dunning's prior conclusion regarding the harmony of interest is accepted. Additionally, Dave (*op. cit.*) draws attention to the high degree of capital intensiveness in the hotel industry, which generates the high degree of risk. It seems likely therefore that the chains consider the risks involved in ownership of the physical plant to be too high. The building is "..immobile, expensive and... [in any case]...contains no particular technical secrets..."(Wood *op. cit.*:282). In contrast, the assets of the hotel chains are, in contrast, highly mobile, which is a useful attribute in an industry that may be subject to considerable fluctuations in demand.

Such fluctuations in demand, perhaps paradoxically, may explain why hotel owners acceptance what appears to be an unequal bargain. It is the marketing services and skills offered by the contractors which are particularly valuable when the key markets are located in foreign countries. Turner (1976) comments on the importance of the marketing function in the industry, and the dominant role played by those who have the most effective access to the ultimate markets. This is a major advantage that the hotel chains offer to the owners, through their knowledge of foreign markets and their distribution and sales systems located in the major tourist generating countries. Furthermore, the hotel chains offer foreign consumers a known standard and assurance of product quality.

Casson (*op. cit.*) argues that the requirement of consistent quality in product and marketing strategies then demands standardisation. Standardisation then creates an additional advantage, as the product becomes repeatable and consequently lends itself to mass production. There are however potential dangers in this for both the hotel owners and the management companies. Standardisation obscures the diversity of different destinations, and so creates more homogeneous, and hence more competitive, market conditions. Critics have further condemned standardisation as "..the extension of commodity production into the service sector..."(Britton, 1982:253), with damaging implications for the producing economies. But hotel chains also face additional risks, since a single failure can then have repercussions on the whole operation. in other words, if the standard quality is not delivered by one destination or by one hotel, then customer loyalty can be lost to the whole group (Casson, *op. cit.*).

The same risk is faced by tour operators, who also provide access to foreign markets, providing an alternative or additional channel to hotel chains and offering many of the marketing advantages, without the disadvantages associated with a loss of control. Such operators have become a significant conduit to the high volume markets of mass tourism. It is in these affluent areas that the major marketing functions are concentrated (Leiper, *op. cit.*), and where the operators apply their expert knowledge of the market's preferences (UNCTC, *op. cit.*). Jenkins (*op. cit.*) considers that the operator acts as a catalyst of demand, interpreting the market needs of his clients and packaging these needs into destinations. The operators offer foreign hotels a knowledge of market preferences, and also quality assurance that the operators offer to their customers. The assurance serves to guarantee reliable standards at all destinations (Burkart et al, *op. cit.*). Partly because of these advantages, and also because of bulk buying, operators are able to obtain discounted prices. This then offers the hotel a means of further segmenting the product (Gray, 1982). The customer is thus offered competitive prices for a range of destinations, all of which come with the operator's guarantee of satisfaction. The operator's influence is particularly significant in the case of the long-haul, relatively expensive destinations, which include many of the developing countries. Hence for the hotel industries in these destinations the operators's role is crucial, since they are able to influence both the level and the direction of demand.

The politics of international tourism

Several of the issues discussed in the previous sections are linked with the role of the state, both in general and in the particular case of tourism. The liberal economics perspective has largely ignored state actions, although this has not prevented such analysis from suggesting that the state improve the investment climate for the industry. Equally the political implications of mass tourism have been neglected, and the movement of millions of people have therefore been relegated to the analytical category of "demand".

Analysis of these implications is arguably the province of political scientists. However, an examination of the political analysis of tourism reveals a much smaller literature. In a comprehensive review, Richter (1983:314) observed that tourism "..has been almost totally ignored by the discipline of political science... [despite its]...profound political significance". Even the political consequences of tourism's most conspicuous phenomenon, the global migration of millions, has failed to arouse any interest amongst political scientists. Equally, the role of the state in this industry has generated little interest, a neglect that has implications for the interpretation of policy and for satisfactory analysis of the processes and priorities involved in policy formulation.

Tourism is clearly an active policy sector, as demonstrated by the actions of governments in both developed and developing countries. Despite this, there has been little in the way of scholarly analysis of policy formulation. Such work as has been undertaken (see Mathews, 1978; de Kadt 1979; Richter 1982) has been primarily concerned with the issue of tourism policy in LDCs, and that largely in the context of economic development. However, if the data on tourism movements is accepted, then the bulk of international tourism activity takes place in the developed countries, and especially in Europe. Yet despite this, there has been no significant academic analysis of the policy making process (Richter, *op. cit.*). Richter attributes the lack of interest on the part of academics to the nature of tourism as a *chosen* policy. In other words, an area that is not forced upon policy makers by the political imperatives of the day, and where decisions do not have to be taken. According to this view, tourism at the level of state policy may be addressed or ignored depending upon the attitudes of the decision makers towards the sector.

Linda Richter considers that the use of comparative politics could yield valuable insights into the field. Two issues are particularly important. First, the question of the political objectives that give rise to the choice of tourism an a policy area. Secondly, the actual use of tourism developments by particular regimes. Thus questions could be raised as to whether governments choose to pursue a tourism programme primarily for economic and developmental reasons, or whether this becomes a rhetoric that conceals other, political, objectives. In this analysis, alternative agendas could dictate the form and consequences of tourism development. Thus, writing about the Philippines in the Marcos era, she concluded that there is "..nopoint in treating kickbacks and prostitution as design flaws if in fact the government is using the tourism sector to reward political allies..." (*ibid.*.:322).

At the industry level, the part played by operators and chains in international tourism also raises a number of political questions, especially in regard to developing countries. Financial inequalities between corporation and state are likely to be reflected in an unequal power relationship, with implications for the outcomes of bargaining. Questions could be asked about the role of international organisations in global tourism. As Richter (1983) points out, these organisations are not neutral as to the ways that the industry should be developed. Rather they tend to favour particular forms of large scale global systems which could override the political priorities of host nations. In this sphere, however there has been little investigation of the issues that follow from imbalances of power and conflicting agendas.

Britton's (1982) study, one of the few to address such issues, adopted a dependency perspective. His study of tourism in the South Pacific concluded that Third World nations are essentially passive players in an international system dominated by rich metropolitan interests. Consequently the destination countries in the periphery are dependent on, and vulnerable to, the developed countries who provide the bulk of the tourists. In an earlier work, Mathews (*op. cit.*:20) viewed the relationship as little better than a new version of imperialism. In this perspective, "..tourism is a type of metropolitan intrusion by the white, developed world into the non-white, developing world...",with the result that the tourist resorts have become the modern equivalent of the colonial plantation.

Rather more generally, Richter (*op. cit.*) makes the point that one of the few groups to recognize the political importance of tourism has been the terrorist. Attacks on tourists take the struggle beyond the immediate political establishment with which the terrorist is involved, and engage the tourist's home country. The involvement of these countries can lead to alternative political pressures in the quarrel, and also to a much wider publicity than could otherwise have been generated. Attacks against the terrorist's own nationals may elicit little in the world's media coverage, and may even be suppressed at "home". Where the nationals of other countries, and in particular the nationals of the Western countries, are involved, then the likelihood of extensive news coverage is much greater.

Turning to international relations (IR), tourism has again been very largely ignored in academic analysis. There has been some concern over the relationship between aid and tourism flows from the industrialised West to selected countries in the Third World, which Young (*op. cit.*) examined. These conclusions pointed to a relationship between the level of tourist arrivals and the relative amount of aid received by those countries. But this is somewhat isolated and other questions are not raised. What, for instance are the political implications of the flow of tourists to the world's various destinations? Or alternatively what are the implications of tourists being prevented from visiting specific destinations? In this case, the USA has been the most visible in adopting international tourism as a political weapon, principally against communist regimes. Thus from time to time, Americans have been banned from visiting the USSR, China, Cuba and later Libya. As US foreign policy changed however, the bans have in some cases been lifted, and in effect, tourism has been used to foster closer ties and improved international relations. This reveals a particularly neglected area, as international relations as a discipline appears to have ignored tourism to a greater degree even than the political scientists, and far more than the economists.

This conclusion is reiterated in Richter's (1989) study. Primarily she raises questions about the way in which tourism influences international relations between states, reflecting some of the concerns raised in the previous paragraph. National policies towards tourism, therefore, and the way in which they are influenced by tourism flows form a dominant focus. This work, however, raises further issues that have been ignored both by this traditional approach of IR and by political analysis more generally. Amongst these are the role that tourism has played in initiating change in international organisations and the impact of such bodies on national policies. Secondly, when tourism politics in commercial organisations such as the multinational hotel chains and airlines are considered, political analysis has had little to offer. Such organisations, and wider groupings such as the Pacific Asia Travel Association [3], are not neutral as to ways in which the industry should be developed. Yet despite this, only the most limited investigation of the international ramifications of such structures has taken place.

Conclusion

Hence this review of the academic literature on tourism and hotels has revealed that, whilst a number of insights have been generated into particular elements of the sectors, there are still a number of issues left unaddressed. These gaps are partly due to the specific, and limited, orientation of the various social science disciplines and also follow from the general lack of seriousness with which the sector has been treated by academics. The central questions have been posed by economists, focussing, at the macro level, on tourism's role in economic development. At the micro level, a number of specific features of the sectors have been highlighted, amongst which have been the intangible and perishable nature of the product and the volatile nature of the market. These have formed part of the analysis at the macro level of development and judgements have been made about the value of the sector in this process, although the conclusions have often been contradictory.

In contrast to the emphasis on the economics of tourism, political analysis has been much more limited. Hence the essentially political question of why tourism grows in practice when it may be theoretically suspect has been largely ignored. More particularly the international political and economic questions are not brought together in a synthesis that allows us to understand why, as well as how, the sector has developed as it has and why particular choices have been made both by states and by practitioners in the industry. Equally, the relationship between these two sets of actors, particularly at the international level, has not been fully explored. The result has been that the crucial area of interdependence between them, and its effect on political and social, as well as purely economic outcomes has escaped scrutiny. In order to appreciate the reasons that lie behind specific outcomes, it is necessary to develop a model of reality that includes the full range of actors, both political and economic, and that recognises the dynamic nature of the relationship between them. Much of the foregoing literature is particular in its selection of the actors on which attention is then focussed and, in addition, has frequently been concerned with forming judgements about tourism's value, especially for developing countries, rather than with determining causes.

What is required, then, if we are to understand the reasons behind the development of this industry, is a model that alters the emphasis and which is primarily concerned with the causes of observed outcomes and with the consequences of these for different actors. The next chapter will consider this problem in general, suggesting that new models of analysis are required if answers to these broader questions are to be derived.

NOTES

(1)Internal Note to the Director General for Development, European Commission, Development Directorate.

(2)In what has become a classic of the critical literature on tourism, de Kadt reported on a major conference, jointly organised by the World Bank, that effectively marked the Bank's withdrawal from tourism-related lending.

(3)This organisation was renamed in 1986 to reflect the growing importance of Asia in the Pacific region; until then the title had been the Pacific Area Travel Association.

CHAPTER 3

Theoretical Perspectives on International Phenomena and Research Methods

The review of academic enquiry in the previous chapter has exposed a number of issues. From the point of view of this thesis, one critical issue is the lack of attention that international relations theorists have paid to tourism. Secondly, the review has shown that enquiry into the sector has been fragmented, so that analysis has been bounded by the perspectives of the particular social science disciplines that have been employed. Indeed, the latter may explain the former, in that traditionally IR theorists have confined their attention to relations between states and to the diplomatic and strategic issues engendered in the high politics of such relationships. Hence if tourism is considered unimportant by the social sciences in general, from this perspective it must be trivial indeed. Such a conclusion is not, however, supported by current thinking in IR. These developments now recognise that the range of relationships that can affect outcomes in the international sphere include many that lie beyond the confines of inter-state exchange. Consequently, non-state relationships also become significant, as the perspective is expanded to embrace firms and markets, in multiple relationships with each other and with the governments of nation states. Hence from this point of view tourism, with its considerable international flows of money, people and technology, becomes a valid object of analysis.

Whilst one objective of this dissertation is to describe and explain changes in the international tourism industry, this is secondary to the main thrust of the work. The primary task is to argue that the recent thinking in IR, embodied in the new international political economy, is a significant improvement on traditional IR paradigms and permits far more fruitful explanation of international social phenomena than before. Tourism in general, and the particular case study of Thailand's tourism and hotel industries that makes up the core of this work, is thus a vehicle for a review of the new IPE. The objective is to offer a practical example of the analytical use of the new IPE as evidence of the explanatory power of a new paradigm. The major task of this chapter is a discussion of the evolution of this approach, from the starting point of IR theory embodied in realist models of international relationships. As part of this, the chapter also considers the issue of fragmentation in the social sciences that epitomises academic enquiry generally and which was demonstrated in microcosm in the previous chapter. This issue has been addressed in the new IPE, which seeks to demolish the dichotomy between aspects of reality that social science theories have imposed. The chapter begins by considering this specific problem, before reviewing the development of IR and the new approaches of IPE.

One of the key problems in the study of social action at the international level is the choice of the specific relationships that should be captured within the analytical framework. Traditional IR theory confined attention to the high politics of diplomacy and hence to relationships between states. Thus to an almost total degree, economic relationships were ignored. The turbulence of the 1970s, characterised by the changes in monetary management that followed the American refusal to abide by the Bretton Woods agreements in international monetary affairs and the economic upheavals that followed the oil crisis, provided vivid evidence that economic relationships were also powerful factors in international relations in general and hence should form part of theoretical analysis. Even before these events took place, a body of scholarship was emerging that recognised the interdependence of international politics and international economics. In 1970, Susan Strange pointed to the pressures on the international political system being wrought by the rapid changes in the international economy (Strange, 1970). Hence the assumption that underpinned the separation of IR from any concern with the world of international economic relations, and which justified the existence of IR as a discipline in its own right, was under attack. Before turning to the evolution of IR into a broader perspective, this chapter begins with an examination of this fundamental issue first by a critical examination of the basis for the separation of politics from economics.

Politics and Economics

The analytical separation of politics from economics can be traced to ideas about society that developed in the eighteenth century and which accompanied changes in the way that society was organised. Western Europe was transformed from a society based on status and organised in a rigid hierarchical manner into one in which structure was less formalised, based increasingly on a set of market relationships between its members. Markets replaced agrarian feudalism and the role of the state became increasingly separated from the actions of civil society. This then corresponded to the analytical separation of political and economic life that provided the conceptual framework for the development of political and economic social science. In this conceptualisation the role of the state was seen to be shaped largely around the need for security, and the emerging forces of capitalism were to be left to organise production free from state intervention. The argument thus legitimised the notion that the new class of capitalist producers should be left to their own devices and the state should be relegated to the sidelines of productive activity (Tooze, 1984).

This conceptual separation is an essential part of the ideology of liberalism, which, as the dominant Western school of economics, has had a considerable influence in both academic circles and in the field of policy-making. The other key assumptions of liberalism include the primacy of efficiency above all other social values, and the essentially harmonious nature of economic relations (*ibid.*). This allows a general conclusion that free competitive markets will permit consumers to maximise their satisfactions through their purchasing decisions. These desires will be signalled to producers through the movement of prices and, hence, rational producers will seek to maximise their profits through producing more of those goods and services which experience price rises and fewer of those with falling prices. This response by rational producers thus ensures, eventually, that society's productive resources are used most efficiently and that an equilibrium is achieved between supply and demand (Barry Jones, 1983).

The, essentially benign, conclusion that follows from the separation of markets from government is not, however, universally shared. Other views of the relationship between politics and economics permit alternative conclusions. Both Marxist and mercantilist perspectives offer differing interpretations. The latter, in its neo-mercantilist approach, represents a more recent extension of the classic mercantilism that traditionally prescribed a subordination of economics to political requirements. In its earliest conception, mercantilism viewed the interests of the state as being chiefly served through the accumulation of precious metal. This in turn would allow armies to be hired, equipped and fed, hence ensuring the security of society and, more critically, the state. Hence economic policies provided the means of satisfying the military and political purposes of governments. The later conceptions of neo-mercantilism adopted the same basic premise of the primacy of politics over economics that had shaped earlier thinking, but the domain of economics was extended beyond the pursuit of precious metal alone. Thus the domestic economy, its agriculture and industry, was seen as the servant of government and was harnessed to the goal of state security and self-sufficiency (*ibid.*.).

In contrast, Marxism takes the opposite view, contending that politics must be regarded, analytically, as subordinate to economics. In this respect the Marxist perspective is closer to liberalism, which normatively presumes a subordination of much of politics to economics; thus governments *ought* to serve the needs of business. However, the Marxist criticism of liberalism argues that its benign picture of harmonious market relations and efficiency gains from competition is a deliberate distortion of reality. Marxism takes the contrasting view that market based systems, of which industrial capitalism is the most developed, lead to exploitation and conflict between social classes (*ibid.*). The central arguments of the Marxist perspective imply a specific concern with the international political economy, relating changes in the domestic sphere to the international expansion of the capitalist system. At this point, therefore, the discussion turns to a review of the way in which these three perspectives bear upon the analysis of international phenomena.

International Politics and International Economics

Just as these competing models offer different conceptions of the relationship of politics and economics within states, so each offers a differing perspective on the international system. The liberal perspective continues the abstraction of economics from politics and assumes that market relations between countries are harmonious and mutually beneficial. Thus patterns of international trade, in particular, are regarded in an apolitical manner, and liberal theories of trade purport to explain events in which coercion plays no part. This approach, based upon the central notion of "comparative advantage", then leads to conclusions that support and justify free trade and the removal of state interference (Staniland, *op. cit.*).

Neo-mercantilism offers a contrasting view to liberal theory, concluding that all aspects of trade between states must be subordinated to political interests. The early objective of bullion accumulation is replaced by a positive balance of trade, as the means by which the necessary financial resources may be put at the state's disposal. This suggests that international trade should properly be managed in the pursuit of these goals and hence becomes a prescription for political intervention in world trade (Barry Jones, *op. cit.*). This line of reasoning has a close affinity with the realist perspective in IR, which also stresses the primacy of political interests in relations between states. In this conception, the central focus is not the liberal's world of markets, but a group of self-interested states existing in conditions of international anarchy. It is a model of the world in which inter-state relations are characterised by war and diplomacy, and in which trade is a weapon in the constant struggle for security. Consequently the dominance of state-centered politics, embodied in the realist perspective, not only places economics in a subordinate role, but also denies the existence of an international system that may play a role in international outcomes. This perspective, in which power, and specifically the power of the nation-state, plays the over-riding part, thus reaches opposing conclusions compared to liberalism. The value of free trade and unconstrained markets at the international and domestic levels is regarded with skepticism, and the paramount importance of national security permits both mercantilists and realists to prescribe state regulation of all economic activity (Staniland, *op. cit.*). This permits the application of all forms of protection for the domestic economy, encompassing the full range of import controls including tariffs, quotas and other non-tariff barriers. In addition, this approach condones the use of government subsidies to domestic producers, both direct and in support of infrastructure, for example in the nurturing of technological research. The state thus encroaches legitimately on the economy, which it has a right and duty to direct (Barry Jones, *op. cit.*).

Marxism, on the other hand, views the state as the servant of specific elements of society, namely the dominant social class made up of owners of capital. The central feature of the capitalist system, the continuous competition so favoured by the liberal perspective, then forces the economic system to become international. Competition forces the capitalists to invest in more productive capital equipment to save wages, which then leads, in Marxist analysis, to a falling rate of profit. To overcome this decline at home, initially the capitalists sought more profitable opportunities abroad in undeveloped areas of the world. In order to protect these new investments, political control was established from the home base through the expansion of the imperial system and the creation of the European colonies. The decolonisation of the post-War period was accounted for through a modification of this approach with the introduction of the concept of neo-colonialism. In this way, political independence was not seen to interfere with the underlying relationship between the core of the rich ex-colonisers and the periphery composed of the ex-colonies. Thus the underdeveloped countries remained subordinate to, and dependent upon, the leading capitalist countries. The latter then continue to benefit from these relationships, retaining high standards of living as a result of cheap imports from the periphery.

A specific concern with the issue of the relationship of the poorer "Southern" countries with the rich countries of the "North" lies at the core of the structuralist perspective (Blake and Walters, 1976). Sharing a radical approach with Marxism, this perspective views the relationship as structurally asymmetrical, with the well developed northern industrial economies maintaining patterns of unequal exchange with the south (Tooze, *op. cit.*). Structuralists argue that the bias in the system must be removed as a pre-requisite to domestic development in the south and that this can only be achieved through political initiatives (Staniland, *op. cit.*). Thus reform of the international economic order by political means at the global level is the inevitable conclusion, differing from more radical Marxist prescriptions that would support the overthrow of the system (Barry Jones, *op. cit.*).

Interdependence Models

These differing perspectives have provided the analytical tools which have traditionally guided the study of international relationships. A growing body of scholarship, beginning some twenty five years ago, has, however begun to question the value of choosing one over another. More fundamentally, this approach has raised doubts about the merit of attempting to separate politics from economics and has considered how the empirical world could be analysed in more comprehensive ways. The next section of this chapter reviews the development of this more recent attempts to develop an analytical synthesis between the political and economic dimensions of international phenomena.

Arguably, the lead was given by Cooper's (1968) work on the growing interdependence amongst the members of the Atlantic community. Cooper, an American economist, was concerned initially with the implications of payments imbalances between the Western industrialised nations and the impact of these on national policy-making. Underlying the thesis would appear to be a concern with the decline of American independence, as European actions and policies began to influence the United States, principally through the balance of payments. The importance of the argument lay in the recognition that national autonomy was becoming constrained by actions in the international sphere and that, as these actions had economic effects, foreign policy should take account of this. For the study of international relations, this meant that economic considerations should be given greater weight and the scope widened beyond the almost exclusive concern with security issues.

Cooper's main concern, however, was with economic policy, and the decreasing ability of states to pursue independent economic goals. This then raised the central question of how to coordinate the world economy under conditions of increasing interdependence so as to preserve the benefits of international economic intercourse. The American hegemonic position was declining, with the result that the international system was left without an over-riding authority, yet at a time of increasing complexity. Changes in the volume of world trade, the spread of technology, the internationalisation of both financial markets and the decision-making domain of the firm all contributed to the increasing degree of interdependence between the industrialised nations. Ultimately, Cooper considered, the choice of what to do about the international economy would require political decisions.

This position, however, continues to imply that politics may be considered separately from economics, even though the importance of interdependence between national economies is clearly recognised. This is perhaps not surprising as a slightly later essay on the analytical integration of politics and economics opened with the statement that "... the work of analyzing the political dimensions of international economic problems ... has hardly begun..." (Kindleberger, 1970:v). Kindleberger adopted two perspectives, namely the economics of international politics and the politics of international economics, thus recognising the interdependence between politics and economics as well as that between national economies.

However, Kindleberger restricted the choice of variables to the international, ignoring the effect of domestic politics on foreign policy and, more critically, the role of non-state actors including multinational corporations. This issue was raised by Gilpin (1975) in an account of the role of large transnational firms in the international political economy. This essay is also concerned with the relationship of economics and politics and suggested a method of theorising their relationship using time as a critical dimension. In this conception, international political economy is characterised by "... the reciprocal and dynamic interaction in international relations of the pursuit of wealth and the pursuit of power..." (*ibid.*:43). Time determines dominance however, as in the short run politics is the determinant of economic outcomes, but in the long run the roles are reversed. Gilpin's short run relationship is thus similar to a realist analysis, whilst the view of the long run is closer to the Marxist position. Gilpin suggests a mechanism for political change by which long-term shifts in economic activity alter the balance of political power, which then in turn influences short-run economic activity.

Regime Models

This notion of a structure within which international political and economic phenomena take place was explored from a somewhat different perspective by Keohane and Nye (1977). They were chiefly concerned with the international political structure within which both political and economic processes took place, and attempted to account for the way that changes in the structure took place. Whereas both Cooper and Kindleberger began from a liberal economist's stance, Keohane and Nye developed an argument from a traditional realist point of view. This was then modified to deal with the existence of interdependence, and especially the economic interdependence which a purely realist perspective would overlook. In doing so, the authors challenge the basic assumptions of realism and add other dimensions and actors to the model. Thus the interdependence model adds, first, other actors besides states and, second, agendas for debate between international actors which do not have war and diplomacy as the main, or even sole, issues. The model goes further, suggesting that there are multiple agendas consisting of multiple issues and that the order of priority is no longer a given. In a further departure from the realist perspective, Keohane and Nye propose that other sources of bargaining power between actors must be considered in addition to coercion. Hence, not only is military force only one source of power, in many situations it is not necessarily a usable source. Under these conditions, labelled *complex interdependence* by the writers, the nature and effectiveness of power varies according to the issue and with the effect that other issues may have on the central concern (Staniland, *op. cit.*). Outcomes are also affected by the process of bargaining, which takes place within a specific structure, or *regime*, and which therefore may also influence the nature of outcomes through their impact on behaviour.

Keohane and Nye define regimes as networks of rules, norms and procedures within which interdependent relationships are set up, controlled and operated. Regimes act by imposing regularity on behaviour and as intermediate factors between structures of political power and the outcomes that result from bargaining in the international system. In an important departure from traditional perspectives, change is recognised as an important feature of the system. In particular the focus is on the way that regimes change, as these writers complain that there is "... no theory in international relations that adequately explains such changes.." (*ibid.*:21). Four distinct models are advanced to fill this gap, each of which is appropriate in particular circumstances.

The first, the economic process model, takes changes in technology and in the degree of economic interdependence as the cause of regime change. The second, the overall power structure model, stresses changes in the distribution of state power. The third model is more complex as it differentiates the distribution of power by issue-areas; in other words the nature and degree of power available to participants varies, depending on the issue in question. Regimes change within particular issue-areas, without necessarily causing change in other areas, and result from changes in power capabilities within the particular area. The final model includes the role of the international organisations, in particular the United Nations. This envisages a set of international, multi-level networks that influence long-term behaviour and which include both governmental and non-governmental actors. The method of analysis is then to apply each of the four models in turn, starting with the first, which, should it fail to provide an adequate explanation, is to be rejected in favour of the second model, and so on until the fourth is reached. At some point then, Keohane and Nye claim that this will help explain observed changes in regimes.

The emphasis of the work is thus placed on regime change, and the mechanisms by which this takes place. Regimes themselves however, as a feature of the conditions of complex interdependence, are taken as given. Keohane and Nye confer a major role on regimes in contemporary international relations, but the justification for their importance is not easy to discern. Nevertheless the concept of regimes has generated a large literature, and a debate over the value of the concept. Krasner (1983) considered that this interest was generated by a shift of the focus of attention, away from the arena of military and strategic conflict and towards issues generated by trade, energy and the North-South debate over world economic order. In other words, the high politics of strategy and diplomacy were being displaced by the low politics of essentially economic matters, as traditional realist positions were rejected by a contemporary school more concerned with the problems of complex interdependence. Both however adopted the notion of regimes. The realists added regimes to their model of independent, power-maximising states in an environment that remained largely anarchic; where the efforts of individual states failed then regimes would be created to resolve the problem. Regimes were not easy to create, but once in place would survive and influence international outcomes. The contemporary, liberal, school, on the other hand, adopted the view that regimes are an integral feature of world politics, intervening between basic causal variables and observable outcomes. Unlike the realists, who consider regimes to be rare in general and non-existent in the area of security, the liberals consider that regimes play a pervasive role. Thus in all areas of international relations, including such areas as major power rivalry, which are traditionally considered clear examples of anarchy, principles, rules and norms will, in this view, still constrain the behaviour of statesmen (Krasner, 1982a).

The Political Economy of International Relations

However this affection for regimes is not universally shared. Strange (1982) considers that the concept confuses rather than clarifies, particularly by assuming more order than actually exists in a disordered world. Further, the notion of a regime can become normative, implying that order has value, but ignoring the questions of order for whom and, indeed, by whose orders. More important though, the concept overlooks two related issues. The first is that in general the international system is far from being the coherent, regulated and organised system implied by the notion of a regime. Instead it is characterised by an absence of government, dispersion of authority, weakness of law and precariousness of peace and order. Where international arrangements exist, they are fragile and continue only so long as those with power accept the existing system. They reflect, rather than shape, the underlying power structures in the international system and vary with changes in those structures. A concentration on regimes also leads to two important areas being overlooked. The first of these is those areas of international relations where no regime can be said to exist; areas marked by a lack of agreement or by conflict, but which still affect outcomes in the international system. The second omission embraces the role of both markets and technological change. This is seen to be a fundamental problem, as "... the cause of chain and effect so often originates in technology and markets, passing through national policy decisions to emerge as negotiating postures in multilateral discussions... [so that]... it follows that attention to the end result - an international arrangement of some sort - is apt to overlook most of the determining factors on which agreement may, in brief, rest..." (*ibid.*:490).

Gilpin (1987) takes a broadly similar view of the importance of markets and technology, but confers a longer life on international arrangements. Gilpin is however critical of existing international arrangements claiming that although a "... significant transformation of the postwar international economic order has occurred... [yet]... inertia, that powerful force in human affairs, has carried the norms and institutions of a decreasingly relevant liberal order into the 1980s.." (*ibid.*:3). This position echoes Krasner's (1982b) case for the importance of regimes, in which he argued that changes in regimes lag changes in power relationships. As a result regimes can develop independence and autonomy. The lags responsible for this can arise from custom and usage, from a fear of the uncertain future or from an unwillingness to invest in the new fixed costs required in the creation of new regimes. Regimes thus develop a life of their own and continue to influence behaviour in spite of changes in underlying power relationships.

Gilpin's emphasis, however, is on the interaction between markets and states, whilst recognising that international arrangements may affect the relationship. He is principally concerned to establish a theoretical conceptualisation of the relationships that constitute the political economy, but at the outset rejects the notion that there can be a clear methodology or unifying theory. He defines instead the nature of political economy as a set of questions to be explored, questions that focus on the clash between the logic of state and market in terms of internationalisation. The continuing compartmentalisation of the political system into sovereign states is contrasted with the increasing economic and technological interdependence of the globe. Markets thus form a major element of the international system and the participants in market transactions play their part along with the officials and diplomats in regimes and the affairs of states.

Three issues emerge from this clash in logic between states and markets. The first concerns the cause and consequence of the rise of the international market system. Secondly the relationship between economic change and political change, and third the effect of a world market economy on domestic economies. In sharp contrast to regime analysis, with its emphasis on the political sphere, this formulation stresses the dominance of economic forces in the international system and in doing so reflects Lenin's reformulation of Marxism. Both view states as being in conflict over economic issues; international relations then become a struggle over economic self-interest. Marxism however fails to account for the role of political and strategic factors in international relations, which Gilpin considers significant. Despite this limitation, Marxism raises three further issues which are "... crucial to understanding the dynamics of international relations in the contemporary era..." (*ibid.*:54). The first concerns the genesis of conflict and political change, which are seen to arise from uneven economic growth. The second is concerned with the relationship between the market economy and foreign policy, where the Marxist view is that foreign policy is shaped essentially by economics. Finally there is the issue of whether capitalism can moderate its less desirable features as it expands beyond the boundaries of state authority. In pursuit of this point, Gilpin raises the issue of the management of the international market system and reiterates Cooper's earlier argument concerning the problems of economic interdependence. The central issue is that, in the absence of a hegemon, increasing international economic interdependence requires either international agreement to enforce the rules of an open world market economy or else a high degree of policy coordination amongst states. As, in this essay, America is seen to have withdrawn from its post-war hegemonic position, these issues have become critical.

Gilpin traces the transformation of the global political economy, from the reconstruction period of the 1950s, through the 1960s expansion, the recession of the 1970s to the slow growth of the 1980s. These shifts are partly explained by reference to structural change, particularly in respect to America's international position. The initial growth is attributed to three factors, of which America's hegemonic role is the first. In addition, Gilpin cites the existence of beneficial supply factors and the application of Keynesian policies that stimulated demand. At the end of the 1960s, however, America's dominant position was challenged by the growth of other, reconstructed, economies. The international institutions, and particularly the international monetary institutions, that had been a created under American influence were also in decline. From 1973, with the introduction of flexible exchange rates, America's control of the world monetary system was restricted, and at the same time power over the world energy market was transferred to the oil producing countries. In Gilpin's terms, the withdrawal of the United States from the role of world leader undermined the earlier stability of the post-war years. The result was to accentuate the problems of the world economy in the 1980s, as interdependent economies were left to function in a system characterised by political anarchy.

Towards a Synthesis

The importance of this point is that it suggests that the locus of power in the world system is now diffused, in contrast to previous years of hegemonic leadership when the source and location of principal power structures was more easily identifiable. The importance of power in the international political economy is stressed by Strange

(1988), who is equally concerned with the interaction of states and markets and with the sources of power and its distribution between the two. Changes in this distribution will then influence short-term outcomes and the nature of the agreements and arrangements between the actors. Strange proposes a taxonomy of the international political economy, within which changes in relative power may be identified. Once power is seen to be the crucial variable, present both in politics on the one hand and economics on the other, an analytical synthesis becomes possible. This then offers a framework that allows an interpretation of the dynamic and interactive nature of political economy without prior assumptions regarding the relationship between politics and economics.

The foregoing discussion has shown the futility of trying to do this by concentrating on politics whilst ignoring economics, or on markets whilst ignoring politics and authority systems. Both approaches are restrictive. Equally restrictive is the attempt to interpret a world characterised by complex interdependence through a concentration principally on regimes. Again the problem is that such an approach restricts its field of vision and hence is in danger of overlooking causes that may arise outside the boundaries of regimes. Whilst the Marxist approach to the international political economy recognises links between economics and politics, this approach both assumes a hierarchical relationship between the two and, further, ignores the importance of security in the international system. Hence this approach is in total contrast to traditional international relations which has concentrated on military and security issues to the virtual exclusion of all others. What is required therefore is an approach to international political economy that is broad enough to grasp all the relevant variables and sufficiently flexible in its approach to accommodate changes in relationships between the variables and in the importance of the variables themselves.

Structures in the International Political Economy

The framework proposed by Susan Strange not only pays particular attention to the role of power in international political and economic relations, but also searches for the widest possible spectrum of the sources of power. Lying at the heart of this approach, power also serves as a unifying concept between economics and politics. The relationship is conceptualised as an interactive and dynamic, rather than hierarchical or as an analytically separate diad. This new international political economy was developed in response to the concern that there was a need to end the analytical isolation produced by the conventional perspectives of international relations discussed in the early sections of this chapter (Strange, 1991). The discussion that follows reviews in more depth this departure from convention.

The approach broadens the analytical perspective through a taxonomy of the international political economy: a set of four domains, which Strange (1988) terms the structures of production, security, knowledge and finance. Within each of these, power relationships may be examined as key causal factors behind observed, empirical outcomes. In other words, different sources of power may be identified, before considering the exercise of power and the consequences of that use. This concept of power relationships within a specific structure is derived from Marxist analysis of the relations of production. In this conception, power lies in the hands of those who are able to determine both what is to be produced and the manner in which it is to be carried out. Thus, not only the nature of productive output, but also the combination of land, labour, capital and technology used in the production process and the returns received by each, are determined by power relations. Those power relations are not simply confined to direct relationships, for example between buyers and sellers in goods or product markets where relational power is exercised in bargaining, but also include structural power relationships. Relational bargaining is thus contextually-bound. Structural power determines the environment in which such bargaining takes place, and describes the social and politicoeconomic conditions faced by specific actors. Thus, for example, the nature of regulation imposed by political authorities and conditions of market demand for factors and products set the context for choice in given spheres of production.

The relationship between authorities and markets forms a key aspect of the framework. It is this power balance that is responsible for the way in which bargaining takes place, and costs and benefits are distributed. The relationship has been demonstrated particularly clearly in the way in which control over the creation and distribution of credit has changed in the past three decades. Power over credit creation lies with both banks and governments, and the way in which this is done is a function of the degree of regulatory control that governments exercise over the banking system. This domain of the IPE, the finance structure of the framework, has exhibited shifts in the locus of control, from domestic government regulation to much greater market freedom. From the creation of the Eurodollar markets in the 1960s, that moved certain banking operations beyond the immediate control of the US government, to the deregulation of the 1980s, the balance of power has been shifting from specific political authorities to the markets. Thus the determinants of credit creation, the rules that set the limits, and the rules that determine the allocation and use of credit are now set by private operators in the market, with governments playing a lesser role. A similar, although less consistent, shift has occurred in the second aspect of the financial structure, which comprises the monetary systems that determine the relative values of national currencies in which credit is denominated. Thus, since the shift to a floating dollar in the 1970s, exchange rates between currencies have been determined both by markets and by the policies of governments. Again, as with credit, the relative role played by each is determined by the degree of freedom that governments allow to markets.

The role of government remains most significant in a third domain, the security structure. This notion derives quite clearly from the traditional concerns of IR, but has been expanded beyond a central focus on the security of the state from external attack. The security structure is seen to be the power relationships that emerge from the provision of security by certain sectors of society for others. Those who accept this protection are then disposed to accept the authority of the providers in other social spheres. The principal provider remains the institution of the state in both the domestic and the international spheres. This concept of the security structure differs from the traditional IR approach, however, as it goes beyond issues of physical security. Thus concerns for security of supply, of food, of energy and, increasingly, the security of the environment are included as issues affecting state policy.

The fourth domain is the knowledge structure, at one level comprising the realm of ideas, beliefs and values and at another, no less important, the field of technology. The former initiate and legitimate specific choices, whilst changes in the latter has implications for the distribution of bargaining power, particularly between states and markets. As the technology of communication has changed, for example, so the power of the state to regulate and control the flow of information has diminished, and the power of private corporations has correspondingly grown. The ideological aspects of the knowledge structure, in addition to acting as determinants of power relations, also provide a link between the four structures through the role of values. Values influence choices, whether in state policy, in corporate strategy and in the choices made by groups and individuals in other social spheres. Efficiency, equity and order each play a role within the structures of the IPE, with the mix of priorities determining choices constrained by the context of structural power.

Thus, to summarise, the structural framework recognises that the objectives of different actors differ and, through an explicit consideration of values, examines varied motives for behaviour. The primary social values of security, wealth, freedom and justice are all considered as prime objectives which may be held by different actors in different combinations at different times. However, the ability to pursue specific objectives varies, both as a function of the relative power of actors and also, as has been emphasised, as a function of the context within which specific actors are located.

The contextually-bound nature of behaviour is considered through the taxonomy of power structures. This concept not only draws attention to the degrees of freedom that specific actors have available, but also extends the range of variables that must be considered. The structures of production, security, finance and knowledge may each have an influence over actors through the indirect use of power, primarily by setting the range of available options. Hence, in addition to the relational power of one actor over others there is also a consideration of structural power, whereby the rules of the game for some are set by others, without there necessarily being any direct relationship between the parties. For example, changes in ideologies and beliefs or in technology (the constituents of the knowledge structure) can lead to changes both in the range of choices open to specific actors whether these are governments, firms or individual human beings, and can cause changes in other structures. This is an important point, as it highlights the interactive nature of the global political economy. Hence the changes in the knowledge structure can affect the structure of security, and this in turn may have implications for both production and the international financial structure.

The set of arrangements that make up each of the structures of power are viewed as the outcomes of negotiations between relevant actors and hence are dynamic, with changes endemic to the system. The principal sources of power available to negotiate these bargains lie in political authority and in resource control, which differentiates the two major categories of actor. On the one hand there are those whose principal source of power lies in some form of authority, most generally governments and similar institutions, whilst on the other hand market operators have a dominant source of bargaining power through their control over resources. This raises a final, but nonetheless critical, point regarding the power of markets. Markets are a form of social organisation in which power may be decentralised and diffused, the more deregulated and competitive the market becomes. In such cases the power to control the market is removed from individual actors, whether these are authorities or monopolistic firms, and the market exerts an influence over actors. The framework then embraces this concept by explicit consideration of the relative degree of power between authorities and markets within each category of the global structure of power.

Hence, in conclusion, the structural approach looks to multiple arenas to determine sources of change in the international system, ordering the arenas according to sources of power. This enables IR theory to step outside the self-imposed limits of international politics so that all forms of international relationships may be considered, including the relationship between international and domestic arenas. The framework does not draw impenetrable barriers between arenas, but rather recognises the dynamic and reciprocal linkages that characterise the interactive, changing structure and processes of the global political economy.

Likening the global political economy to a multi-layered iced cake, Strange and Tooze (1981) suggest that the structures correspond to the layers, which lie beneath the political map of nation states etched in coloured icing above. A vertical cut along the contours of different states will reveal that the layers beneath are of varying thickness: in some cases the security structure will be of prime importance, whilst in others, its influence will be less and other structures, such as the international monetary and financial structures, will more substantially affect outcomes. This will be valid "... whether the cake is cut downwards following the frontiers of states indicated by the icing, or whether it is cut in wedges that correspond to *sectors* - like fish, grain, copper, automobiles, textiles, or tourism... " (*ibid.*:11). As with states the significance of the basic structures will again differ in each of the wedges, with the impact of authority differing in its application and its source.

Whilst the state remains the paramount source of authority, it is not the only possible source, nor is the "authority of the state" necessarily unitary and uniform. Thus sectors may be subject to a number of different influences, whose salience must be considered in each unique case. Nonetheless, the key role played by states as sources of authority requires that analysis begins with questions about the goals of states and the way in which these are affected by specific sectors. The more that outcomes in a sector affect the interests of states, the more state authority will play a key role. This leads to a second set of questions regarding the structure of authority in the market, which will depend on such things as the concentration or dispersion of productive capacity and the degree of homogeneity of buyers in the market.

A definition of sectoral analysis thus becomes "... the study of the political economy of a specific industry in its world context...", which will therefore allow analysis of a range of issues, bargains and outcomes. Rather than concentrating on states, therefore, in the manner of conventional IR theory, and hence restricting issues to those of importance to states, the study of sectors opens up the range to issues salient to other groups and classes. These groups also play a role in international relationships, and outcomes in the global IPE are significant for such groups in as well as for states. Thus besides inter-governmental relationships, those between governments and companies, inter-company dealings and relationships between companies with other groups such as banks and workers become a key part of the analysis. An equally important part of the analytical method is an understanding of the historical process within which structures and sectors have evolved and within which they continue to change. An understanding of change in the global IPE only becomes possible in the context of this process. As a consequence, sectoral analysis rejects the notion of historical background, adopting instead, the concept of historical processes as an integral part of the explanation of current realities.

This structural framework of the IPE and its application to the analysis of particular sectors is not presented as the final step in theorising the international system, but rather represents a further step in the process of theory development. The study that follows is equally presented as one further step, the value of which lies in adding one more piece of evidence that the method allows for a more comprehensive understanding of outcomes in the international system than a concentration on traditional theories and methods could achieve.

Research Methodology

Attempts to generate satisfactory explanation of social action at the international level which use the preceding theoretical framework require matching methodologies. The framework is broad, capturing a wide range of social domains and deals with nebulous concepts of which power is the most important. The framework demands that the researcher remain constantly open to multi-causal explanations and, as part of this open-ness, refrains from specifying connections between potential variables. Such a set of abstract relations thus demands an equally open methodology to capture and consider the full range of factors and forces that help explain observed empirical outcomes.

In operationalising this framework, the study drew on the experience of ethnographers in three critical areas. The first was through the use of in-depth unstructured interviews (Bryman, 1988), largely with practitioners, defined broadly to include both private and public sectors. These interviews formed the core of the research process and were conducted at the same time that the framework itself was being developed. This constitutes the second way in which the methodology used the ethnographic experience, through the contemporaneous use of empirical work in the process of theory development (Hammersley & Atkinson, 1983). Finally, the advice offered to the researcher at the onset of the study, paralleled that given in many cases to those about to embark on ethnographic research, which essentially boils down to "... go and do it ..." (*ibid.* 28).

Hammersley and Atkinson justify the use of such an unstructured research process as being applicable to fields where it is difficult to programme fieldwork and where the unexpected is likely to arise. Since the framework was largely untried and in a developmental phase, a lack of structure and an open-ness to the unexpected in the research process were particularly appropriate. This also permitted the exploration of multi-causality through the interview process, which a programmed approach would have constrained and, perhaps, denied. In this way, the research process became a voyage of discovery that comprised the most intellectually intriguing component of the study.

There are, of course, also costs inherent in this approach. Both costs and benefits are captured in Measor's (1985:67) concept of "rambling" on the part of the interviewee who, in doing so, moves away from the designated areas in the mind of the interviewer. Thus, whilst the respondent moves "off the point" designated by the researcher's preconceptions, the researcher gains access to data that the respondent considers central to the issue. Brymer (*op. cit.*) sums up the technique as one in which the researcher provides minimal guidance and allows considerable latitude for the interviewee and points out its importance in other forms of qualitative research in the social sciences besides ethnography.

A qualitative approach was considered necessary for this study for other reasons beyond those already discussed. The first, alluded to above, is the problem of quantification of the central concept, namely power, and the second is the importance of historical processes in deriving explanations of the present. Given that power, as defined in the new IPE, is a much more wide-ranging concept than is found within traditional IR, obtaining data on the role of power in observed changes required appropriate techniques. The unstructured interview again provided the means, allowing the researcher the chance of "... seeing through the eyes of ..." those who played a part in or were affected by the outcomes under scrutiny (*ibid:* 61). This also facilitated the attempt to incorporate the essential historical dimensions of the explanation.

However, this raises two problems. The first is that such verbal reports may be fallible, either because of unintentional lapse of memory or because of the respondent's wish to protect some personal position. Whilst these problems may arise in any cultural context, the latter is more acute in the Asian case, where different cultural norms affect the way in which responses are given. Two techniques were adopted to deal with these issues, one of which involved an extensive system of verification with published sources. The method and advantages of this will be explained more fully below, following a discussion of the issue of the practice of qualitative research in the Asian context.

It is worth stressing, especially for those whose research agenda has been shaped by exposure principally to Western values and methods, that social behaviour in the Asian context differs in certain respects from the West, which has a potential impact on research results. In the general case it is necessary to empathise with respondents in qualitative research, a practice that requires a "... capacity to penetrate the frames of reference with which they operate ..." (*ibid:* 61). However, in the Asian case it is even more important to recognise the existence of different sensitivities, sensitivities which have a potential impact both on the interview process itself and on the willingness of respondents to be cited as sources of information.

This sensitivity is best represented by the concept of "face", embodying notions of status and respect that are more socially significant than in the Western context. Redding (1990), in a major study of the impact of culture on business practice in the region, highlights the importance of giving face during the interview process as a necessary precursor to the generation of confidence. In his research, an atmosphere was created within which respondents could feel at ease; in that case a private dining room in a high quality hotel where the atmosphere of the boardroom dinner was replicated. The objective was to overcome barriers to the free flow of information. This was equally important in this study, but where resource constraints prevented an imitation of the Redding setting. Instead two other techniques were adopted, that were also important in Redding's work. The first was to approach respondents via personal introductions, through a network of contacts that were developed during the research process, using a direct approach only if no other route was available. Secondly, it was critical to establish the researcher's credentials with the respondents since, in Asia, "... the interviewer has to have credibility for knowledge ... [of the field] ... either as a previous practitioner or a practising consultant, or active researcher, or all three ..." (*ibid:* 246). The respondent then feels that the researcher also has a right to an opinion on the topic, since both have some relevant experience. In this study, credibility was established initially through previous experience as a practitioner and, progressively, as a practitioner and researcher, which were then combined with the networking process to generate the required level of confidence.

This does not guarantee, however, that a peculiarly Asian concern with secrecy is necessarily overcome. As a further example from Redding's work, all the names of his 72 respondents were disguised, since all were "... notoriously guarded about their own companies, seeing them appropriately enough as private possessions ..." (ibid:

249). In particular, there is a reticence to disclose financial information, which is also seen as being part of the private domain. Clearly this inhibits the research process, and necessitates surrogate measures in many cases. This also helps to overcome the sensitivities about the use of information which forced Redding to hide the true identity of his respondents and which was also a feature of the Thai research. In some cases, respondents were willing to be cited, but usually only in non-controversial cases. In order to protect these levels of sensitivity therefore, a great reliance has been put on secondary sources in the details of the case study.

The case blends the richness of the interview data with secondary sources published at the time of the events examined in the case. This allows a number of objectives to be achieved. First, it permits the verification of specific points raised in the interviews, hence overcoming the possible problems of reporting noted earlier. Secondly, by using contemporaneous journalistic sources, it was possible to capture the attitudes and expectations of the time and to verify such information through further interviews. Finally the use of secondary sources as complements for data derived in this interactive interview process overcomes the twin issues of sensitivity and secrecy allows respondents to be disguised through the further use of secondary sources as surrogates.

Such sources also acted as a check on official data. This was particularly true of some of the tourism data. Compounding the difficulties inherent in such data which were described in Chapter 2, the official Thai data were found to have been re-presented in such a way as to mask the influence of the Vietnam War. Only a recourse to journalistic sources was able to generate data consistent with the interview material that related to this period. Consequently a reliance was placed on such sources partly as a cross check on official figures. In addition, however, such sources, again, were able to reflect the expectations of the time, which historical, governmental statistics cannot.

This research process was resource intensive, in that it was time consuming for both researcher and respondents, but it was rewarding. Over one hundred interviews were conducted mainly, but not exclusively in Asia, with practitioners in the hotel and tourism industries as well as government officials, bankers, politicians, journalists and researchers. The results of this exercise form the basis for the case study that follows. What must not be overlooked, however, is the main objective of this study which is to operationalise and defend an intellectual framework that may be used to develop explanations of change at the international level. The case that follows, which attempts to piece together a series of causal chains, is intended both to explain outcomes in this specific case and, more important, to contribute to the process of theory building in the field of international relations.

CHAPTER 4

International Political Economy and the Context of Tourism Growth

This chapter examines key developments in the formative years of global tourism growth using theoretical concepts embraced by the new IPE. The discussion is concerned both with the direct intervention of authority in the tourism sector and with the inter-relation of public policy-makers and commercial operators. Direct intervention in the sector occurred through the use of international organisations to influence outcomes. This was particularly evident during the development decade of the sixties when tourism was seen as a viable instrument of economic development. Thus many of the arguments reviewed in Chapter 2 reinforced and legitimated political influence. The tourism sector has also been critically affected by changes in transportation, the most important of which, for international tourism, have been in the field of aviation. An appreciation of changes in aviation is therefore essential to an understanding of outcomes in tourism, and these changes will therefore also be analysed through the application of the new IPE. The period selected for this exercise begins with the pre-war developments in aviation, ending with the introduction of the aircraft that has become the industry standard: the Boeing 747. Principally this will illustrate the way in which fruitful explanation can be developed through the use of the structural framework and will also offer a comprehensive prelude to the specific case of Thailand's tourism sector.

Markets and Authorities

It is important to appreciate the role that authority plays, particularly government authority, in tourism outcomes. Much of the earlier analysis reviewed in Chapter 2 has discounted the impact of these factors, ascribing a predominant role to markets. As Lanfant (1980:15) comments, "... the growth of travel is generally interpreted in the official literature as the expression of an all but uncontrollable demand, which must be channelled and mastered. And yet tourism is not, as is often claimed, a spontaneous phenomenon. It does not occur in a disorderly way, as the result of uncontrollable demand. It is the product of will. It unfolds under the impetus of a powerful tourist promotion mechanism, supported at the highest international level: the World Tourism Organization, the International Monetary Fund, the United Nations, the World Bank, Unesco, etc". The section that follows will demonstrate in greater detail the cause and effects of, first the intervention of authority in the shape of such international organizations in the international tourism industry, and secondly the cause and effects of intervention by domestic authorities in tourism and the hotel sector.

In the early years of tourism's post-war development, considerable rhetorical support was provided by the United Nations which lent legitimacy to the sector as an instrument of development policy. Hotels and the tourism sector were advocated as a means of transforming the economies of the less developed nations. The 1960s had been designated by the United Nations as a "development decade" and these industries were included amongst the engines of development. In 1963 a general resolution of the UN's Economic and Social Council (Ecosoc) stated that "... tourism could be a vital element in the framework of the United Nations Development Decade... [as it]... is an important factor contributing to the strengthening of the economies of all countries, and particularly of the developing countries..." (United Nations, 1963:17). The policy prescription was clear: governments of developing countries should give high priority to tourism and to the promotion of their hotel industries. The result, it was believed, would be, first, the generation of much needed foreign exchange and, in addition, the creation of "... prosperity through the development of communications, transportation, accommodation and other transport services..." (*ibid.*:21). As the necessary investment was unlikely to be forthcoming if markets were left to their own devices, the Ecosoc resolution advocated intervention on the part of domestic authorities. In order to promote the building of new hotels, governments were urged to offer financial incentives in the form of long-term, low-interest loans or "... public land, either free of charge and with ownership fully transferred or on a lease at a nominal rent for a long period..." (*ibid.*:31/32).

The recommendations went beyond the domestic level and included the provision of financial aid from international organizations particularly through low-interest loans from the World Bank (IBRD) and the International Finance Corporation (IFC). Both agencies subsequently responded with financial aid and with arguments that reinforced the UN's advocacy, hence adding further legitimacy to tourism as an element in development policy. In 1969 the IBRD set up a special tourism unit which was "... based on the recognition of the fast growth of international tourism during the 1960s, and the importance in a number of the Bank's member countries of the contribution of tourism to those countries' foreign exchange earnings..." (Davis & Simmons, 1982: 212). The unit lasted for ten years, during which time 24 projects were financed, the majority in long-haul destinations in developing countries located far from the major tourist-generating areas of the West. The Bank advocated that such countries should concentrate on developing high quality hotels, arguing that only the upper-income segment of the market would be able to afford the cost of travel, and that "... most vacationers prepared to travel long distances are likely to demand relatively high standards of accommodation..." (World Bank, 1972:8).

Eighteen countries were involved in a total investment programme of US $1.5 billion. All were developing countries, located in North Africa and the Mediterranean, the Middle East, Latin America and the Caribbean, Africa and Asia. Thirteen of the projects were concerned with infrastructure in support of hotel operations with five being devoted to loans directly for hotel development (Davis et al, op. cit.). Further financial support for hotels was provided by the IFC, which had been providing credits for hotel construction since 1967. This followed the direction of the Bank's lending, with projects located predominantly in long-haul, developing country destinations. In addition to direct lending, the Bank was also active in studies relating to other tourism investments, as too were the ILO, Unesco, the OECD, UNCTAD, U.S. AID and UNDP (World Bank, *op. cit.*).

The rationale for such support was based on the arguments outlined in Chapter 2, which concluded that tourism was an effective vehicle for the generation of foreign exchange and employment in the developing countries. Such analysis, conducted within the perspective of economic theory, went further in its conclusions to propose that tourism investments would lead to improvements in the balance of payments, to a valuable diversification of the structure of the host country's economy and to curing regional imbalances in LDCs (Cleverdon, 1979). This view was not universally held, however, and Cleverdon and others (see for example Britton, 1982b; Harrell-Bond et al, 1979; Thanh-Dam, 1983) have questioned the conclusions, raising issues of social costs and the cost of import requirements on economic gains. However, until the mid 1970s, there was little critical analysis available and the authorities acted in accordance with the then generally accepted conclusions. As Richter (1982:106) comments, "... development planners have few disinterested sources of information, being heavily dependent on promotional arguments from scarcely impartial components of the travel industry".

This support for tourism at the international level was reflected in decisions taken by domestic authorities, as national governments provided incentives for investment in the hotel sector. Amongst the devices used were forms of tax relief, soft loans, capital grants and subsidies (Cleverdon, *op. cit.*). As Chapter 2 indicated, investment in the hotel sector was considered a high risk venture, and therefore intervention was required to shift the risk from market operators onto the state. The reasons for the reluctance of the private sector to invest in hotels were summarised by the World Bank (*op. cit.*) as falling into three categories. The most critical problem was the time that capital had to be tied up in fixed assets, with 20 to 25 years being common. In addition, seasonal patterns of demand meant that overcapacity would occur for part of the year. This problem was then accentuated by the low proportion of variable costs, thus increasing the risk of loss on a substantial capital investment.

This was not only confined to domestic investments. Transnational hotel companies have also been reluctant to invest in the fixed assets of their business, instead preferring to operate on a contractual basis. In the early years of the international industry, though, even this method of reducing risk was not sufficient to persuade existing hotel companies to expand operations beyond their domestic limits. The first transnational hotel chains were initiated in part because of the intervention of authority. Both Intercontinental Hotels and Hilton International were created in the immediate post-war period at the request of the United States' Government. In 1946 President Roosevelt asked Juan Trippe, head of Pan American World Airways, to form a subsidiary hotel company to operate hotels at locations in South America. The purpose of this was mainly political, as it was intended to strengthen US diplomatic relations with the countries of Latin America in addition to promoting trade and tourism. As a result, the first of Pan Am's hotels, the Belem Intercontinental, opened in northern Brazil in 1949 (HRI, 1984).

The same year, the first Hilton International Hotel was opened in Puerto Rico, again following the prompting of the American government. Conrad Hilton (1957:285) recalled that initially the directors of the company were firmly opposed to international ventures. However, "... the State Department and the Department of Commerce suggested that the Hilton organization could make a substantial contribution to the government programme of Foreign Aid by establishing American-operated hotels in important world cities". An international subsidiary was created, and the Caribe Hilton was opened under a management contract with local ownership. Hilton (*ibid.*:330) justified the arrangement by stating that Hilton, instead of assuming the "... role of invaders intent upon siphoning back all profits to the United States, ... [has instead]... joined hands in a business fellowship with foreign entrepreneurs...", although he failed to mention the substantial fees that Hilton was then able to charge those foreign entrepreneurs.

Transportation and Tourism

Further expansion of the transnational hotel industry was then linked to the growth of international air travel, which at that time was dominated by the airlines of the United States. As Americans travelled further and more extensively, the airlines required more beds for their passengers, and market demand began to replace the urging of authority. However, to understand the growth in demand requires an appreciation of the way in which air travel has changed and the influence that this has had on the hotel and tourism sector. Changes in aviation, both in the organizational structure in which the sector functions, and in the available technology, have frequently originated in the needs of the security structure. The influence of state authority on the development of aviation has therefore been considerable, and has played an important role in the growth of the air transport market. This growth, in turn, has been the primary cause of the expansion of international tourism, and both were stimulated by the steady decline in the real cost of air travel that occurred over the post-war decades. The reasons behind the price reductions are complex, deriving from the operation of factors in the knowledge structure, the security structure and the balance of power between markets and authorities in these and the production structure.

The Structure of Security

The security structure has played a most influential role. This was most evident in the early days of civil aviation when the rules were formulated following the First World War. The organisation of international aviation was devised by interested states, whose major preoccupation at the time was in the military use of aircraft, and who therefore used their authority to prevent threats to their territorial security. During the War, aircraft had for the first time been used to penetrate the territories of both sides and to bomb strategic targets. States therefore perceived their vulnerability to air attack, and attempted to limit this by extending sovereign control to their own airspace. The Paris Peace Conference of 1919 codified this principle, giving states unlimited sovereignty over the airspace above their territories (Krasner, 1985). This authority extended to cover all air traffic entering a state's airspace and the airlines operating from their territory.

Following the Second World War, a new attempt was made to structure the organization of civil aviation. Military interests during the war had been responsible for changes in aircraft technology and in the development of runways and communications that were created to support the war effort. These changed the nature of the industry, prompting governments to reconsider the way that it was managed at the international level. The Chicago Conference of 1944, attended by representatives of 54 countries, attempted to set new rules, but was faced with two alternative philosophies. America wanted to restrict the degree of regulation and advocated the free play of market forces, whilst Britain and the European allies supported strong government controls over the industry (Jonsson, 1981).

These opposing positions had their origins in the different advantages and objectives possessed by the two sides. A war-time agreement between the Allies had left the production of transport aircraft to America, whilst Britain specialised in fighters. The result was that America was in possession of the world's largest transport fleet, as well as having the lead in the manufacturing technology. To operate these aircraft economically in peace-time, however, would require an extensive network of bases at which the aircraft could refuel and which could be used to pick up and set down passengers. During the war, the United States had built up an extensive network of round-the-world routes for military transport, but access to the airstrips on which this was based would not necessarily continue during peace-time. America's routes would "... snap apart with advent of peace, and many skyways would be closed to its commercial planes unless the broadest traffic privileges were secured beforehand..." (Bender & Altschul, 1982:386). The British Empire provided access to the global network of bases that America's long-haul routes required (Thornton, 1970). It was the possession of the colonies, and the desire to re-establish the imperial links, that dictated the attitude of Britain and the other European allies at the Conference. Each wished to establish a national airline that would serve to bind the empire. For this to be possible would require protection from the better equipped American competition.

Authority and Markets in Aviation

The two sides failed to agree and, as a result, the institutional arrangements within which aviation was to function were only partially formulated in Chicago. The organisation set up by the Conference, the International Civil Aviation Organisation (ICAO) was merely a technical body with no regulatory powers. The Conference considered the scope of airline operating rights and designated these grants of privilege, rather paradoxically, as "freedoms". Two were adopted and incorporated in the Chicago Convention: the right of innocent passage over another state's airspace and the right to land in another state for technical reasons, such as refuelling. The Conference was not able to reach agreement, however, on the commercial "freedoms" which would give traffic rights to and from other countries (Gidwitz, 1980). Hence the critical issues concerning routes, fares and capacity were left unresolved (Jonsson, *op. cit.*).

In particular the Conference failed to agree on the issue of a "fifth freedom", proposed by the United States. This would give a foreign airline the right to pick up passengers in a third country whilst en route between home and a second country. It was particularly important for long flights, which could only operate economically if they were able to carry passengers over each stage of the journey (Thornton, *op. cit.*). Fifth freedom rights were equally important for the British and Dutch long-haul flights, as only around one third of the passengers on long flights were booked for the full haul. However British opposition blocked the proposal as a multilaterally agreed fifth freedom would have endangered the short haul routes between London and Europe (Bender et al, *op. cit.*).

The problem was resolved through bilateral negotiations between Britain and the United States that led to the Bermuda Agreement of 1946, a compromise that settled the issue of routes, rates and capacities. The American airlines were given British fifth freedom rights and access to Britain's colonial gateways for long-haul flights. British airlines obtained the right to operate a round the world service through New York and San Francisco and on to Hong Kong and Singapore via the American island possessions in the Pacific. However no limits were placed on the amount of service either country's airlines could offer: a major concession by the British side. In return, the Americans agreed to prevent price competition and recognised the International Air Transport Association (IATA) Traffic Conference as the mechanism for fare determination by the airlines (*ibid.*).

The Agreement became the model for ensuing agreements worldwide on routes, capacity and fares, in effect providing the authority for the world's airline system. It came to represent "... not merely a bilateral agreement between the two major air transport nations, but a general philosophy on the way in which the economic regulation of the industry should be achieved" (Wheatcroft, 1964:70). Individual states could decide on their degree of openness to foreign airlines, as routes were established in government-to-government negotiations between the countries of origin and destination. Governments were also free to designate which of their national carriers should operate each route, but capacity and frequency questions were to be left to the airlines. Agreement on fares required unanimous approval in the IATA traffic conference and subsequent government approval in the countries concerned (Jonsson, *op. cit.*).

The requirement of unanimity arose from British fears that the American carriers, with their superior fleet, would be able to establish fares that the British airlines would find too competitive. The result was that fares were set to cover the costs of the least efficient operator, thus introducing an inefficient system of administered pricing throughout most of the world's airline networks (*ibid.*). This led to two further consequences, the first being that it acted as a restraint on capacity, since frequent schedules would not be commercially viable unless fares were low enough to attract passengers (Bender et al,*op. cit.*). The second was that it gave all states the opportunity to develop their own airlines, irrespective of their commercial competence. This system of authoritative allocation thus permitted the proliferation of national airlines throughout both the developed and the developing world, which would not have been possible under a more market oriented environment (Krasner, *op. cit.*).

Markets and Operators; States and Security

This proliferation was also made possible by the vast amount of surplus equipment available on the world market at the end of the war (Thornton, *op. cit.*). Private entrepreneurs, as well as emerging countries, took advantage of this, and both state and private airlines were created. The new private airlines were also assisted by the intervention of authority as governments recognised their strategic value. Jonsson (*op. cit.*:283) commented that in the United States, "... [p]articipation in the Berlin airlift and the Korean War gave the "nonskeds" a strong claim to survival as a matter of national interest and made it possible to draw political support from the Defense Department and Congress. The U.S. government came to pursue a policy of maintaining strong nonscheduled "supplemental" airlines as a reserve airlift capacity constantly ready to help out in military emergencies".

A similar situation occurred in Britain, where airline entrepreneurs such as Laker had supplemented available military transport during the Berlin airlift of 1948/49. The British government also wished to preserve the reserve fleet which the private airlines offered them and instigated policy changes to achieve this. In 1951 aviation policy was amended to ease restrictions on private airlines. They were provided with contracts for troop carrying, which reduced the need for a large, and potentially redundant, military transport operation (Wheatcroft, *op. cit.*). Recognising the value of these contracts, the state-owned airlines, the British Overseas Airways Corporation (BOAC) and British European Airways (BEA), approached the government for permission to carry troops. This was turned down however, and trooping remained the preserve of the independent airlines (BOAC, 1954).

The American Government, on the other hand, had provided military contracts for its scheduled airlines, which, like the "nonskeds" were privately owned. Pan American Airways (Pan Am), then the dominant US international airline, was the main civilian contractor to the Air Force for the transport of personnel and supplies to Germany and across the Pacific. The Pacific Airlift ended, however, in 1953 and hence a valuable source of revenue was lost (PAA, 1952;1953). This was followed by an independent change in government policy that limited Pan Am's income even more, through the removal of the mail subsidy. The airline had been receiving lucrative mail contracts from its earliest days, as Bender and Altschul (*op. cit.*:91) noted. "Pan American Airways, the nation's first, and for a long while only, airline in foreign service, was built in Washington D.C... [where]... mail routes were created in the office of the Post-master General... [and]... in the cloakrooms of Congress". Hence, from "... Caribbean mail carrier to circumnavigator of the globe, Pan American's growth was nourished by subsidy concealed in the revenues collected from the US Post Office. As late as 1950, almost one-fourth of the company's total operating revenues represented mail payments." (*ibid.*:476). When, in 1954, the airline was eventually forced to detail the accounts of its mail payments, the subsidy alone was over US$20 million, in a year when gross operating profit was US$17 million. In addition to the subsidy, the airline also receive a mail service payment of almost US$13 million, bringing the total revenue from mail contracts to nearly 20 per cent of operating revenues (PAA, 1954; 1962). However, the subsidy was sharply reduced in the following year and, in 1957, was cancelled completely (PAA, 1957).

Sources and Impact of Change in the Knowledge Structure

Pan Am's response was to continue its attempts to capture wider markets by lowering fares and stimulating tourism. It had already been demonstrated that lower fares would expand the market. As early as 1948, the airline had introduced the first tourist service between New York and Puerto Rico, offering a restricted service at a lower price. In five months the number of passengers trebled. Pan Am had also been arguing for lower fares on the key North Atlantic route, but had met concerted opposition from other airlines in IATA (PAA, 1948). However, in 1952 agreement was reached on a tourist class fare which was thirty per cent less than the normal first class fare between New York and London (PAA, 1951). Traffic increased dramatically. In 1948 the total number of trans-Atlantic passengers was 775,000, of which one third went by air. By 1954, the number of airline passengers reached the half-million mark. This growth provided the stimulus for Pan Am's entry into jet technology in a step that would profoundly change the nature of travel and tourism for the rest of the century (Bender et al, *op. cit.*).

The technology had been introduced into commercial service in 1952 when BOAC began to operate the British de Havilland Comet between London and Johannesburg (Hudson & Pettifer, 1979). Further expansion followed from Europe to South America, the Middle East and Asia. Pan Am, however, refused to meet the competition and adopt the new aircraft, arguing that the aircraft's range of 1,500 miles was too limited and hence any gains in speed were compromised by refuelling stops (PAA, 1952). American commercial applications of the new technology at that time lagged the British, as the major American manufacturers at that time concentrated on strategic projects. Boeing, Lockheed and McDonnell all built military planes (Newhouse, 1982). However, in 1953, Boeing released the specification for a civilian aircraft, the 707, using technology derived from the development of the B52.

Commissioned by the Department of Defense after the first successful Soviet nuclear tests, the B52 was to be part of the Strategic Air Command's arsenal of atomic deterrents (Bender et al,*op. cit.*). It was designed to be the world's first, jet-engined, intercontinental bomber and the 707 was to be the first intercontinental jet-liner.

The Douglas Aircraft Company, which then concentrated on propeller-driven commercial aircraft, including the DC3 and the transatlantic DC7, responded to this competitive pressure with the development of the all-jet DC8. In 1955, Pan Am placed orders with both Boeing and Douglas for a total of 45 planes, at a cost of US$269 million. This produced an immediate market response from foreign airlines, who realised that they would have to adopt the new jets or become hopelessly uncompetitive. "The jet revolution may be said to have started in earnest on that day... when Pan American made its announcement... [and there then]... followed something like as stampede of airline executives to order jet aircraft" (Wheatcroft, *op. cit.*: 94). With the improved range, the new jets offered savings of 35 per cent over piston aircraft and greater speed and comfort (Thornton, *op. cit.*). Given this product improvement, the market responded by choosing jet travel, especially as fares would be uniform, irrespective of aircraft type.

The choice facing the world's airlines was either to get jets, to withdraw from the long-haul trunk routes or to perish. By 1962, all airlines who wanted to stay in long-haul had bought jets which massively increased global capacity (Thornton *op. cit.*). As the numerous orders were placed in 1956, Pan Am predicted that both international capacity and total international investment in equipment would double as the jets were delivered (PAA, 1956). The Americans therefore wanted further reductions in fares in order to stimulate demand and obtained IATA agreement for the introduction of economy class fares on the North Atlantic. The new fares, twenty per cent cheaper than tourist class, were introduced in 1958, coinciding with Pan Am's inauguration of the Boeing 707 (PAA, 1958).

By 1962 the major deliveries had been taken and over 600 of the long range jets were in service with the world's airlines, massively increasing available capacity. International output was then 127 per cent higher than in 1957, the year before the introduction of the new jets. However, this was not matched by an equal expansion in demand, and load factors, the critical ratios of sales to output, fell sharply. Passenger load factors fell from 61.2 per cent in 1957, to 51.1 per cent in 1962, despite a 75 per cent rise in the number of passengers (ICAO).

Technology, Capacity and Authority

This overcapacity resulted in heavy financial losses for the major carriers, who were also faced with additional losses on capital equipment. The propeller aircraft that made up the bulk of the long-haul fleets became rapidly obsolete and had to be retired from service long before being fully amortized. The polarisation between the Americans and the Europeans was intensified by the crisis. The European solution was to increase fares and impose a surcharge on jet travel. The Americans, conversely, opposed any increases and proposed further reductions. Pan Am (1962:12) in particular wanted far cheaper fares on the North Atlantic, suggesting that if this was to be "... acceptable to European air carriers and their governments, everybody would gain. Many more pay passengers will fill empty seats although each will pay less for his transatlantic flight".

The precarious financial position of all major airlines threatened the stability of IATA (Thornton, *op. cit.*), thus providing a stimulus for a change in the authority/market balance within the industry. The Americans had one European ally in the battle for lower fares: the British, who reversed their previous position. Together they were able to challenge the authority of the cartel. The airlines of the two countries had the advantage of size. BOAC was the largest in Europe and, globally, was second only to Pan Am (BOAC, 1961). The British agreement with the Americans over fares arose from the drastic financial problems facing BOAC. In addition to sharing the problems of the rest of the industry, the airline's losses were compounded by a unique, accelerated expansion that had begun in 1958. This had been planned to regain the competitive losses that the airline had suffered when its Comet jet fleet had been grounded in 1954. The expansion increased capacity by more than 120 per cent in the four years to 1961 and represented the biggest expansion in the airline's history (BOAC, 1962). Financial losses also accelerated. On operations alone, these amounted to over £16 million in 1961/62 and more than twice that amount was written off on additional obsolescence and amortisation. By comparison, the total operating losses of all the European and North American airlines in 1961 were £60 million (Wheatcroft, *op. cit.*). To further compound the problem, BOAC was losing market share on the lucrative North Atlantic routes as the new long-range jets made it possible to fly direct from New York to other European destinations. The world's predominant travel market, composed of the vast outflow of Americans, was thus by-passing Britain and the airline was failing to capture its share (BOAC, 1962).

The result was a vigorous campaign for lower fares, initially focused on the North Atlantic routes in which the two airlines both had a major stake. BOAC had committed 55 per cent of its capacity to these routes and in 1962 proposed special fares for affinity groups at a 38 per cent discount (*ibid.*). Pan Am secured approval from the American authorities for the new low group rates, which, said the company, "... paved the way for similar group fares to Hawaii, and, soon to become effective, to the Caribbean, the Orient, and around the world..." (PAA, 1962:6). The following year economy fares on the North Atlantic also fell, with full approval of the participating governments (PAA, 1963) and in 1964 further promotional fares were introduced, including special inclusive tour (IT) rates for tourist traffic (BOAC, 1964). At the IATA Conference in Bermuda in 1965, agreement was reached amongst all participating airlines for the introduction of these "tour basing" fares on the North Atlantic. With these, British tourists could take a two week holiday in New York for £121 (BOAC, 1966) and Americans were able to make a return trip to London for US$230. In a period of twenty years, these fares, in constant 1947 dollars, had fallen by 73 per cent (PAA, 1966).

This shift in power from the authority of IATA to the market leaders had an impact on fares to other destinations. The "... lowest airfares in history... " also became applicable to Europe, Africa, the Middle and Far East and South America (*ibid.*:1). The result was a tremendous surge in the number of passengers. The new low prices were instituted at a time of strong economic growth and together these factors accelerated the demand for air travel (Cleverdon, *op. cit.*). Adding to the demand for air travel in the sixties was a change in consumer choice, as airlines grew at the expense of rail and sea travel; traffic shifted from surface to air (Newhouse, *op. cit.*). The number of passengers rose on average by a record 15 per cent each year through to the middle of the decade. This then helped contribute to Pan Am's record results of 1966 (Bender et al, *op. cit.*) and to a return to profitability for the industry overall (Jonsson, *op. cit.*).

Airline and Hotel Production Structures: Changes and Causes

These results created pressure for more hotels and for more, and larger, aircraft. Both demands were the product of the airlines' requirements. Hotels were needed for the steadily increasing numbers of passengers and the major airlines followed Pan Am's lead into the hotel business. BOAC considered that the lack of accommodation was inhibiting its potential and began a programme of direct investment in hotel construction. The airline reported that the "... success of air transportation generally is creating problems of shortage of hotel accommodation at various places throughout the world, not only in the big cities but also in the newly created holiday resorts to which the cheaper air fares are attracting visitors in increasing numbers..." (BOAC, 1967:12). America's second international carrier, Trans World Airlines (TWA), followed by means of acquisition. In 1966 the airline reached agreement with the Hilton Corporation of America to purchase its international subsidiary, Hilton International (TWA, 1966). This provided an instant chain of hotels stretching through twenty-four foreign countries (TWA, 1967).

The demand for new hotels was accentuated by the projected growth of passenger traffic. Air travel was expected to accelerate dramatically in the early seventies as new aircraft technology was implemented. This shift in the production structure was once again a product of changes in the knowledge structure, which in turn had roots in the security structure. Adoption of the new technology by market operators, however, was a result of optimistic forecasts within the industry. Pan Am expected that, by 1980, the number of passengers would have grown by 200 per cent. If aircraft remained the same size, then this would create serious congestion at the world's existing airports. Pan Am's solution was to propose bigger planes that would carry the increasing numbers more efficiently, a decision that led to the widespread adoption of the Boeing 747, the "Jumbo Jet" (Bender et al,*op. cit.*).

The chain of cause and effect that led to this major turning point in aviation and tourism began in the security structure, with the needs of the military for new forms of transportation. The intensification of the American involvement in Vietnam provided logistical problems for the Air Force, which had to service the long supply lines to Southeast Asia. In 1964 the military opened a competition for a huge military cargo plane, the C-5A, which could cross the Pacific and operate from short airfields. The US plane makers and engine builders all entered the competition. The contracts were finally awarded in 1965: Lockheed was to build the airframe and General Electric the engines. Both Boeing and the second major engine producer, Pratt and Whitney, then needed new projects. Boeing expected other military work to be phased out and Pratt and Whitney need a customer for its 41,000 pound-thrust engine developed for the competition (*ibid.*). Boeing immediately began negotiations with Pan Am for the development of a new passenger transport that would allow it to exploit the technology developed through the competition.

The design of the new aircraft was heavily influenced by Pan Am from the moment the contract was signed in 1966. Both companies assumed that passenger transportation in the 1970s would be dominated by supersonic transports, the SSTs, that were then undergoing development. The new 747 would then be used predominantly as an aerial freighter and, consequently, cargo rather than passengers, played a major part in the design of the aircraft. The plane was designed so that it could be converted to cargo use only with goods loaded through the nose; hence the location of the cockpit on the upper-deck (Newhouse, *op. cit.*). Despite these expectations for its eventual use, Pan Am placed a massive order for 25 of the new planes, with the first deliveries scheduled for September 1969 (PAA, 1966).

Both competing manufacturers and airlines responded to this initiative by themselves entering the wide-bodied era. The manufacturers were all American, the last foreign competition having faded following the ill-conceived British VC-10. Lockheed was the first to respond as part of a strategy of diversification from the purely military market and began the development of the L1011, the Tristar. This would also be a wide-bodied jet although with lower capacity and range than the 747 and powered by three, rather than four, engines. Then in 1967, McDonnell Douglas also announced plans for a three-engined wide-body, the DC-10, to compete directly with Lockheed's Tristar (Newhouse, *op. cit.*). Competitive pressures were also instrumental in the widespread adoption of the new aircraft by the world's airlines. In a repetition of the previous headlong rush into jets, decisions to re-equip fleets were rapidly taken. Again, the expectations that prompted these decisions were that the superior performance of the new equipment would attract passenger demand. Thus if one airline was to operate a 747 on a given route, then most of the passengers would choose to fly with that airline and its competitors on the route would also be forced to operate the new jets (Thornton, *op. cit.*). As early as 1966, then, Boeing had received orders from fifteen airlines for a total of ninety-five 747s (PAA, 1966).

Authority and Markets in Changing Relationships: Global Changes in the Seventies.

Overcapacity was therefore once again appearing as a serious threat to the aviation industry, only shortly after the first generation of new jets had been assimilated. Even before the new capacity was available, the airlines responded with fresh demands for lower prices. In 1966 and 1967, the IATA Conferences accepted new fare reductions which took the form of promotional and group discounts on a wide range of routes. For the dominant airlines, this was seen as a necessary prelude to the wide-bodied era (BOAC, 1967). In 1968, as the first test model of the 747 rolled off Boeing's production line, the sense of necessary precaution was giving way to a deepening concern about the effects of surplus capacity. As BOAC announced its first order of eleven 747s, warnings were issued of the danger of "... providing too much capacity as a result of over ordering of new jet aircraft... [which]... happened in the early 1960s... [when]... the industry turned to fare-discounting to help fill the resultant empty seats..." (BOAC, 1968:11). As deliveries were taken, however, the looming overcapacity resulted in further changes in the regulatory structure.

Three main factors account for this shift in the authority/market balance. The first was the adoption of massive additional capacity by the scheduled airlines. Secondly, the rising market for air travel began to slow, with traffic growth rates halving in 1968 (PAA, 1968). Load factors on international services declined as capacity growth outstripped demand, falling from a 1966 peak of 55 per cent to 51.3 per cent in 1968; almost equal to the disastrous trough of 1962 (ICAO). Finally, available capacity was expanded even further by the non-scheduled airlines which increased the level of charter operations in the late 1960s. Partly this was a result of the growth in the second-hand market for aircraft, which again made cheap equipment available for the smaller operators. Much more significant, however, were changes in US aviation policy that arose from the security structure, as military requirements in Vietnam were reassessed.

These changes in military needs had a widespread effect on many scheduled airlines through the release of non-scheduled competition on key routes, of which the North Atlantic was the most critical. They had an additional impact on the American carriers, as government contracts for war-related services were withdrawn from both scheduled and non-scheduled airlines. The contracts with the Military Airlift Command (MAC) provided transportation services for personnel and military supplies across the Pacific to Vietnam and other points in South East Asia. The value of these military charters rose from US$145 million in 1964 to US$575 million in 1967 (Thornton, *op. cit.*).
By 1968, however, the military had developed an airlift capability of its own (Jonsson, *op. cit.*). Consequently MAC contracts began to decline, bringing a fall in revenues from government services (PAA, 1968). The American supplemental airlines were the most at risk in this process. They had provided both the desired redundant capacity in peacetime and valuable military airlift capacity during the first years of the war. The American government, in a move to protect the airlines themselves, and the future redundancy that they offered, allowed them to expand civilian charter operations (Banks, 1982).

This change in government policy had an immediate impact on the American scheduled carriers. In 1969 Pan Am, for the first time in the post-war era, recorded a net loss and blamed the supplemental carriers for diverting hundreds of thousands of passengers from scheduled services. Despite this criticism, the airline had itself operated an increased charter service generating revenues of US$22 million in 1969, almost double its charter revenue in 1968 (PAA, 1969). The great advantage that charter operations possessed over scheduled services was that the control of pricing lay outside the jurisdiction of IATA. Operators were able to set their rates, subject to the final bilateral approval of the governments concerned. The increase in low-price charter operations, by both the scheduled and non-scheduled operators, altered the market for air travel, with the biggest changes being evident on the North Atlantic. Up to 1967, around 15 to 16 per cent of North Atlantic passengers used charters. In 1968 this increased to 19 per cent, rising further in 1969 to over 26 per cent and reached a peak in 1970 of 30 per cent (Banks, *op. cit.*).

As the share of passengers carried by charters rose to its highest ever, the scheduled carriers began to take delivery of the new 747s. Pan Am's flight in January 1970 launched the new era which, for that airline alone, would increase seating capacity by almost 60 per cent in eighteen months (PAA, 1969). Faced with this crisis of capacity and competition, IATA's rate-setting machinery was forced to respond to the demands of the market. This was done, however, in a way that only served to worsen the already precarious financial position of the scheduled airlines. IATA finally agreed to massive fare reductions but only on condition that they were in some way restricted. Thus, straightforward fare reductions were avoided, and instead "... the cartel instituted so many confusing promotional gimmicks that yields from passenger revenues shrank" (Bender et al, *op. cit.*:578).

At this point therefore, the market/authority balance had shifted, with the result that many of the old bargains that sustained the practices of the industry were changed. The competition posed by the supplemental carriers not only played a part in the adoption of the new scheduled fares, but was also effective in causing the scheduled airlines to boost their own, in-house, charter operations. In 1971, Pan Am's charter revenues rose by 30 per cent (PAA, 1971) and BOAC created a new subsidiary company whose operations were devoted exclusively to charters. In 1971, the airline reported that "... many of our competitors, dissatisfied with ... [IATA's]... ability to arrest the "charter" operators' attack on the holiday travel market, have adopted the device of operating charter flights through non-IATA subsidiary companies. In the absence of any effective regulation we have reluctantly now established... [British Overseas Air Charter Limited]." (BOAC, 1971:16). In effect, therefore, the major airlines were forced to expand capacity even further, as the authority of IATA remained sufficiently robust to prevent the scheduled services from responding to the new conditions in the production structure.

Conclusion

This analysis of the formative years of post-war tourism development has illustrated the way in which explanation is enhanced through the application of the structural framework. First, it has demonstrated that tourism was not only a product of market demand, but that authority also played a significant role in shaping outcomes. This reinforces the contention that fruitful analysis should include both the actions of market participants and government and other authorities within the scope of enquiry. This is shown particularly well by the discussion of the aviation sector, where a pattern of structural change then affected the relationship between the regulatory authorities and producers and consumers in the market. This in turn had a major impact on the structure of production in the tourism sector worldwide. The pattern was one of security structure demands leading to changes in the knowledge structure through the development of new technologies. This then in turn affected the market/authority balance in the production structure. The root causes of the tourism boom years of the sixties are to be found partly in the technologies developed for the cold war and in the adoption of both successful and unsuccessful new technologies by the airlines. The effect was to change the relative power of the key producers with respect to the regulatory authorities, which then had an impact on price levels. A similar set of relationships emerged with the second major round of new technologies that led to the adoption of the current industry standard, the Boeing 747, and the changes in production conditions outlined above. Thus the security structure changes again provided the origins, although the relevant outcomes included more than technological changes alone. Thus whilst technology was a major factor, additional changes in the production structure originated in the new military strategies that led to new competitive conditions. This key role of security, and the critical impact of technology, given here as a general example, will be developed at greater length in the specific case study that follows.

CHAPTER 5

Post-War Restructuring:

security, communications and the genesis of Thai tourism

The immediate period following the Japanese surrender and withdrawal from Thailand in 1945 was characterised by domestic political change and a dynamic international political context. The international political changes, which were related initially to foreign diplomatic needs and, subsequently, to the strategic requirements of the United States, had implications for the development of the hotel and tourism sectors. Initially, however, the influence was indirect, mainly through improvements in communications, in which developments in aviation and airport facilities played a key role. This chapter will examine the causes and implications of these changes in the context of Thailand's developing international relations, particularly with the United States, and the role that the latter played in the domestic political economy. In order to appreciate the impact of these and later changes, however, it will be instructive at first to consider conditions in the hotel and tourism sectors and the international and domestic political and economic conditions in the post-war period.

Hotels and Tourists in the First Post-War Decades

Visitors to Bangkok in the first few years following the Japanese withdrawal of 1945 were mainly diplomatic and military personnel involved in post-war reconstruction efforts in the country[1]. Following the Japanese Occupation, the Allies set out to re-establish political influence and trading links, and accommodated their personnel in the few hotels in the city. Leisure tourism was almost unknown through to 1950, partly, of course, as a result of the lack of demand, but also because Thailand lacked both accommodation and an adequate means of international transportation. At the end of the War, just four hotels in Bangkok were considered fit for use by foreigners, offering around 200 rooms[2]. Such hotels were the family-run Trocadero, the government-owned Ratanakosin, the Suriyanond[3]and the Oriental Hotel[4], the oldest in Thailand and the only hotel located on the banks of Bangkok's principal river, the *Menam* Chao Phya. In 1947, the Oriental's manager, Germaine Krull, described the early tourists to Bangkok as being "... of every type, from newly arriving diplomats to fortune-hunters, adventurers, spies and crooks. As everyone claimed to be a VIP with a heroic war record, was well-groomed and fairly well behaved, it was impossible to assess them accurately. Conspicuous by their numbers were demobilized men who had kept up their connections and were selling surplus war goods..." (Berlingieri, undated:37).

In the early 1950s, both business travellers and tourists began arriving in greater numbers. The total number of visitors arriving by air, rail and ship rose from around 40,000 in 1952 to over 66,000 in 1955. America at that time was the major source of foreign tourists, and this market was showing strong growth trends in the 1950s. By 1955, the number of overseas trips made by American citizens had almost doubled when compared to 1949, and for the first time over a million people visited countries outside the North American continent[5]. In the hotel sector, growth was correspondingly steady and by 1955 a further seven hotels had been built, more than doubling the number of rooms in Bangkok. The largest, and most ambitious, was the Princess Hotel, which was built a little inland from the Oriental on Charoen Krung or "New Road", Bangkok's first and oldest road (J. Walter Thompson, 1958).

The Princess represented the first step in the establishment of a key element of market leadership in Thailand's hotel sector, and as such warrants further elaboration. This leadership role emerged immediately with the construction of the Princess and was followed by a close association with the first of Bangkok's large-scale private developments of the 1960s, the Rama Hotel, which opened in 1961. Later the same decade, a further lead was given through the construction of the city's biggest hotel and the first designed for the jumbo jet era, the 525-room Dusit Thani[6]. This leadership trend continued in the 1980s through the expansion of the Dusit group to form chains of hotels throughout Thailand. The major influence in these developments came from a family group led by Mrs. Chanat Piyou-oui. With the opening of the Princess, the group then became Bangkok's first major private post-war investor and operator of a modern hotel. The Princess, which with 65 rooms made it the second largest hotel in the country after the Trocadero, was operating by 1953[7] and was set to capture the embryonic tourist markets that were beginning to emerge, particularly from the United States. Indeed, it was prior exposure to America that influenced Mrs. Chanat's decision to invest in the hotel sector. Chanat's family background, within Thailand's small merchant class, provided the initial means for the venture. The daughter of a timber merchant[8], she had access both to capital, which was available from the family and to knowledge, derived from overseas travel. Immediately after the War, Chanat had spent two years in America where she had been able to experience American hotel-keeping at first hand[9]. The new hotel was therefore an attempt to replicate the features of the American product, to make it more attractive to western markets. Consequently the "... newest hotel in Bangkok..." was described as "... modern, tastefully decorated and furnished, its rooms combine all the conditions of comfort and distinction which experienced travellers can ask for... Modern air conditioning equipment guarantees an ideal temperature and humidity throughout the year[10]." With these features, the hotel became attractive to American travellers, including the staff of Pan American Airways. As the airline expanded flights through Bangkok in the 1950s, there was a need for accommodation for the crew, which the Princess provided[11]. Consequently the new hotel obtained both a steady source of revenue and potentially valuable advertising through the interaction between Pan Am's staff and passengers.

The major development of the 1950s, however, was the result of state investment. This was the Erawan Hotel, built by the Thai Government and which, with 175 rooms, was twice the size of the then biggest hotel in Thailand, the Trocadero. This represented the first significant post-war intervention by the state in the hotel sector and was undertaken because the government required additional hotel space for a major international conference to be hosted in Bangkok in 1956. This was the forty-fifth annual conference of the Inter-Parliamentary Union (IPU), which was to be held in Asia for the first time in its history[12]. This event offered an opportunity for the government to consolidate its international recognition, for reasons that will be examined in more detail in the next section of this chapter. The conference was also intended to introduce concepts of parliamentary democracy to Thailand, which had become an expressed objective of the Prime Minister, Phibun, since his world tour in 1955 (Insor, 1963). The cost of the hotel, at B75 million[13], and the risks associated with a project of such size, were too great for the market. As a result, the state intervened directly in domestic production in pursuit of political objectives.

The government held 80% of the equity and ensured further control of the new company through the appointment of Police General Phao as chairman of the board. Phibun officiated at the opening of the new hotel on 9 November 1956[14], just a week before the conference was opened by the IPU President, Lord Stansgate, the former William Wedgewood Benn[15]. The Erawan, with full air-conditioning, telephones in all rooms and six elevators, provided not only the finest accommodation in Thailand[16], but also in the region, being "... one of Southeast Asia's newest and most luxurious hotels. Facilities include an Oriental garden and terrace with swimming pool, an arcade lined with gift shops, postal and telegraph office, tourist agency, airlines representatives' offices, newsstand, drug shop, barber and beauty shops, public rooms, a large air-conditioned dining room, an Oriental restaurant, an American bar,... [and]... a night club... " (J. Walter Thompson, *op. cit.*:65).

The private sector followed, although initially this was in a more limited manner. Three projects were completed in the late 1950s: two new hotels were built, the Grand and the Plaza, and the Oriental Hotel added a major new wing. The Grand opened in May 1957 with 40 rooms, following the first of two Plaza Hotels (*ibid.*). The first Plaza had opened before the Erawan, in March 1956, when 20 rooms were in use. By 1958, the hotel had been rebuilt by the Patpong family on a new site on Patpong Road, renamed the New Plaza and was operating around 70 rooms[17]. The most significant of these developments, however, was the Oriental's new wing which opened in 1958 and more than doubled the size of the hotel. The Tower Wing had 48 rooms, all overlooking the Chao Phya River and, with ten floors, was Bangkok's highest building to be served by lifts (Berlingieri, *op. cit.*). In addition, plans were being finalised for the private sector's biggest project to date. Due to be operated by the same management as the existing Princess Hotel, the New Princess would offer similar facilities as the Erawan, but would be even larger, with 200 rooms and was expected to open in 1959 (J. Walter Thompson, *op. cit.*). Hence, by 1958, the sector had expanded from four hotels with a total of some 230 rooms immediately after the

War, to around 790 rooms in fourteen hotels, with a further 200 more rooms expected before the turn of the decade.

This phase of Thailand's hotel development, therefore, was characterised by a combination of private sector investment, plus a unique entry into the sector by government. Although early market operators were, to some degree, encouraged in their enterprise by the state's action, they were also responding to emerging market demand. Shortly afterward, however, the state intervened to a much greater extent in the hotel sector, both directly and indirectly. The reasons are to be found in both domestic and foreign policies. Changes in Thai industrial policy and in Thailand's international relations affected both the economy in general and had specific implications for the development of aviation and communications. In order to understand these developments, it will be helpful to consider both the international and domestic political and economic background.

Power in Thai Society

A consideration of Thai politics should properly start in the early 1930s, as key shifts in the distribution of power which began then had implications for the whole of the post-War period. These involved changes in the relationship between the two key institutions in domestic politics, the monarchy and the armed forces. Until 1932, the power of the king was absolute (Ingram, 1971). The Chakri dynasty had ruled in this fashion since 1782, when its founder, the general Phya Chakri, was crowned king and adopted the title "Rama", after the legendary hero of the Thai literary epic (Clarac *et. al.*, 1971). In 1932, during the reign of King Prajadipok (Rama VII), a small group of military officers and officials suddenly staged a bloodless coup, replacing the absolute monarchy with a system of constitutional government (Insor, *op. cit.*). The ideology that legitimised this action was drawn from Western ideas of democratic socialism which had been absorbed by the coup leaders whilst studying in France. This was especially true of the civilian leader, Pridi Phanomyong, who had studied at the University of Paris and who became the first Prime Minister after the coup[18] (Darling, 1961). The monarchy was greatly weakened by the 1932 coup, although the institution maintained a political significance amongst the people. Faced with the abdication of King Prajadipok in 1935, the government designated the King's ten year old nephew, Ananda as the heir, rather than press for abolition. Chaloemtiarana (1974) concludes that the government would have preferred abolition, but felt too insecure to eliminate the throne.

Pridi's civilian government did not last long, however. The military took over in 1938, with Phibun Songkram, a key figure in the coup's military faction, becoming Prime Minister (Insor, *op. cit.*). It is important to stress the key role of the military, especially the army, in the political structure of Thailand since this time. With a few exceptions, governments since then have been either totally or partially controlled by a military minority, with the monarchy playing a mainly ceremonial role, and other constituencies being largely deprived of power. This central role of the military has had a major influence on domestic and foreign policy which have had implications for outcomes in Thailand's hotel and tourism sectors.

Military domination of the Thai government was briefly interrupted in 1944 with Phibun's resignation[19] and his eventual replacement, on VJ day, by Thailand's war-time Ambassador in Washington, Seni Pramoj[20]. In 1946 Seni resigned so that elections to be held, and Pridi formed the interim government. However, in November 1947 the military returned when Phibun staged another coup which sent Pridi into exile abroad (Chaloemtiarana, *op. cit.*). The cause of this instability lay in the monarchy with the death of Prajdipok's successor. In 1946, the boy king, Ananda, was found dead in the palace with a bullet through his head. This was never satisfactorily explained, and the suspicion that Pridi was in some way implicated led to his downfall and provided the legitimation for the return of Phibun (Insor, *op. cit.*).

Despite Phibun's initial control of government, he staged yet another coup in 1951 to prevent the monarchy from encroaching on the power of the army. Two factors prompted the coup: a new constitution giving greater formal powers to the king, which had been promulgated in 1949, and the imminent arrival of the new king, Bumiphol (Rama IX), from his previous home in Switzerland. Phibun abrogated the constitution and restricted the formal powers of the monarchy (Chaloemtiarana, *op. cit.*). Despite this, the monarchy continued to command the loyalties and affections of the people (Ingram, 1971), with the result that the government's power was not, therefore, unconstrained. In addition, Phibun faced internal opposition in both the police, which represented a rapidly rising power base, and the army[21]. Both organisations had been boosted by American funding[22] with the result that army chief Sarit and Police General Phao were able to challenge Phibun's authority. It was therefore necessary for Phibun to play off the rivalry between the two in order to remain in power (Clarac *op. cit.*). The move to introduce democracy, that prompted the entry of the state into the hotel sector, was in direct response to these power relationships and an attempt to secure Phibun's position (Insor, *op. cit.*).

The attempt to introduce democracy backfired, however, by opening the way to another coup led by army chief, Field Marshal Sarit Thanarat. The general elections organised by Phibun in 1957 had been blatantly rigged, prompting student demonstrations. Sarit used these demonstrations as a reason for the army's intervention and demanded Phibun's resignation (Insor,*op. cit.*). Both Phibun and Phao were exiled, and Sarit installed a civilian prime minister as a front[23]. The new Premier, Phote Sarasin, a wealthy businessman who was also a partner in the Oriental Hotel[24], lasted only three months, before the military once again took over. The ensuing period in Thai politics, which was indelibly marked by Sarit's influence, had major implications for the development of the hotel and tourism sectors, and these will be considered in detail in the next chapter.

Trade and Production

Economic change in the immediate post-war period was less turbulent than political change, with major changes having been established during the previous century. The key turning point was the "Bowring Treaty" of 1856, signed between King Mongkut (Rama IV) and the British, which opened Siam[25] to free trade with British merchants. Other western countries demanded the same treatment, with the result that Thailand began to import cheap western goods. This changed the pattern of production from a broad degree of self-sufficiency to the specialised production particularly in export goods that could pay for the rising level of imports (Ingram op. cit.). Agriculture dominated domestic production patterns and, with almost 90% of the Thai labour force engaged in agriculture before the second world war, the primary sector constituted the country's major occupation. Ingram (*ibid.*: 36) commented that

"... [f]or the nation as well as for many individuals the specialization went quite far...". Large numbers of farmers specialised almost completely in rice, which was also Thailand's principal export. There were only three main export products besides rice: tin, teak, and (later) rubber.

As Akira (1989), points out, early industrial developments had been strongly influenced by Chinese capitalists. Chinese immigration to Thailand rose sharply following the Opium War of 1840-42, and these immigrants changed domestic trading patterns. The Chinese became middlemen for the agricultural sector, both as merchants and in related activities such as rice milling. This pattern of ethnic domination of commerce and production changed after the war, however. Following the 1947 coup, Thai military leaders became actively involved in commerce, particularly in banking, insurance, trading and shipping. In contrast to a flourishing military-related commercial sector, manufacturing suffered from underdevelopment during the 1950s. This was partly due to government policies that promoted state enterprises, enhanced the position of the military and the bureaucrats within such enterprises, discouraging private investment. Growth in manufacturing was limited between 1950 and 1957; three major industries, food, liquor and tobacco, together comprised over 60% of total value added. This pattern changed only with the establishment of the Sarit regime, when industrial development became a state priority. The causes and consequences of this change in the government's policy, both for industry in general and for the hotel sector in particular, will be considered in depth in the following chapter. Critical in this process were factors and forces in the international sphere, which cannot be fully understood in isolation from earlier changes in the international context. The next section of this chapter, therefore, examines the developments in Thailand's international relations that formed this context.

International Relations to 1957

Unlike the other countries of South East Asia and Indochina, Thailand was never a colony. This was partly due to the adroitness of the two great absolute monarchs of Siam, Mongkut (Rama IV, 1851-68) and his son, Chulalongkorn (Rama V, 1868-1910) who adapted the country to the West by using a range of foreign advisors but avoided the imposition of a colonial regime. British and French rivalry in the region provided the means as each wished to maintain a buffer state in the region between their respective possessions[26] (Insor, *op. cit.*). In the absence of Western colonial rule, Thailand was able to preserve its cultural identity more completely than the other countries of the region. In addition, as Anderson (1977:15) points out, Bangkok maintained its place as the traditional royal capital. In contrast, elsewhere in the region "... the colonial powers had constructed culturally mediocre, commercially-orientated capital cities in coastal areas far removed from the old indigenous royal capitals...". The elaborate palaces and temples that formed an essential element in this role were thus preserved as living monuments that would later become key tourist attractions.

Foreign influence became more marked, however, during and after the second World War. The Japanese occupied the country in 1941, although from the government's point of view this represented an alliance with Japan, not a conquest[27]. More significant for Thailand's later political and economic developments was the alliance with America that followed the end of the War. American foreign policy towards Thailand in the post-war years was prompted, as elsewhere in Asia, by anti-colonial sentiments and was directed particularly against the former European colonial powers. As Chaloemtiarana (*op. cit.*:101) comments, "... [a]nti-colonial feeling, then on an upsurge in American political thinking, played its part - many Americans wanting to see America as a liberator and not as a suppressor of the self-determination of small countries." Washington was particularly suspicious of the British, who had returned to their former colonies in South East Asia and Hong Kong and appeared to be attempting to re-establish significant influence in Thailand. As a result of the Thai Japanese relationship during the war, Britain wished to treat Thailand as an enemy state. The British therefore demanded economic sanctions and curbs on the power of the armed forces. American opposition limited these proposals, however, with the result that British influence was constrained, and also, significantly, the power of the Thai military was virtually untouched.

As the Cold War developed, indeed, American support for the military increased sharply, both financially and ideologically. As Chiang Kai Shek faltered in China and communist guerrilla movements rapidly expanded in Vietnam and Malaya, American foreign policy changed. The objectives of peace and freedom were, by 1948, replaced with policies that emphasised peace and security. Consequently authoritarian governments became acceptable partners in the fight against communism and hence the military government formed by Phibun in 1947 was quickly recognised by the United States (*ibid.*). American security interests were thus served by the new Thai government and bolstered by the country's geographical location. As Caldwell (1978:10) states, "... it was acknowledged that command of the crucial Malay crescent (Malaya, Indonesia and the Philippines) required control of Thailand". In 1949 this position was becoming critical as American fears of further communist victories sharpened. The United States' National Security Council (NSC), articulated the concern that "... the extension of communist authority in China represents a grievous political defeat for us; if Southeast Asia also is swept by communism we shall have suffered a major political rout the repercussions of which will be felt throughout the rest of the world..." (cited in Girling, 1981:232).

With the communist victory in China in October in 1949 and the outbreak of the Korean War in June 1950, President Truman announced the acceleration of US military assistance to Southeast Asia. Between 1949 and 1952, Thailand received US$16.5 million in military aid and an additional US$17.1 million in economic aid[28], more than five times that received in 1946-48 (Osiri, 1974). In return for increased levels of aid, Phibun joined the Americans in the fight against the "international communist conspiracy" and, in July 1950, offered to send troops to Korea. With this gesture, Thailand became the first country in Asia to offer concrete assistance to the American venture made in the name of the United Nations (Chaloemtiarana, *op. cit.*).

The steady development of American anti-communist foreign policy and the articulation of the domino theory made Thailand an even more valuable ally. This in turn led to an increase in US aid in exchange. Even before the French defeat at the battle of Dien Bien Phu in 1953[29] and their withdrawal from Indochina the following year, American foreign policy was being dictated by a fear of the spread of communism. During the American presidential campaign of 1952, the Republicans who helped Eisenhower win the election had accused the Truman administration of being soft on communism and had promised to bolster America's anti-communist allies. In his first major foreign policy speech in 1953 Secretary of State, John Foster Dulles, spoke of the threat of encirclement of the free world by the Soviet Union and its allies (Darling, *op. cit.*). The domino theory predicted that, if South East Asia fell to the communists then Japan, India, and the Middle East could well follow. The resulting takeover would then endanger Europe and, eventually, America[30]. Hence the security of South East Asia was seen to be critical to the security of the United States.

This meant that Thailand's internal and external security became even more important[31] (Girling, *op. cit.*). American anxiety increased in January 1953 when signs of possible subversion in Thailand from Communist China emerged with the announcement from Peking that a "Thai Autonomous People's Government" had been formed in southern Yunnan province (the original home of the Thai people). These fears were exacerbated the following year when Pridi unexpectedly emerged in Peking, having disappeared from Singapore some seven years earlier, and was hailed in the Chinese media as the public leader of Thailand (Darling, *op. cit.*). In response total US assistance for the period 1953-57 was increased to US$337 million, of which US$205 million was military aid. Thus compared to 1949-1952, US military and economic assistance multiplied eight-fold, from an average of US$8 million to US$67 million per year (Osiri, *op. cit.*).

Aid and Aviation: the Security Nexus

The development of Bangkok's aviation facilities in the early 1950s owed a great deal to American military and other aid, which, consequently, had significant implications for tourism development. The aid programmes were designed to meet both economic and security objectives, and improvements to Thailand's transportation systems were considered essential to achieve these aims. Both economic and military aid programmes supported improvements in aviation, in road systems[32] and the railways[33]. From 1954, transportation became the largest sector of the economic aid programme and was allocated nearly half the funds between 1954 and 1960. The military construction programme in Thailand began in 1955 under the Office in Charge of Construction (OICC), headed by US Navy Engineers. The OICC began a programme of developments in roads, naval facilities and airfields that supplemented the economic aid programme (Muscat, 1990). American assistance for civil aviation had, however, begun four years earlier under the International Cooperation Administration (ICA), the forerunner of the US Agency for International Development (AID). The ICA's budget to 1955 was US$2.2 million, but this increased in 1956 to US$8.5 million in grant-aid plus US$3.5 million in loans. The grants covered airfield improvements, ground-air communications, communications between the ten Thai civil airfields, power generation and training. The loan financed the development of a major maintenance base at Don Muang, Bangkok's airport, that would offer engine overhaul facilities for all types of aircraft operating in the region (J. Walter Thompson, *op. cit.*).

Over a period of ten years, the American Civil Aviation Administration (CAA) implemented a programme of developments that included the installation of navigational aids at Don Muang and thirteen other civil airports, control towers, runways and aprons and an instrument landing system at Don Muang. The significance of these developments, and of a second decade of US programmes in the aviation sector, should not be underestimated. As Muscat (*op. cit.*:105) comments, "... [i]t is not an exaggeration to conclude that the two decades of U.S. assistance in airport construction and the development of Thailand's aeronautical ground services facilities and capabilities were fundamental for the growth of this transport subsector into one of major importance for the country's economic development, quite apart from its importance for the role of the Royal Thai Airforce in the country's defense posture." The latter point is important as the airfields could serve both civil and military needs. This was particularly true of the development of Don Muang, which served a dual purpose as the country's principal civil airport and as a major base for the Royal Thai Airforce.

Thus the international security structure was instrumental in the development of airport services that then influenced the patterns of air transport and hence tourism from the late 1950s. Security had previously influenced air transport developments in Thailand through the strategic and political requirements of the European colonial powers. With the end of the War, the British, Dutch and the French began to reclaim their previous colonial possessions in the Far East and used their airlines as instruments of influence and political control. When civil aviation services in Asia resumed in 1946, the British and the Dutch used Bangkok as a staging post for flights en route to the Asian colonies. Bangkok's locational advantage along the India, Burma, Far East axis was critical in this choice of routing. BOAC commenced operations into Bangkok in August 1946 using Hythe flying boats, which landed on the Chao Phya River before going on to Hong Kong (Douglas Aircraft Company, 1975). KLM, operating more flights through Bangkok than any other airline, went on to Jakarta in Batavia (Douglas Aircraft Company, 1974). The Europeans were joined by the Americans in 1947, when Pan Am began flights through Bangkok as part of the new round-the-world service, using the new, long-range Lockheed Constellations (Daley, 1980).

This increase in external aviation services was augmented by the development of local airlines, which began operating domestic and international services shortly after the War. Initially this had not been possible as commercial aviation was administered by the Thai Ministry of Defence, and the UN therefore restricted operations[34]. The ban was lifted in 1946, and the government then organised a new airline, the Siamese Airways Company Limited, to replace the existing Aerial Transport Company[35]. The new airline used war-surplus aircraft, including DC-3s, to restore domestic services in 1947 and, in 1948, intra-regional services were added (Douglas Aircraft Company, 1979). At the same time, American and British interests lobbied to begin international operations. The Thai government accepted the American proposals were accepted, and American/Thai joint ventures were set up to operate new, private airlines. Pacific Overseas Airlines, Siam, Limited (POAS)[36] was formed in 1947, and was followed in 1948 by Trans Asiatic Airlines, Siam, Limited (TAAS)[37]. Whilst TAAS simply operated DC-3 aircraft to Hong Kong and Singapore, POAS, in an ambitious venture, initiated Thailand's first intercontinental service, operating DC-4s across the Pacific, to San Francisco by way of Hong Kong, Shanghai, Guam, Wake and Honolulu (Douglas Aircraft Company, 1973).

This did not prove economic, however, and was terminated in 1950 (*ibid.*). POAS had, however, established Thailand as one of the pioneers of intercontinental aviation in Asia, as colonial governments elsewhere prevented the other Asian countries from developing their own long-haul carriers; indigenous airlines were restricted to local routes, leaving intercontinental services in the hands of the imperial power's airlines (Douglas Aircraft Company, 1979). Shortly after the Bangkok/San Francisco services ended, the Thai government acquired full ownership of POAS, which was merged with Siamese Airways to form the Thai Airways Company Limited

(TAC) in 1951. Indigenous competition ceased in 1952, when TAAS ceased operations, thus leaving TAC with the monopoly. Over the next five years, TAC expanded, and by 1957, twelve aircraft served twenty-one domestic and twelve overseas destinations. In anticipation of future growth, three Lockheed Super Constellations were on order for delivery later that year[38]. American assistance was also provided in airline operations, although with a more limited impact than in airport development. The US government provided a US$1.6 million contract under which Pan Am provided technical assistance to TAC. This did not prove successful, however, and was abandoned in 1959 (Muscat, *op. cit.*). In addition to the growth of the indigenous airline, other airlines were simultaneously expanding services through Thailand. By 1957, the number of international airlines serving Bangkok had risen to sixteen, compared to nine in 1952, and the number of seats had more than quadrupled to almost 7,000 each week (J. Walter Thompson, *op. cit.*).

The changes outlined above cannot be fully explained without a specific consideration of the structure of security. The international security agenda of the United States was a key causal factor in the early development of Thailand's aviation infrastructure, which was critical to the growth of airline services. The initial development of airline services was also a product of the political requirements of the European powers who established early route networks that linked Bangkok to both Europe and Asia. Domestic security requirements, specifically in pursuit of self-preservation by the Thai government, also resulted in changes, although in hotels rather than transportation. Other changes, particularly in the hotel sector, however, cannot be fully understood without reference to the private sector and the role of market demand. Consequently, this chapter has illustrated the value of an analytical framework that demands and examination of areas beyond the boundaries of conventional analysis. This was particularly true in two areas, the first being the need to consider the implications of security requirements as well as market factors on specific sectoral outcomes. Secondly there is the need to include not only international factors, but also events in the domestic political economy if analysis is to become more fruitful.

This chapter has also outlined the relationship between the Thai and American governments and the reasons for the nature of that relationship. One of the specific outcomes of American actions was the preservation of the Thai military in government, which led to far-reaching changes in the structure of production. The causes and consequences of these changes will, therefore, be examined in detail in the next chapter.

NOTES

(1)Interview: former Front Office Manager, Oriental Hotel, having joined the hotel in 1947; March 1986.

(2)*Source:Bangkok Bank Monthly Review,* March/April 1980

(3)Both the Ratanakosin and the Suriyanond changed names around 1962 , the former to the Royal Hotel and the latter to the Palace (Wolfstone, 1963). Presumably this was an attempt to make the names more accessible to foreign markets. The name of the Palace was then changed again in 1964 to the Majestic (Thai Hotels Association: Records), which remains the present name.

(4)During the War, the Oriental had been operated by the Japanese Army, who had bought the lease. When the Japanese left in August 1945, the Thai Army turned it over to liberated Dutch, British and Australian prisoners of war, before handing it over to members of the United States Air Force. In June 1947, however, the Oriental re-opened as a commercial hotel, having been taken over by a group consisting of several prominent members of Bangkok society, including royalty in the person of Prince Bhanu, and Pote Sarasin, who later became Prime Minister. The hotel was managed by one of the group's foreign partners, Germaine Krull, an ex-war correspondent, who was joined by Colonel Jim Thompson, ex-OSS and the future Thai Silk entrepreneur. The Hotel had previously attracted famous owners, perhaps the most notable having been Louis Leonowens, the son of Anna Leonowens who taught English to the children of King Mongkut and whose experiences were romanticised in the musical, "The King and I" (Berlingieri, undated).

(5)In 1949, 573,000 trips were made to countries apart from Canada and Mexico; in 1955 this had risen to 1,075,000 and in 1956 to 1,239,000, although over 90% of these trips were made to the West Indies and Central America and to Europe (J. Walter Thompson, 1958).

(6)Interview: Managing Director, The Dusit Thani Hotel; May 1986.

(7)*Source:Bangkok Post*, 7 February 1973.

(8)*Bangkok Post*, 7 February 1973

(9)Interview: *ibid.* May 1986.

(10)*Bangkok Bulletin*, 2 November 1959

(11)Interview:*ibid.;*

(12)*Bangkok Post*, 15 November 1956

(13)*Bangkok Post*, 9 November 1956

(14)*Bangkok Post*, 9 November 1956

(15)*Bangkok Post*, 15 November 1956

(16)*Bangkok Bulletin*, 4 August 1958

(17)*Asia Magazine*, 5 May 1985 *and* J. Walter Thompson (*op. cit.*) *and* Wolfstone (1961).

(18)Pridi, who had been professor of law at Chulalongkorn University at the time of the coup was prime minister for only a short time, as his proposed socialist policies proved too radical for the new People's Party. He was therefore replaced with a more moderate Premier, Phya Bahol, who ruled until 1938. Pridi eventually became the first post-War Prime Minister, with Allied support (Clarac, *op. cit.*).

(19)Phibun resigned in June 1944, possibly thanks to Pridi's manoeuvring, and was replaced by the Deputy Speaker of Parliament, Kuang Aphaiwong. Having established civilian government, Kuang resigned in August 1945 and Thawee Bunayaket, a Pridi supporter, formed an interim government whilst Seni Pramoj was invited back from the United States to become Prime Minister. The invitation was issued by Pridi, in his capacity as Regent, a position he had assumed after the Japanese landing in Thailand in 1941 (Chaloemtiarana, 1974).

(20)Seni was also the leader of the American section of the *Seri Thai* (Free Thai), an underground resistance movement that had been formed by Pridi to cooperate with the allies against the Japanese, particularly through the American Overseas Strategic Service (OSS) (Chaloemtiarana, *op. cit.*). Seni came to power with the support of these groups (*Far Eastern Economic Review*, Asia Yearbook 1977).

(21)Internal coup attempts had been a feature of Phibun's regime, beginning in 1949 when Pridi's followers in the Seri Thai and the Navy launched an abortive attempt. A further attempt, the "Manhatten Affair", followed in June 1951. Phibun was kidnapped by a naval officer during the handing over of an American-donated dredger, the Manhattan, and taken on board a Navy flagship which was then sunk by the Air Force. Phibun escaped but had to swim for his life (Insor, *op. cit.*). The subsequent victory of Phibun and the army, joined by the fledgling air force, over the navy allowed the army to dismantle the latter as a force and to establish supremacy both in the armed forces and in Thai politics. A further coup occurred in November of the same year, but was led by Phibun against a parliament he could no longer control (Chaloemtiarana, *op. cit.*).

(22)*Far Eastern Economic Review,* Asia Yearbook, 1977.

(23)*ibid.*

(24)Phote's elevation to office occurred at the time the Oriental's Tower Wing was under construction, but this link of market with authority failed to help the hotel project. Germaine Krull complained that "...[h]aving one of my partners as premier was no advantage, as he was fully occupied at a time when I needed advice for the many problems..." (Berlingieri, *op. cit.*:43).

(25)The name of the country was changed to Thailand by Phibun following the coup of 1938 as an expression of Thai nationalism, replacing the royal, Sanskritic, "Siam" (Insor, *op. cit.*).

(26)Ingram (*op. cit.*) considers that British influence played a key role in maintaining Thailand's independence, since Britain wished to maintain control over the trade of Bangkok, which , in the late 1800s, was 70% in British hands. This, allied to the desire to maintain Thailand as a buffer between British and French possessions in Asia, was largely responsible for the use of British diplomacy to preserve the Siam's independence.

(27)Phibun allied Thailand with Japan and permitted the Japanese army to use the country as a base for operations in Southeast Asia (Chaloemtiarana, *op. cit.*).

(28)Total US assistance to Thailand in this period was US$33.6 million, including a loan of US$1 million. In contrast, total assistance in 1946-48 was US$6.2 million and was entirely in the form of loans (Osiri, 1974).

(29)Despite the assistance of the United States, which had used the CIA-owned airline, Civil Air

Transport of Taiwan (CAT) to airlift 16,000 men into battle (Robbins, 1979).

(30)As a further deterrent against communist expansion in the region, America organised the South East Asia Treaty Organisation (SEATO), in which Thailand became an eager partner (Chaloemtiarana, *op. cit.*). SEATO was formed in 1954 and included, in addition to the US and Thailand, Britain, France, Australia, New Zealand, the Philippines and Pakistan (Osiri, *op. cit.*). The Organisation was headquartered in Bangkok.

(31)Symptomatic of this perception was a statement made to Congress in 1956 by Ambassador Bishop. "I look at Thailand as the cork in the ink bottle, and if you were to pull this cork the red ink would flow to Australia immediately" (Caldwell, 1974:42).

(32)In 1949, there were only 845 kilometres of all weather highway in the whole of Thailand, much of it unusable, and in 1954 there were only 1,600 kilometres of road, paved or unpaved, outside Bangkok. It was impossible to travel by road either to Chiang Mai in the North or to the Malaysian border in the South (Caldwell, 1974).

(33)After the War, the principal means of transportation in the Central Plain was the river system, but the rest of the country had to rely on a skeleton of single railway lines emanating from Bangkok. Wartime bombing to reduce the railroad's usefulness to the Japanese had left the system in very damaged condition (Muscat, 1990).

(34)*Far Eastern Economic Review*, 8 February 1962.

(35)The ATC had been formed in 1931, based at the railway terminus at Korat. From there it operated three deHavilland Puss Moth aircraft, using Thai air force crew (Douglas Aircraft Company, 1979).

(36)POAS was formed by the Thai/US joint venture company, Rak, Derek, Davies, which held the Thai franchises for Coca Cola and RCA (Interview: Managing Director, World Travel Service Ltd.; March 1986).

(37)*Far Eastern Economic Review*, (*op. cit.*).

(38)*ibid.*

CHAPTER 6

Security, Ideology and Technology: state intervention and the jet revolution.

Market conditions in the Thai tourism and hotel sector changed in the late 1950s for two main reasons. The first was a result of new state policies that followed the critical change in government in Thailand and the second was through technological changes in transportation that had implications for tourism markets. This chapter examines the reasons behind the authorities' attempts to change market conditions and the influence of the transportation sector both on the state and on relevant market sectors. Both Thai and American concerns with security issues were a key factor in domestic policy changes. Policy towards tourism was also influenced by the jet revolution through the potential growth in both tourist demand the influence of the new technology on the structure of Thailand's airline industry. Both the Thai and American governments translated these needs and opportunities into the encouragement of tourism, based explicitly on its perceived development potential. The outcome was a change in the state/market relationship in the sector through the creation of institutional support for tourism and government initiatives that were intended to stimulate investment in the hotel sector. This was an important formative period, which had far-reaching consequences as the policies and institutions created in the late 1950s continued to influence the hotel and tourism sectors in the ensuing decades. This chapter will describe and explain the changes within the sectors that took place during the period of Sarit's regime and consider the rather limited short-term response within the hotel sector to the state and market initiatives.

State Ideology and Development

The period from 1958 to 1963 was characterised by a marked centralisation of power within government that had a significant impact on the structures of production in the Thai economy. These changes were partly a function of American influence and support, on which the Thai government continued to rely as part of the political exchange that supported Washington's anti-communist policies in the region. Following the establishment of the Sarit dictatorship in October 1958[1], state support was provided for industrial and infrastructural improvements within the context of the ideology of "development", in a series of initiatives that received active encouragement from the United States.

Sarit's *coup d'etat* of 20 October, 1958[2] is important in that it marked the beginning of a new political system which endured until the student revolution of 1973. The new system was called a *pattiwat* (loosely translated as a revolution) by the coup leaders, and was revolutionary in the sense that it tried to overthrow the whole political system inherited from 1932. It also brought to political leadership members of the military who were mainly trained and educated within Thailand and who therefore adopted much more of an authoritarian perspective than their Western educated predecessors (Chaloemtiarana, 1974). One of Sarit's first acts was to effect a reorganisation of the system of government towards centralization with the executive branches of government being focused on the Prime Minister's office (Osiri, 1974). Sarit was then able to implement policies aimed at his conception of development, without undue interference.

International Security and the Development Ideal

Sarit's grand scheme of national development could not, however, be implemented without foreign assistance. The Thai government did not have the money or the trained personnel to carry out Sarit's programmes and hence aid had to be sought from foreign nations and institutions (Chaloemtiarana, *op. cit.*). America, for the reasons already considered in Chapter 5, was the principal partner, aided by the World Bank. Initially the development policies were formulated around Thai domestic requirements, but this changed in the early 1960s as America's strategic concerns became more acute. The result was that Thai development policy became increasingly constrained by security issues (*ibid.*).

Initially the vehicle for foreign influence in Thai development programmes was the World Bank, which advocated further improvements to the infrastructure, especially in the area of communications. The Bank's recommendations became the foundation for Sarit's first national development plan, published in 1961. The major concern was with transport, with a high priority given to the improvement of the road system in rural areas which was aimed at the farming sector. However, in 1961, the situation in Laos deteriorated, raising US fears of a growing communist threat in the region. This had an impact on the implementation of the plan with the result that the emphasis became skewed towards security, largely as a result of growing American influence in both aid and technical advice. The needs of the rural population rapidly became subordinate to the need for government access to insecure regions (Chaloemtiarana, *op. cit.*). As Anderson et al, (1985:21) comment, "... *[r]ural development*, heavily financed by the U.S., meant a drive to tighten Bangkok's administrative grip on the country's overwhelmingly agricultural population". In addition, improvements to the road system would link Bangkok with Thailand's borders with Burma, Malaya, Cambodia and Laos, providing strategic access if needed for the defence of the country. Sarit became increasingly reliant on US aid, and hence America's escalating concern with security was allowed to influence the direction of development to suit international military and strategic requirements. The result was that "... in the end, Thailand's national development policy became part and parcel of the execution of American policy" (Chaloemtiarana, *op. cit.*:324).

In addition to shaping Thai development and domestic communications, America also exerted influence over the development of tourism, through a combination of trade and government channels. The basis for state support for tourism in Asia was articulated in a series of arguments formulated by the US Department of Commerce, acting on behalf of the American International Cooperation Administration (ICA) and in conjunction with the US-based Pacific Area Travel Association (PATA), a trade association formed to promote American travel in the Pacific region[3]. The Far Eastern Economic Review commented at the time that the rationale appeared to be that "... anything which both brings in foreign exchange to Asian economies and at the same time stimulates the development of regional co-operation in Asia, should be given every encouragement..."[4]. The result was the "Checchi Report"[5], which, as noted in Chapter 2, was later severely criticised for its flawed methodology. At the time, however, the report was well received, particularly in Thai government circles[6]. In essence the report concluded that tourism should be receive state support since the multiplier would have a major impact on national income, balance of payments and government revenues. To achieve these benefits, however, a major hotel construction programme would have to be mounted throughout the region, and, given the risks, state investment incentives would be a necessary pre-requisite.

Institutional Change and the Genesis of State Support

Two key developments then arose in the hotel and tourism sectors, partly as a consequence of these international influences and partly from the intervention of Sarit's administration. One was the formulation of a more effective means of promoting industrial investment and the second was the creation of a body within the Prime Minister's office charged with the promotion of tourism, the Tourism Organisation of Thailand (TOT).

The first followed the World Bank's recommendations[7] that previous industrial promotion mechanisms were ineffective and that a Board of Investment (BOI) be created to encourage private investment in the manufacturing and service sectors. The BOI was established in 1959, also as a unit of the Prime Minister's Office, with the power to grant investment incentives (or *promotional privileges*) to both national and foreign investors. Incentives included exemption from import duties and income taxes for up to five years and freedom of repatriation of dividends, interest, capital and profits. In addition those industries selected for promotional privileges were permitted to employ qualified foreigners, without regard to immigration quotas. A total of 62 categories were chosen, concentrating on import substitution products such as chemicals, pottery, electric batteries and ironmongery[8]. One exception to this principle, and an exception to the Bank's Report, was the hotel industry. Thus, whilst the World Bank was largely responsible for the institutional structure which supported hotel investment, the particular inclusion of hotels was due to other factors. These included the external influence of the "Checchi" rationale, which legitimated state support in terms of future benefits and a further external influence, also noted in the Checchi Report, brought about by growth and technological change in aviation. However, without the domestic political will, the hotel sector would not have qualified for such levels of support.

The political impetus came directly from Sarit who had developed an interest in the hotel industry before assuming power, and for whom the industry could provide useful benefits. The initial interest originated from the future Prime Minister's exposure to the hotel and tourism industries of Europe whilst convalescing there following surgery in 1957[9]. Hotels would then provide symbols of modernisation and Westernisation in a regime dedicated to the ideal of development along, principally, American lines. Sarit was also aware of the potential for legitimation that overseas travel could offer, and the value of a Western style accommodation industry in offering hospitality to Western visitors who could lend support to the regime. In addition to the foreign officials, politicians, businessmen and tourists who came to Thailand, there were also orchestrated visits abroad by the Thai monarchy to foster added legitimacy with foreign allies. As Chaloemtiarana (*op. cit.*) points out, the Sarit regime had little historical basis for legitimacy compared to previous post-1932 leaders whose claim to power rested on constitutionalism. Initially, Sarit's claim to legitimate power rested solely on having replaced the corrupt Phibun regime, and to bolster the claim, the regime leaders turned increasingly to the throne to strengthened their position. Beginning in 1959, Sarit arranged elaborate foreign visits for the King, who, accompanied by his wife, Queen Sirikit, made state visits to twenty-three countries by the time of Sarit's death in 1963. By far the most important was a six month tour in 1960 of the United States and thirteen countries of Europe, which served to identify Thailand with the graciousness of its monarch and queen, rather than with a dictatorial regime (*ibid.*).

Sarit also initiated the state mechanism for tourism promotion, which became the Tourist Organisation of Thailand (TOT). Initially created as the Tourist Promotion Bureau in 1959, the organisation was to be responsible to the Prime Minister through the Minister of Foreign Affairs, Thanat Khoman, through his chairmanship of the supervising Thai Tourist Committee[10]. The importance of this appointment was not simply that the Foreign Ministry was involved, but that Thanat himself, whose importance to the regime was that he acted as Sarit's international spokesman (Chalermtiarana, *op. cit*), was chosen for the post, which reflects the importance that Sarit placed on the development of tourism. TOT became fully functional on 18 March 1960, with a budget of B3.4 million and a 70 staff, operating under the directorship of Sarit's Deputy Secretary General, Colonel Chalermchai Charuvastr[11]. This appointment reinforced the government's commitment, which was summed up by Sarit's instructions to the new Organisation that it should "... give full cooperation, assistance, support, and guidance to the business enterprises and individuals closely connected with the travel industry" (Fuangfu, 1974:19).

Institutional Authorities and Tourism Markets

A further major rationale for state intervention in the sector was the growth in air travel, which was bringing more passengers to Asia, although relatively few broke their journey in Thailand. Bangkok's role as a transit point for the airlines was, by the late 1950s, well established, but the major growth was in transit passengers rather than in tourists visiting Thailand. The potential tourism demand that this represented offered the authorities the argument by which investors could be tempted, in addition to the incentives that, by then, were available for hotel development.

The Tourist Organisation echoed the Checchi findings which had concluded that Thailand's tourism potential was "enormous", thanks both to the air network through Bangkok and to the attractions of the capital city. Bangkok's spectacular temples, floating markets, glimpses of Thai life that could be observed from boat trips along the canals, good shopping and exceptionally interesting classical Thai dancing all offered great tourist appeal. However, the number of potential tourists who never witnessed these attractions was very significant. The Checchi report restated the conclusions of the earlier survey carried out by the J. Walter Thompson Company, citing 1958 data that indicated almost 70% of the international travelers who arrived at the airport never left the terminal but instead proceeded directly to other countries[12]. In addition, Thailand was failing to attract the transpacific American market, the bulk of which travelled as far as Japan, with a fairly high percentage then travelling on to Hong Kong, but no further (Clement, 1961).

By early 1961, government estimates suggested that up to 50% of the potential tourist traffic was being lost, and that this was due principally to a lack of hotel accommodation in Bangkok. The Checchi conclusions, which had been based on fieldwork carried out during 1959, substantiated this, stating that "... [a] major obstacle to the development of tourism in Thailand is the problem of accommodations (*sic*)... [since]... a major problem in financing new hotel development in Bangkok is the lack of sufficient local capital at a reasonable interest rate. Money is expensive to borrow in Thailand... [and so]... if the hotel problem is to be resolved in Thailand, the Government must, in our opinion, make adequate money available at a reasonable interest rate... Alternatively, the Government might consider making large tax concessions to potential investors to offset the disadvantages of borrowing money at the prevailing high rates" (Clement, *op. cit.*:133).

Thus the investment incentives offered by the BOI for the hotel sector were a direct reflection of this argument, and represented the principal means by which authority attempted to influence market operators. TOT was also active in the attempt to stimulate further investment, partly through an institutional link with the BOI[13] and partly through the provision of information to the market. Thus, with caveats for possible inaccuracies in the data, in 1961 TOT suggested that the number of visitors to Thailand had been rising steadily in the late 1950s, from 98,000 in 1957 to 145,000 in 1959 with a further increase of 20% expected when the returns for 1960 had been compiled. The inference was, once again, that there was a critical lack of hotel supply in Thailand to satisfy this growing demand[14]. However the majority of these visitors came from nearby Asian countries, and particularly from the neighbouring, contiguous states of Malaya, Burma, Cambodia, Laos and Vietnam. Revised data, published by TOT in the late 1970s, which shows that the number of "overseas" tourists was less than half the total[15]. The importance of the discrepancy is that the Asian visitors, and especially those from neighbouring countries, were unlikely to use hotels in Bangkok and the majority would simply cross the border for reasons other than leisure tourism. Hence the authorities, perhaps unwittingly, attempted to influence market decisions through overestimates of tourism demand.

The State/Airline Nexus

The final spur to state action was provided by the transportation sector, and was rooted in the changing organisation structure and technology of the airline industry. Whilst the implications of technological change were global, Thailand faced particular imperatives as a result of changes in the structure of the national airline. These organisational changes, which were largely a result of the government's unilateral decision to maintain an international presence in civil aviation, put pressure on the state to support the national carrier, and one way in which this could be done was by developing tourism markets.

The decision, not only to remain in international civil aviation, but to begin an expansion of the existing operations, was one critical area in which the Thai government failed to implement the recommendations of the World Bank. The Bank's advice was that Thailand should concentrate on domestic air services, given the size of the country and limitations of surface transport to serve the scattered population centres, and leave external communications to the world-wide carriers then serving Bangkok (International Bank for Reconstruction and Development, 1959). The Bank therefore recommended that Thai Airways cancel international flights and, as other airlines were about to introduce jets, to withdraw its three propeller-driven Super Constellations from service (Sternstein, 1976). This did not last long, however, and, in order to preserve international operations, the Thais entered into an alliance with Scandinavian Airlines System (SAS) in an arrangement that gave the Thais access to capital and expertise and the Scandinavians access to markets. The result was to put greater pressure on the hotel and tourism sector to expand, as the key market that would provided passengers for these international services were the foreign tourism markets. The limited size of Thailand's domestic market for overseas air travel meant that both parties concentrated on foreign markets, but for somewhat different reasons. Thai attention was confined to short-haul markets by the inter-regional nature of the new operations, whilst the Scandinavians were chiefly interested in long-haul markets for their intercontinental flights and were using the new alliance to provide local feeder services for the long distance flights between Asia and Europe.

The reason for the SAS move lay in the political economy of European air transport in the late 1950s, which then had an impact on Asian aviation through British colonial links in Hong Kong. In a protectionist in support of the national carrier, BOAC, the British government had revoked Scandinavian traffic rights in Hong Kong in 1956. This overturned the previous agreement that had allowed SAS to operate from Bangkok to Tokyo via Hong Kong since 1953[16]. By linking with the Thais, who faced no such restrictions in Hong Kong, SAS therefore gained access to the colony to feed its flights from Bangkok and Tokyo. In return, SAS accepted the main burden of risk of the new operation, despite taking only 30 per cent of the equity in the new venture. The agreement specified that SAS would carry all losses incurred during the first five years of operations but that any profits would be shared[17]. SAS also took over management of the commercial, operational and technical functions, supplying fifty Scandinavian personnel to key roles. Finally the Scandinavians bought the existing three Super Constellations[18] from TAC and provided new equipment through a lease-purchase agreement for three Douglas DC-6B aircraft. SAS then obtained a final concession from the Thais in the form of a monopoly on international services. By this, the new airline, Thai Airways International Limited, was designated the only international air carrier of Thailand, and TAC, despite being the legal owner of 70% of the equity, was confined to domestic services[19].

The inaugural flight took place on 1 May 1960, from Bangkok to Hong Kong, Taipei and Tokyo. Within the year, services were opened between Bangkok and Rangoon, Calcutta, Kuala Lumpur, Singapore, Djakarta, Phnom Penh and Saigon, rapidly establishing Thai International as a major regional airline (*ibid.*). To ensure the commercial survival of this network of services then required an expansion of passenger traffic for which tourism traffic, and particularly inbound tourism, was a key factor[20]. Consequently, the government's interests in developing the new national carrier would require a corresponding increase in hotel accommodation in Thailand.

Technology, Aviation and Accommodation in Asia

As the new Thai carrier was commencing operations, jet technology was already having an impact on Asia. The supply of seats was increasing, and the time taken to travel from key markets was being sharply reduced. These changes held the potential for a major increase in market demand as more airlines inaugurated jet services from Europe and North America to Asian destinations. The airlines then began to make demands on the destinations for an increase in accommodation to cater for the growth in the number of their passengers.

A major actor was Pan Am, which had introduced transpacific jet travel in 1959, using Boeing 707/321 aircraft between Tokyo and America's west coast. As the world's largest operator of jet aircraft, Pan Am was particularly concerned by a lack of suitable accommodation (Pan Am, 1961). Consequently the airline began to expand its Intercontinental Hotels Division beyond the previous domain of Central and South America and before the first transpacific jet flight was inaugurated, and developed plans to open hotels in South East Asia, the Philippines and Australasia (*ibid.*, 1958). Implementation began in 1962, when Intercontinental assumed the management of the government-owned Hotel Indonesia in Djakarta, and the following year agreements were signed with hotels in both Hong Kong and Singapore (*ibid.*, 1962). This development by one of the major American hotel chains was quickly followed by its principal competitor, Hilton International, which, despite the lack of a direct airline affiliation, was also expanding its operations and began to open hotels in Asia from 1963, starting with Tokyo and Hong Kong[21].

These developments provided sufficient evidence for the authorities in Bangkok to show that tourism markets, led by the Americans, were set to boom with the jet revolution. However, market interest, represented by new investment in the hotel sector, remained low. Only three new hotels opened in Bangkok between 1958 and 1961, despite the attempts by the authorities to encourage further market growth. The most significant of the three opened as the Rama Hotel, with 180 rooms, although this was the long anticipated addition to the Princess group which, as the previous chapter noted, had been planned as the New Princess. The Kings Hotel offered 105 rooms, and the smallest of the three, the Atlanta, had only 25 rooms when it too opened in 1961 (Wolfstone, 1961). Early attempts by the American chain hotels to stimulate investment also foundered. Hilton, which had first investigated Bangkok as a potential location in the mid 1950s, resumed negotiations in 1959[22], but did not reach agreement. Intercontinental had also opened negotiations that, by 1960, had led to the formation of a joint venture company, the Bangkok Intercontinental Hotel Company Limited, which was one of the first hotel companies to apply for investment incentives from the BOI[23]. In this case also, despite the support of government and the Americans, no actual investment took place. As Chapter 2 showed, the chain hotels themselves refrained from direct financial investment overseas, leaving this to local investors. Hence in Bangkok at this time, the two chains, like the government, were faced with a lack of market interest and, consequently, the lack of hotel owners who required their marketing and management services.

This was in marked contrast to the situation in Hong Kong, which was the only location in Asia where both chains had operations by the early 1960s. Not only were there more new hotels but they were also much larger, with the result that the total number of hotel rooms available in Hong Kong rose more sharply than in Bangkok[24]. Three new hotels had added almost one thousand rooms at the turn of the decade, yet had failed to alleviate a critical room shortage[25] In the second half of 1961, continued demand meant that all the Colony's hotels were full and the three new hotels each had waiting lists for the following spring. An additional nine projects were then under construction[26], including three major projects that, alone, would add almost 2,500 de-luxe rooms to the 2,000 or so then available in the Colony's three and four-star hotels[27]. These latest hotels raised the profile of Hong Kong's hotel sector, not only because of their size, but also because they would be the Colony's first five-star hotels and because of the associations that developed with the American chains. The first to open was the largest, the 869-room Hong Kong Hilton, in April 1963[28], followed in September by the 641-room Mandarin, which became the first "associate member" of Intercontinental Hotels[29]. The third major project, the 840-room President Hotel, became the largest hotel on the Kowloon side of the Colony when it opened in November, and, unlike the others, remained at first under local management [30], before becoming a member of the Hyatt chain in 1969[31]. Plans for both the Hilton and the Mandarin were well advanced by 1960[32], a fact that was not lost on the Thai authorities.

The Thais were also critically aware of the higher levels of tourism demand in Hong Kong. Between 1958 and 1961 the number of tourists visiting Hong Kong each year[33] was almost double the number of overseas visitors to Thailand, and in addition, the number of American visitors to Hong Kong was significantly higher. Available data indicate that in 1959 almost four times as many Americans visited Hong Kong although in 1960 this had fallen somewhat to three times the number. American visitors to Hong Kong consistently accounted for around 30% of the total market, making the American segment by far the most significant[34]. Consequently transpacific air routes were the most important links for tourism. Recognising the potential of the American market, the Thai government attempted to persuade these American visitors to extend their journey from Hong Kong. In doing so, the government was effectively adopting the Checchi recommendations that this market should be exploited[35]. The Checchi Report had estimated that, by 1968, more than 300,000 American travellers would visit Hong Kong and that, given the right developments, the "... chances are very good that 2 out of 3 of them could be persuaded to visit Bangkok..." (Clement, *op. cit.*:129). However, if this were successful, then the issue of accommodation would become acute. TOT's Director commented that "... More tourists would visit..[Thailand]..if we had enough hotel accommodation of adequate quality... As the result, there has been a sort of overflowing of foreign tourists... Thailand still needs more hotels in order to catch up the expansion rate of Hongkong. Thailand is lagging behind the British Colony, and as long as this continues, the overflowing of tourists is inevitable..."[36].

The changes in the Asian aviation sector that were about to take place would then, simultaneously, compound the accommodation problem and help TOT achieve its goal of increasing the number of American tourists extending their trips from Hong

Kong. The changes were a result of the new technology, which, in general, was expected to lead to a boom in Asian tourism and, in particular, presented new opportunities and risks for the Asian airlines. By the beginning of 1961, the new jets were operating through Bangkok. Pan Am offered six flights eastwards and six westward each week using Boeing 707s[37], and TWA, Lufthansa and Air India were all operating 707s to Europe[38]. In addition BOAC had re-introduced Comet service to London over a year previously[39]. By late 1961, Thai International was committed to the introduction of jet service on principal regional routes by mid-1962, including the key Tokyo-Hong Kong-Bangkok sector[40]. *THAI*'s major competitor, the Hong Kong airline Cathay Pacific, simultaneously began jet operations on routes between Tokyo, Hong Kong, Bangkok, Taipei and Singapore[41]. This increased the potential for increased tourist demand, particularly along the route from Tokyo through Hong Kong but, at the same time, the operating costs and associated risks rose sharply.

Each airline took delivery of only a single aircraft, which introduced scheduling risks, should the single plane be out of service, and had implications for operating and capital costs. *THAI* operated a leased Convair 990, complete with flight crew, whilst Cathay purchased a Convair 880/22M to be operated by its own crew, both of which were expensive[42]. A lack of appropriate maintenance facilities also raised direct costs and introduced complexities into scheduling operations. To carry out regular maintenance, the terms of its lease obliged *THAI* to return the aircraft to the owners, Swissair, in Zurich. Cathay was also forced to seek foreign assistance, given Hong Kong's lack of jet overhaul facilities, although this was more conveniently located in Taiwan, where Civil Air Transport (CAT) operated a suitable maintenance facility[43]. In addition, the introduction of the new planes resulted in older aircraft being retired from service. Whilst this was a problem facing all the world's carriers as they entered the jet age, the limited size of the Asian fleets made it all the more critical. Cathay sold off its three Douglas propeller aircraft, leaving a three-aircraft fleet composed of the new jet and two prop-jet Lockheed Electras (Eather, 1983), and Thai International faced the redundancy of one third of its existing fleet of three DC-6Bs[44].

Such high fixed costs forced the airlines to fill the available capacity without, necessarily, considering the lower variable costs or, more critically, being bound by official fare levels. Both *THAI* and Cathay were able to exercise considerable discretion in this as, unlike the majority of the world's airlines, they were not members of IATA. Hence both carriers had much greater commercial freedom in the areas of pricing, distribution and service. IATA regulations effectively maintained fares at the level of the most inefficient carrier and, further, impeded changes to fare levels through lengthy bureaucratic procedures. In contrast, both Asian airlines were able to set fares solely within the context of their own government regulations and market conditions, without reference to IATA's authority. Distribution, through the medium of travel agents, was more extensive and allowed greater price discretion as the airlines were free to sell tickets through non-IATA agencies, which were not restricted by IATA's regulations on fares and commissions[45]. Finally, both carriers could offer in-flight service that exceeded the IATA-regulated norms. *THAI*, in particular, took advantage of this to offer free alcoholic drinks, including champagne, as part of its normal service, plus first class food and a fresh orchid for every female passenger[46]. However, if *THAI* was to succeed in filling more seats, it would require more than just first class service for its economy class passengers; if the market was to grow, there would have to be a reason to travel and sufficient accommodation available on arrival. Consequently, the growing needs of the national airline acted as an additional pressure on the Thai authorities to stimulate investment in the hotel sector in Bangkok.

The Accommodation Impasse

Despite the combination of the incentives offered by the state and the market potential displayed by the introduction of the jets in Asia, private investors showed little interest in the hotel sector in Bangkok. The 1958 total of under 1,000 rooms rose to slightly more than 1,700 in 1963 (TAT, 1980). To put this in perspective, the total increase was thus less than the Hilton alone added in Hong Kong. The total number of rooms in Hong Kong, in comparison, rose from just under 2,000 in 1958 to almost 6,000 in 1963[47]. The other major difference between the two locations was that Bangkok's new developments were far more modest hotels on a much smaller scale, averaging under 100 rooms each, compared to an average of almost 450 in Hong Kong. Only two of the Bangkok properties could compare in terms of quality of accommodation, the existing Oriental Hotel and the new Rama, although both of these were still relatively small. The Rama ranked alongside the Erawan in size, and was the only property that could offer a comparable level of modernity and amenities as the new hotels in Hong Kong.

Yet the Rama, in company with six of the seven new hotels, was built without recourse to the state incentives, indicating that the attempts by the authorities to stimulate investment had proved of little influence[48]. The developers of the Rama had, initially, lodged an application with the BOI for promotional privileges, but then had completed the project alone[49]. The hotel had been conceived in the late 1950s by the owners of the Princess Hotel, who, at first, assumed management of the new venture when the hotel opened in 1961[50], maintaining the hotel as a totally independent venture. The only hotel built with BOI incentives was the Viengtai Hotel, a simpler property that opened with 60 rooms in 1962, before expanding to its final capacity of 132 rooms later the following year[51].

This almost total lack of response to the incentives and the propaganda of the Thai and US authorities thus indicates that not all conditions were in place to stimulate the growth in the hotel and tourism sector desired by the two governments. Whilst Thailand had become even more firmly allied to the United States at the diplomatic and strategic level by the time of Sarit's death in 1963, this had not yet been translated into a significant market relationship, despite the developments in communication provided by jet transportation. Market developments, as the next chapter demonstrates, then provided the necessary additional factor that would provide the impetus for development in Thailand's hotel sector.

NOTES

(1)Sarit had previously siezed power in a coup in September 1957, but had then appointed Phote Sarasin as the civilian premier, although Phote resigned shortly after in favour of Thanom Kittikachorn (Osiri, 1974).

(2)Elections had been held in December 1957, following which Phote resigned and Thanom reluctantly assumed the post of Prime Minister. Sarit remained the established leader but was unable to take up the position due to illness. At the time of Phote's resignation, Sarit was convalescing in Bangsaen, a seaside resort south of Bangkok and, shortly after, he left Thailand for major surgery at the Walter Reed Army Hospital in the United States (Chaloemtiarana, 1974).

(3)PATA had been formed in Hawaii in 1951 as the Pacific Interim Travel Association, which held a conference of interested trade and government bodies in Honululu. Initially, the principal beneficiaries were the Hawaiian tourism industry and the US airlines, amongst which Pan Am was a dominant actor. The Association was conceived by the chairman of the Hawaii Visitors Bureau, Lorrin P. Thurston and Pan Am's regional director in Hawaii, William J. Mullahey (*Travel Trade Gazette Asia*, January 1987). Bill Mullahey's interests lay in the promotion of outbound American tourism to the Pacific and the Far East, for which would clearly benefit the airline's operations in the region.

(4)*Far Eastern Economic Review*, 17 September, 1959:433.

(5)Published as Clement (1961).

(6)Interview: Chairman and Managing Director, Bangkok Intercontinental Hotels Co. Ltd.; June 1986.

(7)Published as IBRD (1959).

(8)*Far Eastern Economic Review*, 28 July 1960.

(9)Interview: former *aide de camp* to Sarit; May 1986. The *aide* accompanied Sarit on his travels around Europe from their base in Sunnigdale, England.

(10)*Far Eastern Economic Review*, 17 September 1959.

(11)*Far Eastern Economic Review*, 12 January 1961 & Interview former Governor, Tourism Organisation of Thailand; June 1986.

(12)In 1958, Checchi reported, of the 180,000 passengers who landed at Bangkok airport, 120,000 were in transit. The earlier survey estimated that, in 1956, there were three times as many transit passengers as the number who disembarked and entered the country.

(13)The Director of TOT sat as a member of the BOI committee. (Interview: former Governor Tourism Organisation of Thailand; June 1986.)

(14)*Far Eastern Economic Review*, 12 January 1961.

(15)*Source:*Tourism Authority of Thailand (1980).

(16)*Far Eastern Economic Review*, 8 February 1962. When negotiations re-opened in 1968, the British claimed that SAS could offer nothing in return for rights in Hong Kong (*Far Eastern Economic Review*, 22 May 1971).

(17)The Thais were entitled to 25% of the profits during this initial period (*Far Eastern Economic Review, op. cit.*).

(18)The Constellations were purchased by SAS for use by another SAS joint venture, the Mexican airline GUEST Aerovias, who later leased them to the Portuguese airline, TAP (*Far Eastern Economic Review, op. cit.*).

(19)*Far Eastern Economic Review, op. cit.*.

(20)Interview: Senior vice President, Thai Airways International Ltd.; July 1986.

(21)Interview: Senior Vice-President Asia and Australia, Hilton International; March 1986.

(22)*Far Eastern Economic Review*, 26 March 1959.

(23)*Far Eastern Economic Review*, 28 July 1960

(24)It is beyond the scope of this present thesis to examine, in detail, the reasons for this relatively sharper expansion in the Hong Kong hotel sector. In part this was caused by the higher levels of tourism demand discussed in the text, but other factors must be considered if a thorough IPE analysis is to be performed. In particular, American trade and investment in the British Colony, which expanded following the the communist takeover in China, was a factor in creating demand for accommodation. Trade between the Colony and the United States had increased five-fold in the decade from 1953 to a total of US$1,800 million, with exports increasing by a factor of 1,300% in the same period. At the same time American involvement in manufacturing was growing, although this was largely through licensing agreements rather than direct foreign investment, as American investors were still cautious of China's policies towards Hong Kong (*Far Eastern Economic Review*, 9 July 1964). American security interests were also involved, partly because of the harbour facilities that Hong Kong offered the US Navy and partly because of the Colony's usefulness in intelligence operations, given its proximity to Communist China.

(25)The new hotels were the Ambassador (350 rooms) and Park (450 rooms), which opened in 1960 and the Imperial (195 rooms), which followed in 1961. Together these three more than doubled the number of "adequate" rooms in the Colony (*Far Eastern Economic Review*, 28 November 1963 & 2 July 1959).

(26)*Far Eastern Economic Review*, 25 January 1962.

(27)*Far Eastern Economic Review*, 28 November 1963. The total number of new rooms that would be available on completion of all nine projects in 1965 was almost 3,400. This would raise the *total* number of rooms available (in all categories) from a 1959 total of 2,221 to 6,597 in 1965 (Hong Kong Tourist Association estimates for 1965 in *ibid.*).

(28)Initially known as the American Hotel, the Hilton was a foreign investment, having been built by two Texan millionaires, Leo Corrigan and Toddie Wynn, whose company, Wynncor Ltd established a 20 year management contract with Hilton International (*Far Eastern Economic Review*, 28 November 1963).

(29)The Mandarin was built by established British colonial capital as an investment by the Hong Kong Land Investment Company, on a site in the "central" business district of Hong Kong Island that, like much of the rest of central, the Company already owned [or more precisely, leased from the Crown] (*Far Eastern Economic Review*, 28 November 1963). The Company was reluctant to relinquish management control to an outsider, so turned down an offer from Hilton and initiated "associate member" status with Intercontinental that provided only for world-wide representation and technical assistance (*Far Eastern Economic Review*, 5 November 1964).

(30)The President was built in the main shopping district of Tsim Sha Tsui, close to the "grande dame" of the Colony's hotels, the Peninsula, which dated from 1928. Uniquely among the three major ventures, the President was owned by Chinese capitalists, the Chung brothers, who first hired expatriate managers to run the hotel, but soon after took over the management themselves *Far Eastern Economic Review*,, 28 November 1963).

(31)*Hong Kong Standard*, 5 November 1969. The Hyatt Regency, as it then became, was then the first Asian property in the Hyatt chain.

(32)The lease on the land for the Hilton (previously a military parade ground) had been purchased by Wynncor in May 1960 and the hotel was "topped off" in August 1962 (*South China Morning Post*, 27 February, 1976. The decision to build the Mandarin had been taken by the Chairman of Hong Kong Land, Hugh Barton in 1960, and the first General Manager, Anthony Ross, arrived at the end of the same year (*Mandarin Hotel Magazine*, undated).

(33)These figures do not include visits by Chinese, whether from the mainland or from other Asian countries (the "overseas" Chinese), thus the published data on Hong Kong's visitors are broadly comparable with Thailand's classification of overseas visitors, ie both sets exclude the lower spending ethnic and family traffic.

(34)*Source:*Hong Kong Tourist Association Statistical Reviews; figures do not include visits by American servicemen.

(35)Interview: former Governor, Tourism Organisation of Thailand; June 1986.

(36)*Far Eastern Economic Review*, 12 January 1961:50.

(37)*Bangkok Post*, 23 January and 3 February 1961.

(38)*Bangkok Post*, 23, 24 & 30 January 1961.

(39)BOAC had re-introduced jet service using the Comet 4s from November 1959. This aircraft had replaced the ill-fated Comet 1 which the airline had operated to the Far East from 1952 until it was withdrawn from service in 1954 (*Bangkok Post*, supplement "British Airways", undated).

(40)*Far Eastern Economic Review*, 8 February 1962. Other destinations to be served included Taipei and Djakarta.

(41)*Far Eastern Economic Review*, 29 March 1962.

(42)*THAI* raised its share capital twenty-fold, from B2 million to B40 million in anticipation of the high costs of hiring the jet. The cost of Cathay's outright purchase was HK$34.2 million, over three times the company's issued capital of HK$10 million (*Far Eastern Economic Review*, 29 March 1962).

(43)*Far Eastern Economic Review*, 29 March 1962. The role of the security structure in Asian aviation was evident here. CAT was a proprietary company of the CIA, wholly owned through the Agency's Delaware-registered Pacific Corporation (Robbins, 1979). The latter also owned the Air Asia

Company, which was established in 1955 and which eventually operated, on Taiwan, the largest air repair and maintenance facility in the Pacific region (Marks & Marchetti, 1980).

(44)*Far Eastern Economic Review, ibid.*

(45)*Far Eastern Economic Review*, 11 August 1960.

(46)*Far Eastern Economic Review*, 8 February 1962.

(47)Source:Hong Kong Tourist Association. In 1958, 1,952 rooms were available in 25 hotels; five years later there were 34 hotels with 5,907 rooms.

(48)Board of Investment, Bangkok, Records.

(49)*Far Eastern Economic Review*, 28 July 1960, which records an approval by the BOI for promotional privileges for the "Far East Hotel Company Limited", but notes that the contract was not yet signed. Sophonpanich (1977) notes that the Far East Hotel Company built the Rama Hotel in September 1960 and was the first hotel company to apply for BOI assistance. However BOI records of all hotel projects that received incentives do not include the Rama or the Far East Hotel Company.

(50)The Rama was owned by the married sister of Khun Chanat Piya-oui, Khun Sunirat Thelan *Bangkok World*, 15 August 1974). The ten-storey hotel was formally opened by the Princess Mother on 10 January 1961, with Khun Sunirat as Managing Director and as Swiss, Charles E. Grueter, as General Manager. The reported cost of the investment was B62 million (*Bangkok Post*, 10 January 1961).

(51)Board of Investment, Bangkok: Records.

CHAPTER 7

The American Era in Thailand: the war across the Pacific and the development dividend

A key turning point in the development of Thailand's hotel sector occurred in the late 1960s, with the construction of thousands of hotel rooms. In 1966, the first year of sudden expansion, capacity virtually doubled. In the next two years supply increased by a further 80%, taking the total number of rooms to almost 8,000. Thus in five years from the death of Prime Minister Sarit in 1963, the number of hotel rooms in Bangkok had risen almost fivefold. The causes of this sudden increase can be found, in general, in America's growing involvement in the region through the escalation of the war in Vietnam and, in particular, in the special relationship that developed between Thailand and the United States. This was an extension of the earlier relationship examined previously and preceded the American military escalation by some years. Starting even before the war Thailand was host to US bases and troops, which created an unprecedented economic boom that continued through most of the decade. This sudden increase in market demand had a major impact on the service sector in general and the hotel sector in particular, stimulating unprecedented investment. This was followed by expectations that changes in aircraft technology would generate additional tourism expansion towards the end of the decade, as the new, wide-bodied aircraft would expand American markets and lead to regulatory changes in trans-Pacific aviation.

Strategic Construction

The presence of US troops in Thailand can be dated from the closing years of the Sarit regime. This followed the agreement between Dean Rusk and Thanat Khoman in 1962 that reaffirmed the determination of America to preserve Thailand's independence and integrity. Within two months of the agreement being signed, Kennedy dispatched 5,000 troops to Thailand to counter the threat from Laos as the Royal Lao Army was driven back towards the Thai border. However, the principal reason for the subsequent escalation of the American military presence was not caused by threats to Thailand's security, but by the need for a safe haven for US aircraft outside Vietnam (Osiri, 1974). Consequently, American efforts became directed towards the creation of suitable bases for the US Air Force. Just nine months before Sarit's death in 1963, the Special Logistics Action, Thailand (SLAT) Agreement provided for an upgrading of Thai logistics and improvements to airfields in anticipation of the arrival of US army engineers[1].

America's growing involvement in the war in Vietnam was responsible for the largest and most complex civil engineering programme ever undertaken in Thailand up to that time. The construction programme preceded the major deployment of troops by some three to four years. Road construction started in 1962 and the much more extensive base construction programme followed a year later, with project costs totalling some US$500 million. Eight airbases were newly constructed or brought up to combat standards. Three completely new fields were built: at U-Tapao, Nam Phong and Kamphaeng Saen, and existing airstrips at Udorn, Ubon, Korat, Takhli and Chiengmai were ugraded. The largest programme of the entire US military construction effort was the building of the U-Tapao/Sattahip complex. Sattahip had been an operational base for the Thai navy since 1922 but, before the US construction

programme, the navy had only minor facilities. Between 1963 and 1969 a complete operational naval port was built, including a 3,600 foot quay wall, a dredged harbour, nine-berth docks, piers and loading and storage space (Muscat, 1990). The U-Tapao air base, which formed part of the complex, was the largest of the eight military fields constructed in the programme and was designed for use by the B-52s that would form the core of the bombing raids over Vietnam and Cambodia (Osiri, *op. cit.*). The advantage of the Thai location for the bombing raids was speed; the proximity of U-Tapao to Vietnam meant that a raid could be completed in a total of only two hours[2]. Two 11,500 feet runways were constructed, with massive additional reinforcement to support the heavy bombing loads, and these became operational in 1966 when the first ceremonial landing took place[3]. The US air force had, however, begun to station military aircraft in Thailand some two years earlier. In 1964 the number of US aircraft based in Thailand rose from 6 to 75, increasing to 200 in 1965, the year that the US began bombing Vietnam from Thai bases[4].
By 1966 the number of aircraft had doubled and the number of ground crew had almost trebled to 25,000 (Chaloemtiarana, 1974).

Thus, even before the number of troops began to rise, the American presence was being firmly established in the country. This presence was both military and civilian as the construction projects involved private US contractors, who replaced the military engineering units that had been used in the 1950s (Muscat,*op. cit.*). This then had an impact on demand for private facilities, for meetings, accommodation and entertainment to handle the growing flow of business and people between Thailand and the United States. In addition, the rural location of the projects added an impetus to the growth of hotels in Bangkok. These were required to accommodate US construction personnel on both business and leisure visits to the only urban centre in the country. The rate of growth in the number of American visitors more than trebled in 1964, from 5% to 17%, and in 1965 this rose again to 21%[5]. These rates surpassed those in Hong Kong, which had previously shown much higher growth in American arrivals. Hong Kong's rates grew from 9% in 1963 to 15% in 1964, whilst in 1965, this fell to 12%, almost half the Thai expansion[6]. Part of the growth in American arrivals can be attributed to rising civil markets, facilitated by the impact of the jet revolution. However the military construction programme played a significant role. This had further implications for investment in Thailand through the shaping of expectations. The rising levels of construction activity suggested a continuing close relationship with America and rising levels of demand, driven principally by the expanding strategic requirements. Military expenditures give an indication of the expansion. In 1963 total American military spending reached B308 million, five times the amount in 1961. By 1965 this had almost trebled to reach B864 million (Hunchangsit, 1974).

Hotel Construction

A critical factor in the subsequent expansion of Thailand's hotel sector, then, was the intersection of these major changes within the international security structure with the production structure. The immediate consequence of this new source of demand was an increase in the supply of hotel rooms in Bangkok of more than 40% between 1963 and 1965. The number of hotels rose from 20 to 30, adding over 700 rooms to the existing 1,700. A second outcome of the military construction programme was the development of a further destination for tourists, on the southeastern shore of the Gulf of Thailand, at Pattaya Beach.

Pattaya's initial development was closely connected with the construction of the U-Tapao/Sattahip complex, situated around 30 kilometres south of the resort. The American construction personnel provided the demand for accommodation and recreation facilities near to the military complex, and Pattaya's long stretch of unspoilt beach provided the locational advantage. The only other beach resort at the time which was in any way developed was over 80 kilometres from Sattahip at Bangsaen, along the, then un-reconstructed, southeastern coast road[7]. By 1963, Pattaya had a number of bungalows available for rent on the beach, and recreational facilities were in place, including water-skiing and skin-diving around the coral reefs of the nearby islands (Wolfstone, 1963b). In 1964, the Nipa Lodge, Thailand's first modern, large-scale resort hotel opened on Pattaya Beach. The hotel was conceived and initiated by a serving member of the US military[8], who obtained state investment incentives for the project[9] but who was later unable to raise the necessary funds to pay for the development. Ownership then passed by default to the construction company, Ital-Thai[10], a chance occurrence that represented Ital-Thai's initial diversification into the hotel sector[11].

The major impact, however, was concentrated in the capital. Hotel expansion began to gather momentum in 1964 and 1965, before surging in 1966 and 1967. Official data published at the time indicate that the number of hotels rose threefold, from 20 in 1963 to 30 in 1965, before doubling in 1967 when 60 hotels were in operation. The corresponding increase in the number of rooms was almost fourfold: the official figure rose from 1,722 in 1963 to 6,338 in 1967[12]. The dramatic nature of this expansion is underlined through a comparison with Hong Kong. In 1967, the Thai hotel sector had expanded to such a degree that it offered as many rooms as the British Colony in twice the number of hotels. This represented a major change from 1963, when the number of rooms in Bangkok was less than one third of those in Hong Kong[13]. A critical feature of the new Thai hotels was the relative importance of the state investment incentives when compared to market demand. In 1962 the first hotel to receive state support had opened, in a year when only two other hotels were completed. In the period from 1963 to 1965, four of the ten new hotels built in Bangkok took advantage of the state incentives. In the following two years the proportion fell, as only nine of the thirty new hotels received such incentives[14]. This suggests that, for some of the new investors, the bureaucratic measures associated with obtaining BOI permissions imposed unacceptable delays on the projects; many new investors had to react rapidly to take advantage of rising markets. In addition, many of the new hotels were small, relatively low cost and were built for a specific, and dynamically expanding, market. Several of these have since disappeared and the exact opening dates could not be identified during the study, as detailed records were not maintained. Of the sixty hotels that are shown in the official records in 1967, fourteen could not be identified with certainty. All were, however, small, tourist class hotels, catering for the burgeoning war-related market that expanded during the middle of the decade[15].

The basis for this new expansion in demand in Thailand was provided by the growing numbers of American troops both in Thailand and Vietnam as the war in Southeast Asia escalated. A major factor was the growth of rest and recuperation (R and R) visits from the battlefield. This provided the stimulus for the construction of the smaller, unidentified hotels, especially in 1966 and 1967. This provided the final condition for the rapid expansion of the sector, and was a continuation of the earlier demand that had been growing since the inception of the military construction programme.

War-driven Demand

This critical element followed the rise in demand generated by the construction programme. Anderson (1977) dates the start of the R&R programme from 1965, when 15,000 servicemen visited Thailand and spent ฿50 million, ten per cent of the receipts from all other tourists that year. With the build up of troops in both Thailand and Vietnam, it is feasible that some R&R visits to Bangkok began even earlier. One reason that the early R&R visits from overseas were not reflected in the official data is that unofficial travel by military aircraft and entry into Thailand through the US air bases, which was by no means unusual, by-passed the normal Thai channels[16]. These numbers then added to the visits made by Thailand-based troops from the countryside, indicating that a new market was being created, and one with remarkable spending power. An examination of the pattern of American troop deployment in Vietnam supports this view. The massive escalation of US ground forces began in March 1965, with a the number rising from 23,000 in January to 150,000 in November[17]. American military personnel in Vietnam had been growing steadily, but more modestly, since Eisenhower left office. The containment policies of the Truman/Eisenhower period had restricted the number to 875, but, following the death of President Kennedy, this had grown to 16,000 (Joes, 1989). Following the sharp increase in 1965, the number soared again in 1966 to 340,000 and local observers were convinced that by early 1967 the number would exceed 400,000[18]. R&R visits to Thailand, escalated in 1966 to 33,000, and continued to rise in the following three years[19]. Thus in 1966, the number of servicemen visiting Thailand boosted the total number of American tourists by over 36%. This number continued to increase, following the rise in the number of troops in Vietnam. In 1967 the latter rose to

466,000 and, following the Vietcong's Tet offensive in January 1968, was increased to 538,000 before reaching a peak of 543,000 in early 1969[20]. The number of R&R visits to Thailand, however, increased much more rapidly that the corresponding rise in the number of troops. In 1967 R&R visits rose by 64% to 54,000 and in 1968 by a further 28% to over 69,000. In 1969 R&R also peaked at more than 70,000, adding more than half again to the number of American civilian tourists[21].

This rapid expansion in American activity affected more than just the hotel sector. Bangkok was transformed in a few years from a "... somnolent old-style royal harbour-city dominated by canals, temples, and palaces...", which justly deserved the title of "Venice of the East" (Anderson, *op. cit.*:14). The war-related boom led to a massive expansion in construction, as the canals were filled in to form roads, and offices, hotels and shopping complexes replaced paddy fields[22]. Sarit's successors, Field-Marshall Thanom and General Prapas[23] presided over the rapid spread of hotels, as well as cinemas, restaurants, supermarkets, nightclubs, massage parlours, that far outstripped the developments of the Sarit era (*ibid.*). The result was the "Americanisation" of much of Bangkok, which was at once a consequence of the rising levels of American demand and a cause of future growth. This service led expansion meant that Bangkok could offer modern luxury and leisure facilities, which added to the attractions of its remaining, and still plentiful, exotic antiquities.

By 1967, Bangkok was beginning to resemble "... a giant production by Walt Disney. It is glittering, colourful and gay, and filled with strange and wonderful sights and sounds. And like Disneyland, it offers - to the tourist who can afford it - an opportunity to glimpse a quaint and frequently exotic way of life without giving up American-style, air-conditioned comfort for more than an hour or two at a time...

Best of all, there are the air-conditioned hotels with swimming pools, the restaurants with a range of food to suit the most cosmopolitan palate, the bartenders whose very dry martinis are a source of pride... and the shop-keepers who do business in a most civilised fashion - in the English language and in American dollars..."[24]. Recreation was also provided by the modern cinemas showing up-to-date movies, bowling alleys, tennis courts and a vast range of bars, nightclubs and massage parlours[25]. The servicemen on R&R took full advantage of all that Bangkok had to offer, spending up to US$500 on a single visit, before returning to the dangers of the war[26].

Thus, in addition to the impact on the number of visitors, the R&R programme added a disproportionate amount to the overall tourism revenues. Published sources indicate that the average expenditure per R&R visit was around US$200 in 1966 and 1967, almost double the average expenditure of an overseas tourist. The result was that in 1967 R&R visits, which had risen by more than 60% over 1966, generated almost US$11 million[27]. This was almost half the total expenditure of the overseas tourist market, which had generated US$23.7 million but from five times the number of tourists. Hence, by 1967, the R&R segment was the most significant component of overall market demand. However the impact on the hotel sector was restricted very largely to the lower class hotels as the American military authorities restricted servicemen on R&R to tourist class hotels, permitting only higher ranks to stay in the better class hotels[28]. R&R expenditures grew even more rapidly during the next two years. In 1968, the average expenditure per trip rose by almost 50% to US$295, and increased again in 1969 to US$313. Combined with rising numbers of visits, this took R&R revenues to record highs, and, in 1968, 69,000 servicemen spent over US$20 million, double the previous year's spend and a sum that was equivalent to almost 60% of the total spent by the overseas visitors[29].

In addition, the number of Americans visiting Thailand and classified as conventional tourists, also rose from 1967. In 1968 16% more arrived and, in 1969, this rose by a further 29% to over 133,000, more than 35% of the total number of overseas tourists. A part of this growth was composed of the friends and relatives of the servicemen stationed in Vietnam who could arrange reunions in the comparative safety of Thailand. Not only was Thailand away from the war zone, but, unlike other surrounding destinations, it was safe under the protection of American arms. Thus along with the military came a swelling army of American relatives, businessmen, missionaries, technocrats and academics (Anderson, 1985). Hence this further war-related segment of the market then provided additional demand for the higher class hotels, as wives, friends and parents, as well as the officer class, patronised the better hotels on their visits to Bangkok[30].

One final area of war-driven demand for hotels was directly related to the growing numbers of troops stationed in Thailand. In 1967, the US military had leased ten of Bangkok's hotels for quarters for the troops assigned to Thailand, thus occupying 1,290 rooms on a long-term basis[31]. The number of troops had been rising steadily from 25,000 at the start of 1966[32] to 35,300 in January 1967, including around 8,000 who were engaged in the military construction programmes (Osiri, *op. cit.*). In April, Vice President Nixon visited Bangkok, spreading the message that America saw no hope for peace in Vietnam[33], and, as Osiri (*op. cit.*:40), commented "... [b]y this time, most observers in Southeast Asia believed that the US commitment in Thailand was going to expand". This was proved accurate in 1968 when the number of troops in Thailand rose to 46,000 and, despite Johnson's 1968 announcement that America's involvement in the war would be reduced, in 1969 rose again to 48,000 (Osiri, *op. cit.*). Consequently, the signs were that the American military commitment would continue unabated, increasing the volume of war-driven tourism and generating further interest amongst potential investors.

Trans-Pacific Transport

Expectations were also raised by American plans in areas less directly related to strategic requirements. Especially in the transportation sector, America's role in the region was expected to grow by the turn of the decade. There were two principal reasons, both of which would have major implications for the future of trans-Pacific transportation, and both connected with the planned changes in the technology of aviation. The most influential factor was the development of the new wide-bodied jets which Boeing was contracted to build by 1966, and, as Chapter 4 indicated, which were themselves a product of the war and the military need for trans-Pacific transportation. The second factor influencing expectations of a rise in American demand was the US CAB's reconsideration of the regulations governing American airlines on the Pacific routes. The outcome was rising investor interest and a further expansion in the number of hotels in Bangkok, built in anticipation of rising American markets.

Both investors and government officials expected that the principal cause of growth would be the introduction of Boeing's 747 at the turn of the decade. The agreement to build the aircraft had been signed in 1966 with Pan Am, and in 1967 Boeing offered Asia's travel industry a preview of the new plane. The occasion was the PATA annual conference, which was held that year in Boeing's home town of Seattle, Washington and was attended by representatives of government and industry from most of Asia's tourist destinations, including Thailand[34]. The jumbos were expected to expand tourism both by adding additional supply and through an impact on fare levels as the new technology led to reductions in the airline's unit cost of production. In addition, Boeing had been working on the development of supersonic transport since 1960, that many airline executives expected would replace subsonic travel by the early 1970s (Levy, 1973). Hence, by 1972 a further expansion of tourism was anticipated as the lengthy journey across the Pacific from America would be cut dramatically by supersonic flight[35].

Linked with these expected changes in technology, particularly the introduction of the jumbo jets, was the US Government's decision to review the Pacific route structure of the American airlines. In 1966, 18 American airlines filed applications for new Pacific routes in the CAB's Trans-Pacific Route Investigation, raising expectations of higher levels of competition and, possibly, lower fares[36]. The existing situation was one of restrained competition, which was partly due to the limited number of airlines on the routes and partly because of tight restrictions being applied through IATA. Only two carriers were then operating across the Pacific, Pan Am and Northwest Airlines[37], with only Pan Am flying across the Pacific to Bangkok[38]. Pan Am's principal competitor, TWA, operated to Asia only through Europe and was negotiating for Pacific rights in order to complete a round the world service[39]. Recent changes in TWA's operations to Asia had offered solid evidence of growth, as flights to Bangkok, suspended from 1961[40] were resumed, with the airline flying from Bangkok and, for the first time, on to Hong Kong[41].

At the same time, the US airlines were proposing major reductions in fares to stimulate demand. Group inclusive travel fares had been introduced on the North

Atlantic in 1966, lowering the price of a return trip from New York to London to US230[42], and Pan Am was pursuing the case for a global application of similar fares. TWA also argued for reductions in Pacific fares, as part of its application to the American government. The 1967 return fare to Bangkok from America's West Coast was then a fixed US$988, with no excursion fares available. TWA proposed new excursion fares for all Pacific destinations that would reduce fares by as much as 40% and, specifically, would cut the cost of a return trip to Bangkok to US$650. Trans-Pacific air travel between the US and the Far East had almost doubled in the five years to 1965 to over 700,000; the airlines then bidding for the new Pacific routes predicted that this would double by 1970, when 1.4 million Americans would visit the Far East[43].

Indications that such fare reductions could take place had been signalled by the Japanese authorities in a relaxation of previous policy. The Japanese had traditionally refused to accept American demands for lower fares between Tokyo and America, which the American carriers considered detrimental to traffic growth. This was important to Thailand and the other countries of Southeast Asia, given the importance of Tokyo as an airline hub and a popular destination for American tourists. An easing of fares to Tokyo would then have a follow-on effect on destinations beyond Japan. But the Japanese were unwilling to accede to foreign demands until Japan Air Lines (JAL) had the right and the equipment to compete equally with the Americans[44]. With ten Douglas DC-8s in service by early 1965, and consequently the largest fleet in Asia[45], the airline had sufficient equipment to expand its services to America, but required the approval of the US government to increase frequencies and to secure vital rights to New York[46]. The previous bilateral agreement, negotiated between the two governments in 1959, not only restricted JAL to Seattle and San Francisco[47], but also placed strict limits on the number of frequencies the airline could operate. The Japanese authorities refused to lower fares, as the extra passengers would have been carried by the American competitors with their superior equipment and better route networks. By the end of 1965, however, a new air agreement was concluded which gave JAL the right to fly into and beyond New York, thus establishing a round the world service via London, and to increase trans-Pacific frequencies from three a week to twenty. In return, the Japanese agreed to lower trans-Pacific fares and accepted the principle that more American carriers would be granted rights to Tokyo, Osaka and beyond, should the Trans-Pacific Route Investigation permit additional airlines to fly the Pacific[48].

Trans-national Hotel Expansion

Allied to expectations of increased capacity in the air was the expansion of American hotel chains in Thailand which, again, signalled growing markets and American commitment. The leaders were Intercontinental and Hilton, Intercontinental's expansion being dictated by Pan Am's concern for sufficient beds to match its growing capacity. Following TWA's acquisition of the chain in 1967, similar considerations shaped Hilton's strategy, but the early expansion was independent of direct airline influence. Hilton's entry into Bangkok took place two years before the acquisition, preceding the opening of the Intercontinental by a year, when the Rama Hotel became the Rama-Hilton. The Siam Intercontinental, which had been under discussion since the time of Sarit, eventually opened in 1966, generating considerable attention for three reasons. First, the partnership was unusual, in that Intercontinental took an equity share in the project, in contrast to the conventional management agreement. Second, the project signalled the involvement of the monarchy, partly through the equity involvement of the Crown Property Bureau and because the hotel was built on the site of one of the royal palaces[49]. Finally, the architecture was both striking and unique[50], drawing public attention to the new levels of investment and luxury represented by Pan Am's latest Asian hotel. Adding to these positive signals were the further expansion plans announced by both the chain hotels. Less than one year after opening, the Intercontinental planned to add a new wing of 190 rooms, thus almost doubling capacity. At the same time the Hilton planned to treble the number of rooms with the addition of a 378-room tower wing[51].

This formed part of the global expansion of the two major international hotel chains. In 1968, Intercontinental was planning the largest expansion in its history, which would increase the number of hotels from 45 to 63 in four years, putting over 19,000 rooms under the group's management[52]. Following TWA's takeover, Hilton International expanded even more aggressively. From 36 operating hotels in 1967, the chain grew to 51 properties in 1970 and to 71 operating or under construction by 1972[53]. Signs of additional American involvement were appearing as the two largest US domestic hotel chains announced plans to follow the leaders and enter international markets, including the Far East. Holiday Inn's first European venture, a hotel in Leiden, Holland which opened in 1968[54], was quickly followed by a keen interest in Asia. Holiday Inns founder and Chief Executive, Kemmons Wilson, was personally involved in a plan to build a chain of hotels throughout Asia, beginning in Hong Kong and continuing through Indochina to Singapore and Bangkok[55]. The Hyatt group, which, in the late 1960s was operating only within the United States, formed a subsidiary company, Hyatt International, in 1968 for the purpose of operating hotels overseas[56]. Negotiations were conducted for management contracts in Bangkok, Singapore, Hong Kong, Manila and Kuala Lumpur and, in 1969, the Hong Kong's former President Hotel became the first Hyatt in Asia[57].

Also expanding in Asia was the smaller, Seattle-based chain, Western International Hotels which, like Intercontinental, took an equity position in a new hotel in Bangkok. The first venture into Asia in 1966, in Kyoto in Japan[58], was followed 1968 with a contract with Khun Chanat Piya-oui for the joint operation of a major new investment project in Bangkok, the Dusit Thani[59]. Construction had begun in 1967, with the explicit intention of matching the hotel to the new wide-bodied jets and, consequently, the hotel was designed to accommodate the large groups that hoteliers in Asia were expecting[60]. Thus, in common with the Intercontinental, the Dusit Thani became a new city landmark, with 510 rooms designed within a 22-storey tower[61]. At the same time, Sheraton Hotels, which had just been acquired by Harold Geneen's ITT Group, began construction of the chain's first property in Asia[62]. Unlike the Western International venture, however, Sheraton offered a more conventional management contract without an equity involvement, suggesting that the balance of power between hotel owners and chains was shifting to the latter as the supply of luxury hotels in Bangkok increased. The owners, the Bunnag family, signed a ten-year contract with the Americans for the operation of the 250-room Bangkok Sheraton from its planned opening date in 1970[63].

Bangkok Supply

Thus, as construction was progressing on the Sheraton and Dusit Thani Hotels, investor confidence in the future of the rising American market remained high. The mood was shared by the authorities. In 1967, Pote Sarasin, who remained a respected figure in Thai political circles and was then Minister for National Development, called for an increase of 2,000 in the number of deluxe hotel rooms within the following two years[64]. Yet it was particularly in this segment of the industry that expansion was growing most strongly, beginning with the opening of the Siam Intercontinental in 1966. Until then, the only the Erawan, Oriental and Rama Hotels could be considered within the top category and together offered a total of 500 rooms. In 1967, the Montien had added almost 200 and in 1968 the 16-storey Narai Hotel, which then became Bangkok's tallest building, contributed a further 500[65]. Thus, with the 200-room Intercontinental, the number of deluxe hotel rooms had risen on average by 60% per year in the three years from 1965 to 1,400, and with the addition of the two new chain hotels in 1970 would rise again by a further 50%. The growth in this segment, therefore, was a function of the technological changes in aviation in general and the associated regulatory changes in trans-Pacific aviation in particular, as well as the continuing American strategic and military commitment.

In order to explain the growth in the other segments of the hotel sector, and especially the expansion in the tourist class hotels built for the R&R market, however, these priorities must be reversed. From the start of the major military construction programme, hotel expansion was a function of war-driven demand, and the sudden proliferation of the smaller hotels was a rapid market response to the escalation of the R&R programme. The number of hotels rose most sharply in the period from 1965 to 1968, when, if the deluxe hotels are excluded, the average growth rate in the number of rooms in first class hotels and below was 87% per year. With the lower growth in the deluxe segment, the total number of hotel rooms in Bangkok in all categories expanded by an average of 75% each year in the three year period.

This increase, however, was too great for the market to sustain, despite the rise in both R&R and conventional tourism, supply had outpaced demand. By late 1968, the oversupply had turned into a glut, and occupancy rates in Bangkok's hotels fell to around 50%[66]. With 1,000 more rooms than Hong Kong (and around only 70% of the number of tourists[67], including R&R) Bangkok was leading the region in the supply of hotels. The city's nearly 8,000 rooms in operation by the end of the year totalled more than any other PATA destination in Asia[68]. Thus, whilst the expectations of growth in American markets were responsible for the expansion in supply, actual growth would have to rise at an unprecedented rate to match the new supply. The next chapter therefore examines the reaction of the production structure to conditions of over-supply.

NOTES

(1)*Far Eastern Economic Review*, Asia 1977 Yearbook.

(2)*Bangkok Post*, 1 April 1967.

(3)*Bangkok Post*, 4 July 1966. The landing took place on 5 July.

(4)This remained unofficial until 9 March 1967 (Chaloemtiarana, 1974).

(5)American arrivals in 1962 numbered 52,746 (United Nations Statistical Yearbook 1962), 55,467 in 1963, 64,621 in 1964 and 78,279 in 1965 (TAT, 1980).

(6)American arrivals to Hong Kong in 1962 numbered 90,184, rising to 103,659 in 1963, 112,948 in 1964 and 126,822 in 1965 (Hong Kong Tourist Association, Statistical Reviews).

(7)This was Route 3, which runs along the eastern side of the Gulf of Siam The nearest major highway development to Pattaya, Route 331, formed part of the military construction programme and provided the link between Sattahip and the Bangkok by-pass which had been built as an earlier part of the same programme (Muscat, 1990).

(8)Well known as "Colonel George", but whose later whereabouts and full name are not known. (Interview: Director of Sales - International, The Menam Hotel, Bangkok; May 1988.)

(9)BOI records show that the Nipa Lodge received promotional privileges for a project of 142 rooms, with a start up date of December 1964.

(10)Interview: General Manager, Siam Lodge Hotel Group; January 1986.

(11)Ital-Thai later diversified strongly into the hotel sector, beginning with the purchase of the Oriental in 1967 and, in partnership with Hong Kong Land and Land's Mandarin Hotel, the 1976 development of the Oriental's luxury River Wing (Berlingieri, undated). The Nipa Lodge also formed the initial component of Thailand's first indigneous hotel chain, the Siam Lodge Group which, twenty years after the Nipa opened, was ranked by total room count as number 190 in the world's 200 largest hotel chains (HRI, 1984b).

(12)*Bangkok Bank Monthly Review*, December 1968.

(13)In 1967 there were 6,752 rooms in 30 hotels, an increase from the 5,907 rooms available in 1963 (HKTA, Statistical Reviews).

(14)Board of Investment incentives were granted to the Rex, Victory and Imperial, all of which opened in 1964; the Amarin in 1965; the Siam Intercontinental, President, First, R.S., Peninsular, Manhora and Asia, which opened in 1966, and the Montien and Manhatten in 1967 (BOI Records).

(15)Estimated from a comparison of the hotels listed in Fuangfu, 1967 and Siam Communications, 1973.

(16)Interview: Director of Saless - International, Menam Hotel; May 1988.

(17)*Far Eastern Economic Review*, Yearbook 1966.

(18)*Far Eastern Economic Review*, Yearbook 1967.

(19)*Bangkok Bank Monthly Review* (1974), Vol 15, pp. 866.

(20)*Far Eastern Economic Review*, Yearbooks 1968, 1969 & 1970.

(21)*Bangkok Bank Monthly Review*, op cit.

(22)The seeds of the urban road development had been sown by USAID projects in the late 1950s. A US$5.8 million project was undertaken between 1957 and 1961 to build some major streets in Bangkok. The streets constructed at the time centred in a section of Bangkok to the east of Pratunam along the extension of the Petchburi Road (Muscat, 1990). It was along the "New Petchburi Road", the further extension east of the original road, that large numbers of Bangkok's smaller hotels and adjacent massage parlours, bars and nightclubs were built.

(23)Thanom Kittikachorn had become Premier on Sarit's death. Prapas Charusathiean continued to hold the powerful role of Minister of the Interior (*Far Eastern Economic Review*, Yearbook 1966.

(24)*Far Eastern Economic Review*, 8 June 1967:583.

(25)*ibid.*

(26)These estimates of expenditure are unofficial, and refer to the R&R package tours organised by "Tommy Tours", which provided a *fully*-inclusive five-day tour for this amount. *Interview*, Executive Director and General Manager, Asia Hotel, Bangkok; June 1986.)

(27)*Bangkok Bank Monthly Review*, op cit.

(28)Interview: Executive Director and General Manager, Asia Hotel, Bangkok; July 1986.

(29)Later published sources obscure the role of R&R. TAT (1980), which provided the first comprehensive statistical profile of the sector's development, presents statistical data for, *inter alia*, the period between 1963 and 1971. These figures, however *exclude* the number of R&R arrivals, but *include* the expenditures within the total income from tourism.

(30)Interview: General Manager, Landmark Hotel, Bangkok; May 1988.

(31)*Far Eastern Economic Review*, 25 May 1967.

(32)*Far Eastern Economic Review*, 1967 Yearbook.

(33)*Bangkok Post*, 13 April 1967.

(34)Interview: Managing Director, Dusit Thani Hotel, Bangkok; May 1986.

(35)*Far Eastern Economic Review*, 16 June 1966.

(36)*Far Eastern Economic Review*, 8 June 1967, and *TWA:Annual Report, 1966.*

(37)*Far Eastern Economic Review*, 29 August 1968.

(38)Northwest was operating as far as Hong Kong, but had only secured operating rights from the British in 1966, seventeen years after receiving American permission (*Far Eastern Economic Review*, 8 June 1967).

(39)*Annual Report*, TWA 1965 & 1966. TWA had resumed flights to Bangkok in 1966 after a suspension of four years and began the service from Bangkok to Hong Kong the same year.

(40)Losses of US$27 million in F/Y 1961, which included US$26 million due to the write down of TWA's fleet of piston aircraft, led to curtailed services and a proposal that TWA merge with Pan Am in 1962 (*Annual Reports*, TWA, 1961 & Pan Am 1962).

(41)*Annual Reports*, TWA, 1965 & 1966.

(42)*Annual Report*, PAA, 1966.

(43)*Far Eastern Economic Review*, 8 June 1967.

(44)*Far Eastern Economic Review*, 16 June 1966.

(45)*Far Eastern Economic Review*, 18 February 1965.

(46)Most eastbound air traffic from Tokyo in the mid-1960s was bound for New York and the market was growing as more Japanese travelled abroad *Far Eastern Economic Review*, 1966 Yearbook.

(47)The normal reciprocity principle of civil aviation pacts was not observed in the US/Japan bilateral agreements. The initial treaty, signed in 1952, was based on US privileges acquired during the Occupation, which gave American carriers almost unrestricted rights to fly to Tokyo and to points beyond. In 1959, in return for access to Seattle and San Francisco, the Japanese were forced to allow virtually unlimited increased in flights by US carriers to Japan . Attempts by the Japanese to renegotiate the treaty in 1961 and 1964 had been blocked by the US government and it was only after threats of unilateral abrogation, with all that implied for US/Japanese relations, that America conceded to Japan's demands (*Far Eastern Economic Review*, 12 August 1965).

(48)*Far Eastern Economic Review*, 16 June 1966.

(49)*Far Eastern Economic Review*,

(50)The Intercontinental's explanation for the unusual architecture, particularly the roof of the hotel, entrance, is that it is based on the elegant, sweeping roof styles of the country. It was reported, however, that the design was taken from a plan first put to President Sukarno for the Jakarta Intercontinental. Sukarno rejected the plan in favour of a more "modern" building. (Interview: Executive Assistant to the President, Intercontinental Hotels Corporation, USA; July 1985.)

(51)*Far Eastern Economic Review*, 25 May 1967.

(52)*Annual Report*, PAA, 1968.

(53)*Annual Reports*, TWA, 1967, 1970 & 1972.

(54)Holiday Inns Inc., "Corporate Milestones".

(55)*Hong Kong Telegraph*, 3 September 1969 & *Hong Kong Standard*, 8 September 1969.

(56)*HRC*, Seminar Paper, July 1979.

(57)*Hong Kong Standard*, 7 October 1970 & 5 November 1969.

(58)Western International, in 1968, was an independent chain, with its base in the Pacific Northwest. Two years later a merger was negotiated with United Airlines, (then one of the largest domestic airlines in the world). In 1981, the name was changed to Westin Hotels (Westin Hotels, "Facts at a Glance", 1986).

(59)*Bangkok Post*, 8 August 1968.

(60)Interview: Managing Director, Dusit Thani Hotel; May 1986.

(61)*Far Eastern Economic Review*, 25 May 1967.

(62)Interview: Director of Operations, Sheraton Corporation Asia Pacific Division; March 1986.

(63)Interview: General Manager, Tawana Sheraton Hotel, Bangkok; December 1985.

(64)*Far Eastern Economic Review*, 25 May 1967.

(65)*Bangkok Post*, 29 November 1967.

(66)*Bangkok Post*, 5 September 1968.

(67)Source:Hong Kong Tourist Association. In 1968, 33 hotels offered 6,890 rooms to 618,410 visitors.

(68)*Bangkok Post*, Sunday Magazine, 10 March 1968.

CHAPTER 8

New Markets, New Products:

excess capacity in a changing security context

The expansion in the number of hotel rooms in Thailand that followed the American involvement, and the expectation of greater involvement in the future, created a crisis of oversupply. Producers, therefore, were forced to identify new markets, a strategy that became imperative following a reduction in American involvement in Thailand. This strategy was greatly facilitated by changes in the transportation sector that stimulated market growth in Japan and Europe. The licensing and operation of a second international airline in Thailand had a direct impact on the Japanese market through the provision of extra capacity and competition, as well as having an impact on the existing carrier, Thai International. In order to protect its own position, the airline was obliged to develop new destinations to diversify the tourism product and to introduce lower fares and new routes. These new choices for travellers were then linked with the other major development in transportation, the growth of charter travel from Europe, to create region-wide package holidays at relatively low cost. New products were also created within Thailand with additional hotel development at the beach resort of Pattaya, which appealed particularly to European travellers, and the northern city of Chiangmai. These changes, with the greater diversity that they introduced into the overall tourism product, helped to stimulate the new markets and to shift the emphasis away from the previous reliance on Bangkok.

Surplus Capacity:the size of the problem

In 1968 official data indicate that 7,984 rooms were available in Bangkok, for a total of 297,856 overseas visitors and 69,000 visits from troops on R & R. Thus an approximate measure of supply and demand would be the ratio of visitors to rooms. In 1968 this was 46:1, down from 50:1 in 1966 and much lower than the 77:1 in 1964. If this measure is refined slightly, and assuming that each room offered two beds, in 1968 5.8 million bed nights were available for the 360,000 visitors, each of whom stayed an average of 4.2 days. Hence this number of bed nights was available for 1.5 million visitor days, which measures oversupply as 4.3 million bed nights. In contrast, in 1964, the difference between supply and demand was a far more modest 776,000 bed nights.

At the same time, signs were appearing to suggest that the anticipated explosion in American arrivals would not take place. In 1968, President Johnson's concern about the US balance of payments deficit led to proposals to restrict outbound tourism[1]. Shortly before leaving office, Johnson also dealt a blow to expectations of a major expansion in the number of airlines serving the Pacific routes. As the Trans-Pacific Route Investigation closed, the President awarded new permits to only two airlines, only one of which was to serve the Far East. This was TWA, which was granted rights to extend its services from Hong Kong to Los Angeles, with the second award, to Continental Airlines, being given for South Pacific services only[2]. In contrast, a total of five additional carriers were granted rights between the continental United States and Honolulu[3]. The reason for this restrictive outcome on routes beyond Hawaii lay in American/Japanese relations and Japan's opposition to any expansion of American air rights. Security concerns governed Washington's attitude towards these openly protectionist policies as the American/Japanese Mutual Security Treaty was due to be renegotiated in 1970 and would have considerable implications for US military strategy in Asia[4]. Not only were the number of airlines restricted, but the US awards denied access to Japan to the two winners, so that even TWA, serving the North Pacific would be forced to fly through Taipei, Okinawa and Guam[5], maintaining the level of competition in Tokyo to that provided by Pan Am and Northwest[6]. JAL's concern was to avoid immediate competition from the new wide-bodied jets that the American carriers were about to introduce on the Pacific[7] before re-equipping to the same standard, and to capture a larger share of the Japanese tourism market that, by the time of the US awards, was expanding rapidly.

Japanese Market Expansion

The increase in Japanese tourism demand, which occurred in the late 1960's and early 1970's, was largely due to rising levels of disposable income in Japan following the liberalisation of travel from 1964. Before this, the market had been restricted by the Japanese Finance Ministry in order to conserve foreign exchange, but in 1963 the government was forced to amend these regulations. The reason lay in Japan's transfer to an Article 8 nation status within the International Monetary Fund, which then prevented the country from restricting foreign exchange for balance of payments purposes. The Japanese government therefore announced the removal of the ban on foreign currency allocations from 1 April 1964, when the new status would take effect[8]. Outbound travel increased, rising by almost 30% in 1964. By 1969, the number of Japanese travelling abroad had risen to nearly half a million, and by 1971, had doubled in the two years to almost one million[9]. Between 1965 and 1970 salaries had grown much faster than inflation and, whilst the Japanese consumer price index rose 30%, salaries had doubled[10]. This increase in the level of domestic income was then amplified internationally by President Nixon's suspension of the dollar's convertibility into gold in 1971. This effectively forced a revaluation of the yen against the dollar-linked currencies of Asia, including the Thai baht, lowering the cost of Japanese travel in the region. As a result, by 1973, the number of Japanese outbound travellers had soared to almost 2.3 million, transforming Japan, in less than ten years, into a major travel market in its own right, and the most important in Asia. Thailand was in a particularly strong position to access this growing market through the expansion of a second international airline, Air Siam, which launched flights to Tokyo in late 1972, and adopted an aggressive marketing strategy to build its market share.

Air Siam: competition and regulation.

A key part of this aggressive strategy was fare discounting, through which Air Siam increased competitive pressure, particularly for Thai International. This, of course, contravened the IATA regulations on fares, by which it was, officially, bound. Air Siam was almost unique amongst the airlines of Southeast Asia in being a member of the Association, an apparent aberration that can be traced back to the troubled early years of the firm's existence. In this period, massive debts were incurred that forced a strategy of discounting and rule-breaking following the 1972 relaunch.

The airline had received its first operating permit in 1966, but did not launch its first flight until 1969, when it began operating an inefficient freight-only service to Hong Kong. Despite substantial financial losses both before and during the Hong Kong operation, Air Siam commenced a high risk venture to inaugurate trans-Pacific flights in 1971. The risk was particularly acute as the airline was a private company, without any form of government support other than the grant of traffic and operating rights. The reason behind the Pacific service was that the chairman and major shareholder, Prince Varanand[11], wanted Air Siam to be Thailand's first inter-continental airline of the jet era[12]. This same degree of individualism was responsible for Air Siam's membership of IATA, which the Prince had elected to join in order to differentiate his airline from Thai International[13]. The flights to Los Angeles were inaugurated in March 1971, using a single, leased DC-8 aircraft, and offered three services a week through Hong Kong, Tokyo and Honolulu. Thus, in addition to the constraints imposed by the IATA membership, Air Siam had to compete with the 747s operated by the American airlines between Tokyo and the United States.

The result was heavy financial losses and, when the trans-Pacific service was withdrawn in January 1972, the company owed US$5.6 million in addition to the US$11 million that the owners had written off. The company then reorganised its management and financing, and relaunched operations to Hong Kong in May 1972, using a leased BAC 1-11. The objective, however, was to access the rapidly growing Japanese market for which a bigger aircraft was needed[14]. Hence, by the end of the year a Boeing 707 was lease-purchased and the route extended to Tokyo. However, a major destination for the Japanese was Hawaii. In order to serve this market and to compete effectively, Air Siam introduced a Boeing 747, becoming the first airline in Southeast Asia to operate the new aircraft[15]. The service to Honolulu from Bangkok, through Hong Kong and Tokyo, was inaugurated in September 1973 and within two years became Air Siam's most profitable operation[16]. In order to achieve profitability with a high capacity aircraft and under the pressure of the outstanding debts, Air Siam operated a systematic policy of discounting, ignoring the strictures placed upon it by membership of IATA[17].

The added competition between Japan and Thailand then forced a greater degree of performance from Thai International[18] which, like Air Siam, had a strong interest in the expanding Japanese market. The result was a sharp rise in the number of Japanese tourists visiting Thailand. The number had almost trebled from 15,000 in 1964 to 43,000 in 1969 and had then soared to 152,000 in 1973. The most significant growth occurred in the early 1970s when annual increases of over 60% occurred. In 1972, the number rose by 68%, to almost 94,000 before rising a further 62% the following year[19]. Thus in 1973 the number of Japanese was almost equal to the number of American civilian visitors, and Japan appeared likely to replace the United States as the single most important national market[20].

European Markets:the Charter Spearhead

European markets also developed in the late 1960s and early 1970s, partly as a result of the stimulus of charter operations on the long-haul routes to the Far East. Intra-European charter operations had been developed in previous years and had been used to overcome high scheduled air tariffs. The same pattern began to develop on the Trans-Asian routes which, in the late sixties, were also subject to high scheduled air fares. The first inclusive tour charter flight from Europe to Bangkok was made by

Balair, using a Douglas DC-6B, in December 1964. Balair, the charter subsidiary of Swissair, represented an early response by a scheduled airline to the growing charter market. As charter operations on the North Atlantic developed from around 1968, more national airlines set up charter subsidiaries of their own. Prominent amongst these was Lufthansa which followed Balair with the creation of its Condor charter subsidiary to service the growing West German market[21]. Condor provided a major impetus on the Asian routes especially from November 1971, when it became the first charter company to operate a Boeing 747 to Bangkok[22]. As a result, the number of passengers carried on charters from continental Europe to Thailand almost trebled between 1970 and 1972 to 95,000 (Douglas Aircraft Company, 1974).

The British market also developed through the use of charter companies, although this lagged the European initiatives. Flights to Thailand were postponed by the imposition of currency controls from 1967[23], but by the 1970s, several charter carriers had extended their operations to the Far East[24]. They were followed by BOAC, which created a charter subsidiary in 1970 to compete in the growing unregulated market[25]. In 1971, BOAC obtained British government permission for the operation of charters to Far Eastern destinations, including Bangkok[26]. The number of British visitors rose by over 20% in both 1972 and 1973, to reach nearly 60,000, more than double the number of arrivals five years earlier. However, caution must be exercised over the interpretation of these data, which include British passport holders resident in Hong Kong, both European and Chinese. Until 1976 Thailand's visitor data were only recorded by nationality, not by country of residence which would lead to overestimates of the total size of the British market[27]. Overall growth in Europe, however, outweighed this overstatement, as arrivals rose 25 percent in 1969 to 104,000, and that this number almost doubled in the following three years to reach 202,000 by 1972.

Product Diversification

The attention of Thailand's hotel sector, therefore, turned to these expanding markets. The oversupply of rooms had already led to a price war in 1968[28], and the PATA annual conference, held in Bangkok in 1969, acted as an international showcase for the hotel sector. This provided a vehicle for deals between tour operators and hoteliers in which the operators were able to secure bargain rates. New market preferences, especially in Europe, however, demanded a diversified tourism product that offered other destinations in Thailand than solely Bangkok. The concentration on Bangkok had been a feature of American demand, both military and civilian, which had checked developments elsewhere. As a result of different market preferences, Bangkok became the gateway to a range of destinations as tour operators created more varied portfolios. These new marketing concepts then had an impact on the development of alternative destinations both within Thailand. The new airfares and routes introduced in the region then had a similar impact on other destinations in Asia.

Strong preferences for resort holidays in the European market, chiefly amongst the West Germans, had a major impact on Pattaya. With the advent of the charter operations, the market trend changed from relatively short visits to trips of two weeks or more, which allowed sufficient time at the beach after the sights of the cities. This new source of demand added to the domestic tourism that patronised Pattaya largely for short, weekend breaks, and led to new hotel projects being instigated[29]. The first to open was the Pattaya Palace Hotel in late 1970, followed by the Ocean View Hotel early the following year. The addition of just these two hotels trebled the number of modern properties in the resort.

The Thai authorities were also active in this process of diversification, in an attempt to extend the time tourists spent in Thailand and hence to increase total revenues. The Tourist Organisation of Thailand supported a workshop in the northern city of Chiengmai, the "summer capital" in the cooler hills above the central plain. The workshop followed the main PATA conference in Bangkok and provided another means by which information about Thailand's alternative destinations could be conveyed to foreign tour operators and travel agents[30]. This would be the largest group of foreigners to visit the city, and the Rincome Hotel, the first modern hotel in Chiengmai's, was hurriedly constructed for the event[31]. The national carrier also assisted in this promotion with another innovation. Rather than transporting the delegates by the domestic services of TAC, whose fleet consisted of propeller-driven aircraft, almost all of which were, the virtually obsolete, DC-3s[32], Thai International used part of its jet fleet for the task. As an indication of the degree of development in Chiengmai, despite the previous American improvements at the airport, there were no tractors available to move these larger THAI Caravelles around the airstrip and hence elephants, normally used in logging, had to be pressed into service[33].

New Routes, New Fares

Thai International was not, however, permitted to operate scheduled flights within Thailand, so this remained a unique promotional event. Internationally, on the other hand, the airline was developing new destinations and new fares on existing routes. Both allowed market development, as the combination of new attractions and discounted fares became additional components of the charter based tours. The major innovation was in direct flights from Bangkok to the Indonesian island of Bali, which commenced in 1968[34], followed by flights to the Nepalese capital of Khatmandhu[35]. *THAI* was then able to act as a feeder service for the charters, as it did with SAS, to the often exotic regional destinations. The product then became a multi-centre holiday offering much higher value to a long-haul market, than a single country alone could provide.

For this to be commercially viable, however, required a fare sufficiently low to be attractive to the European tour operators and to the mass markets that they were beginning to exploit. However, the official regional fares in Asia, those sanctioned by government-to-government agreement, were amongst the highest in the world. This situation had developed in the immediate post-war years in an attempt to support the regional airlines through a system known as pro-rating. These sector fares had been agreed when the major travel market was inter-continental, generally originating in the USA, rather than intra-Asian, and increased the regional carrier's share of the revenue from a long-haul ticket by holding the fare disproportionately high[36]. With the growth of new, and less affluent markets, such fares were unsaleable and hence, THAI, in association with other regional carriers, including Cathay Pacific, developed special group fares[37]. These then offered considerable discounts to be offered as part of the overall package, and effectively extended charter competitive fares for the higher quality scheduled product.

American Decline: Implications for Markets and Authorities

The new markets became even more significant when changes in American foreign policy, first articulated in the late sixties, led to a decline in the war-related demand in Thailand. This had implications beyond the tourism and hotel sectors. A US withdrawal from the key role that had been established in Thailand would also have adverse consequences for the balance of payments, national income and employment, and these would be amplified by any accompanying decline in tourism.

The first indications of a change in America's commitment to the war in Vietnam had emerged in 1968 with the opening of negotiations in Paris, but this had no immediate outcome for Thailand. Far more significant was the radical change in foreign policy first articulated by the newly elected President Nixon in 1969. The central theme was the recognition of Communist China, thus ending twenty years of "containment", and, as part of the new policy, the administration also elected to run down the American bases in Asia and to effect a withdrawal from Vietnam[38]. The first announcement of a reduction of troop strength in Vietnam came in June 1969, following Nixon's Midway meeting with President Nguyen Van Thieu[39], which led to the decision to withdraw 6,000 military personnel from Thailand the following year. Despite the reduction, almost 39,000 such personnel remained in Thailand in 1970, but the change in US policy was then underlined with the announcement that a further 9,800 personnel would be withdrawn in 1971, virtually closing down the large air base at Takhli[40]. At the same time, Nixon accelerated the withdrawal of Vietnam-based troops. From the 1969 peak of 543,000, the number fell to 336,000 in 1971 and to 133,000 in January 1972 (Joes, 1989).

The Thai economy was affected by the reduction in American expenditures that followed. In 1971 US military spending fell to B3.8 billion from the 1968 peak of B4.9 billion and combined military and economic expenditures fell from B2.7 billion to B1.7 billion. The impact of reduced military spending on the balance of payments was probably more important as it contributed to the change from surplus to deficit, starting in 1969 when an overall deficit of B0.9 billion was recorded. As military expenditure declined further, this expanded to B2.7 billion in 1970 before contracting to B1.7 billion in 1971, thanks to improved rice exports (Viksnins, 1973).

The decline in military spending was accompanied by a decline in the high spending R&R segment of the tourism sector, adding to the balance of payments problems. R&R arrivals dropped from their 1969 peak of over 70,000 to a little more than 44,000 in 1970 and to 26,614 in 1971. Thailand's receipts from R&R fell by almost half, from B460 million in 1969, to B240 million in 1971. Adding to the downturn was a decline in the American civilian market. In 1971, the number of American tourists fell for the first time since 1967, sharply reversing the 25% annual growth rate of the previous four years. A reduction in war-related business was then compounded by the US recession in 1971 which contributed to the 8 per cent decline number of American civilian visitors which fell to 147,000.

The decline in American military activity in Thailand also had an impact on employment. The military construction programme had, at its peak, directly employed more than 40,000 Thais (Muscat, *op. cit.*). If the air bases closed, thousands of Thais directly or indirectly employed in or around the bases would lose their jobs[41]. The American slowdown amplified growing structural problems that were becoming apparent to the Thai government by 1971. A rising population, soaring birthrate and a faster rate of rural migration into Bangkok would double the population of the metropolitan area in ten years, raising the critical problem of mass, urban unemployment. In addition, the number of new graduates had been steadily increasing, yet this had not been accompanied by a rise in suitable employment opportunities. Overall, the labour force was expected to increase by more than 2.5 million by 1976 which, added to increases in population growth, could require as many as 3 million new jobs within five years. By then, the Bangkok Bank warned, unemployment would become a major national issue[42].

Government Response, Market Reaction

One solution to the twin problems of unemployment and balance of payments deficits lay in the stimulation of the tourism sector, still viewed uncritically as a major source of foreign exchange, and of the labour-intensive hotel sector. State support for the hotel sector, however, had been rescinded in 1970 in response to the oversupply in Bangkok, when the Board of Investment had restricted promotional privileges for hotels in the city. In 1973 the state investment incentives were resumed in order to generate a fresh round of expansion, although this was restricted to new projects that would be large and luxurious[43]. This change in policy was the result, partly of the rising economic problems and also because of the risks posed to the country's tourism industry by the new jumbo jets.

The investment incentives tried to match the design of the new hotels to the new conditions in transportation brought about by the wide-bodied jets. The new risks were that, if ground conditions were insufficient to meet the requirements of the new planes, the airlines would choose other destinations. Hence without appropriate hotels and upgraded airports, destinations would simply be omitted. This had become apparent in Bangkok where, in common with the other major Asian destinations, new airport developments had been undertaken to improve runways and to expand passenger handling facilities to cope with the higher volumes. However, in Bangkok, the B145 million programme of improvements to Don Muang[44], which started in February 1970 were still not complete by 1972. This resulted in serious passenger inconvenience that would only get worse if the number of 747 arrivals were to increase[45]. By 1973, however, the new terminal facilities were operational, but fears were growing that Bangkok's competitive position could be damaged within a few years. The new threat was emerging from Singapore, which planned to upgrade the main airport and to develop major maintenance facilities at two ex-RAF bases which had been vacated as part of the British military withdrawal from Malaysia and Singapore. In addition, the establishment of Singapore Airlines (SIA), formed in 1972 from the separation of the jointly owned Malaysia Singapore Airlines (MSA), added impetus to the upgrading of Singapore's international airport. Adding to the pressure for upgrading was SIA's order for two Boeing 747s in 1972, followed by a third the next year (Douglas Aircraft Corporation, 1979). The Singapore government, with its new airline, was determined to establish Singapore as the leading aviation centre of Asia. Work began on the US$104 million upgrading of Paya Lebar Airport that would treble capacity by 1976[46].

The Thai response was to plan an even more ambitious expansion to become operational by the end of the decade. In early 1973, the government confirmed the development of a totally new international airport which would be built 25 kilometres from Bangkok at a cost of US$500 million[47]. Consequently, these developments required that adequate accommodation would be available to cater for increased numbers and to ensure that new hotels were big enough to cater for the large groups arriving by wide-bodied planes. Consequently the BOI incentives were restricted to projects of more than 400 rooms, and applied only to hotels that would include air-conditioning and a swimming pool. In the case of existing hotels wishing to expand, however, concessions would be granted if the expansion would add at least 50% more capacity[48].

It is unlikely, however, that investors would have responded to the new round of incentives without evidence of sufficient short-term market demand. Earlier chapters have discussed the relative impact of state incentives and market demand on hotel investment, when demand was seen to be an essential component of investor motivation. Whilst in the previous decade, that demand was largely provided by the American involvement, in the early 1970s, the new markets examined in this chapter added the necessary stimulus to the next phase of investor action. This was particularly evident in 1972 and 1973, when European market demand recovered strongly from the recessionary fall in 1971 to surge by 43% in 1972. Overall, the number of arrivals from Europe rose to over 200,000 in 1972, of which the largest single national group was from West Germany. Partly as a result of the charter programme, over 52,000 German tourists visited Thailand, almost 50% more than in 1971. Germany had also proved to be the most resilient market during the previous year, when, despite the contraction in other markets, a growth rate of 28% was still attained[49]. Japanese arrivals, also, continued to grow during 1971, and in 1972 rose by a record 68% to 94,000. The still dominant American market also recovered somewhat in 1972, although the total number of arrivals remained less than in 1970. Compounding the American decline was a fall in the number of R and R arrivals in

1972 to less than 8,000[50]. Overall, however, the number of overseas visitors rose by 28% to nearly 600,000, reversing the 4% fall of 1971[51]. The result was that the ratio of visitors to rooms rose from a low of 46:1 in 1968 to 63:1 in 1972, stimulating investor interest. Hence the combination of state incentives and rising demand in the new markets, initiated further expansion in the hotel sector.

Hotel Expansion Plans

Potential investors lodged an overwhelming number of applications with the Board of Investment. By mid-1973 twenty projects were planned in Bangkok; if completed, these would more than double the existing capacity, adding over 11,000 rooms to the existing 9,000. The response to investment opportunities in Pattaya was even stronger, thanks to the expansion of the European demand for beach holidays[52]. Plans were submitted for ten hotels, that would add over 2,000 rooms and treble the existing supply of first class accommodation[53]. This unprecedented number of applications raised fears of another period of oversupply and, within three months of reinstating the incentive programme, the BOI declared a moratorium on further applications[54]. Restrictions were also placed on the number of projects that would receive state support. A total of nine projects were Bangkok, three extensions to existing hotels and the rest for new properties. Despite the restrictions, the six new hotels, which ranged from a minimum of 400 rooms to a 30-storey hotel of 1,200 rooms planned by the Bangkok Tharadon Company, together would add over 5,000 rooms. In addition, proposed expansions to the President, Asia and Oriental Hotels would add a further 1,500. Thus, despite the restrictions, the supply of rooms in Bangkok would rise from the 1973 total of 9,388 to 15,934 by 1975[55]. In Pattaya, four projects were approved that would then add 1,000 rooms[56] to the existing stock of less than 900 first class rooms. Finally the expansion extended to Chiangmai, where another 400 rooms were to be added with the completion of three new, first-class hotels[57].

Hence the earlier problem of oversupply in the late 1960s had been resolved to some degree through market growth, largely in Europe and Japan, in which developments in aviation had played a key role. The new competition and lower prices in the air were matched by similar competitive conditions in the hotel sector that together stimulated new market developments. The development of new destinations linked to the charter programmes permitted product diversification and improvement to accompany the price reductions, thus aiding market development. Plans for new hotel supply, therefore, can be seen, partly, as a response to the commercial opportunities offered by market growth. The role of state incentives in determining such plans was, apparently, of greater importance in this phase of the sector's development as, unlike the rush to build small hotels that occurred in the previous decade, no such action was taken before approvals were granted. However, as the following chapter shows, events within the security structure once again became dominant, altering investment and operating conditions for the hotel and tourism industries and seriously affecting the implementation of plans formulated in the context of the growing markets of the early seventies.

NOTES

(1)*Bangkok Bank Monthly Review*, January 1968.

(2)*Far Eastern Economic Review*, 7 August 1979. Continental's permit was revoked before it could become operational by the incoming President Nixon who overturned the Johnson decision on a technicality of timing. The South Pacific routes were then given to American Airlines who received permission to fly through Hawaii to American Samoa, Fiji, New Zealand and Australia.

(3)*Annual Report*, Pan Am, 1969.

(4)*Far Eastern Economic Review*, 24 April 1969.

(5)*Far Eastern Economic Review*, 25 September 1969.

(6)*Far Eastern Economic Review*, 24 April 1969.

(7)The first commercial flight of a Boeing 747 across the Pacific took place on 11 March 1970 when Pan Am landed at Tokyo's Haneda Airport. JAL planned to operate its first trans-Pacific 747 in July (*Far Eastern Economic Review*, 21 May 1970)

(8)*Far Eastern Economic Review*, 28 November 1963.

(9)The number of Japanese outbound travellers rose from 100,074 in 1963 to 127,749 in 1964. In 1969 the number was 492,880, rising to 961,135 in 1971 (Japan National Tourist Bureau, Statistical Series).

(10)Hewitt, M. (1981). "Japanese Overseas Travel: past, present and future." Seminar paper presented at the Third Japan Congress of International Travel, Tokyo, 1981.

(11)Prince Varanand, a member of the Thai royal family, had flown Spitfires in the Battle of Britain and was a pilot with Thai International before leaving to form Air Siam (*Interview*, former Managing Director, Air Siam Ltd.; July 1986.) The new airline was totally owned by Varanand and his sister, Princess Suddasiri Sobha (*Asian Business & Industry, May 1974).*

(12)*Asian Business & Industry*, May 1974.

(13)Interview: former Managing Director, Air Siam; July 1986.

(14)Interview, *ibid.*

(15)*Asian Business & Industry*, (*op. cit.*).

(16)*Air Transport World*, March 1975.

(17)Interview: ibid; July 1986.

(18)Interview: Executive Vice-President, Thai Airways International Ltd.; March 1986.

(19)Japanese arrivals to Thailand numbered 15,238 in 1964 and 42,872 in 1969. This rose to 46,952 in 1970, 55,777 in 1971, 93,534 in 1972 and 151,947 in 1973 (TAT, 1980).

(20)American arrivals numbered 151,602 in 1972 and 161,444 in 1973 (TAT, 1980).

(21)*Far Eastern Economic Review*, Yearbook 1969.

(22)*Records*, Airports Authority of Thailand.

(23)Interview: Chairman and Managing Director, Kuoni Travel Ltd., England; January 1987.

(24)*Records*, Airport Authority of Thailand. The charter operators landing at Bangkok airlport in 1970 included British United, Monarch, Britannia and Caledonian.

(25)*Annual Report*, BOAC 1971.

(26)*Annual Report*, BOAC 1972.

(27)When the data was classified by nationality in 1976, 46,641 British residents arrived compared to 72,777 British passport holders (TAT, 1980).

(28)Interview: Managing Director, World Travel Service, Bangkok; April 1986.

(29)Interview: General Manager, Siam Lodge Hotels, Thailand; January 1986.

(30)Interview: Chairman and Managing Director, Siam Intercontinental Hotel Company Ltd.; July 1986.

(31)*Bangkok Post*, 6 December 1968.

(32)*Far Eastern Economic Review*, 29 August 1968. The DC-3s were replaced by prop-jet Avro 748s in late 1968.

(33)Interview: Executive Vice-President, Thai Airways International, Bangkok; March 1986.

(34)*Far Eastern Economic Review*, 29 August 1968.

(35)Interview: *ibid.* March 1986.

(36)Interview: Managing Director, Cathay Pacific Airways, Hong Kong; January 1987.

(37)Interview: Executive Vice-President, Thai Airways International, March 1986.

(38)*Far Eastern Economic Review*, Yearbook 1972.

(39)*Far Eastern Economic Review*, Yearbook 1970.

(40)*Far Eastern Economic Review*, Yearbook 1971.

(41)In January 1971, nearly 4,000 employees were given notice that they would gradually be laid off from jobs in US military installations and connected agencies in Korat province (*Far Eastern Economic Review*, Yearbook 1972).

(42)*Far Eastern Economic Review*, Yearbook 1972.

(43)*Bangkok Post*, 16 March 1973.

(44)*Far Eastern Economic Review*, 7 August 1969.

(45)*Far Eastern Economic Review*, 25 March 1972.

(46)*Far Eastern Economic Review*, 12 February 1973.

(47)*Far Eastern Economic Review*, 12 February 1973. Private sector financing was to be provided by the Northrop Airport Development Company which would be granted a 20-year franchise to operate the new airport. The Thai government would provide the land and some of the infrastructure.

(48)*Bangkok Post*, 16 March 1973.

(49)Arrivals from West Germany numbered 28,023 in 1970, 35,801 in 1971, 52,712 in 1972 and 62,673 in 1973. Total arrivals from all European countries numbered 141,028 in 1971 and 201,668 in 1972 (TAT, 1980).

(50)R and R arrivals fell from a peak of 70,737 in 1969 to 44,287 in 1970, 26,614 in 1971 and 7,702 in 1972 (*Bangkok Bank Monthly Review*, 1976: pp 530).

(51)Total arrivals from overseas countries, excluding R and R, numbered 485,366 in 1970, 465,992 in 1971 and 594,348 in 1972 (TAT, 1980).

(52)Interview: General Manager, Royal Cliff Beach Hotel, Pattaya; January 1987.

(53)*Far Eastern Economic Review*, Yearbook 1974.

(54)*Bangkok Post*, 30 June 1973.

(55)*Bangkok Bank Monthly Review*, August 1973.

(56)*ibid.*

(57)*Bangkok Bank Monthly Review*, December 1972.

CHAPTER 9

Strategic Realignments and Structural Change: security, democracy, freedom and energy

Events within the security and transportation structures played significant but contradictory roles in the Thai tourism sector in the early 1970s, the one depressing demand and the other playing an expansionary role. Domestic political changes, which followed from the American strategic realignment in Asia, led to national and regional disturbances which deterred tourists and led to a fall in investment. The changes began with the collapse of the military regime in 1973, following a bloody confrontation between demonstrators and the authorities, and continued through the next three years of civilian government. The new civil freedoms permitted during this period played a part in the generation of social unrest and the growth of friction between the supporters of the old regime and the new, liberal elements in government. This friction escalated into further violence that led, in 1976, to the return of the military and the installation of a particularly right-wing administration that generated further unrest through the adoption of highly repressive policies.

The depressant effect of the insecurity was, however, countered to some degree by changes in the authority/market balance in the aviation sector, which helped to stimulate tourism through the development of lower prices. Following the first oil shock of 1973, the world's airlines were facing critical commercial conditions that were a product of the higher fuel costs and the cost of investing in the new, wide-bodied aircraft. This market pressure reduced IATA's regulatory power over fares, which were cut in order to stimulate market demand. Led by changes on North

Atlantic routes, fares fell in other regions, including the intra-Asian routes and the routes from Europe to Asia. Despite this offsetting effect, however, tourism growth dropped significantly from 1974, leaving the hotel industry, once again, with too much capacity and, hence, many of the projects that had been planned in early 1973 were cancelled or postponed.

Political Shift:Causes and Consequences of the October Revolution

The year 1973 marked a watershed in Thai politics with the transfer of power from the military to a civilian government. This radical shift followed violent demonstrations as anti-government demonstrators, many of whom were students, clashed with police and military units in Bangkok. Discontent had been growing during most of the year, with protests focussing on a draft constitution, issued by Prime Minister Thanom, that would have transferred almost dictatorial powers to the regime. The protests escalated into huge demonstrations and the violent confrontation on "bloody Sunday", October 14, that was followed by the departure into exile of the leaders of the Thanom/Prapas regime.

The cause of this shift in the domestic balance of power lay in the changes in American foreign policy in Asia and the new relationship with the communists, especially with the People's Republic of China. Washington's new policy towards China, symbolised by Nixon's visit to Peking in 1972, caused a reappraisal of Thai policy towards communism and led to diplomatic exchanges between Bangkok and Peking. The Thai acceptance of the communist regime undermined one principal rationale for military dictatorship, namely the danger from Communist China. The communist threat had previously been the major source of legitimacy for the military regime. Without this, the regime's authority declined and, in the face of concerted opposition, its leaders were powerless to prevent their own exile (Anderson, 1985).

As the decline in authority became apparent, demonstrations began to escalate, finally snowballing into a huge gathering in October that preceded the violence. The battle began as riot police used teargas to disperse a crowd of 50,000 students gathered near Chitrlada Palace, the King's residence. The students responded by attacking government buildings in nearby Rajdamnern Avenue. The police and army countered with tanks and helicopter gunships that fired into the crowds, leaving 350 dead, most of whom were students, and more than 1,000 seeking hospital treatment[1]. The ensuing intervention of the King and the refusal of the army commander, General Kris Sivara, to condone further bloodshed[2] represented the final blow to the regime's power. As a result Thanom, his Deputy Prime Minister, Prapas and his son, Colonel Narong Kittikachorn, went into exile and a civilian prime-minister was appointed by the King. This shift of power from the military into civilian hands in government then had a significant impact on Thailand's production structure in general and the tourism and hotel sector in particular.

Production Structure Changes: the emergence of union power

The immediate impact of the revolution on tourism demand was limited, as the violence soon ended and calm returned to Bangkok following the change of government. Overseas arrivals in November and December were some 14% higher than in the corresponding months of 1972, and visitors from neighbouring countries rose at almost twice this rate. However, the changes in power stimulated unprecedented changes in social freedoms, including the freedom to strike and to much more vehement public criticism of government policies. These domestic factors then combined with the global recessionary conditions induced by the oil crisis. Together they were then responsible for the downturn in hotel investment and the decline in tourism demand that began in 1974.

The new political conditions removed many of the previous constraints on labour that had been imposed by the military regimes. Sarit had been the first to ban unions and to declare strike action illegal, partly to encourage foreign investment and also to remove left-wing opposition. The new government, however, came to power publicly committed to civil rights and liberties, which included the rights of workers and farmers to organise, demonstrate and strike (Anderson, 1977). This shift of power to the workers then added to the uncertain investment conditions and became a major factor in the decline in business confidence and the consequent fall in investment in Thailand's production structure (Permtanjit, 1981). Despite a continuing legal prohibition against strikes, the new government took no action against striking workers and the number rose dramatically[3]. In 1973, 2,000 strikes took place, almost all in the last quarter (Anderson 1977), compared to a total of 202 in the previous seventeen years (Permtanjit, *op. cit.*). Underlying the strikes was discontent caused by inflation, especially in the price of rice. As a result of poor harvests and high exports to a buoyant world market from 1972, the domestic wholesale price soared 135% in the two years to mid-1974[4]. Strike action continued into 1974, with a further 1,500 recorded in the first six months of 1974 (Anderson, *ibid.*.).

One of the most militant unions in this period was the Hostel and Hotel

Workers Union. This was partly due to the low pay in the industry but was also a result of the sense of relative deprivation that was heightened by the hotel workers' daily exposure to their far wealthier clients. Disputes began modestly, but later flared into major confrontations that generated nationwide attention. Unrest began in December 1973 when workers at the Siam Intercontinental went on strike in support of a pay rise of ฿200 per month. Agreement was reached quickly and the strike ended within twenty-four hours[5]. The following year, however, disputes became more militant and, in August, the same hotel was strike-bound for ten days, resulting in lost revenues of ฿3 million[6]. Later the same month, the threat of a strike at the Narai Hotel resulted in an immediate agreement which raised the minimum monthly salary to ฿600 per month, to which would be added a guaranteed payment of ฿750 per month[7] from the service charge collections[8]. This represented a major increase in pay for the workers: the previous year, the salary component of a worker's income was around ฿60 to ฿80 per month, to which would be added a share of the service charge collections which could amount to ฿450 to ฿500[9]. In early September both the Rama Hyatt and the Sheraton also yielded to the threat of industrial action and agreed to all the unions' demands[10]. Thus the perishable nature of the hotel product, at least initially, gave the unions a strong bargaining position.

However, attempts to redress the balance of power followed quickly, and developed into the first labour-management confrontation ever to gain national attention in Thailand. In August 1974, employees of the Dusit Thani Hotel went on strike to demand increased wages and living allowances. They were soon joined by other hotel workers and by university students. The presence of militant students raised the profile of the strike, causing alarm amongst the military and police (Morell et al, 1981). In early September, the management of the hotel fired the strikers and closed down the hotel[11]. The workers' protest continued, however, and by September 11, about 10,000 workers and students had gathered and were threatening massive protest demonstrations that would include workers in other industries across the country. At this point the government intervened and appointed an arbitration committee that ruled that the workers be paid a salary of B600 per month plus a minimum, guaranteed, share of the service charge of B800 (Morell, *op. cit.*).

In May 1975, less than one year after this agreement was reached, a second strike broke out at the same hotel, in support of further increases in salary and to demand a series of benefits including holidays, sick leave and insurance provisions. The union was responding to rising industrial wages which had seen the minimum wage in Bangkok rise from B12 to B20 per day in October 1974 with a promise of a further increase to B25 in January 1975. Under the 1974 agreement, therefore, the Dusit Thani workers were at a disadvantage. The management, however, this time adopted a totally uncompromising attitude and fired all those who participated in the strike (*ibid.*.). The sacked workers, however, responded by occupying the hotel. The management reaction was to hire a gang of unofficial guards, drawn from a radical rightist group known as the Red Gaurs[12], in order to regain control of the building[13], using guns in the process (Anderson, 1977). The confrontation continued for over a week and was resolved only through the intervention of the recently elected Prime Minister who persuaded the Red Gaurs to leave the hotel[14]. Despite this personal intervention, the strike continued for a further two weeks, at which point it became the longest running strike in Thailand's history[15]. The hotel finally reopened for business on 24 July 1975, almost two months since it had first been closed, having incurred estimated losses of B50 million[16].

The combination of strikes, the associated losses and higher costs generated by rising wages acted as a powerful deterrent to new investment in the sector, particularly given the visibility brought on by the confrontations at the Dusit Thani. At the same time tourism demand was affected by highly visible attacks on specific nationalities, which led to falls in key markets, adding further deterrents to new investment. As with the strikes, the cause lay in the new freedoms that emerged with the new political structure which permitted public expression of discontent on all sides of the political spectrum.

Domestic Unrest and Tourism Demand

The freedom to express discontent over government policy was exploited initially by left-wing student groups who staged a series of demonstrations to protest against the involvement of both America and Japan in the Thai political economy. Thousands of students took to the streets in January 1974 when Japanese Prime Minister Kakuei Tanaka visited Bangkok. Angered by a rising trade deficit with Japan and the growing visibility of Japanese multinational corporations in key manufacturing industries, the demonstrations denounced Japan's international economic policies[17]. This had an immediate impact on Japanese tourist arrivals which fell by 21% in February, compared to the previous year[18]. This then exacerbated the decline in Japanese tourism caused by the oil crisis, which had reduced the growth of all outbound travel from Japan to only 2% in 1974[19]. The result was that Japanese arrivals to Thailand in 1974 fell by 13 per cent, in a marked contrast to the 60% per year increases of the two previous years[20].

Anti-American protests also had an impact on arrivals. This was more severe than the Japanese case as the demonstrations, and the consequences, were more prolonged. Combined with the American strategic withdrawal from the region, the result was a marked decline in the importance of American tourism to Thailand. The fall in arrivals of 3% in 1974 was the prelude to a much steeper fall of 26% in 1975, when the total fell to 116,000[21]. The impact was that, for the first time, America ceased to be Thailand's biggest overseas tourism market. The change began in 1974 when demonstrations focussed on the US military presence. Despite the troop cuts that had taken place, Thailand was still home to the biggest concentration of American air power anywhere in the world outside the US[22]. Washington's unilateral use of the U-Tapao air base in May 1975[23] then provided the trigger for more strident anti-US demonstrations. The use of the airbase was particularly offensive to the left-wing as it followed the Thai government's ultimatum that Washington should remove all troops from Thailand within the year. A crowd of 5,000 laid siege to the American embassy compound for several days, hoisting a giant effigy of "Uncle Sam" onto the front gates and burning it[24]. Further anti-American demonstrations took place the following year when the US refused to accept the Thai demands to remove all remaining American military personnel. In April of 1976, the Thai deadline had been ignored, and 7,000 people took to the streets in protest[25].

The impact on American arrivals was most apparent in the second half of 1975, following the demonstrations in May of that year. Starting in June, monthly arrivals were 5% lower than in 1974 and fell further during the first four months of 1976. Recovery only began in the second half of the year as the anti-American protests subsided. In contrast, however, American arrivals to other destinations in Asia were rising strongly and Hong Kong, Singapore, Japan and Taiwan all experienced significant growth rates[26]. In 1976, even with the recovery, the number of American visitors for the year totalled 116,656, less than 1 per cent more than in 1975 and considerably less than Hong Kong's growth in visits from Americans which expanded by 28 per cent[27].

Tourism demand was also inhibited by more general domestic insecurity as violent clashes between the left and right wings became more frequent. The civilian government headed by the younger brother of Seni Pramoj, Kukrit, which had been elected in 1975, was dissolved in January 1976, following the intervention of the military. The military leadership were particularly concerned by the new foreign policies that would downgrade Thailand's relationship with America and which aimed to reach accords with the communist governments of Indochina. The election campaign that followed was the most violent in the country's history, with armed attacks and bombings that claimed thirty lives[28]. Despite the violence a new democratically elected government was formed by Seni Pramoj, who became Prime Minister in April. This proved to be a short interlude, however, before the military returned to power after a fierce battle at Thammasat University in October 1976. Several thousand right-wing militants, including members of the Red Gaurs, police and para-military units, attacked left-wing students gathered inside the University. In a public and brutal battle, 41 died, many of whom were hanged or burned to death. The military imposed martial law, justifying the action in anti-communist terms, and installed a right-wing court judge, Thanin Kraivichien, as Prime Minister[29].

The first actions of the new government were the arrest of its opponents and the introduction of martial law, which imposed severe controls on workers and unions. Although the main aim was to restore order, the results were perverse:

left-wing writers, students and politicians fled Bangkok to join the outlawed Communist Party of Thailand in the jungles of the northeast and south. This addition of some two to three thousand people to the party not only added to its personnel strength but also to the motivation of the CPT. The effect was to the level and severity of insurgent activity within Thailand (Muscat, 1990). In addition, the controls placed on union activity also generated a backlash in the city by creating hostility and a sense of alienation amongst workers and those liberal elements amongst students and politicians who had not left to join the communists[30].

Hotels and Tourists in an Unstable Security Structure

The immediate impact of the unrest was a decline in tourism arrivals. Overall, in 1976, arrivals fell by 7% to less than 1.1 million. The American market remained 30% below the peak reached in 1973. The Japanese market had begun to recover in 1975 when arrivals increased by 11 per cent. However in 1976, this fell to only 2 per cent[31]. In contrast, the overall growth of outbound tourism from Japan reached 16 per cent[32], and thus Thailand failed to share in this growth. In addition, more Japanese were choosing Asian destinations in preference to America, but it was Hong Kong, Korea and the Philippines that were the beneficiaries[33]. Growth in European arrivals also slowed in 1976, falling by half to a total of 7%. Thus growth in the critical overseas markets continued to decline, falling from 28% in 1973 to only 3% in 1976[34]. As a result, hotel occupancies in Bangkok had declined to uneconomic levels. In the winter months, normally the high season, major hotels in Bangkok reported occupancy levels as low as 40 to 65 per cent [35].

In the hotel sector, the combination of lower demand, labour unrest and general insecurity acted as a powerful deterrent for investment in new hotels. In Bangkok, almost all the projects planned in 1973 were cancelled or postponed, the sole exception being an extension to the existing President Hotel. This project then added a modest 200 rooms on completion in 1976. Whilst the situation in Bangkok was serious, it was even more critical at the beach resort of Pattaya where investors had begun construction of large new hotels well before the October uprising. These projects began to reach completion in 1974 and five new hotels opened in 1975 increasing the number of first-class hotel rooms by over 1,000. By the end of 1976 the total number of rooms in all types of hotels had almost trebled to 3,253, up from 1,310 at the end of 1973. Two more first-class hotels were completed in 1976, which raised the number of first-class rooms to over 2,500, over three times the 1973 stock. The new hotels were also big: all had more than 100 rooms, four had over 200 and the biggest, the Royal Cliff, had 450. This was almost twice the size of the Pattaya Palace which, just three years earlier, had been the biggest hotel on the beach[36].

This led to intense competition in the resort itself and, in addition, the new hotels were competing for business with the hotels in Bangkok. To some extent the two locations were complementary, providing city sights together with beach leisure facilities, a combination that was particularly popular with the European market. Whilst this was a factor influencing growth in that particular market, the increased supply of rooms overall led to pressure on hotel prices in both locations. The hotel sector was thus facing serious difficulties, as producers were faced with declining revenues in the context of low growth in tourist demand. The position would have been even more critical during this period, however, had the aviation sector not been forced into a re-evaluation of pricing following the oil crisis of 1973.

Energy, Aviation and Thai Tourism

The political turbulence in Thailand during the early 1970s coincided with the disruptions within the global political economy that followed the oil shock in 1973/4. The recessionary and inflationary impact of the rise in the cost of energy depressed tourism demand globally and contributed to the fall in tourist arrivals to Thailand. The biggest impact of the changes in the energy structure was on the transportation structure, where rising fuel costs led to further changes in the regulatory structure of international aviation. This followed from the combination of higher costs plus sharply expanding capacity in a falling market for airline services. These conditions forced a response by the world's major airlines to IATA's continuing authority over airfares. The immediate outcome was a change in fare structures on scheduled airlines that changed the balance between scheduled and non-scheduled traffic. This was particularly marked on long-haul routes, including those between Europe and Asia. The most significant aspect of the change was that charter operations came under attack from the scheduled services as pricing freedom grew. At first this supported tourism demand in the immediate aftermath of the oil shock, then later the lower prices contributed to the recovery of tourism in the middle years of the decade.

In addition, the global re-equipment programme, which had gathered momentum shortly before the fuel crisis, resulted in a quadrupling of the world's fleet of wide-bodied jets in the first three years of the decade. By the end of 1973 a total of 220 Boeing 747s were in service, along with 166 of the smaller DC-10s and Lockheed Tristars[37]. Whilst the majority of the new fleet was operated by the major Western airlines, by 1974 20 per cent of the world's 747s were in service with Asian airlines.

Japan Airlines was the major operator, with 20 out of the total Asian fleet of 35 and Thailand's second international carrier, Air Siam, operated a single jumbo[38]. Hence, despite the rise in operating and capital costs, the increase in capacity forced the airlines into a reconsideration of cheap, promotional fares.

Airline Capacity, Authority and Price

The evidence that cheap fares would fill the new capacity was provided by the success of charter operations. These had clearly demonstrated the existence of a volume market for cheap transport. However, for the scheduled airlines to offer similar low fares would require agreement within IATA and, at the end of 1973, this was not easily achieved. As capacity continued to expand and the airline losses mounted in the face of declining market demand, market operators began to take much more aggressive action. Initially this took the form of illegal discounting, which was particularly prevalent in Bangkok and Hong Kong, as the scheduled carriers attempted to provide charter-competitive fares. IATA's attempts to curb these actions met with little success as the imperatives of the marketplace forced the airlines to ignore authority. In Asia, IATA's position was further undermined by Asian airlines who were not members of IATA. The freedom of these carriers to set fares added to the degree of competition within the region. This level of competition, in which the major airlines were restricted from an equal response, led to the eventual breakdown of IATA's rate-making machinery on routes to, and within, the Far East.

On regional routes competition was especially fierce on the corridor from Tokyo through Hong Kong to Bangkok. Services along the route were operated by both the IATA and non-IATA airlines, but at different prices, although both groups offered discounts. The round-trip from Hong Kong to Tokyo, for example, was officially set at HK$2,518 in 1974, yet fares as low as HK$1,200 could be obtained from Korean Airlines, or HK$1,680 from Cathay Pacific. These discounts, offered by the non-IATA airlines, were then broadly matched, although illegally, by IATA members, who offered fares ranging from Egypt Air's HK$1,200 to HK$2,316 on Pan Am and British Airways. The IATA carriers were able to operate in this manner because of the gradual breakdown in the authority structure both between the Association and its membership and within the organisation itself. The members began to break the rules, preferring to ignore the fare structures that they had been involved in creating. By mid-1974 it was becoming impossible for IATA to enforce its regulations in the region. This was part of a wider breakdown that was being recognised by the management of the association. In a September survey, the Director-General, Knut Hammerskjold, reported that "... the incidence of malpractice continues with increasing sophistication, resulting in continued revenue erosion"[39].

The decline of IATA's authority had a marked impact on the routes from Europe to Asia where, for a time, the airlines were able to set their own fares. By 1975, the IATA mechanism had failed to set fares for routes between the two continents, and an open-rate situation had developed between Europe and Australasia[40]. Consequently, IATA members operating these routes were free to meet the competition provided by the growing non-IATA presence on Europe/Asia routes. Both Singapore Airlines and Thai International had, by 1974, established routes into principal European cities. In late 1973, Thai International inaugurated flights to two key tourism markets, Frankfurt and London[41]. This, then had implications for the British and German airlines, who responded by expanding their low-fare products, not only through charters, but also on scheduled services.

The shift into low fare operations on scheduled services and away from charter operations was not due solely to the change in IATA's authority, but was also influenced by technology. The older, narrow-bodied aircraft, which had been acquired cheaply in the aftermath of the re-equipment programme, lost their cost advantage when the price of fuel increased. Fuel formed a significant proportion of operating costs compared to the more economical wide-bodied aircraft and the impact of the oil price rise was therefore more critical[42]. Thus charters that used the older generation of aircraft became less commercially feasible. Whilst Lufthansa had begun using 747s for the Condor charter operations into the Far East at the start of the decade, British Airways continued to use its fleet of surplus 707s. Consequently, this raised the incentive to offer charter-competitive fares on scheduled services which were then largely operating 747s[43].

These factors in the transportation sector help to explain the resilience of European arrivals during 1974 and 1975, without which the tourism sector in Thailand would have faced even greater difficulties. This resilience, however, began to falter in 1976 growth fell sharply as the degree of insecurity within the region increased in 1977. The insecurity was generated by new foreign policies instituted by the Thanin government, which led to a series of confrontations between Thailand and its communist neighbours to the east.

International Realignment

Thanin's dogmatic anti-communism was responsible for the reversal of the policies of accommodation with the new governments in Indochina. These had been actively pursued by the previous civilian governments, and had begun even under Thanom's military regime. The policy changes increased the danger of confrontation along the eastern borders. These had become exposed to the communists from 1975, with the collapse of Saigon and Phnom Phen in the spring and the take-over of the coalition government in Laos by the Pathet Lao. The old buffer states of Laos and Cambodia that had, traditionally, protected Thailand from Vietnamese aggression had therefore been removed. The change from the previous diplomatic efforts had a serious impact on both tourism demand and investor confidence.

In 1976, the new policies led to a breakdown in relations with the communist states. Simultaneously, Thanin attempted to foster better relations with Thailand's partners in Asean. As part of this, joint counter-insurgency measures were undertaken with Malaysia, which exacerbated the friction with the communists, particularly with the Vietnamese, who threatened to strengthen existing military accords with Vientiene. If implemented, the new accords would increase in the number of Vietnamese troops stationed in Laos from the existing 40,000. This created a security threat that worried the Thai military, but that was overshadowed by problems with Cambodia. In reaction to the new regime, the Khymer Rouge immediately abolished the diplomatic machinery put in place by the Kukrit and Seni governments and, two months later, fighting broke out along the border. This was the first of a number of clashes that escalated in violence and which lasted well into the middle of 1977[44].

Thus, in international relations, as in its domestic policies, the Thanin government created unstable conditions that acted as major disincentives to growth.

NOTES

(1)*Far Eastern Economic Review*, Asia 1974 Yearbook.

(2)*Far Eastern Economic Review*, Asia 1977 Yearbook.

(3) New labour laws, passed in 1972, had relaxed the restrictions on worker mobilisation, but had retained the ban on strikes (Far Eastern Economic Review, Yearbook, 1974).

(4)*Far Eastern Economic Review*, Asia 1975 Yearbook.

(5)*Bangkok Post*, 9 December 1973.

(6)*Bangkok Post*, 8 August 1974.

(7)*Bangkok Post*, 23 August 1974.

(8)Most hotels in Bangkok added a service charge of 10% to bills issued to customers, but the distribution of the collections between the hotel company and the workers, and amongst different employees varied from hotel to hotel.

(9)Records of the Hotel Workers' Federation of Thailand, March 1987.

(10)*Bangkok Post*, 5 September 1974 & 11 September 1974.

(11)Interview: Officials of the Thai Hotel Workers' Federation & *Bangkok Post*, 4 September 1974 &

(12)The name was drawn from a species of wild buffalo.

(13)*Bangkok Post*, 27 May 1975.

(14)*Bangkok Post*, 4 June 1975.

(15)*Bangkok Post*, 26 June 1975.

(16)*Bangkok Post*, 24 July 1975.

(17)*Far Eastern Economic Review*, Asia 1975 Yearbook.

(18)Japanese arrivals for the month of February numbered 19,963 in 1973 and 15,810 in 1974 (TAT, 1980).

(19)Outbound travellers from Japan numbered 2,288,966 in 1973 and 2,335,530 in 1974 (Japan National Tourism Organisation, Statistical Series).

(20)Annual Japanese arrivals numbered 93,534 in 1972, 151,947 in 1973 and 132,660 in 1974 (TAT, 1980).

(21)American arrivals numbered 161,444 in 1973, 156,818 in 1974 and 116,190 in 1975 (TAT, 1980).

(22) A programme of troop withdrawals was announced in March that would virtually close two air bases at Ubon and Takhli and reduce the US strength by one-third. Despite this, a force of 27,500 men and 350 aircraft would remain (*Far Eastern Economic Review*, Asia 1975 Yearbook).

(23)This was the "Mayaguez Incident", when Washington used U-Tapoa to launch an attack on the Khymer Rouge who were holding a US merchant ship, the Mayaguez, captive in the Gulf of Siam (Muscat, 1990).

(24)*Far Eastern Economic Review*, Asia 1976 Yearbook.

(25)*Far Eastern Economic Review*, Asia 1977 Yearbook.

(26)*Far Eastern Economic Review*, 21 January 1977.

(27)Hong Kong Tourist Association.

(28)*Far Eastern Economic Review*, Asia 1977 Yearbook.

(29)*Far Eastern Economic Review*, Asia 1977 Yearbook.

(30)*Far Eastern Economic Review*, Asia 1978 Yearbook.

(31)Total arrivals from all sources, including neighbouring countries, numbered 1,180,075 in 1975 and 1,098,442 in 1976. American arrivals numbered 116,656 in 1976, only marginally higher than the 1975 figure of 116,190 and far less than the 1973 peak of 161,444. Arrivals from Japan numbered 146,986 in 1975, rising to 150,464 in 1976 (TAT, 1980).

(32)Japanese outbound travel rose to 2,852,584 in 1976, from 2,466,326 in 1975 (JNTO, Statistical Series).

(33)*Far Eastern Economic Review*, 21 January 1977.

(34)Total arrivals from Europe numbered 327,645 in 1975 and 350,941 in 1976. Total overseas arrivals numbered 763,189 in 1973 806,447 in 1974 850,459 in 1975 and 877,528 in 1976 (TAT, 1980).

(35)*Bangkok Post*, 22 January 1977.

(36)*Tourist Authority of Thailand*, 1980.

(37)*International Civil Aviation Organisation*, Aircraft on Register.

(38)*Far Eastern Economic Review*, 11 March 1974.

(39)*Far Eastern Economic Review*, 14 February 1975:4.

(40)Personal Communication: Manager, Passenger Tariffs, British Airways, UK; June 1987.

(41)*Far Eastern Economic Review*, 11 March 1974.

(42)*Far Eastern Economic Review*, 16 January 1976.

(43)Interview: former Marketing Manager, British Airways, Hong Kong; December 1986.

(44)*Far Eastern Economic Review*, Asia 1978 Yearbook.

CHAPTER 10

Coping with Crisis:

surplus capacity and the state/market response

This final chapter of the case study examines the events that followed the economic and political recovery that started in late 1977. During the subsequent ten years, the hotel and tourism sectors were strongly affected by outcomes that occurred in the international and domestic security structures and the international financial structure and were also affected by events affecting the sectors of energy and trade. In trade, tourism emerged to a new prominence in the 1980s, as gross revenues exceeded earnings from rice as the single biggest contributor to Thailand's current account balance. Whilst partly this was a result of the increase in tourism demand and individual revenues, it was also a function of a more general decline in commodity prices on world markets. The causes of this decline were rooted in events in the global finance structure, which in turn was a function of US policy changes as the American authorities sought to influence markets.

These events had a fundamental impact on the hotel production structure as they altered global exchange rates and, hence, lowered the international price of Thailand's hotel product. This coincided with a massive fall in domestic hotel rates, brought about by the oversupply that emerged in the sector in the mid-eighties. This chapter examines the reasons for this degree of overproduction and the relative roles of markets and authorities in both the creation of the oversupply and the attempts to resolve the ensuing crisis.

Hotels and Tourists: 1977 - 1987

The tourism sector in Thailand began to recover in the late seventies. This was fostered by improvements in domestic and regional security arrangements, which included a change in the Thai Government, and by improved global economic conditions as the impact of the first oil shock was absorbed. This chapter will review the reasons for the recovery in more detail below, but before elaborating the reasons for the changes will first examine the patterns of development that occurred in tourism demand and hotel supply in the ten years from 1977.

Arrivals in 1978 rose more than 19% over 1977, largely as a result of an increase in the number of visitors from the important overseas countries. These increased by 22%, exceeding one million for the first time in the industry's history. The expansion in total arrivals was thus nearly double 1977. This was, in addition, much more significant as growth in 1977 was achieved chiefly because of a 35% increase in visitors from neighbouring countries, particularly from Malaysia. Overseas arrivals increased by a relatively modest 5% in 1977, and hence had a less significant impact on revenues than the higher growth in 1978, given the traditionally higher expenditures of the overseas tourists. In addition, the average revenue per tourist visit rose by 60%. Whilst this, to some degree, reflected the global inflation of the mid-seventies, it had the effect of increasing gross revenues from US$225 million in 1977 to US$435 million in 1978.

This rise in nominal benefits was accompanied by increased efforts on the part of TOT to persuade both market operators and the government authorities that conditions were right for an expansion of the hotel sector. The Fourth Five Year Development Plan, then in its second year, had included TOT's target of 2.2 million arrivals by its conclusion in 1981. To meet this additional demand, TOT argued that more hotels were required, and proposed that an additional 5,000 rooms should be built in Bangkok, an increase of almost 50% on the existing levels[1].

The government was the first to be persuaded that an expansion should take place, and in early 1978 it was widely assumed that the Board of Investment would reestablish investment incentives for hotel construction[2]. Market operators also began to exert pressure on the BOI, submitting applications for new hotels even before the Board had completed its deliberations[3]. By the end of the year, the Board announced that it would resume promotional privileges for the sector after a five year hiatus, citing the "... strong demand for new hotels in Bangkok"[4]. Even by the time of the announcement, 13 applications had already been received[5], and by early the next year a further 21 applications were made which, if they were all to be completed, would add more than 20,000 rooms to the city's hotels[6]. The first successful candidates were announced in the summer when the BOI approved 13 projects that would add an additional 9,000 rooms by the mid-eighties[7].

Two years later, the first of the various projects began to reach completion, and several new hotels came into operation over the five years from 1981. The official data indicate that, by 1986, there were 22,500 rooms available in Bangkok, double the number at the end of 1978: a total expansion of over 11,000 rooms. Largely as a result of restrictions applied by the BOI in granting these latest incentives, all of these were first-class or deluxe properties and, as a result, the quality of the hotel product, as well as its quantity, increased. The expansion was not, however, confined to

Bangkok. New hotels opened in the other major tourist areas of the country, particularly in Chiang Mai and Pattaya, and also in the newly developing island resort of Phuket. Because of these developments, the number of additional rooms in the major destinations reached a total of 25,000, taking the stock from 19,000 in 1978 to 44,000 in 1986.

The causal chain that led to this major expansion in the hotel sector begins with events that occurred before the second oil shock of 1979/80 in the years immediately following the repressive Thanin government. The investment decisions taken between late 1977 and the opening months of 1980 committed the industry to the quantum leap in supply that became operational by 1986. The resulting overproduction had major consequences for the hotel and tourism sectors and was instrumental, both as a cause and an effect, in the creation and the resulting outcomes of 1987's specially designated "Visit Thailand Year". This chapter therefore begins with an examination of the initial causes, which are to be found in the security structure, in changes in Thailand's international trade position and in attempts to change the authority/market balance in the hotel production structure.

Security and Stability

Investment conditions improved sharply following the military coup of October 1977, when the armed forces replaced the government they had installed in 1976. General Kriangsak Chamanand, Commander of the Armed Forces, took over from Thanin as Prime Minister in a change that was immediately well received. Foreign powers of the East and West responded favourably, as Kriangsak was viewed as a diplomat capable of easing the regional tensions generated by Thanin's fervent anti-communism. This then set the necessary conditions for an increase in confidence and a subsequent rise in domestic capital investment.

The confidence was not confined to business circles alone, but extended to Thai labour groups, politicians and the press. These interest groups believed that the new government had the talent and political balance to resolve many of the problems that had developed in Thai society after the 1976 coup. A new alliance emerged between the military and civilian groups. The new administration, in an attempt to achieve a national reconciliation, adopted a mildly reformist programme that included, in particular, programmes aimed a tackling the roots of Thai poverty, which enhanced its standing with the public[8].

The new climate of optimism in domestic affairs was paralleled abroad. In international relations, the new Prime Minister took an active personal role in a programme of rapprochement with the neighbouring Communist states. Kriangsak had previously established a reputation as a diplomat, having created an earlier dialogue with the Indochina and Peking in an attempt to contain the impact of Thanin's policies. The relationship with the communists was balanced by long nurtured links with the US military and intelligence communities. Thus Kriangsak bridged east and west, commanding credibility in both camps. The dominant objective in foreign policy, however, was to improve relations with China and, through this, to improve both the international security situation and domestic stability. The communist regime was still seen as a threat to Thailand's internal security through China's continued support for the Communist Party of Thailand. Peking was reluctant to withdraw support as the ensuing vacuum would be filled by the Soviet Union or Vietnam.

However, diplomatic maneuvering in 1978 led to a moderation of Chinese support such that Bangkok would not be under threat from the CPT. This tacit entente was then consolidated by a visit to Bangkok by the Chinese Vice-Premier. This heavily publicised visit included Deng's passive attendance at a demonstration of the army's counter-insurgency measures used against the pro-Peking communist guerrillas[9].

Further improvements with Thailand's communist neighbours included the establishment of better relations with Laos when Bangkok permitted Laos-bound goods to transit Thailand, removing the earlier prohibition. Less successful was Kriangsak's effort to achieve peace along the Cambodian border. Thai visits to Phnom Penh and the return visit of Cambodian Foreign Minister, Ieng Sary, in the summer of 1978 could not prevent continued violence. Insurgent activities continued along the border as clashes continued between the Cambodian anti-communist guerrilla group, the Khymer Serai, operating from Thailand, and the Thai communists based in Cambodia. Fortunately, however, Bangkok's biggest fear failed to materialise: had the Pol Pot regime collapsed, the ensuing domination of Cambodia by Vietnam would have been seen as a major threat by Thai policy makers. As it was, relations with Vietnam developed smoothly. In late 1977, both governments agreed to revert to the principles of normalisation agreed before the 1976 coup, and to re-open radio and aviation links. In January 1978, the two sides signed air, trade and diplomatic agreements and exchanged ambassadors. Progress towards normalisation was furthered in September, with a Vietnamese resolution that direct military action would be avoided and that Hanoi would not offer support for Thai insurgents[10].

Hence domestic and international security issues provided an essential element of the new conditions for investment. The change in government and the ensuing change in foreign policy, generated stable conditions in the Thai political economy that encouraged a return of confidence amongst market operators. The spectre of chaos in Indochina that many feared would follow from a Vietnamese take-over of Cambodia and the subsequent rise in anti-communist nationalism in Thailand that this would lead to were absent in 1978, at least for a time. Had this occurred, Kriangsak's policy of rapprochement, and the international and domestic security conditions that followed, would have been under serious threat. As it was the moderate coalition of civilian and military factions was able to proceed with its reformist programme, returning the country to economic and political stability.

Trade and the Balance of Payments Crisis

International diplomacy in pursuit of peace was also accompanied by international trade missions in an attempt to deal with Thailand's serious international payments imbalance. The Kriangsak government had inherited an overall deficit on balance of payments of ฿7.5 billion for 1977. This was almost treble the deficit in 1975 when the first overall deficit was recorded. Then, the deficit on merchandise trade contributed ฿22 million, but this was offset by aid and a surplus on services. In 1977, however aid had declined, the contribution of services was much less, and the trade deficit had doubled from the previous year to reach ฿23 million. The main problem was the continuing high cost of imported oil on which Thailand remained totally dependent. The problem was then exacerbated by rising imports of consumer goods and industrial plant. By late 1978, the trade deficit for the first six months was over ฿14 billion and the overall deficit for the year was forecast to be ฿10 billion, six times the level forecast in the Fourth Five Year Plan[11].

Despite the root of the problem lying in the high cost of oil imports, government policy was not directed towards energy conservation. Rather trade policy concentrated on encouraging exports, with some attempt to curb imports of consumer luxury goods through increased tariffs. The viability of the export promotion was constrained, however, by the structure of Thai manufacturing industry. With the exception of textiles, the main industrial sectors had been developed for the purposes of import substitution as a result of policies adopted under the Sarit/Thanom regimes. Consequently there was little export capacity in manufacturing, and reliance had to be placed on the traditional export earners of Thai agricultural products, particularly rice, tapioca and sugar. However, whilst world prices for rice were high in 1978, Thailand's crop yield was low as a result of a drought, and it was anticipated that the volume of rice exports in 1978 would be around half the previous year's. Tapioca prices were also high, but growing protectionism in developed markets restricted volumes. Finally, world prices for the third major crop, sugar, were depressed by a bumper harvest in 1978[12]. In this context, an accelerated development of the services sector offered a viable policy solution.

Authorities and Markets in the Hotel Sector

Thus, by 1978, the political and economic context had altered, providing substantially more favourable conditions for new investment particularly in export-orientated industries. The change of government and the resulting foreign policy changes led to improved security conditions and a revival of confidence amongst market operators. In addition, balance of payments problems led to government encouragement of exports in general and, in particular, to a reconsideration of support for the hotel sector as an export industry. The eventual outcome: the major increase in hotel supply, was a result of the interaction between the authorities and market operators within this specific context.

The Tourism Organisation of Thailand acted as a major influence in this authority/market nexus, despite its lack of formal authority over the market and within government. The Organisation's actions were prompted by the legitimate objective of expanding the volume of tourism as part of its normal functions. However, TOT also stood to gain from an expansion of the hotel sector which would both accommodate increased numbers of tourists and add impetus to the international marketing programmes of the private sector. The resulting expansion would then provide the justification for the increase in TOT's formal authority and status within the Thai government bureaucracy.

This had been TOT's goal for a long time. It had failed to achieve the status of a ministry during the earlier period of democratic government, but TOT officials then advanced alternative proposals to the Kriangsak administration. In May 1979, the Organisation was given a higher status in the bureaucracy and was reconstituted as the Tourism Authority of Thailand. However, higher bureaucratic status did not confer greater influence over the market, and parallel attempts were made to obtain regulatory powers. The effect would have been the introduction of controls over the hotel sector for the first time. A Tourism Industry Bill was introduced into the National Assembly that would allow TAT to regulate pricing schedules in the industry. This provoked a violent reaction, with market operators lobbying hard to "kill the bill"[13]. The outcome was a victory of market over authority as the new legislation was rejected by the Assembly[14]. Consequently the market remained unregulated, with individual operators free to make decisions on both pricing and supply.

In decisions concerning supply, however, the dominant influence was the Board of Investment, with its power to grant investment incentives and hence to affect the risk and profitability of new projects. Incentives for the hotel sector in Bangkok, however, had been suspended since 1973 and potential investors were reluctant to commence expansion plans without the backing of the BOI. Pressure to lift the ban was then put on the Board by a number of influential potential investors and, additionally by TOT[15]. The result was that BOI support for new hotels was agreed, although this was restricted to projects being for deluxe hotels of a minimum size of 600 rooms[16].

By early 1979, the Board had received a total of 34 applications which, if all had been completed, would have increased capacity in Bangkok by more than 20,000 rooms[17]. Approvals were granted to a total of 13 projects, comprising 11 new hotels and new wings for the existing Dusit Thani and Asia Hotels, which would together add over 8,600 rooms to Bangkok's capacity[18]. This would constitute an addition of around 75% to total capacity of all classes of hotels, but a much more significant increase to the stock of first class and deluxe properties of 160%. The size of the potential supply problem was exacerbated by the size of the new hotels. The minimum size of 600 rooms of each of the new projects raised the degree of risk that would be faced by the new entrants to the market who had little or no experience in operating hotels of this size.

Fears of resulting oversupply were publicised by existing hotel operators, who attacked the basis of calculation used by TOT and the BOI in generating the estimates of future supply requirements[19]. Concerns about the ensuing levels of competition then led some to the successful applicants to withdraw or postpone projects, which left 5 new hotels and the 2 extensions under construction at the beginning of 1980[20]. Even with the withdrawals, however, the new projects would add over 4,000 rooms, thus raising the number of first class and deluxe rooms by around 75%.

Regional Security and the Return of the Military

An additional, negative factor that affected decisions in the production structure and growth in the tourism sector was the deterioration in security conditions along Thailand's eastern border following the Vietnamese invasion of Cambodia. The ensuing refugee problem and the resulting military tension represented an additional disincentive to travellers to Thailand and raised the perception of risk amongst some of the developers.

Instability had been developing since the Vietnamese invaded Phnom Phen in 1979, deposing the Pol Pot regime. The immediate effect was to raise security concerns in Bangkok and the rest of Asean as the buffer state between Thailand and Vietnam was removed. In addition, refugees, including factions of the deposed Kymer Rouge army began to cross into the relative safety of Thailand. The following year, fears of a Vietnamese invasion of Thailand increased following a direct attack on the Thai border. This sparked two days of intensive fighting and left a quarter of a million Vietnamese troops encamped along the border[21]. By the end of 1981, the refugee population in Thailand numbered some 200,000 with a further 300,000 camped on the

Cambodian side of the border[22].

The rising security problems were then responsible for the an end to the military/civilian alliance and a return to domestic instability as different factions in the military vied for power. The process began with Kriangsak's resignation over the issue of fuel prices, which followed intense opposition in Parliament over his decision to remove price controls over petroleum products. Early in 1980, the King appointed the army commander-in-chief, General Prem Tinsulanond, as Prime Minister. Prem immediately attempted to consolidate his position by using the Vietnamese problem as a reason to extend his tenure as commander-in-chief for a further five years, thus retaining control of the army as well as the premiership[23]. This sparked opposition amongst other army officers who, in April 1981, attempted a coup to overthrow the Prem government. Known as the "Young Turks", this group of officers took over Bangkok and announced the formation of a new government. Thanks largely to the support of the King and to the deployment of pro-government troops in the streets of Bangkok, Prem was able to counter the coup without excessive fighting[24], but, once again, the image of Bangkok became one of insecurity and danger.

Tourists, the Finance Structure and the Energy Sector

In addition to the impact of regional and domestic insecurity, tourism demand was being affected by the changes in the finance structure and by the second round of price increases in the energy sector. The overall growth rate in arrivals to Thailand in 1979 fell by half, to less than 10%. Whilst double-digit growth resumed in 1980, this was mainly due to a massive increase of 140,000 arrivals from Malaysia which boosted the overall growth to 17%. However the rate of growth of the more critical overseas market remained steady at 10% in 1980, before falling to 6% in 1981. Overall growth in 1982 continued at 10% but then, in 1983, coinciding with the opening of the new hotels, arrivals fell by 1.24%. Before turning to the impact of this change in the level of demand, we shall first consider the additional causal factors that lay outside the security structure.

The second oil shock that followed the Iranian crisis in 1979 and the global recession that followed had a severe impact on the global tourism sector. Two key factors contributed to the recession, one being the rise in the price of oil and the other, the rise in the price of money that followed from changes in American policy. Besides the general impact of these factors on the global tourism sector, there were also particular consequences for the industry in Thailand, the first being the role of the energy crisis in precipitating the changes in government and domestic security examined above.

The change in American monetary policy in 1980, which was a response to rising domestic inflation and the declining international value of the dollar, also had particular consequences for Thailand. The deflationary policy adopted by the Reagan Administration restricted credit and raised US interest rates, which not only intensified the recessionary impact of higher energy costs, but also drove up the value of the dollar. Two major financial consequences followed for Thailand as a result of the continuing baht/dollar link. First, the baht also rose on the foreign exchange markets and, second, Thai domestic interest rates rose in concert with the American rates. The first outcome was to increase the price of the tourism product for all non-dollar linked markets, especially in Europe. Secondly, the rise in interest rates then raised borrowing costs for the developers whose new hotel projects were then under construction.

Further consequences followed for these developers when, in mid-1981, the Thai government twice devalued the baht, hence raising the costs of imports required for the new luxury hotels. A 1.08% devaluation in May was followed by a further 8.7% devaluation in June. This was partly a response to the rising value of the currency, but the major objective was to control the deteriorating balance of payments position. With imports growing at twice the rate of exports in 1981, a realistic projection for the year indicated a prospective deficit the trade account of ฿68 billion[25]. The devaluation that followed represented the largest depreciation of the baht against the dollar in 30 years, which had critical implications for both hotel developers and tourism demand.

The immediate effect was that developers were faced with higher import costs. These added to the increased costs of borrowing and hence therefore increased their levels of risk. On the other hand, the cost of the tourism product fell, although this was only significant for the American market and for other dollar-linked economies. Whilst the dollar price was reduced, the continued rise in the US currency against other key currencies, particularly in Europe, negated the gains of the devaluation. Consequently, in 1982, a rise in arrivals from the USA was offset by a steeper fall in European arrivals. In 1983, however, as the global economic recession continued and the dollar remained high, arrivals to Thailand fell for the first time since 1976.

The emerging supply crisis

Even before the overall number of arrivals fell, the expansion in the hotel sector was expected to create critical conditions of oversupply. By the start of the season in 1982, the number of rooms in Bangkok had risen to over 15,000, leading to severe price-cuts in the industry[26]. The new luxury properties, those supported by the last round of BOI incentives, were also nearing completion and, by the end of 1983, a full-scale crisis was anticipated.

Concerns both in the industry and amongst the authorities over the degree of oversupply were heightened by the failure of two major events to stimulate tourist demand to fill the extra rooms. In 1982, Bangkok celebrated two hundred years as the capital of Thailand. The country celebrated the bicentennial anniversary of the reign of the Chakri dynasty. These bicentennial celebrations were featured as a major tourist attraction and were also fiercely promoted through the annual Pata Conference in February, which was held in Bangkok for the first time since 1969[27]. Even at the height of the celebrations in April, though, average occupancies in Bangkok's major hotels were less than 75%[28]. Despite the extra business generated by the Pata Conference, occupancies for the year fell to 73%. Thus, as a result of the increase in supply, the extra attractions were thus unable to prevent a fall in hotel occupancies from the previous peaks of 80% reached in 1979 and 1980[29].

Trade and the Consequences of American Policy Shifts

As the crisis in Thailand's hotel sector was emerging, a parallel crisis was developing in the country's balance of trade position as a direct result of changes in America's trade policies. These policy shifts, implemented in the early eighties, added to the impact of the changes in financial policy, and led to a further deterioration in Thailand's balance of trade. The result was to accelerate the change of emphasis away from the traditional reliance on agricultural exports both towards manufactures and also, particularly, the tertiary sectors, of which tourism was the principal international component.

The tight money conditions of the Reagan government continued to affect the Thai payments position, not only through the appreciation of the dollar, but also because of the effect of the high interest rates on commodity prices. High interest rates meant that holding stockpiles of commodities became very expensive, with the result that, around 1982, inventories were drastically reduced, causing sharp falls in world market prices (Strange, 1988). Rice, still Thailand's principal export, was severely affected. The export price, which had peaked in 1981 at US$484 per ton, fell by 40% in 1982 to US$294[30]. Thus despite a record harvest that year, the value of rice exports fell by 15% to ฿22,510 million. This fall was even more marked when measured in US dollar terms as the value of the baht/dollar parity declined by 5.4% between 1981 and 1982. Thus the fall in export earnings from rice was almost 19%, from the 1981 peak of US$1208 million to US$979 million[31].

This fall took on a greater significance when compared to tourism revenues, as it permitted tourism to claim first place in the ranking of Thailand's foreign exchange earners. According to data released in 1983 by the NESDB, tourism revenues were ฿22,700 million, or US$987 million[32]. Not only was this only slightly higher than the revenues from rice, it and represented a marginal increase of less than half of one per cent over 1981's tourism receipts which were US$983 million. TAT data suggest somewhat higher earnings for 1982, however, and the annual statistical report for that year claims that tourism revenues in dollar terms were US$1,038 million, still a relatively modest rise of 5.6% over 1981, but a figure that placed tourism more evidently at the head of the list[33].

To repeat, however, tourism's rise to prominence was a function, not of its growth, but rather was the result of an exogenous variable, namely the decline in global commodity prices. Export earnings from rice were particularly affected. This continued in 1983, with world market prices for rice falling a further 6%, and was then accentuated by changes in American trade policy. These changes were the result of the Food Security Act of 1985, which allowed American growers to export quantities of rice that, previously, they had been forced to sell to the state-run Commodity Credit Corporation for stockpiling. The Act was a response to the lack of price-competitiveness of American rice on world markets that had allowed Thailand to become the world's biggest exporter of the crop by 1986[34]. At the same time, the Act permitted the Corporation to sell stockpiled crops on the world market. In anticipation of the resulting glut, demand dropped and prices fell even further (Muscat, 1990). The world market price, which had dropped again in 1984 by 8%, fell a further 14% in 1985 to US$217 per ton before reaching a low of US$210 in 1986[35]. This had consequences both for the balance of trade and for the domestic economy. Despite rising export volumes, international earnings from rice declined and, by 1986, with revenues at the lowest point since 1980, bankruptcies amongst the rice mills of Thailand became commonplace[36]. This had serious implications for the majority of the population, almost 75 per cent of whom were still involved in farming[37]. The problems were further aggravated when, in 1986, Washington began to sell sugar to

China, one of Thailand's major customers, at concessionary prices that undercut the already depressed world market price[38].

In contrast, there was one sector of manufacturing industry which was expanding. Export earnings from textiles had more than doubled in the five years to 1985, to over ฿23 million. Textiles then replaced rice as a major source of foreign exchange. Unlike tourism, this was as a result of the growth in textile exports and not the decline in the value of rice. However, this same growth was also responsible for protectionist policy proposals in Washington that would have further damaging results for the Thai economy. In 1985, American restrictions on textile imports from Asia were proposed in the Jenkins Bill. As Asian exports were cheap, thanks to low wages and plant overcapacity, the Bill sought to introduce added controls to protect US industry.

The reaction of the Thai government was to adopt, as key priorities, the generation of foreign exchange and the creation of employment. This would be done by reducing reliance on agriculture and import substitution industries, and to aim for export-led growth of the domestic economy[39]. This policy then embraced the one sector that was not facing protectionist restrictions, and partly explains why the Thai government increased attention to the tourism sector. Tourism and the hotel sector had the potential to satisfy both policy objectives. Tourism earnings continued to grow and to generate more revenues than rice, thus providing a legitimation for the provision of additional government resources to support the sector's development. The labour intensive nature of the hotel industry also provided an argument in favour of support, given the decline in agricultural employment that was emerging as a result of American protectionism and Thailand's policy response.

Markets and Authorities in Panic and Partnership

The result of these two crises, the one in the domestic production structure of the hotel industry and the other in the area of international trade, was to generate a unique collaboration between the market operators in the hotel and tourism sectors and the local authorities, to whit the Thai government. This partnership, in which both parties joined forces to promote tourism, was then legitimated through a key element of the Thai state, the institution of the monarchy. The chosen policy of the market/authority partnership was to take the King's sixtieth birthday, an event of national significance, and to turn it into an international celebration.

In July 1985, the Cabinet approved an initial proposal that would designate 1987, the King's sixtieth year, as the "Year of Tourism Promotion"[40]. This was publicly supported by other branches of government, including the Board of Trade, which argued that government support for tourism was essential, given the continuing low prices for agricultural commodities[41]. The use of the King's birthday was significant in two respects. First, because of the importance of the monarchy in Thai society, the link provided the motivation for the co-operation between the authorities and market operators and virtually guaranteed a successful collaboration (Muqbil, 1988). Second, given the role of elaborate ceremony in royal celebrations, the birthday would provide a series of events that would act as natural tourist attractions, as well as acting as a marketing theme for the promotional campaign. This was especially so given the importance, in the buddhist faith, of a person attaining the age of sixty, the vital fifth cycle of life.

The following year the campaign was implemented and, at the same time, the name of campaign was changed to "Visit Thailand Year"[42], thus emphasising the country in the campaign. Both TAT and the national airline increased overseas promotional expenditures. In July, the government raised TAT's budget for this purpose by almost 70% to ฿167 million[43], and the management of *THAI* announced a special ฿60 million supplement to the planned ฿400 million promotional budget for the year 1986/87[44].

As these decisions were being taken, however, the tourism market was turning, with demand showing signs of a significant recovery. A number of factors account for this, one of which was the marketing effort surrounding Visit Thailand Year (VTY). However, other factors had a far greater influence. To understand these requires an examination of changes in the production structure, at major shifts in the international finance structure and the energy sector and also at Thailand's security structure. Unlike previous experience, security, in this period, played a relatively minor although contributory role in the resurgence of demand. Far more significant was the influence of decisions by market operators in the domestic production structure and by the authorities in the international finance structure. Together these outcomes had a major impact on the price of tourism in Thailand, delivering the product at bargain rates.

Overproduction and the domestic price of the tourism product

The principal domestic factor that reduced the price of the tourism product was the extra capacity in the hotel sector. This became acute in 1985, coinciding with a low growth in demand. In the particular case of the new hotels, however, conditions were even more serious as a result of the unexpectedly high construction costs discussed above. Further, in the absence of any form of market regulation, prices were set by competitive conditions and consequently a major price-war developed.

The opening of the Shangri-la Hotel in 1986 marked the end of the investment cycle that had begun in 1978 and which had more than doubled the number of available rooms in Bangkok. The Shangri-la, however, was a relative late-comer to the investment cycle. The major expansion had already taken place by the end of 1985, at which time most of the new hotels were operational. This was also the case in the other destinations outside Bangkok, which added to the overcapacity at the national level. The new hotels that had opened in the traditional, non-metropolitan, destinations of Pattaya and Chiengmai were joined by further expansions in the developing island resort of Phuket. The position in 1985 was broadly that the number of rooms in Bangkok had almost doubled when compared to 1978. In Chiengmai, there were over twice as many rooms and in Pattaya the number had more than trebled. In the south, though starting from a lower base, the number of rooms more than doubled in both Phuket and in southern city of Hat Yai. Thus in seven years, then total number of rooms in all the major tourist destinations had expanded from slightly less than 21,500 to almost 48,000. This represented an average annual increase of over 17 percent, and more hotels were due to open the following year in all the destinations. Tourism demand, however, had risen by an average of only 10 percent a year in the same period, with a total arrivals figure in 1985 of less than 2.5 million.

The widening gap between supply and demand put severe pressure on prices. This was especially so in Bangkok where the level of capital investment in the new hotels was higher than in the resorts. This high level of fixed cost forced operators to focus on cash flow at the expense of profit and, hence, to cut prices. These factors then led to an intensification of the price-wars which had become a common feature of the sector in the early years of the decade[45]. As the first new hotels began to open in 1983, occupancy rates fell to less than 30% in the low season[46]. By the start of the high season, in November, the first class hotels cut rates even further to capture a share of a declining market[47]. As a result, occupancies rose, briefly, to 70%, but then declined the following month to 60% and to a low of 57% in the normally high season of January[48].

This led to losses for the majority of Bangkok's hotels. By spring 1984, the end of the high season, only 6 of the 59 members of the Thai Hotels Association reported a profit[49]. The following high season, as the new hotels continued to open and the glut intensified, Bangkok's top hotels cut their rates to around B600, only a third of the rate required for profitable operations[50]. As the low season summer months approached further price cuts took place. The Hotels Association announced across the board reductions of up to 40%, with some individual hotels offering up to 50% off the published tariffs[51]. The following spring, the Association announced that, as the hotel sector's contribution to the 1987 "Year of Tourism Promotion", all room rates would be offered at a special discount[52]. By June the hotels went further by instituting discounts on the price of meals and drinks purchased in house[53].

The Finance Structure and the international price collapse

The fall in the domestic price of the hotel and tourism product was amplified by coincident reductions in the international value of the baht. There were two reasons for the fall in the exchange rate. First, the Thai authorities wished to reduce the parity of the baht and, second, the Reagan administration took action to drive down the value of the dollar. Both actions occurred because of a concern on the part of the respective authorities that the national currency had become overvalued. The Thai devaluation came first, but the link with the US currency was preserved at the lower parity. Consequently the fall in the value of the baht became even more acute as the Thai currency fell with the dollar.

The Thai government took the decision to devalue the baht by 15% in November 1984. The currency had risen by this amount against the country's major trading partners in the three years since the previous devaluation, thanks to the link to the rising dollar[54]. The impact of the Thai devaluation, however, was significantly less than the effect that the dollar's decline had on the Thai currency. The ensuing Washington/Tokyo agreement on the dollar/yen parity and the changes in US domestic monetary policy sharply reduced the value of the baht against the currencies of all the major tourism markets, particularly the Japanese. The impact of the Thai devaluation in 1985 on the yen/baht rate was a decline of 15% over 1984, corresponding to the baht's fall against the dollar. In 1986, however, the baht fell a further 37% against the yen as a result of the decline in the US dollar. In 1987 this continued with a fall of 13%, and a further decline of 11% in 1988. Thus, from 1984 to 1986, the yen had risen by almost 60% against the baht, and by 1988, it had more than doubled. Against other major currencies the impact was less marked but, nonetheless, significant. By 1986, the German mark had risen by 47% over the rate in 1984 and the pound rose a more modest 22%.

It is important to note that tourism growth in Thailand resumed significant levels in 1986, a year before the special promotional year of 1987 and that, consequently, price played a key role in the changes that followed. A recovery had already began in 1985, when overall arrivals rose by 4%, reversing the fall of the previous year. In 1986, however, total arrivals rose by four times this amount, with Asian and European markets rising over 18% and 21% respectively and arrivals from the USA increasing by 14%. In 1987, as the specific events of VTY and the promotional campaign combined with the declining value of the baht, arrivals rose even more. Overall, almost 3.5 million visits were recorded, a 24% increase over 1986. The numbers arriving from Europe increased by 30%, and Asian arrivals increased by 25%, including 34% more from Japan. The numbers from the USA also rose by some 23%, despite the absence of any currency advantage. The rise in the number of American tourists can be partially explained by the fall in the domestic price of the hotel product and the easing of monetary conditions in the USA and partly by the attraction of ceremony and monarchy which was particularly strong for American tourists. However, there were other factors operating to Thailand's advantage, which require an examination of the global energy sector.

The Energy Contribution

Additional contributing factors acting in the global political economy lay in two segments of the energy sector: in oil markets and in the nuclear industry. The price of oil fell dramatically in 1986 to US$14 per barrel[55], less than half the 1983 price[56]. This then combined with the decline in global interest rates to encourage economic recovery in the industrialised and industrialising nations, helping to stimulate tourism demand.

Whilst these factors were contributing to the creation of additional demand, the emergency at the Chernobyl nuclear power plant in the Soviet Union was helping to divert tourists from areas affected by the dangerous conditions. Americans, in particular, chose to travel west across the Pacific, rather than to visit the normally popular destinations in Europe (Muqbil, *op. cit.*).

The Security Contribution

Stable and peaceful security conditions, both nationally and regionally, also played a part in stimulating tourism demand. Nationally, coup attempts, that had punctuated the earlier years of the decade, were absent during this period. This can be attributed, at least in part, to a deference to the monarchy and to the importance attached to the King's sixtieth year. Consequently the military profile remained discreet and fears receded of further domestic upheavals following from military coups.

Internationally, the military conflict with the states of Indochina lay dormant, and economic ties, especially with Vietnam, began to assume a greater importance. Whilst Vietnamese troops remained inside Cambodia, peaceful conditions prevailed along the border[57], and market operators began to explore economic relations with Thailand's communist neighbours. In 1987, despite the Thai government's diplomatic stand-off in protest against the invasion of Cambodia, a growing number of Thai businessmen were visiting Hanoi to build market links with the country's traditional enemy[58].

Consequences for Thailand and Tourism

The factors that we have just reviewed were responsible for the marked turn-round in the tourism sector in 1986 and the high growth that continued through 1987 and into 1988. This growth raised hotel occupancies and the sector began to reap the benefits of the boom. By early 1987, average monthly occupancies in Bangkok had reached 74%, and by the end of 1987, the average for the last month of the year was over 82%[59]. The result was to generate interest in yet further expansion of the hotel sector, both amongst potential investors[60] and in the government[61]. This immediately provoked opposition from the existing hoteliers[62] and from the Hotel Workers' Union[63], both groups being concerned that this would herald a return to conditions of oversupply yet again.

NOTES

(1)*Bangkok Post*, 8 February 1978.

(2)*Bangkok Post*, 28 February 1978 & 13 April 1978.

(3)*Bangkok Post*, 2 October 1978 & 14 November 1978.

(4)*Bangkok Post*, 21 December 1978.

(5)ibid.

(6)*Bangkok Post*, 2 February 1979.

(7)*Bangkok Post*, 7 July 1979 & 29 August 1979.

(8)*Far Eastern Economic Review*, Asia 1978 Yearbook & Asia 1979 Yearbook.

(9)*Far Eastern Economic Review*, Asia 1979 Yearbook.

(10)ibid.

(11)*Far Eastern Economic Review*, Asia 1979 Yearbook.

(12)ibid.

(13)*Bangkok Post*, 27 March 1979.

(14)*Bangkok Post*, 20 June 1979.

(15)*Bangkok Post*, 13 April; 15 September; 2 October; 14 November; 6 December 1978.

(16)*Bangkok Post*, 21 December 1978.

(17)*Bangkok World*, 2 February 1979.

(18)*Bangkok Bank Monthly Review*, March-April 1980.

(19)*The Nation*, 2 March 1979.

(20)*Bangkok Bank Monthly Review*, ibid.

(21)*Far Eastern Economic Review*, Asia 1980 Yearbook.

(22)*Far Eastern Economic Review*, Asia 1982 Yearbook.

(23)*Far Eastern Economic Review*, Asia 1981 Yearbook.

(24)*Far Eastern Economic Review*, Asia 1982 Yearbook.

(25)*Far Eastern Economic Review*, Asia 1982 Yearbook.

(26)*Bangkok Post*, 20 September 1982.

(27)*Bangkok Bank Monthly Review*, December 1981.

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CHAPTER 11

International Political Economy: present and future

The major purpose of this dissertation is to demonstrate how the emerging conceptual frameworks of the new international political economy can be applied in practice, and, in this way, to act as a contribution to the current debate in international relations theory. The central thesis is that conventional IR approaches are too limited to account for changes in politics and economics at the international level and that a new approach must replace traditional paradigms if persuasive explanations are to be achieved. The analysis that forms the core of the dissertation adopts the emerging conceptual framework developed in the recent work of Susan Strange to illustrate the benefits of the approach offered by the new international political economy in generating explanation at this level. The second objective is to determine the causes of change in the international tourism and hotel industries with specific reference to the Thai case. This not only provides a rich source of empirical material with which to illustrate the value of the structural framework proposed by Strange, but also provides the opportunity to undertake analysis of a sector of the global political economy that has been almost totally neglected in international relations research. The intention is not to propose policy prescriptions for the specific sector, but rather to draw attention to certain features of explanation that should inform policy judgements. Thus by elaborating the causes of change in an empirical case through the use of this conceptual scheme, the dissertation argues for the replacement of conventional IR approaches with the more fruitful approach offered by the new international political economy.

The Analytical Needs

The substantive output of international relations theory lies in the explanations of the global political economy that it can offer, in order to explain social action at the international level. To do so requires the recognition that the number, type and scope of international relationships that can influence events is manifold. Hence if the span of analysis were confined to only a few of this range of variables, there would be a danger of overlooking critically important causal relationships. This implies, as Chapter 3 argued, that it is dangerous to separate the "political" factors from "economic" factors. Further, it is no longer possible to treat the international realm as an autonomous zone in which domestic politics and domestic economics play no significant part. Yet traditional international relations theory has been based on this premise, and has, in addition, taken the only really significant set of relationships as those that exist between sovereign states. This concentration on the state has added further distortion to the analysis of international events by the tendency to treat the state as an *individual* actor, rather than as a complex set of organisations possessing different abilities, agendas and objectives. Differential levels of ability, in terms of competence, authority and the range of choices available is not only a function of relative power, but is contextually bound. Actors in the international political economy, (whether elements of the state or other individuals and entities located outside the machinery of government) face constraints in their specific political and economic environment that constitute the context within which decisions are made and actions taken. Hence a satisfactory analytical process must not only delimit the range of options open to the relevant actors but also provide an explanation for the existence of that set of contextual relationships that form the actors' environments. These requirements place a burden on any conceptual scheme as two conflicting needs are generated. On the one hand the scope of enquiry must be broad enough to capture all relevant variables, yet it must remain sufficiently focussed to be manageable.

The limits of theory: conventional approaches in IR

This thesis argues that the analytical needs outlined above are not met by conventional approaches in international relations. Such approaches, from traditional realism, to later developments in both the politics of international economic relations and international political economy, fail to capture key factors and issues in the process of analysis, and therefore are limited in their ability to generate persuasive explanations.

The fundamental problem lies in the key assumption that it is possible to separate politics and economics and the associated assumption that international politics may be analysed successfully in isolation from domestic political considerations. Indeed, the whole rationale for the field of international relations as a distinct academic field rests upon this supposition, thus intrinsically limiting its explanatory power. Quite simply, if critical causal factors are considered to be exogenous then, at best only partial explanations can be derived. Only if it were possible to hold all economic variables and all domestic political variables constant, could a case be made for isolating international politics as an autonomous zone of social action.

The second problem lies in the implicit assumption of IR theory that the only international relationships worth considering are those between states. Hence, again, potentially critical variables are in danger of being overlooked. This is perhaps less obvious in the case of the later perspectives, but clearly informs the realist position with its emphasis on the "high politics" of international diplomacy, military strategy and foreign affairs. The inclusion of economic factors within the scope of enquiry has created a neo-realist position that continues to adopt an orthodox approach, concentrating on such economic factors as are immediately of concern to governments. Chief amongst these is the issue of international trade and the impact on international payments balances. This highlights a further limitation of the later developments, which, through the emphasis on international trade issues, have adopted the agenda of neo-classical economics with its almost total exclusion of issues other than trade. The concentration on government and macro issues of trade between nations thus permits IR to maintain the state as the central actor.

The third problem lies in the assumptions regarding the behaviour of actors, who are considered both to act as individuals and to behave in a rational manner. This effectively reifies the organisation, which is therefore treated as an individual actor, even when, particularly in the case of government, the actor is composed of a complex set of, often complex, organisations. Similar considerations apply to other actors, including international institutions such as the United Nations, and to large firms, especially the geographically and organisationally diversified multinationals. Thus, rather than there being a set of unitary actors engaged in international relationships, reality is more closely approximated by considering multiple actors even within specific organisations such as governments. This is yet a further example of the failure of conventional IR to consider the multiplicity of relationships that exist not only between governments, but also between other individuals and organisations.

Fourthly, conventional IR fails to consider the multiplicity of objectives that the existence of multiple actors implies. Not only may different actors strive for different goals but those goals may be defined in terms of different values. It appears that conventional IR takes order as a given, with system management as the common goal, in much the same way that neo-classical economics defines rational behaviour in terms of the pursuit of wealth through efficiency. Furthermore, the pursuit of order is not the sole objective of state behaviour nor profit the sole objective of firms. Thus different goals may be pursued by the same actor, resulting in trade-offs between different goals at different times. The degree of freedom with which such goals may be pursued is also overlooked in conventional analysis. The context within which choices are made influences those choices and the ability to attain the objectives, offering constraints or opportunities to different parties at different times. This context consists not only of the relative power of different states and other actors, nor solely of the relative degree of order or disorder that they face, but of other material, financial and technological factors that may be beyond the control of actors under scrutiny.

Towards a new approach: emerging concepts in the new IPE

In order to address these deficiencies, new conceptual schemes are required that go beyond the conventional approaches. The framework that continues to develop in the recent work of Susan Strange, and which was detailed in Chapter 3, overcomes many of these problems, initially by rejecting the narrowness of conventional approaches, proposing instead a much broader scope. The key focus of the scheme on power in the global political economy, specifically on the sources of power and the uses to which it is put, provides the unifying concept that links different domains of social action. Hence the scope is widened beyond either just a consideration of political power alone or the more restricted view of simply the political power of the state that is common in conventional IR theory. This is achieved through the concept of a taxonomy of power structures that recognises that key areas of social political and economic activity often lie outside the direct control of many of those influenced by outcomes in those areas. Thus, instead of concentrating on the sovereign state as the dominant actor and allowing state-related issues to set the research agenda, this approach makes explicit the existence of multiple sources of power and the range of agendas possessed by those who posses power to influence outcomes.

The focus on power whatever its source and nature also overcomes the false dichotomy between the economic and the political and between international and domestic spheres of action. For example, power may be derived from legitimate political authority which, in the case of states in particular, may be supplemented by the use of force. Equally, power may be derived from control over resources, including financial and industrial capital and, increasingly,technology. Additionally, outcomes that result from the exercise of power within a domestic context may well have international consequences. Thus sources and use of power constitutes the final locus of explanation, in contrast to the conventional concentration on the behaviour of the state.

This is not to say that the state should be accorded only a peripheral role. On the contrary, the framework recognises quite explicitly the power of states and the implications of the use of this power for international outcomes. However, states are not the only entities that possess power; other international actors can both influence events and may constrain or modify the behaviour of states. Hence the international system is characterised by an asymmetrical interdependence with uneven distributions of power and with changing power distributions producing changing linkages between multiple and diverse actors.

The New International Political Economy in Action

This argument that these emerging concepts in IPE should replace conventional IR approaches is reinforced by the application of the new framework to the empirical case of the international tourism sector. This represents the principal contribution of the study, through a demonstration of the analytical processes and strengths of the framework and by providing insights into an under-researched sector of the international system.

The analysis of one element of the international production structure related changes in the sector to causes not only within this sphere, but also to changes in the other major structures and in related key sectors. Throughout the forty years from the end of World War 2, during which the sector developed into a major industry in Thailand, the changes that characterised this development were the result of changes within these structures and sectors. Events within the transportation sector and the security structure played a powerful role, with the latter emerging as perhaps the most significant influence. This influence was complex, at times playing a direct role through the impact of violence and instability on tourism markets but more pervasively through a more indirect method whereby agendas in the sector were set by objectives and outcomes in the security structure. In this way, authorities, producers and markets were influenced in their choice of strategies and were presented with opportunities and threats that profoundly shaped the development processes and outcomes within this sector. Transportation played a major role also, influencing the tourism sector whilst being itself influenced by the security imperatives of states. Yet these were not the only influences. Changes in the structures of finance and knowledge, and in the key sectors of energy and trade also had an impact on Thailand's international tourism industry. These variables, changing with the relative power and objectives of multiple actors and hence varying over time, then provide the basis for explanation.

The analytical strength of the IPE framework is illustrated, initially, by the changes in the first decades of Thailand's tourism sector. The causal relationships that explain these early developments are to be found in the realm of high politics, in inter-state bargaining over security issues at the international level, rather than in the domain of markets and economics. Thus to exclude the role of the state from the analytical process would have been to ignore essential elements of explanation. This conclusion clearly reflects a classical realist/mercantalist perspective, but differs significantly in refusing to accord a constant dominance to politics and security over economics. On the contrary, the relationship is seen to be interactive, with economic objectives and forces being equally able to shape state behaviour. Whilst political variables, most closely related to the security structure, dictated market outcomes at this particular historical juncture, the dynamic nature of the international political economy ensured that later changes in the sector could only be explained through the explicit inclusion of economic factors and the power of markets and producers to fashion outcomes.

The most significant outcome for the Thai tourism sector of the post-war political bargaining lay in the field of aviation. Chapter 5 demonstrated the link between the security concerns of the United States and key infrastructure developments in Thailand, of which those undertaken at the country's principal international airport in Bangkok were of critical importance. These developments then fostered the growth of transportation links indispensable to the development of large-scale international tourism. American fear of the spread of communism, which increased sharply following Mao's victory in 1949 and accelerated with the war in Korea and the rout of the French in Vietnam, altered the direction of US foreign policy. The pursuit of freedom and self-determination for the liberated countries of Asia which had informed policy in the first few years after the war, was replaced by strategic objectives that focussed on the containment of communism. Asian states that adopted a pro-American stance became allies and recipients of ideological and material support. The latter, which was aimed largely at improvements in domestic security for compliant governments and at the strengthening of external defense capabilities, concentrated on communications, to the benefit of the aviation sector, and on aid to the armed forces. Thailand's value to the Americans, reinforced by its strategic geographical position relative to the Malay Crescent and by the compliance of the recently-installed military regime, ensured a close co-operation between the two states and a steady escalation in American welfare transfers.

The shift in American foreign policy also illustrates the importance of critical social values in an explanatory scheme. In addition, the way in which security objectives had very clear implications for the way in which transportation and hence tourism began to develop then illustrates the strength of the structural approach in political and economic analysis. The replacement of equity with order as a guiding principle of US policy, and an international order cast in terms of American values, then altered the way in which the structure of security in Asia was defined; in turn, the need to support Asian allies led to specific developments in the structure of production through the transfer of US aid and technology.

The change in policy direction had further outcomes for the structure of political power in Thailand which would have later implications for tourism. Power was vested firmly in the military as a result of American action. This was critical for the subsequent alliance between the United States and Thailand which, within two decades, would totally change the pattern of economic demand within the Thai economy, especially in the service sector. Paradoxically, military dominance emerged through both American policy agendas, as the immediate post-war belief in freedom for the nations of Asia was critical in limiting British power in Thailand. Had Britain assumed the desired quasi-colonial role, the armed forces would have been severely curbed. American insistence preserved the military virtually intact, and, as the threat of communism became the dominant theme, Washington condoned the coup that replaced the elected government with the first of the chain of post-war military dictatorships.

The link between the high politics of diplomacy and military strategy during this period and developments in the tourism sector, is also demonstrated by three further outcomes. Two were the indirect result of inter-state bargaining. The diplomatic maneuvering of the early Thai rulers, outlined in Chapter 5, had successfully thwarted European colonial ambitions in Thailand in the nineteenth century, with the result that Bangkok's role as the royal and religious capital of the nation was preserved. Hence major architectural and cultural attributes were conserved at the easiest location for tourists to visit: their point of arrival in the country. Thus prime tourist attractions, which continued their social and cultural importance within Thai society, were easily accessible to visitors, in contrast to the situation in neighbouring countries, where the colonists had constructed modern capitals far removed from the traditional seats of government. Ironically, colonial ambitions led to further improvements in the international accessibility of Bangkok, and to the second indirect outcome of high politics. As Chapter 4 noted, the European colonial states used their airlines to recreate imperial links at the end of World War 2. The Asian colonies were, however, inaccessible without several technical stops, and, as Chapter 5 showed, Bangkok became a prime stopover along the trans-Asian routes from Europe, serving both technical and traffic requirements of the western airlines. Political objectives were also responsible for the first large-scale investment in the hotel industry in Thailand, which was the result of direct intervention of authority in the sector. Chapter 5 detailed the Thai government's political and propaganda aims that were to be advanced through an international conference; faced with a shortage of accommodation, the state developed one of the largest and most luxurious hotels in Southeast Asia to host the delegates.

Hence both structurally and directly, authority was more influential than the market in setting the initial supply conditions in Thailand's tourism sector, with power and security shaping the agenda, rather than concerns of wealth and efficiency. Markets were not totally without influence, however. As demand began to increase, largely as a result of the growth in American overseas travel during the 1950s, a number of private hotels were built in Bangkok, although all were much smaller, and hence less risky, than the state's investment in the Erawan Hotel. This growth in the private sector was, however, relatively modest, reflecting the limited development of both international tourism markets and the Thai economy.

As the production structure expanded, however, market operators played a more significant role in tourism developments. However, as Chapters 6 and 7 illustrate, markets did not replace authorities as causal factors, but rather interaction replaced dominance. This also demonstrates the way in which the relative importance of political and economic factors is subject to change over time and hence the advantage of maintaining the concept of market/authority balance at the centre of the analytical framework. The importance of domestic factors in international sectors also emerges from these early chapters, reinforcing the argument that to focus exclusively on international factors in IR analysis may overlook critical causal variables.

Both domestic and international factors were significant at this point, playing different roles in influencing governments and market operators. The framework captures these changes through the concept of the knowledge structure. Both ideology and technology explain policy changes in Thailand that directly affected the hotel and tourism sectors. Chapter 6 suggested that Sarit used tourism, through foreign connections and visits, in an attempt to legitimate his unconstitutional seizure of power. In addition, new hotels became symbols of the regime's ideological pursuit of development. Internationally, Washington's acceptance of the domino theory, which dictated the international security agenda, was also responsible for the ready acceptance of Sarit's dictatorship and for the ensuing increase in material and technical support. In return, Thailand's national development plans were allowed to be fashioned almost totally by US security objectives. The outcome was a massive investment in Thailand's communications infrastructure, planned, and largely funded, by the US and the World Bank, which then helped to sustain future tourism developments.

American notions of liberalism and faith in the link between economic development and political resistance to communism were instrumental in the general strategy of development assistance in Asia. Tourism and the hotel sector were included in the American prescription for Asian economic development, although, support was confined to technical assistance rather than financial aid. The arguments in favour of tourism development, examined in Chapter 2, were advanced by official American agencies and accepted by several Asian governments, including Thailand's. These arguments both reinforced and provided the rationale for Sarit's support and for the advancement of forms of state assistance. Institutional support was strengthened through the creation of a national tourism organisation, whose head was directly responsible to Sarit, and American recommendations regarding the hotel sector were implemented, resulting in the transfer of risk from market investors to the state.

These policies were also influenced by changes in technology through its impact on aviation. The introduction of jet aircraft expanded opportunities but also intensified risk, especially for developing countries such as Thailand, should they choose to re-equip their national airlines. The Thai decision to do so, and therefore to remain internationally competitive, then required increased access to foreign tourism markets, which had implications for the supply of accommodation in Thailand. Uniquely, this decision, not only to re-equip but, more fundamentally, to remain in the international aviation business, was directly opposed to American recommendations. In all other aspects of national policy, as Chapter 6 demonstrated, Thailand adopted American and World Bank advice wholesale. This illustrates the way in which different sectors of the political economy are influenced by different variables. The value that states place on control of their international communications, as discussed in Chapter 4, thus over-rode both the commercial risks associated with the industry and the advice of the United States.

The resulting bargain which enabled the Thais to retain an international airline demonstrates the importance of considering multiple actors in international relationships. The outcome was not only the result of the need to secure an alternative foreign partner to provide capital and expertise, but also resulted from Britain's diplomatic and trade relationships with the Scandinavian countries. By the somewhat tortuous route, detailed in Chapter 6, these relationships provided the source of Thailand's bargaining power with the eventual partner, Scandinavian Airlines System. The Scandinavians' need for landing rights in Hong Kong, denied them by the British, was then met by using the joint venture airline and Thailand's landing rights in Hong Kong. The newly formed Thai International was then able to fly between Bangkok and Hong Kong and feed passengers onto the long-haul SAS flights between Bangkok and Europe. In addition, the expanded Asian service increased the chances that more American tourists would continue their journey beyond the western-most terminus that Hong Kong had become.

The outcome illustrates again the relative power of markets and authorities. The initial result of these changes, both in aviation and in government policy, was limited to a minor increase in hotel investment. However, the surge in demand that occurred in the mid-1960s as a result of America's escalating strategic involvement in Thailand generated a major increase in hotel rooms. As Chapter 7 has shown, decisions were taken on the basis of market forces, that, given the lack of control over the market, then generated a huge oversupply of rooms.

Merely to cite rising demand as a principal cause of the investment boom, however, would be to limit explanation to less than that demanded by the new IPE. The structural framework offers a means by which the source of these changes in demand can be determined by drawing attention to the impact of change in other structures. Again, in this case, changes in the structures of security and knowledge were instrumental in forcing change in production conditions. Common to both was the part played by the United States' Government, most significantly through the escalating involvement in the war in Vietnam. This had both a particular effect on Thailand, through the close strategic alliance nurtured by Sarit and strengthened by his successors, and a general effect on aviation technology which held major implications for tourism worldwide. In addition, possible changes to American aviation policy, themselves linked to the technological changes, raised expectations in Asia of additional sources of tourism demand.

American security objectives provoked four specific outcomes in Thailand's tourism sector. First, a boom in demand for hotel accommodation was created principally by the major construction projects undertaken in Thailand to provide facilities for the US Air Force and by the rapid increase in the number of US military personnel stationed there. This preceded the escalation of the ground and air war in Vietnam, which, when in place, greatly magnified the demand through the programme of Rest and Recuperation visits made by troops from the theatre of war. Thirdly, Bangkok became a safe haven for reunions between combat troops and families and friends because of the existence of the American security blanket within Thailand itself, put in place to safeguard the vital air installations. Finally, business visits also increased as the American presence stimulated a major economic boom in many sectors that foreign businessmen were keen to exploit.

The inter-linked nature of the international political economy is emphasised by the additional connection between the security structure and the knowledge structure and the resulting outcomes in production. Chapter 4 demonstrated the causal link between the logistical requirements of the US air force in Vietnam and the development of the new generation of wide-bodied aircraft, and the expected consequences for air travel and tourism worldwide. The increased size and productivity of the new aircraft raised expectations amongst tourism and hotel producers of a quantum leap in tourism volume, particularly to long-haul destinations. As Chapter 7 showed, volumes were expected to rise most rapidly on the routes to Asia, as a result of industry pressure on the US authorities. American airlines, who would be faced with new competitive threats when the new aircraft were adopted, wanted route expansion, targeting the trans-Pacific duopoly of Pan Am and Northwest. The market/authority debate between the US airline industry and the US CAB raised expectations of higher volumes, intensified competition and lower fares between America and Asian destinations. Asian expectations were raised further by the concurrent expansion plans of the major US hotel chains in the region, which were themselves a product of the anticipated growth in American travel. The consequence of a series of high profile developments was to reinforce the belief amongst local producers and investors that the decade would end with a US led tourism boom. This was particularly so in Thailand, where the continuation of the American commitment and military presence was taken as a given and, as a result, local investors anticipated a particularly dynamic expansion in American demand.

The way in which these expectations were disappointed, and the subsequent reaction within the sector reinforces the analytical requirement to consider the links between the structures and the relationship between authorities and markets in international relations. Chapter 8 demonstrated the critical role of prices in determining changes in the Thai sector at the end of the 1960s. However, changes in the sector were also a function of the other structures. In the security structure, demand fell as the US military withdrawal gained momentum. In the knowledge and finance structures, new sets of bargains replaced previous certainties. Technological change led to a countervailing outcome as the authority/market balance in global aviation shifted in response, stimulating air traffic on certain routes and, in the particular case of Thailand, led to changes in national policy towards tourism. Finally, the decision by the US authorities to abandon the previous certainties of the Bretton Woods system in 1971 introduced new variables through its implications for the international price of the tourism product, and raised the significance of the international finance structure.

The shift in the authority/market balance in the finance structure and in aviation had implications for the Thai tourism sector through their impact on price and market access. This set the context within which Thai hoteliers and tourism operators could respond to the pressure of the supply/demand imbalance. The fall in domestic prices that followed from the oversupply was then amplified by devaluation. The baht, through the link to the US dollar, declined particularly against the German mark and Japanese yen. Nixon's decision to take the dollar off the gold standard not only permitted effective devaluation of the American currency, but also represented the first step towards diminishing the role of authority in the determination of foreign exchange rates. In aviation, too, the role of authority was showing signs of change, although in this case the key determinant was technology. The resulting changes in productivity and competition following the introduction of the wide-bodied jets put pressure on the existing regulatory framework. In Europe, the charter subsidiaries became a means of avoiding the rules, whilst in Asia the rules were often simply ignored. The result was that airfares on the intra-Asian routes and Europe and Asia were reduced, which together with the other price effects offered a powerful stimulus to tourism markets, especially in Germany and Japan. As demonstrated in Chapter 8, travel from Japan to Thailand was given a further boost from the additional competition provided by Air Siam. As the second Thai carrier, the new airline not only offered additional capacity, but introduced higher levels of competitive pressure when it became the first airline in Southeast Asia to introduce a Boeing 747 and ignored price regulations in order to market the expanded volume of seats. In addition, Thai International offered new, cheap intra-Asian fares designed for the arriving charter passengers from Europe, that also by-passed existing regulations. These allowed tour operators to offer multi-destination products at highly competitive prices and hence widen demand to the mass market.

This interplay of causal factors demonstrates the analytical necessity of embracing such a wide span, particularly as changes in the finance structure introduced new variables within the context of policy choice. Thus the subsequent recovery of confidence in the Thai tourism and hotel sector can be explained by a combination of factors that created fresh opportunities for producers to diversify into new markets as the American boom was fading. Changing security objectives, following Nixon's recognition of communist China together with the reversal of the containment doctrine in Asia, initiated troop withdrawals from Vietnam and Thailand. The consequences for profits, employment and the balance of payments in Thailand, as war-led demand and military expenditures both fell, not only spurred the reaction amongst producers, but also forced the Thai government to respond with domestic policy changes. The changing security agenda was not, however, the sole cause of these changes; the technological changes in the aviation sector also influenced policy choices, emphasising once again the inter-connected nature of the political economy.

The outcome was the revival of investor confidence outlined in Chapter 8. The state, once again, attempted to stimulate hotel developments through a series of investment incentives, this time focussed on the specific segment of large, first-class hotels. Technology influenced this choice through the expectations that Thailand would fail to maintain its position in the aviation sector if the facilities were not provided to handle the new, large aircraft. Coincident expectations of rapidly rising unemployment, urban migration and a deteriorating international payments position, as a consequence of the American withdrawal, provided added reasons for policy change. Once again, however, expectations of rising market demand were more critical than state incentives, and this was shown particularly in the beach resort of Pattaya. European demand for beach holidays, and the growth stimulated by the low price of access and accommodation, opened a new area of the market for investors. The rapid response to market opportunities led to the new developments and a trebling of first class hotel rooms within only three years from the start of construction in 1973. In contrast, the planned expansion in Bangkok was halted by the poor domestic security conditions that followed the removal of the military regime. The cancellation or postponement of the planned expansion, which would have boosted total capacity by over 70 per cent in two years, followed the radical political change that emerged in October 1973. The security shield of the *pax americana* that had helped foster tourism growth during the Vietnam conflict was replaced by internal conflict expressed in violence and social unrest on the streets of Bangkok.

This illustrates the critical importance of the structural power available to key, powerful states in the determination of outcomes in other structures. The causal chain that led to the cancellations began with the shift in US foreign policy objectives discussed above, which undermined the credibility of the military regime. No longer was the threat to national security posed by communism, and communist China in particular, a sufficient justification for the continued unconstitutional appropriation of power by the military. The loss of legitimacy was a critical feature in the overthrow of the dictatorship, which, whilst led by student activists, found broad support. As demonstrated in Chapter 9, the ensuing period of civilian government was characterised by a radical redistribution of power in Thai society. In addition to the transition to civilian and, later, elected governments, the relationship between labour and capital was also transformed, permitting workers, students and the peasantry to organise and bargain with the elites. The strike action that followed in the urban areas affected the hotel sector more than most other industries, given the traditional low wages and the constant demonstration of inequality that followed from the workers' daily proximity to conspicuous wealth. The hotel sector was also more vulnerable than manufacturing, given the inability of the industry to stockpile inventory. This generally forced operators to settle quickly, thus forcing up wage costs across the sector and altering the traditional authority relationship between hotel workers and the owners. The exception to this pattern of surrender, namely the attempt by the management of the Dusit Thani to break the strike through force, represented a pyrrhic victory, the legacy of which was months of lost revenues and adverse media publicity. Thus the new power relationships, through the change in the composition and agendas of those in government altered both security and production conditions and led to a sharp reversal in investor confidence.

Consequently a satisfactory explanation for this rapid reversal should take account of more than simply the breakdown of law and order, and address the more fundamental causes lying in the structure of Thai society and the country's changing international relations. In addition to the insecurity created for producers, demand was also adversely affected in two key markets as major anti-Japanese and anti-American demonstrations were mounted by students and workers. With the return of military rule, following the violent coup of October 1976, power was once again centralised in the hands of the traditional elites and the freedom to strike and assemble was abolished. Yet, rather than restoring confidence, the new curbs alienated such large sections of society that investors failed to act. In particular, the right-wing reaction caused many on the left to flee the city to join the Communist Party of Thailand, sharply boosting the level of domestic insurgency. Internationally, the same anti-communist doctrines led to a breakdown in relations with the new regimes in Indochina and consequent fighting along Thailand's eastern border, both of which acted as disincentives to further investment and to a dampening of tourism demand.

Equally complex are the explanations for the remarkable oscillations in the hotel and tourism sector over the following ten years, that culminated in the immense excess of demand over supply in 1987 and 1988. This explanation brings out, very clearly, the influence of the four structures and, consequently the comprehensive nature of the approach. Within the production structure, price played a major role as the imbalance between demand and supply put severe pressure on producers. This was amplified by changes in the finance structure, the role of which in international affairs accelerated sharply during the 1980s. The knowledge structure, through the impact of technology on aviation, altered the relationship between market operators and the authorities, which reduced the price of travel, particularly on the routes from Europe to Asia. Security was again influential, as variations in both regional and domestic stability had a direct impact on the level of tourist arrivals. By the late 1980s tourism revived to reach record levels by 1987, the year of the "Visit Thailand Year" promotion. As Chapter 10 demonstrated, this marketing effort was one factor in the massive increase in tourist arrivals, although it was widely assumed in Asia that the promotion was solely responsible and hence could be replicated elsewhere. Application of the new IPE, however, showed clearly that the structural factors played an immensely significant role and that the contributory changes began ten years before Visit Thailand Year.

This demonstrates, in particular, the value of the structural taxonomy, which demands an analytical perspective that has the breadth of scope to capture causal factors across the full spectrum of the international political economy and also demands that the analysis takes full account of the historical perspective. The most significant factors were operating in the late 1970s. The restoration of domestic and international security by the Kriangsak government following the coup of 1977, coincided with lower airline prices, especially from Europe. The former led to a revival of business confidence across the economy and both factors contributed to a marked rise in tourist arrivals in 1978, especially from overseas. As Chapters 4 and 9 have shown, the coincidence of the widespread adoption of wide-bodied aircraft and the second oil shock accelerated the decline in IATA's power to control airline prices on key routes. This led to a diversion of much of the charter traffic to scheduled services on many long-haul routes, as the previous generation of aircraft then in charter service were simultaneously rendered uneconomic by the rise in energy costs.

These changes were especially critical on routes between Thailand and Europe and largely account for the resilience in European arrivals in the late 70s, when other key markets were falling. At the same time the fall in domestic hotel prices that occurred as a consequence of the military violence and the imposition of martial law in 1976/77 helped boost demand as subsequent governments restored stability.

The production structure changes that followed culminated in a three-year price war that began in 1983, as a critical imbalance developed in the country's hotel sector. Excessive supply resulted from decisions taken in 1978, when the favourable market conditions generated a sharp revival of investor interest in the hotel sector, following a five year hiatus. The government, facing critical international payments problems, supported hotel development as a means of earning foreign exchange, channeling investment into large, deluxe hotels through a new programme of incentives. In the early part of the following decade, construction was well advanced on a country-wide expansion that would more than double the available capacity by 1986. However, as supply increased, demand declined as a result of changes in the structures of security and finance.

International security conditions deteriorated with Vietnam's invasion of Cambodia. This was especially critical as the removal of the buffer state gave the Vietnamese army direct access to Thailand, and the displaced population of Cambodia, including members of the deposed Khymer Rouge army, then took refuge along the border. Border fighting and fears of a full-scale Vietnamese invasion were coupled with domestic troop deployments in the streets of Bangkok as rival factions of the army engaged in an attempted coup in 1981, ending almost four years of national stability. At the same time as Thailand's image was becoming one of danger and insecurity, changes in the finance structure reduced demand further by increasing the international price of the tourism product. The continuing link between the Thai baht and the US dollar ensured that the baht rose on the foreign exchanges as changes to US monetary policy drove up the value of the dollar from 1980. This, then, illustrates two points. First it reinforces the value of a framework that dictates a consideration of the finance structure, and second it provides a telling example of the impact of structural power that may be exercised by hegemonic states acting in their own self-interest.

The impact of the new financial conditions was not confined to the price impact on tourism demand, but had more far-reaching effects. First, the contingent rise in interest rates in Thailand increased costs for developers, who were, in any case, facing higher risks than before due to the size and enhanced quality of the new hotels. Secondly, the depression of the early 1980s, with which the tight money policies of the Reagan administration were inextricably interlinked, also had implications for tourism demand, especially in the more expensive long-haul destinations. In these circumstances, and in the absence of any form of regulation either domestic or foreign, the hotel sector engaged in dumping. The ensuing price war slashed costs faced by international buyers in baht terms, at the same time that the quality of the hotel product was rising. Costs were then hugely reduced in foreign currency terms, first by the Thai devaluation against the dollar in 1984 and, second and more critically, by the reversal of US exchange rate policy. Given the continuing link between the two currencies, the collapse in the value of the dollar, particularly against the yen, was mirrored by the fall in the baht rate. The key European and Japanese tourist markets were then, effectively, offered massive discounts as the currencies appreciated by as much as 60 per cent in the two years to 1986. Thus price played a critical role in stimulating the demand that surged during the three years beginning in 1986. In 1987, contractual obligations preserved the low domestic price and the international price was depressed by a further decline in the exchange rate that was not reversed until 1988.

The fall in price was accompanied by changes in the security structure. The importance of the King's sixtieth birthday within Thai society was sufficient to curb further attempts to replace the government through military coups. Domestic calm was accompanied by improvements in intra-regional relations, particularly with Vietnam, restoring the country's image in international tourism markets. The peaceful conditions in Thailand in the late 1980s were in stark contrast to the insecurity that developed in key competing areas. The civil war in Sri Lanka diverted thousands of tourists from the country's beaches, and the Chernobyl nuclear disaster had a similar effect in dissuading many tourists, especially Americans, from visiting Europe. Thus the Far East became a natural substitute for dangerous destinations, boosting tourist demand as a structural outcome of security changes.

Hence the outcome of "Visit Thailand Year" was only partly due to the marketing effort that emerged from the unique authority/market collaboration of 1986 to 1988. Not only does this conclusion emerge from the application of the structural framework, but the reasons behind the unique collaboration are also exposed by its application. This demonstrates, yet again, the interconnected nature of the international political economy and the way in which factors which, at first, may appear irrelevant in fact play a significant causal role. As Chapter 10 has demonstrated, the price of rice on world markets was a dominant factor in outcomes in the Thai tourism sector and was itself an outcome of changes in the finance and security structures. These changes were both a function of changes in US domestic policy. The rise in interest rates depressed world commodity prices from 1982 as stocks became too expensive to hold, which badly affected Thailand's earnings from rice exports. This fall not only had critical implications for the country's international payments position, but also reduced the gross foreign exchange earnings to less than those derived from tourism. The result was that tourism then replaced rice as the top generator of foreign exchange. The political impact of this was to raise the profile of tourism, despite the principal cause being the fall in commodity prices rather than an increase in tourism revenues. This had two outcomes, first lifting tourism to a higher priority on the government's agenda and, secondly improving the degree of legitimacy that it then commanded. Had this not happened, it is unlikely that the royal birthday celebrations could have been linked with tourism promotion, given the traditional, suspect reputation of the sector amongst Thai elites. Hence the imagery that so powerfully facilitated the marketing campaign would have been unavailable to the authority/market collaborators, and rather less momentum would then have been added to the structural outcomes. Hence, the outcome of Visit Thailand Year, and the massive increase in the number of tourist arrivals, was a product of a complex set of events each of which played a role over a ten year period. Indeed the volatile and dynamic rise of the tourist and hotel sectors in the forty year period that formed the empirical basis of this study, was a product of complex causes that are revealed by the application of the structural framework.

In conclusion, the application of the structural framework to the Thai case, and its use in explaining the dynamic and volatile growth in the sector in the period to 1987, has revealed a number of critical analytical issues. Most significant is the need for the study of international relations to include relationships that fall outside the limited scope of inter-state relations or even state-firm relations. Further, as these relationships may be structural, rather than relational, the scope must be sufficiently wide to capture and relate change in all areas of political and economic life to outcomes in specific areas under investigation. But perhaps most critically, the role of power, both as a key determinant of social outcomes and as an analytical focus, has been shown to be central.

Towards future IPE research strategies: an evaluation

Whilst the thesis has argued that the structural framework represents a positive and valuable advance on existing theories in IR, it does not, however, claim that all is complete and that a sufficiently adequate analytical method now exists. Indeed, the stress on the notion of "framework", rather than "theory" when discussing the analytical method was a conscious recognition that further developments are required. Indeed, the strength of this dissertation lies in the way that it has moved the "framework" some way towards becoming a "working model" that may be used with value in other research projects.

The framework thus far, supported by the results of this study, represents a step in the evolution of a satisfactory IPE theory, rather than a comprehensive, and fully operational, model. It takes the practice of IPE beyond a set of questions, to a guide to what should be included in the analytical process. It does not specify the questions, nor the relationships between the variables, leaving these open for exploration. The open-ness and the scope of the framework are at once its strengths and weaknesses. At the abstract level, as has been argued at length, such a broad scope is particularly valuable, but at the operational level this generates difficulties by requiring detailed examination of such a wide range of areas.

Translation of this step into a greater leap forward will, thus, require further work at both the levels. By no means all of the many issues that arose in the course of this study were resolved, although those that were offer lessons for the future. One key issue lies in making the model work at the empirical level, when no map exists for the practical journey through the four structures. Chapter 3 outlined the operational solution to this problem, which was to adopt an ethnographic approach and to let theory and research practice share a dynamic and interactive relationship. The use of unstructured interviews as part of that approach then permits the map to be drawn by those respondents who were, in various ways, close to the events under observation. This journey of discovery, at once revealing and time consuming, is still considered a necessary price to pay if the full range of potential variables are to be properly explored. It must be said that it would be much easier to gather data if the scope were restricted, the questions limited and the target tightly defined. However, on the basis of this study a richer and much more fruitful result is obtained by maintaining the scope, albeit at a cost in terms of research effort.

A further issue is raised by the use of power as the central concept of the framework. Whilst the critical importance of this has been demonstrated in this study, and particularly in the argument of this concluding chapter, power nonetheless remains a nebulous concept that does not lend itself to quantification and ready measurement. This reinforces the need to "see through the eyes of those being studied" as discussed in Chapter 3, in order to understand perceptions of the source and use of such a problematic variable. This is due to the enlargement of the nature and role of power, beyond traditional IR methods that could weigh the relative power of states by a comparing measure of military strength. Evaluating the role of power is, therefore, not an easy task for the researcher, but is necessary part of this analytic process and a burden to be carried by future analysts.

In addition, this study indicated that there is need for a further specific development that would raise the level of complexity even more. This raises both theoretical and methodological issues. Paradoxically, having asserted that a key strength of the framework lies in the scope of enquiry but that this also constitutes a weakness, there remains a need to expand the scope yet further. Whilst the twin concepts of authorities and markets are valuable tools in the process of analysis, there is a need to get inside those concepts to understand the processes within. Only then can the multiplicity of actors and values inherent in complex organisations be considered and weighed. This argues for a micro level, organisational analysis to be fused with the macro approach of the framework. But this, clearly, increases the methodological problems as the range of enquiry extends still further. This study recognised these needs, and attempted to examine specific behaviours at a number of different levels within the varied organisations that contributed to the causal chain. The preceding chapters have indicated that this proved a difficult task, given the number and size of the organisations that played some role in the explanatory framework.

The general issue becomes how to balance the feasible with the requirements of comprehensive analysis. This thesis has shown that it is not only possible but also productive to integrate the "political" and the "economic" domains of social action and enquiry into political economy, and to add the "international" and "domestic" domains to create a satisfactory international political economy. There is no reason why the manner in which this was achieved, namely through the use of power as the unifying concept, cannot be the basis for further integration of the presently separated areas of social enquiry. In 1985, Susan Strange raised a plea for greater open-ness across all fields of the social sciences. This study has been a contribution to that process, but, nonetheless, remains simply a step along the way.

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APPENDIX

Schedule of Principal Interviewees

The main interviews on which this thesis is based, and which are discussed in Chapter 3, were conducted between December 1985 and December 1989. For the reasons outlined in Chapter 3, including *inter alia* the preservation of confidentiality, specific reference to individual interviews has been only sparsely adopted in the text. In order to respect those concerns outlined in that Chapter, yet to approach a greater degree of completeness the schedule below lists the principal interviewees only by position and company. Some however reserved the right to remain completely anonymous and hence are not referred to in the list below.

(former) Managing Director,
Air Siam Ltd., Bangkok;

President,
Arlymear Travel Company, Bangkok;

Executive Director and General Manager,
Asia Hotel, Bangkok;

Deputy Director, Country Department,
Asian Development Bank, Manila;

Manager, Private Sector Division,
Asian Development Bank, Manila;

Senior Development Policy Officer,
Asian Development Bank, Manila;

Senior Executive Officer,
Asian Development Bank, Manila;

Vice President, Chief Economist and Manager, Research Office,
Bangkok Bank Limited, Bangkok;

Research Officer,
Bangkok Bank Limited, Bangkok;

Chairman and Managing Director,
Bangkok Intercontinental Hotels Company, Bangkok;

(former) Chief Reservations Officer,
British Airways, Bangkok;

Manager, Passenger Tariffs,
British Airways, UK;

Senior Passenger Tariffs Superintendent (East),
British Airways, UK;

(former) Marketing Manager,
British Airways, Hong Kong;

(former) Managing Director,
British Airways Speedbird Holidays, UK;

Managing Director,
British Airways Speedbird Holidays, UK;

Planning Manager,
British Airways Speedbird Holidays, UK;

(former) Marketing Manager,
British Overseas Airways Corporation, UK;

General Manager, South East Asia,
Cathay Pacific Airways, Singapore;

Manager, Product and Pricing,
Cathay Pacific Airways, Singapore;

Managing Director,
Cathay Pacific Airways, Hong Kong;

Marketing Director,
Cathay Pacific Airways, Hong Kong;

Marketing Manager,
Cathay Pacific Airways, Hong Kong;

General Staff Manager,
Cathay Pacific Airways, Hong Kong;

General Manager,
Central Plaza Hotel, Bangkok;

Deputy Head of Division, Directorate-General for Development,
Commission of the European Communities, Brussels;

Managing Director,
Diethelm Travel, Bangkok;

Managing Director,
Dusit Thani Hotel, Bangkok;

Executive Secretary,
Ecumenical Coalition on Third World Tourism, Bangkok;

General Manager,
Erawan Hotel, Bangkok;

General Manager,
Furama Intercontinental Hotel, Hong Kong;

General Manager,
Hilton International Bangkok;

Director of Sales
Hilton International, Bangkok;

General Manager,
Hilton International Hong Kong;

Senior Vice-President Asia and Australia,
Hilton International, Hong Kong;

Senior Vice President and Managing Director,
Holiday Inn International, Asia Pacific, Hong Kong;

Executive Director,
Hong Kong Hotels Association, Hong Kong;

Executive Director,
Hong Kong Tourist Association, Hong Kong;

Librarian,
Hong Kong Tourist Association, Hong Kong;

Manager, Research Department,
Hong Kong Tourist Association, Hong Kong;

(former) Managing Director,
Horizon Holidays, UK;

General Secretary,
Hotel Workers' Federation of Thailand, Bangkok;

Senior Vice-President, Asia Pacific,
Hyatt International Hotels, Hong Kong;

Chief, Industry and Tourism Section,
Inter-American Development Bank, USA;

Executive Assistant to the President,
Intercontinental Hotels Corporation, USA;

President Pacific, Asia & Latin America,
Intercontinental Hotels Corporation, USA;

Vice President Finance,
Intercontinental Hotels Corporation, USA;

Regional Director, Asia/South Pacific,
International Air Transport Association, Singapore;

Director, Public Relations, Western Hemisphere,
International Air Transport Association, Canada;

Regional Air Transport Officer,
International Civil Aviation Organisation, Bangkok;

Economist, Air Carrier Operations,
International Civil Aviation Organisation, Canada;

Chief Technical Adviser, Hotel and Tourism Development,
International Labour Office, Bangkok;

Chairman and Managing Director,
Kuoni Travel Ltd., UK;

General Manager,
Landmark Hotel, Bangkok;

Assistant General Manager,
Mandarin Hotel, Bangkok;

Managing Director,
Mandarin Oriental Hotel, Hong Kong;

Marketing Manager, Transport Aircraft,
McDonnell Douglas China Inc., Hong Kong;

Branch Manager, Market/Fleet Planning International,
Douglas Aircraft Company, USA;

Vice-President and General Manager,
Montien Hotel, Bangkok;

(former) Dean, Graduate School of Public Administration,
National Institute of Development Administration, Bangkok;

Investment Promotion Officer,
Office of the Board of Investment, Bangkok;

Secretary General,
Orient Airlines Association, Manila;

(former) Front Office Manager,
Oriental Hotel, Bangkok;

Executive Vice President,
Pacific Area Travel Association, USA;

President,
Pacific Asia Travel Association, Hong Kong;

Vice President Marketing,
Pacific Asia Travel Association, USA;

Deputy Editor,
Pata Travel News Asia, Bangkok;

Executive Vice President,
Peninsula Group of Hotels, Hong Kong;

General Manager,
President Hotel, Bangkok;

Sales and Marketing Manager,
President Hotel, Bangkok;

Overseas Director,
Rank Travel Ltd., UK;

General Manager,
Royal Cliff Beach Hotel, Pattaya, Thailand;

General Manager,
Royal Orchid Sheraton Hotel, Bangkok;

Managing Director,
Seafari Sports Centre, Pattaya, Thailand;

General Manager,
Shangri-la Hotel, Bangkok;

Director of Operations,
Sheraton Corporation, Asia Pacific Division, Hong Kong;

Managing Director,
Siam Bay Hotels, Pattaya, Thailand;

General Manager,
Hotel Siam Intercontinental, Bangkok;

Marketing Director,
Siam Lodge Hotels, Bangkok;

Managing Director,
Siam Lodge Hotels, Bangkok;

General Manager, Singapore,
Singapore Airlines, Singapore;

Assistant Director, Industry Services,
Singapore Tourist Promotion Board, Singapore;

(Ag) Divisional Director, Marketing
Singapore Tourist Promotion Board, Singapore;

General Manager,
Tawana Sheraton Hotel, Bangkok;

Executive Vice-President,
Thai Airways International, Bangkok;

Market Development Manager,
Thai Airways International, Bangkok;

Senior Vice President,
Thai Airways International, Bangkok;

Honorary Secretary,
Thai Hotels Association, Bangkok;

Manager,
Thai Hotels Association, Bangkok;

President,
Thai Hotels Association, Bangkok;

Deputy Governor, Planning and Development Department,
Tourism Authority of Thailand, Bangkok;

Director, Statistics and Research Division,
Tourism Authority of Thailand, Bangkok;

(former) Governor,
Tourism Authority of Thailand, Bangkok;

Governor,
Tourism Authority of Thailand, Bangkok;

(former) Governor,
Tourism Organisation of Thailand, Bangkok;

Managing Editor,
Travel Trade Reporter, Bangkok;

Regional Managing Director, South East Asia,
United Airlines, Hong Kong;

Vice-President South East Asia,
United Airlines, Hong Kong;

Managing Director,
United Hotels, Ltd., Bangkok;

Economic Affairs Officer, Transport, Communications and Tourism Division,
United Nations, ESCAP, Bangkok;

Chief, ESCAP Library,
United Nations, Bangkok;

Regional Adviser for Asia and the Pacific (Tourism),
United Nations, Bangkok;

Senior Loan Officer,
World Bank, USA;

Chief, Asia & Pacific Operations
World Tourism Organisation, Madrid;

Chief, Documentation Section,
World Tourism Organisation, Madrid;

Chief, Statistics Section,
World Tourism Organisation, Madrid;

Head, Vocational Training Section,
World Tourism Organisation, Madrid;

Chief of Studies,
World Tourism Organisation, Madrid;

Managing Director,
World Travel Service Ltd., Bangkok;