

CHAPTER 2

THE TOURISM INDUSTRY IN MALAYSIA

Malaysia is a relative new entrant to the international tourism industry compared to its neighbouring competitors of Singapore, Thailand and Hong Kong. Before 1985, the tourism industry in Malaysia did not develop in an organised pattern and it was centred mainly around the gateway cities of Kuala Lumpur and Georgetown. The tourist traffic was confined to these two urban centres primarily because of the lack of good accommodation facilities elsewhere and the difficulty of access to the lesser known areas. The existence of the industry was attributed more to the country's geographic location between the two major tourist destinations in Southeast Asia - Thailand and Singapore - rather than to any co-ordinated official policy. However, international travel to the Malay Peninsula had been recorded since the days of the Melaka Sultanate in the 15th Century when Melaka was a major trading centre in the region (Chong 1982).

THE EARLY DEVELOPMENT OF TOURISM IN MALAYSIA

Three distinct periods can be distinguished in discussing tourism development in Malaysia before 1985.

Period of Colonial Curiosity

In the period under British colonial influence from the 1860s till Independence in 1957, the few visitors who came hardly strayed beyond the former Straits Settlements

(Penang, Melaka and Singapore) and the west coast states of the Malay Peninsula. Lacking historical sites or the magnetism of Bali, the Straits Settlements were regarded by the wealthy tourists as convenient rather than compelling stopping points offering opportunities to break the monotony of an ocean voyage (Peninsula and Oriental Steam Navigation Company 1908). Thus, the present pattern of brief stopovers was set early in the development of Malaysian tourism. Indeed, the majority of the Europeans vacationing then were resident members of the colonial communities on weekend breaks or local leave rather than visitors from outside the colony.

Despite the accessibility and amenities of the Straits Settlements and the west coast states, the growth areas of Southeast Asian tourism in the 1930s were located elsewhere, particularly Bali and Java (Stockwell 1993). Nor did the British colonial government promote tourism as vigorously as did the Dutch in Indonesia. The first recognisable guidebooks for the Straits Settlements were published only in 1887. Just as tourism was dependent upon the infrastructure originally created for other purposes, so much of the early promotional material was a by-product of publicity campaigns designed to attract young men with money to come out as planters to the colonies.

In response to the requirements of the colonial society at work and at play, government rest houses and private hotels were built and patronised by visitors and residents. However, in the period before the Second World War, the hotel never completely supplanted private hospitality offered to friends and acquaintances coming from Britain. Several hill stations such as Cameron Highlands and Maxwell Hill were developed to serve the recreational needs of the colonial officers and their foreign guests.

Western tourists saw themselves and were treated by others, as guests of the British and not the indigenous community. They were expected to marvel at the products of British colonialism such as the flora and fauna in the botanical gardens, and not the customs of the non-European communities (Stockwell 1993). The 'attraction' was not Asia itself but European activities in Asia. No specific tourism policy was formulated to encourage international tourism as priority was accorded to the development of the rubber and tin industries though, in the 1950s, the British colonial government entrusted the responsibility for all tourism matters to an appointed Pan-Malayan Director of Tourism.

The Period of Official Indifference (1957-1972)

It was only after independence in 1957 that an initial attempt was made to increase the total of 13,000 international tourists with the setting up of a Department of Tourism within the Ministry of Commerce and Industry in 1959. Despite this, tourist arrivals totalled only 25,000 in 1965 (Abdul Kadir 1982). Malaysia was still one of the least attractive destinations in Southeast Asia. The official policy towards tourism was one of arms-length management and market forces were relied on to stimulate private investment. Thus, the tourism industry was accorded low priority in the national development plans. Tourism was not even mentioned in the Five Year Development Plans before 1965, though Malaysia had become a member of WTO in 1961. This situation was undoubtedly a consequence of the buoyant economy supported by tin and rubber and because accessibility to this part of the world was still poor. For example, in 1962 rubber and tin earned Malaysia RM1,298 million in foreign exchange compared to a paltry RM9.43 million from tourism (Government of Malaysia 1963).

It was only in the late 1960s that there was a noticeable change in the apparently apathetic attitude towards the tourism industry. In the First Malaysia Plan (1966-70), tourism was apportioned for the first time a small allocation of RM2 million or 0.05 per cent of the total public expenditure for development (Government of Malaysia 1966). Overseas promotion was given more emphasis and in 1967 the country became an active member of the Pacific Asian Travel Association (PATA).¹ In 1968, the Investment Incentives Act was passed under which pioneer status and tax exemptions were provided to foreign investors in hotel projects. The first 'Malaysia Visitor Development Programme' to co-ordinate the development of tourism in Peninsular Malaysia was completed in 1969.

Period of Tourism Inception (1972-1985)

Encouraged by the 35 per cent per annum growth in tourist arrivals between 1965-70 and the world-wide expansion of tourism, a more aggressive approach to tourism promotion was initiated in the early 1970s. The country hosted the 21st Annual PATA Conference in Kuala Lumpur in January 1972 and TDC was formed on 10 August of the same year to spearhead the development of the tourism industry. From 1972-75, the annual growth in foreign tourist arrivals averaged 18.4 per cent, the highest among neighbouring countries (Table 2.1). By 1975, the country had hosted more than one quarter of tourists arriving in the ASEAN region. This upsurge in arrivals was due to

¹ Previously known as the Pacific Area Travel Association, PATA was established 40 years ago as an association of those involved in the tourism trade in the Pacific region such as travel agents, tour operators, hoteliers, airlines, travel trade associations and the national tourism organisations of about 35 countries. Its members meet annually at different venues in the region.

Table 2.1: International Tourist Arrivals and Receipts, Peninsular Malaysia, 1972-79

Year	Arrivals	Per cent change	Total tourism receipts (RM million)	Per cent change
1972	725,883	-	265.0	-
1973	869,559	19.8	302.1	14.0
1974	1,165,270	34.0	353.9	17.1
1975	1,461,603	25.4	389.5	10.1
1976	1,451,441	-0.7	275.2	29.3
1977	1,546,866	6.6	414.3	50.5
1978	1,880,646	21.6	450.0	8.6
1979	2,039,154	8.4	495.0	10.0

Source: MTPB 1997.

several factors such as increased accessibility, the availability of package tours that linked Malaysian destinations to the international tourist market and the growing awareness of the country resulting from TDC's promotional efforts. For example, in the 1960s, Malaysia had only one international airport at Kuala Lumpur and the tourist traffic was effectively overshadowed by the more established destinations of Bangkok and Singapore. By the early 1980s, there were five airports at Kota Kinabalu, Kuching, Penang, Senai, and Subang capable of not only handling larger planes on domestic flights but international flights as well (Abdul Kadir 1982).

As entrepreneurs responded to the growing number of tourist arrivals, concern grew over the lack of orderly development of hotels and other tourist facilities in the country. A national tourism plan was necessary to provide a basis upon which the country

could develop its tourist potentials in an orderly and balanced manner within the framework of the national development plan and the New Economic Policy¹ (TDC 1975). The 1975 Plan proposed the development of six integrated tourist regions in Peninsular Malaysia centred around existing state capitals but also incorporating new tourist 'corridors' outside the urban fields (Figure 2.1). The states of Sabah and Sarawak were considered as another two other separate tourist regions. Priority was accorded to the existing tourist centres of Kuala Lumpur-Melaka and Penang while a long term development plan was proposed for other potential tourist destinations. Kuala Lumpur was targeted as the major gateway for international visitors to Malaysia, especially business visitors, whereas the regions of Penang, Kuantan and Kota Bharu-Terengganu were to be promoted as holiday destinations. No precise information was given on the scope and phase of development for each region. However, it indicated a higher priority for the development of the east coast of Peninsular Malaysia. In reality, though the east coast states possess better quality beaches and richer cultural attractions, the Penang region has experienced the most extensive growth in tourism because of superior local and international accessibility. Unlike the east coast, Penang is also unaffected by the monsoon season from the months of November to January which coincides with the peak in international arrivals from Europe.

Two of the tourist regions (Kota Bharu-Terengganu and Johor) formed the subject of a further study by Pannell, Kerr, and Forster in 1979. The consultants were

¹ The New Economic Policy was implemented from 1970 with the twin objectives of alleviating poverty and restructuring society so as to reduce the identification of race with economic functions.

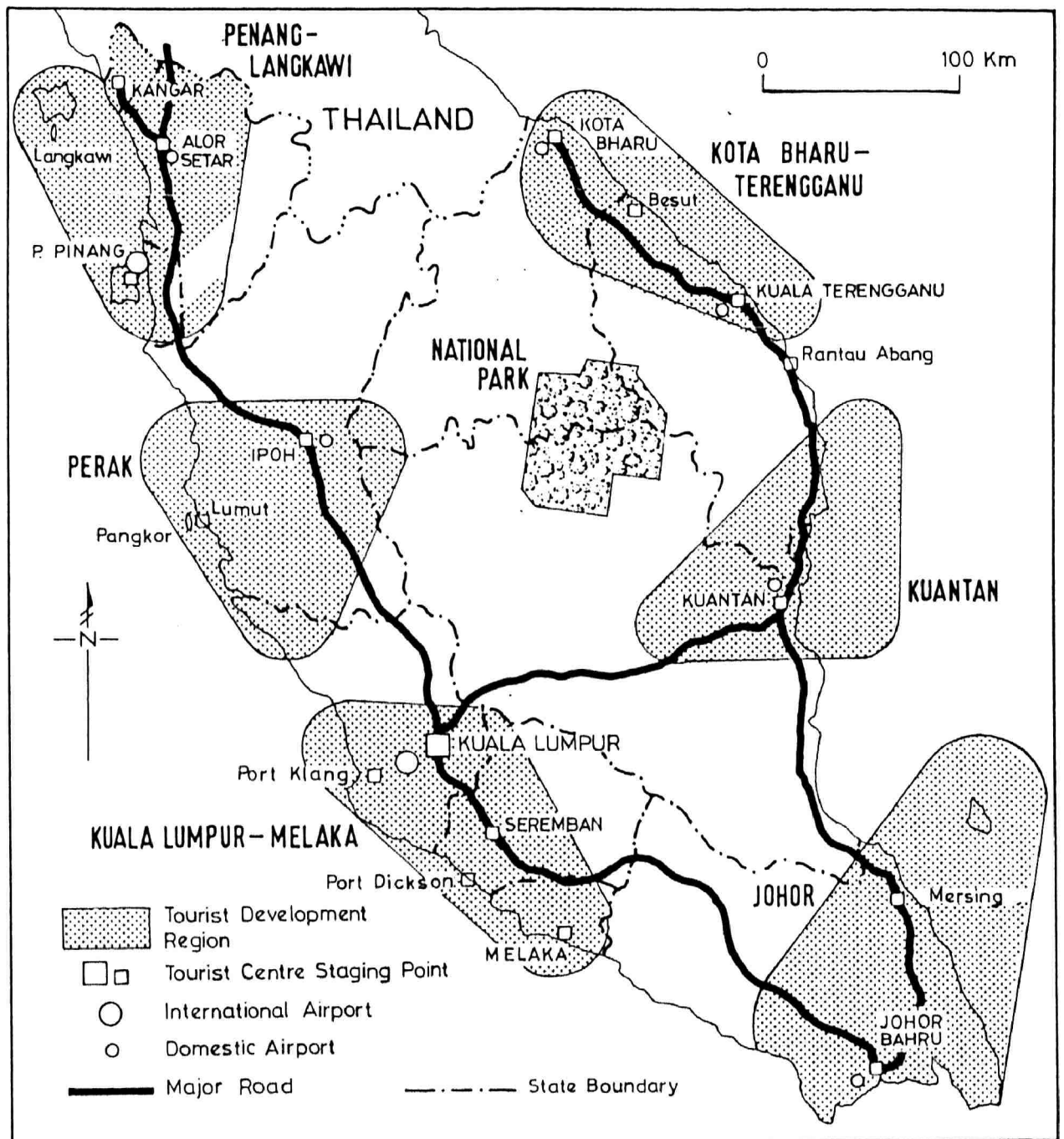


Figure 2.1. Tourist Development Regions in Peninsular Malaysia, 1975

Source: TDC 1975.

charged with determining the tourist potential of the east coast and evolving a strategy that could best utilise the resources of the area. The report was wide-ranging and included many detailed recommendations and suggestions pertaining to tourist development such as architecture and landscaping, types of tours to be offered, and marketing strategies. Sites suitable for large scale resort and recreational developments catering to the international market were identified at Bukit Keluang-Dendong, Kampung Merang and Kuala Baru and the larger offshore islands of Rhu, Perhentian Besar, Perhentian Kecil, Redang, Babi Besar, Tinggi and Tioman (Figure 2.2). Similar development plans were also drawn up for areas such as Langkawi and Pangkor Island.

Despite these development plans and the doubling in the number of foreign tourists between 1972 and 1980, tourism still did not constitute an important industry. In fact, the pattern of tourist arrivals did not reflect any consistent trend and was extremely sensitive to fluctuations in the world economy. For example, the energy crisis in 1973 increased the cost of aviation fuel and the subsequent rise in air fares reduced the number of tourist arrivals by 0.7 per cent in 1976 with tourist receipts declining more acutely at 29.3 per cent.

The industry was saddled with two inherent problems. First, Malaysia was regarded as a secondary or 'special interest' destination. Visitors to the country are normally en route to other major destinations, but by virtue of it being in a convenient location and, due to the special interest that it holds, it is a logical stopover point for the

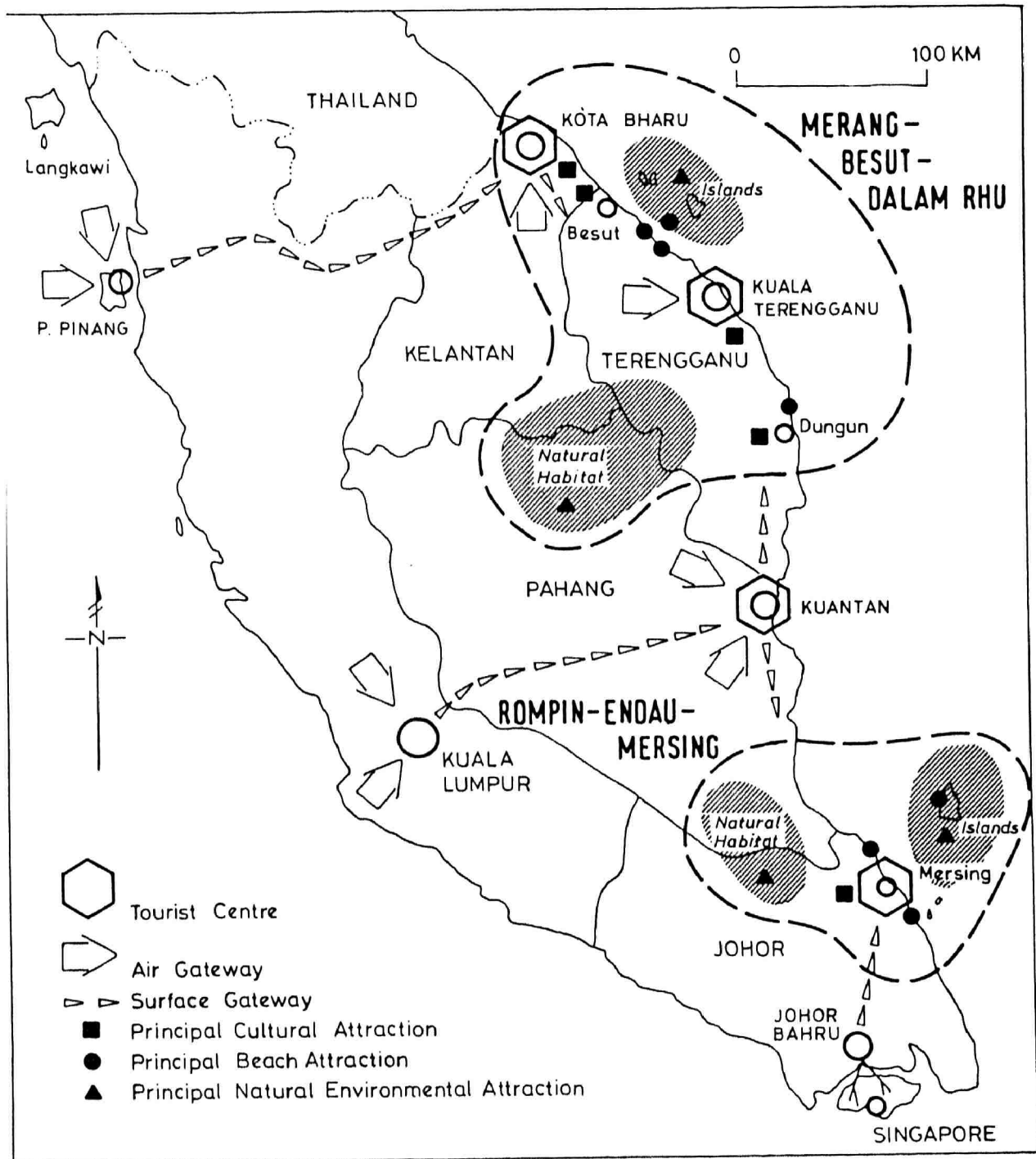


Figure 2.2. Tourists Development Plan for the East Coast of Peninsular Malaysia 1979

Source: Pannell Kerr Forster 1979.

passing tourists (TDC 1975).

Secondly, because of the dependence on the transient tourist traffic heading towards other major destinations, the average length of stay of tourists is short, thus contributing to lower tourist expenditure. In addition, the earnings from the industry was low as a consequence of the dominance of low spending ASEAN tourists rather than other foreign tourists with higher disposable incomes.

TOURISM EVOLVEMENT IN MALAYSIA SINCE 1985

The global economic recession in the mid-1980s compelled the Malaysian Government to re-examine the role of tourism in the economy. The Malaysian economy had grown at a credible rate of 7.6 per cent per annum in real terms from 1970 to 1980. As a result, per capita income grew from RM1,109 in 1970 to RM3,719 by 1980 while the unemployment rate decreased from 7.8 per cent to 5.7 per cent in the same decade (Tan 1986). These were achieved despite structural problems in the economy such as a narrow economic base dependent mainly upon the export of a few primary commodities, namely rubber, oil palm, petroleum and sawn logs. However, from 1980 to 1985, the performance of the economy was severely affected by the deteriorating prices of the nation's export commodities resulting in slackened growth and increased unemployment.

The international tin crisis in 1985 and the sharp drop in crude oil, rubber and oil palm prices dealt a serious blow to the economy. This adversely

affected international trade and overall growth, thus slowing down output growth and causing a deterioration in the terms of trade and deficits in the current account of the balance of payments and a substantial build-up of domestic and external debt (Tan 1986).

In the search for products and services to diversify into as exports for foreign exchange earnings, and to generate employment, tourism was increasingly emphasised as an important component of the development strategy (Seow *et al.* 1984). Considered a labour-intensive industry requiring limited capital or technological inputs but which utilises the seemingly inexhaustible natural resources (sand, sun and sea), tourism was perceived as providing a low cost avenue for generating income and employment and reducing the current accounts deficit. The choice of tourism was also facilitated by the characteristics in the tourism market such as the rapid growth in travel in the last 20 years, the growing share of the developing countries of global tourist receipts and the relative absence of international restrictions on tourist flows. Lastly, there already existed numerous natural and cultural attractions such as beaches and national parks which could be further developed to cater to international tourists (Figure 2.3).

Thus, in 1985, the Government decided to elevate the status of tourism to that of a priority industry. State Governments become actively involved in international tourism in many ways. They often help promote international tourism through national tourist organisations and airlines, play a role in preserving natural features and environmental conditions attractive to tourists, provide infrastructure for access to tourists attractions, and utilise fiscal measures and other policies to increase national gains from tourism.

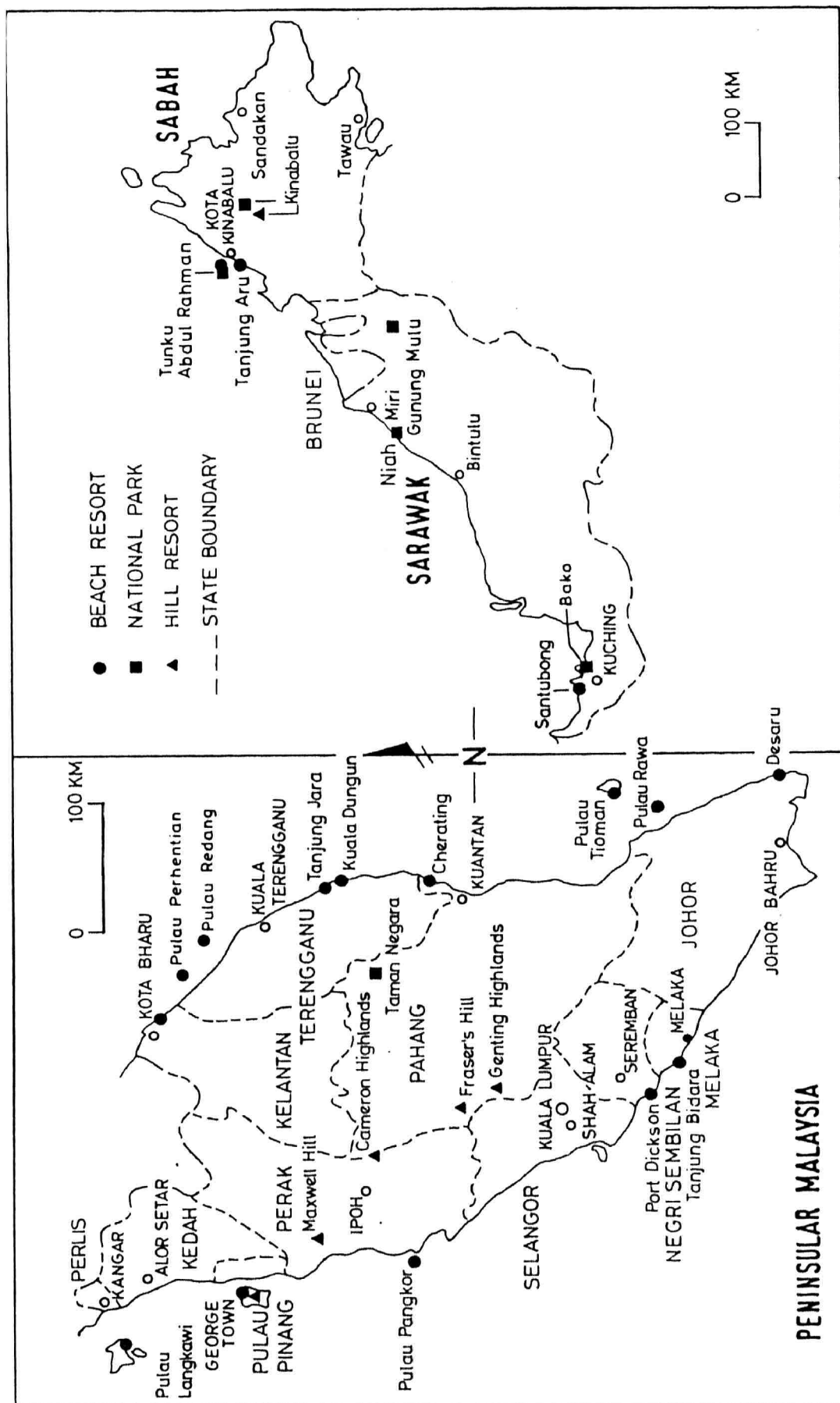


Figure 2.3. Tourist Attractions in Malaysia.

Source: Tourism Publications Corporation 1996.

As an indication of the growing importance of tourism, a Cabinet Committee on Tourism headed by the Deputy Prime Minister was formed in February 1985 and on 20th May 1987, MTPB was placed under a new Ministry of Culture, Arts and Tourism.¹ The Ministry is entrusted with co-ordinating the overall development of tourism such as the formulation of policies and development programmes in tourism and strengthening the administrative machinery. Official support for tourism is evident from the increased federal funding for tourism in the development plans, rising from RM10 million in the Second Malaysia Plan (1971-75) to RM746.3 million in the Sixth Malaysia Plan (1991-95) (Table 2.2). The biggest allocation of RM331 million was set aside for the construction of tourist infrastructure and facilities and another RM169.8 for new hotels and other accommodation facilities. In the Seventh Malaysia Plan (1996-2000), another significant sum of RM696.9 million was set aside for tourism development. The strategies for tourism development will concentrate on diversifying into new tourism products and services, improving infrastructure and amenities and ensuring more effective promotion and marketing.

The Malaysian Tourist Promotion Board

MTPB was established as a statutory body by an Act of Parliament on August 10, 1972 with a four-fold objective:-

- (i) to create a viable tourism industry and to promote Malaysia as an attractive tourist destination,
- (ii) to ensure that tourism and tourism related industries develop in a

¹ The Ministry was originally named Ministry of Culture and Tourism but in late 1990, the name was changed to Ministry of Culture, Arts and Tourism.

systematic, harmonious and balanced manner,

- (iii) to stimulate domestic tourism, and
- (iv) to maximise tourism benefits in line with the New Economic Policy.

Table 2.2: Development Allocation and Expenditure for Tourism, 1986-2000
(RM million)

Programmes	Fifth Plan (1986-90)		Sixth Plan (1991-95)		Seventh Plan (1996-2000)
	Allocation	Expenditure	Allocation	Expenditure	Allocation
Preservation of National/Historical Heritage	0.5	0.7	41.1	24.8	45.5
Accommodation	2.0	0.0	169.8	161.7	64.3
Beautification, Cleanliness and Environment Protection	2.5	2.5	51.9	46.7	65.1
Cultural Product	2.5	2.5	120.6	67.6	181.2
Facilities and Infrastructure	79.2	76.7	331.0	231.8	280.0
Others	52.8	49.7	31.9	26.4	60.8
Total	140.5	132.1	746.3	559.0	696.9

Source: Government of Malaysia 1991 and 1996.

The original functions of MTPB were wide ranging and this is evident from the designations of the six divisions formed:- (i) Marketing, (ii) Development and Project Management, (iii) International Relations and Convention, (iv) Enforcement, (v) Research and Training, and (vi) Administration, Finance and General Services. With the

enforcement of *Tourism Industry Act 1992* and *Malaysian Tourism Promotion Board Act 1992* on May 1, 1992, MTPB's function was limited solely to marketing and promotion while other functions were taken over by other departments in the Ministry. Effective 1st November 1993, MTPB was restructured into nine divisions. Four of these are responsible for tourism promotion - domestic tourism, international tourism, market development, and conventions and incentives - while the other five are concerned with management, research, information technology, special functions and promotional support.

Local promotion is carried out by its five regional offices and 13 tourism information centres while the responsibility for overseas promotion is shouldered by its 18 overseas offices in 15 countries in co-operation with national tourism organisations and foreign advertising agencies.¹ Operating under its marketing name, Tourism Malaysia, MTPB carries out promotion activities through advertising campaigns in selected newspapers, periodicals and other publications, and, participation in tourism exhibitions, trade fairs, forums and seminars such as PATA Travel Mart, ASEAN Tourism Forum, and Osaka Tour Expo. Since 1985, promotion and marketing activities abroad were intensified in the primary target areas of ASEAN, Japan, Australia, Hong Kong, Taiwan, Western Europe and the west coast of the United States of America (U.S.A). These areas were chosen because of their strong economy, good transportation links, lack of travel restrictions and a high level of awareness of Malaysia. In addition, promotion

¹ The existing 18 overseas offices are in Bangkok, Frankfurt, Hong Kong, Johannesburg, London, Los Angeles, Milan, New York, Osaka, Paris, Perth, Seoul, Singapore, Stockholm, Sydney, Taipei, Tokyo and Vancouver (*Malaysia Tourism* January-February 1998).

activities were initiated in new market segments such as West Asia, Canada and Scandinavia. Themes such as 'Only Malaysia' and 'Fascinating Malaysia' have been used effectively.

Locally, MTPB sponsors international conferences and tourist events in the country as an attraction to local and international tourists. Notable among these was the 35th PATA Conference and the 13th PATA Travel Mart held in Kuala Lumpur from 9-16th April 1986. A budget of RM4 million was allocated for the promotional campaign and to spruce up the various tourist spots. The conference provided an opportunity for Malaysia to showcase its tourist attractions to some 2,500 delegates from 35 member countries. Since 1987, MTPB has sponsored an annual cultural festival - Malaysia Fest - where the traditions, culture, craft and cuisine of the various states are highlighted in participating hotels and shopping complexes in Kuala Lumpur. MTPB aims to develop the two week festival in September, held at a cost of RM2.5 million in 1990, into an internationally known event such as Oktoberfest in Germany and Mardi Gras in Brazil and thus help promote the country (*New Straits Times* 15th September 1990). Similarly, since 1990, 'Flora Fest' modelled after the Pasadena Tournament of Roses Parade in U.S.A and the only one of its kind in Southeast Asia, has been held annually.

In 1994, the Ministry of Culture, Arts and Tourism initiated a change in its marketing strategy focussing now on destination awareness. Rather than promoting Malaysia as a whole, selected products were identified and targeted at specific markets. The promotion now highlights eight major tourist destinations - Kuala Lumpur, Penang, Melaka, Langkawi, Pangkor, Taman Negara, Kinabalu National Park and Sarawak -

based on criteria such as existing attractions and facilities. In 1997, another four destinations – Bera Lake, Johor Bahru, Kenyir Lake in Peninsular Malaysia and Danum Valley in Sabah – were added to the list of destinations marketed internationally. Each of these destinations is promoted on the basis of its uniqueness such as shopping, natural paradise, and history.

Visit Malaysia Year (VMY) Campaigns

Fired by the success of the 'Visit Thailand Year' in 1987, MTPB designated 1990 as Visit Malaysia Year in an ambitious attempt to make significant inroads into the international tourism market. VMY 1990 was launched with the four-fold objective of (i) increasing tourist arrivals to 4 million and then by ten per cent annually, (ii) encouraging a longer length of stay and increasing daily tourist expenditure from RM121 to RM130, (iii) promoting and popularising local culture and art, and, (iv) developing domestic tourism and thus reducing the travel deficit. With an allocation of RM100 million, intensive promotion was conducted and over 100 major events were held in all parts of the country to entice tourists to visit the country. The statistics indicate that the campaign was a resounding success, at least in the objective of increasing tourist arrivals. An estimated 7.4 million tourists visited Malaysia in 1990, 54.3 per cent more than the previous year's total (Chiang 1991). The increase was most noticeable for the non-ASEAN tourists: - India 190.2 per cent, Hong Kong 150.8 per cent, Japan 149.6 per cent, Taiwan 142 per cent, Australia 102.6 per cent, U.S.A 96.8 per cent, and United Kingdom 90.4 per cent. This success motivated the government to launch another VMY 1994 to arrest the drop in tourist arrivals that had occurred since 1991. VMY 1994 was

launched 17 months earlier on 1st August 1992 with a budget of RM276 million. It stressed a longer length of stay and a higher tourist expenditure of RM6 billion compared to RM4.5 billion in 1990 (*New Straits Times* 2nd May 1994). Campaigns were held in over 76 major cities in 16 countries and 170 programmes were arranged within the country. The 7.2 million tourists in 1994 represented a 10.9 per cent growth over the previous year and comfortably exceeded the 7 million arrivals targeted. In 1998, in conjunction with the hosting of the 16th Commonwealth Games, a similar campaign titled Sports and Recreation Year 1998 with 240 planned sports and recreational activities was launched (*Malaysia Tourism* January-February 1998).

Fiscal Incentives

Various fiscal incentives were accorded to the tourism sector since the mid-1980s to stimulate its development. Under the *Promotion of Investment Act 1986*, all tourism projects - both accommodation (of ten rooms and above) and non-accommodation based - were accorded pioneer status or investment tax allowances for a period of five years from the commencement of operations, regardless of the size of capital investment (Chew 1990). Such projects were also entitled to an Industrial Building Allowance of an initial 10 per cent and a subsequent 2 per cent for capital expenditure in the construction and expansion of hotels. For new tourism projects, foreign investors were allowed 100 per cent equity for the first five years after which the project has to be restructured to allow for 49 per cent ownership by Malaysians. These incentives were successful in drawing a total investment of RM2,602 million in approved hotel and tourism-related projects during 1985-90 (Government of Malaysia 1991). Investors responded by building an

additional 138 hotels with a total of 9,312 rooms, thus increasing the total number of rooms from 35,720 in 1985 to 45,032 in 1990. These incentives were withdrawn in early 1992 as the objectives had been satisfactorily achieved.

Funds for tourism projects could be obtained from a RM1 billion New Investment Fund launched in Sept 1985 to stimulate new fixed investment in the tourism, manufacturing, mining and agricultural sectors at a time of tight liquidity and high interest rates. The fund was fully utilised by the end of 1987. Such support is available even to non-resident controlled companies. Funding was also obtainable from the ASEAN-Japan Development Fund while small local entrepreneurs could obtain financial assistance from a special fund of RM120 million set up by the Central Bank (Bank Negara) in 1990 (*New Straits Times* 20th March 1990).

In the 1988 budget, the service tax chargeable on revenue from accommodation, food, entertainment and other services provided by hotels and similar establishments was lowered from ten to five per cent so as to reduce the costs of lodging, food and entertainment to the tourists. In the same budget, the commercial electricity rate was slashed up to a maximum of 15 per cent but these concessions were withdrawn in early 1994. For tour operators, an incentive was offered for the period 1986-1990 whereby those who brought in at least 500 tourists per year through group-inclusive tours were exempted from tax with respect to the income derived from the foreign tourist business. Fiscal incentives have been extended to the tourism sector or withdrawn in the annual budget as and when the need arises.

Undoubtedly, tourism has become an important economic activity in the overall development of the economy. It is stated in the Seventh Malaysia Plan that the thrust will be to enhance the image of Malaysia as a highly diversified and competitive tourist destination through

- (i) diversifying into new products and services to cater for the varying demands and interests of international and domestic tourists;
- (ii) ensuring more effective promotion and marketing for both the foreign and local markets;
- (iii) encouraging private sector investment and participation in innovative tourism products as well as special projects and events;
- (iv) increasing the involvement of the local population, especially small entrepreneurs, in the development of distinct and localised tourism products and services;
- (v) improving and facilitating access into and within the country;
- (vi) providing the requisite infrastructure and amenities at designated tourists sites; and
- (vii) focusing on formal as well as on-the-job skills training in order to meet the rising manpower demand (Government of Malaysia 1996).

TRENDS IN INTERNATIONAL TOURIST ARRIVALS

While showing a general increasing trend, the inflow of tourists into Malaysia has not been consistent as it is susceptible to the effects of events within and outside the country. From 1981-88, the percentage of annual growth was below 10 per cent and in fact reached an all-time low of 0.71 per cent in 1984 with the onset of the world recession and the world wide reduction in travel. However, the positive effects of the VMY 1990 promotion launched in late 1988 was immediately evident in the number of tourists arriving in 1989 (Figure 2.4). The objective of four million visitors was exceeded in 1989 itself when 4.8 million foreign tourists were recorded. This total grew impressively by 53.1 per cent to 7.4 million in 1990. However, in 1991, the number of tourists dropped by 21.7 per cent to 5.54 million due to external factors such as the fear of travel arising from the outbreak of the Gulf War early that year and the 'rain shadow' effect after the successful VMY 1990 programme. In 1992 the number of tourists recovered marginally to 6.02 million and in 1993, 6.5 million visitors visited the country (*New Straits Times* 30th March 1994). It was only with another promotional campaign, VMY 1994, that the 1990 arrival figure soared by another 11 per cent to 7.2 million while revenue rose phenomenally by 64 per cent to RM8.3 billion in 1994 (MTPB 1997). In the following year, the country recorded the highest number of arrivals ever at 7.5 million tourists (*New Straits Times* 25th April, 1996). By 1993, Malaysia had emerged as the premier tourist destination in Southeast Asia on the basis of total tourist arrivals surpassing Singapore's 6.4 million and Thailand's 5.7 million. In Asia, only China with 19.4 million tourists and Hong Kong with 7.8 million tourists, exceeded Malaysia's figures (Cheah 1995). The downward trend in arrivals was evident from 1996 onwards when tourist numbers

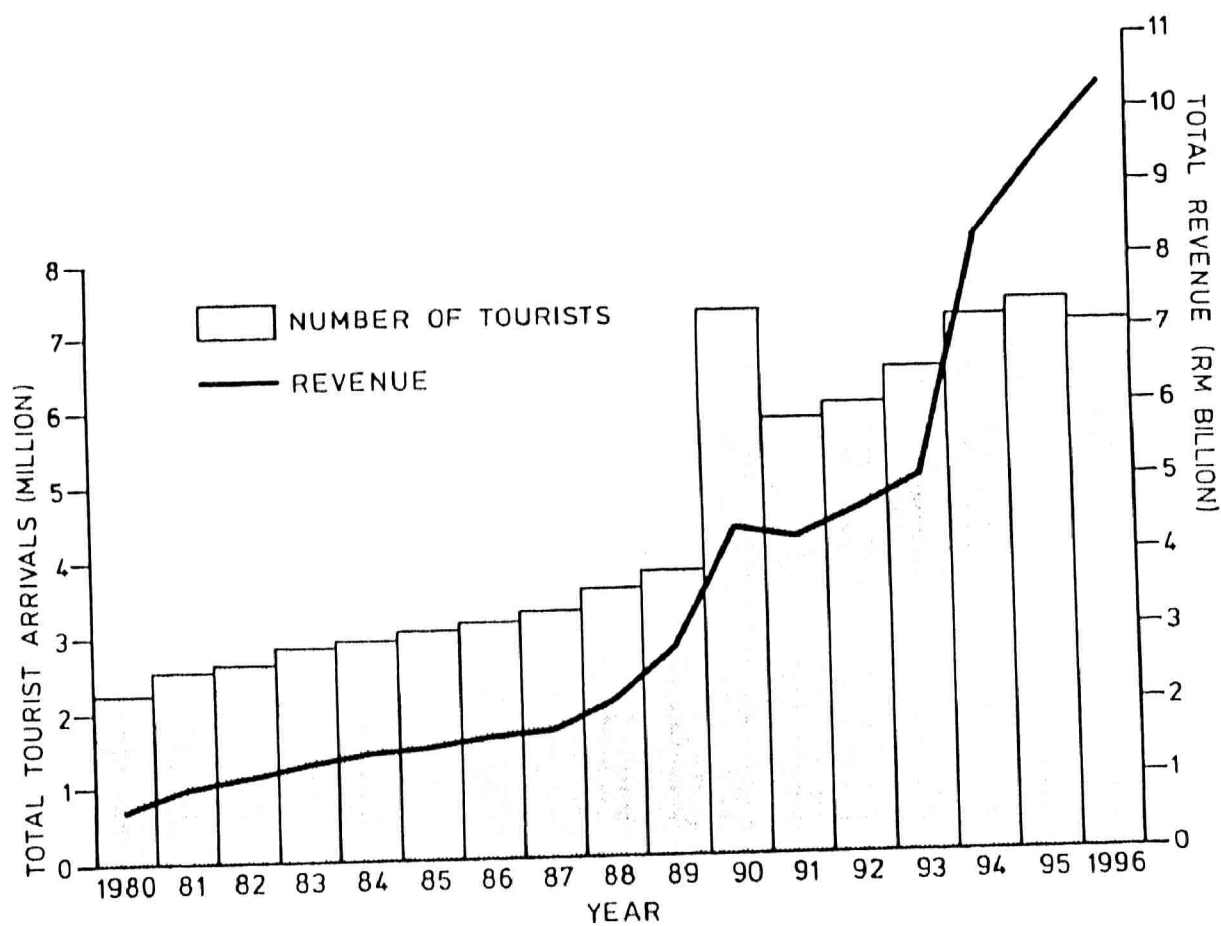


Figure 2.4. Tourist Arrivals and Receipts, Malaysia, 1980-96

Source: MTPB 1997

declined by 4.4 per cent and a further 30 per cent in 1997. The big decrease in 1997 was due predominantly to the bad publicity that developed as most of Southeast Asia was enveloped by haze in the later part of the year as a result of forest fires in Indonesia and the Cocksackie B virus outbreak in Sarawak in April. Most of foreign arrivals were recorded in Peninsular Malaysia while only about five per cent of the arrivals visited Sabah and Sarawak. The situation is not surprising, considering that almost all international flights to Malaysia land either at Kuala Lumpur or Penang. Tourists intending to visit Sabah and Sarawak are compelled to take an additional flight from Kuala Lumpur and the higher cost of travel and the short length of stay are inhibiting factors towards greater tourists flows to these two states.

The major sources of international tourists to Malaysia have remained relatively unchanged since the 1980s. Short-haul tourists form the main component of tourist arrivals. Slight shifts in market positions occur and reflect the political climate or economic conditions in tourist generating countries. In a situation where disposable income is reduced, travel becomes one of the first items to be eliminated.

Tourists to Malaysia can be divided into two categories:- regional and non-regional tourists.

Regional Tourists

The dominance of regional tourists has been evident since the 1970s. Tourists from the surrounding ASEAN countries formed 73.0 per cent of the total arrivals in 1996 (Figure 2.5). Singaporeans have constituted the single most important group of tourists

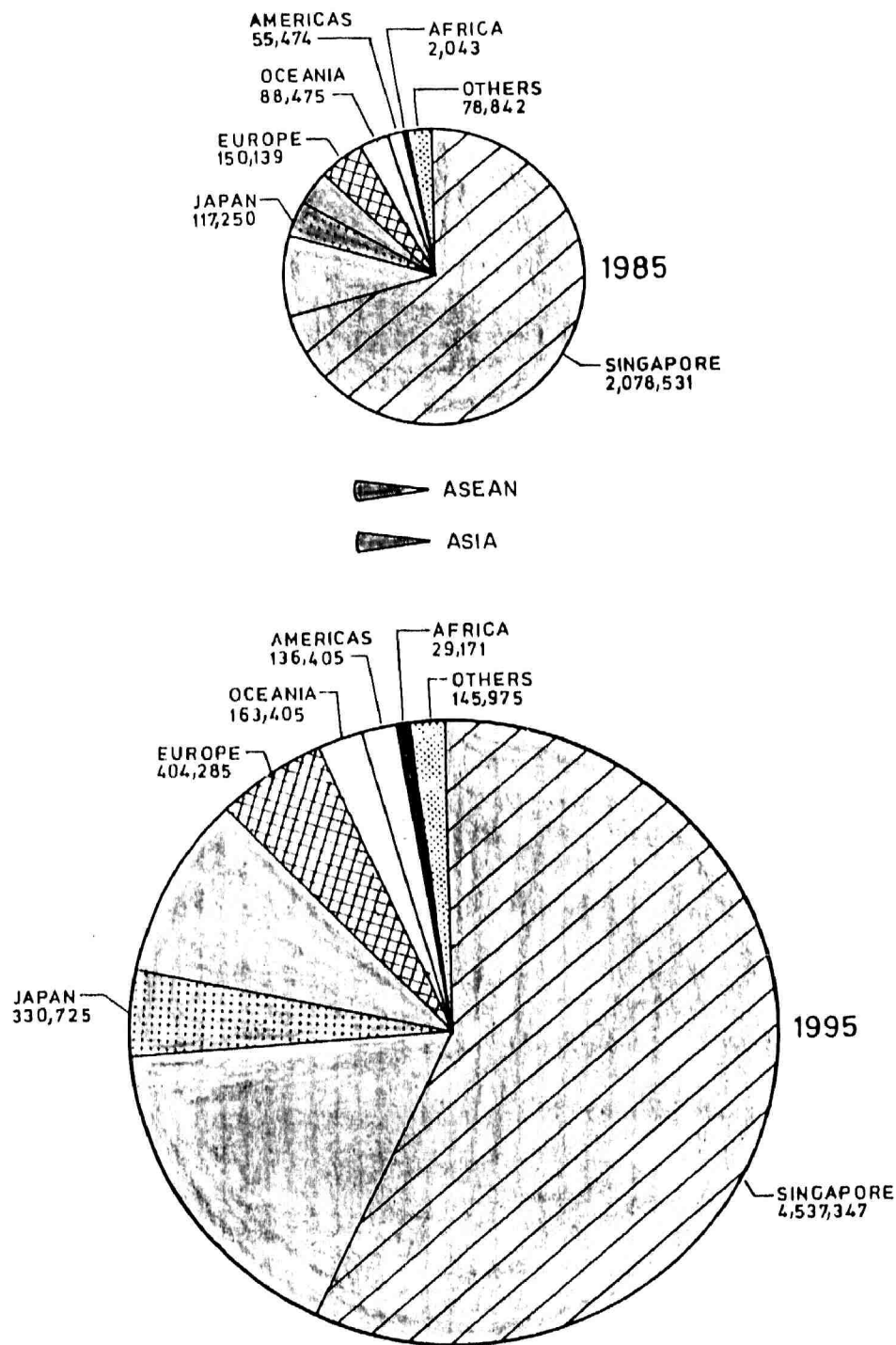


Figure 2.5. Tourists to Malaysia by Countries of Origin, 1985 and 1995

Source: MTPB 1996.

for over two decades. They account for about 80 per cent of regional tourists and 60 per cent of all tourists. In addition, they are also extremely important as excursionists accounting for 84 per cent of the total. This predominance is a consequence of geographical proximity, kinship ties, the variety of package tours, greater purchasing power with the favourable exchange rate and relatively higher incomes. Tourists from Thailand are a poor second as a source of regional tourists, accounting for only ten per cent of the regional total. Arrivals from Thailand and also Indonesia have declined slightly since 1984 after showing an increase in the early 1980s. The imposition of an exit tax of 500 bahts on Thais and 250,000 rupiahs on Indonesians has not only reduced the number of travellers and but encouraged longer distance travel among those tourists leaving the country. However, it is expected that regional tourists will remain as important sources of tourists as ASEAN is one of the world's fastest growing tourist generating area. With the buoyant economy of the region, the number of business travellers will continue to grow, while the rapidly growing disposable incomes of the emerging middle class will stimulate leisure travel. In the foreseeable future, it is expected that much of the leisure spending and travel generated will be confined to the region because of strong family, religious and cultural links and the relative inexpensiveness of a regional vacation.

Non-regional Tourists

Except for Japan, the number of tourists from the non-ASEAN markets is small. However, this segment has been the fastest growing travel market to Malaysia, due primarily to arrivals from Japan, Taiwan, China and Hong Kong. Japan is the second

largest source of tourists after Singapore and Thailand accounting for 18.3 per cent of non-ASEAN tourists in 1996. While the Japanese component forms the largest non-ASEAN market, its share fluctuates from year to year. In 1992, Japanese tourists totalled 247,671 or only 4.4 per cent of the total tourists - a significant decrease from 394,437 or 7.1 per cent of total arrivals in 1991. With the appreciation of the Japanese yen and the recovery of the Japanese economy, the number of tourists from Japan has increased though it still very much below the 1991 figure. In 1993, 255,607 Japanese tourists visited Malaysia followed by 286,330 in 1994 and 330,725 in 1995 and 353,204 in 1996.

In contrast, the combined total arrivals from Hong Kong, Taiwan and China rose from 242,530 in 1991 to 321,328 in 1992 surpassing the Japanese portion for that year (*Malaysia Tourism* May/June 1993). The availability of high disposable incomes and accessibility will continue to fuel increases in tourists from these three areas. The Taiwanese are also big investors in Malaysia and a substantial number of these tourists come for business reasons. Excepting Australia, U.S.A and the United Kingdom which account for about 5.85 per cent of total arrivals, the tourists from the other market sources such as Continental Europe and Africa are small but they are potential high yielding sources of tourists.

While the figures for Malaysia's tourist arrivals surpass that of other countries in Southeast Asia, they also tend to mislead. For example, the high percentage of ASEAN tourists of more than 70 per cent compares very unfavourably with neighbouring countries. ASEAN arrivals constitute only 29.2 per cent of the total in Singapore and 31.4 per cent in Thailand. The key markets of Japan, Europe, U.S.A, Taiwan and South

Korea have scarcely been tapped. Although constituting the most important source of non-ASEAN tourists, the Japanese represent only five per cent of total arrivals in 1996. Japan generated 15 million outbound tourists in 1995 but less than two per cent of them vacationed in Malaysia (Hall and Page 1999; Thurston 1989). In comparison, Singapore draws four times and Thailand three times as many Japanese tourists. Since 1986, however, the number of tourists from non-ASEAN countries has shown a higher percentage growth than tourists from ASEAN and non-ASEAN markets have been the recent focus of MTPB's promotional efforts because of their greater spending potential.

Of particular concern has been the dependence on a single market, Singapore, and its consequences on the tourism industry. Singaporeans averaged a stay of only 3.1 nights in 1996 because of proximity and frequency of visit,. This decrease from 4.1 nights in 1980 possibly occurred because of the better transport links between the two countries. As many Singaporeans have kinship ties with Malaysians, 67.8 per cent of them do not need hotel accommodation nor use facilities within them. The dominance of a single group of tourists results in a low overall average length of stay for tourists. Although the average length of stay has increased from 4.8 nights in 1992 to 5.4 nights in 1996 because of the longer length of stay of non-ASEAN tourists (7.6 nights), the figure is still very much below Thailand's figure of more than 6.0 nights which was achieved as early as in 1987. Also, in terms of per capita expenditure, these tourists show a lower propensity to spend compared to tourists from Japan and other major tourist generating markets.¹

¹ Tourists from Western Europe and U.S.A. are the biggest spenders. Italian tourists registered the highest per capita expenditure of RM2,733 in 1997 followed by tourists from United Kingdom(RM2,549), U.S.A. (RM2,366) and Switzerland (RM2,357) (*Malaysia Tourism* July-August 1998).

International tourists to Malaysia are numerically and spatially concentrated in a few tourist destinations, particularly Kuala Lumpur and Penang on the west coast of Peninsular Malaysia (Oppermann 1992). More than 20 years after the implementation of the Tourism Master Plan of 1975, the spatial dominance of the west coast in terms of tourist arrivals results in a very linear pattern of flow of visitors.

The envisaged development of an eight-shaped tourist circuit has, despite TDC financial involvement, not materialised. Based on the development pattern over the last 15 years, the assumption that 'the industry can also act as a catalyst for regional development due to the location of tourism resources that are available in the country' has to be questioned (Oppermann 1992).

Tourism tends to be concentrated in localities that are often identical with the major economic and population centres of the country. Economic activity is characterised by self-concentration effects and future tourism growth is most likely to occur in the same locations.

THE ROLE OF DOMESTIC TOURISM

Domestic tourism has somewhat similar economic effects upon the host regions of a country. Whereas, international tourism brings a flow of foreign currency into a country, domestic tourism redistributes domestic currency spatially within the boundaries of a country. Money earned in other regions is spent within the host region creating additional business income, jobs and revenue to the local government (Archer and Cooper 1994).

The domestic tourism market is relatively untapped despite its vast potential. In 1995, hotels in the country received 7.1 million domestic guests compared to 5.2 million in 1990. The shortage of suitable and affordable accommodation is an important factor curbing local travel. At the same time, entrepreneurs are reticent about investing in budget hotels as the returns are comparatively lower than international hotels. In the last few years, efforts have been intensified to encourage domestic tourism and various incentives and funds have been made available to local entrepreneurs interested in building budget hotels and tourist facilities. The Government itself pioneered the development of budget accommodation by allocating RM100 million in the Sixth Malaysia Plan for the construction of 27 budget hotels with a total of 5,000 rooms throughout the country. The change in emphasis towards domestic tourism has been influenced by two factors. First, a strong domestic tourism base can act as a buffer against a fall in international tourist arrivals as experienced in 1991 and 1997. With the increasing competition from cheaper tourist destinations in Southeast Asia that offer similar attractions, the increase in international tourist arrivals cannot be expected to be as significant as during VMY 1990. Secondly, the promotion of domestic tourism will help reduce the outflow of foreign exchange caused by the large number of Malaysians who are able to travel overseas because of the rapid economic development of the country. A breakdown of outgoing Malaysians according to their reasons for travel is not available but it cannot be denied that a substantial number are on vacation. In 1980, only 1.7 million Malaysians were recorded as having left the country by rail, road or air on trips overseas but this figure has since risen to 4.5 million by 1995 (Table 2.3). If the 16.03 million who leave the country via road to work, study or vacation in Singapore is included in the tabulation, the number

of outbound travellers would have totalled 20.64 million in 1995. As such, the country has consistently experienced a deficit in its travel account until a surplus was achieved with VMY 1990.

Table 2.3 Outbound Travel by Malaysians by Modes of Exit, 1980-95.

Year	Air	Road*	Rail	Sea	Total
1980	379,001	471,144	814,196	74,015	1,738,356
1985	709,532	742,331	311,965	72,924	1,836,752
1990	795,847	1,449,825	416,092	166,300	2,828,004
1995	1,217,805	2,540,604	520,687	318,067	4,597,163

* excludes those leaving by road to Singapore via Johor Bahru.

Source: MTPB 1996.

Domestic travel is seasonal in nature, peaking during festivals and school holidays in the months of May-June, August-September, and November-December. Domestic travellers often vacation in their home towns, visiting relatives and friends. It is also biased towards certain destinations particularly Kuala Lumpur, Langkawi, Penang, Melaka, Genting Highlands and Cameron Highlands. Domestic tourists from Sabah and Sarawak tend to concentrate in Kuala Lumpur while the domestic tourist traffic from Peninsular Malaysia to Sabah and Sarawak is minimal. A 1988 survey by MTPB states that 40 per cent of the domestic trips was to Kuala Lumpur with the average length of stay being 4.7 nights. It is expected that as the tourism industry matures, the domestic component will play an increasingly important role. The number of domestic tourists is expected to increase by 8.8 per cent annually and domestic tourism receipts by 15.2 per

cent (Economist Intelligence Unit 1990).

TOURISM AND THE MALAYSIAN ECONOMY

The record tourism receipts in 1994 placed the tourism sector in its highest position ever as the second most important source of foreign exchange earnings after the manufacturing sector; its position having risen from seventh in 1980 to fifth in 1985. It contributed 17.8 per cent of the service sector earnings and 7.6 per cent of the overall Gross Domestic Product of the country in 1995. The number of international tourist is projected to grow by 9.6 per cent annually to reach 12.5 million by the year 2000 while travel receipts are projected at RM17 billion.

Foreign Exchange Earnings

A strong economic argument for government support of the tourism industry is its potential as a foreign exchange earner. A shortage of foreign exchange is one of the continuing constraints on the development effort in most developing countries. Thus, the maximisation of net foreign exchange earnings from tourism is often stated as a government objective. To increase foreign exchange earnings, governments often, however, resort to the policy of maximising the number of tourists in the mistaken belief that this will lead to the optimisation of receipts.

Before the fall in oil prices, the petroleum industry was the fastest growing sector in the Malaysian economy in terms of foreign exchange earnings. However, in the Fourth

Malaysia Plan period (1981-85), growth per annum in foreign exchange from petroleum averaged only 4.3 per cent, oil palm 11.6 per cent, rubber 5.7 per cent, tin 19.0 per cent and sawn logs 1.0 per cent. In contrast, tourism earnings increased from RM713.1 million in 1980 to RM1,543.1 million in 1985 at an average rate of 19.4 per cent per annum. By 1990, foreign exchange earnings from tourism had reached RM4.5 billion - a six-fold increase since 1980. Tourism contributed 13 per cent of the country's foreign exchange earnings - a figure considered low when compared to 35 per cent for Singapore and 28 per cent for Thailand (*Star* 16th Feb. 1990). The total tourist receipts also pales in comparison with Hong Kong (RM10 billion) and Thailand (RM11.5 billion) (*New Straits Times* 22nd July 1991). Australia earned RM13.4 billion in 1988-89 from only 2.25 million visitors (*Sunday Star* 28th July 1991). Though having relatively smaller tourist figures than Malaysia, these areas gain from a longer length of stay and a higher daily tourist expenditure. For example, Malaysia's average daily expenditure of (US\$62) is less than half that of Thailand's (US\$125.41). Although the share of tourism earnings in total services receipts increased steadily from 23.5 per cent in 1985 to 28 per cent in 1990, the positive effect on the balance of payments was offset by the large outflows from outbound travel, which increased from RM2,800 million in 1985 to RM4,000 million in 1990. An effective application of a two-pronged strategy of increasing foreign tourists inflows, while at the same time promoting domestic tourism to reduce foreign exchange outflows due to overseas leisure travel by Malaysians is thus necessary. However, it is interesting to note that since 1992, tourism receipts have increased annually, even when tourist arrivals declined suggesting that MTPB is succeeding in enticing tourists to stay longer and to spend more. VMY 1994 was exceptionally successful in terms of increasing

tourism receipts by 64 per cent though tourist arrivals increased by only 11 per cent. The tourism revenue of RM8.3 billion from 7.2 million tourists equalled the target set for the year 2000. By 1996, tourism revenue had recorded an all-time high of RM10.4 billion but from a lower tourist number of 7.1 million (MTPB 1997).

Multiplier effect

Much of the discussion on tourism's contribution to economic development centres on how tourist spending filters down the economy, stimulating other sectors as it does so. It is questionable whether the multiplier effect of tourism is any greater or lesser than that of other economic activities. As yet no detailed study on the multiplier effect has been done in Malaysia though initially impressive claims were made. For example, a multiplier of 3.2 to 4.3 was cited in the Tourism Development Plan of 1975 but more recent studies have quoted lower figures. Seow *et al.* (1984) estimates an income multiplier of only 0.85 based on tourist expenditures of US\$265 million and a total Gross Domestic Product impact of US\$226 while Goh (1989) mentions an income multiplier of only 0.53.¹ The Ministry of Finance, on the other hand, estimates a multiplier of 1.87 for every dollar of expenditure on hotels and restaurants (Ministry of Finance, Malaysia 1989). Nevertheless, the expenditures from tourism and its multiplier effects provide a greatly expanded tax base for the government. The levels of business affected by tourist expenditures will pass on part of these expenditures as taxes to the government.

¹ The same study also estimated a high import leakage of 65.8 per cent of gross tourism earnings. The net 34.2 per cent of gross tourism earnings would place Malaysia in Cleverdon's category of 'heavily import reliant country' in tourism (Goh 1989).

Despite these potential benefits, the tourist industry rests upon very fragile market flows and faces difficulties in maximising the positive economic impacts associated with visitor expenditure. Tourists often demand goods and services that cannot be provided from within the local economy. Thus, a proportion of tourist expenditure will leak from the economy and consequently the local income generated from tourism may only be a relatively small proportion of total tourist spending. In addition, the large amounts of money and expertise required to establish large scale tourist facilities are beyond the resources of local entrepreneurs resulting in much of the industry being owned by overseas concerns.

Employment Opportunities

Tourism contributes to employment through jobs generated by tourist enterprises such as hotels, tour operators, theme parks, tourist attractions, and souvenir shops. These are considered as direct employment, while jobs created in the supply sectors due to tourist demand or activities such as handicrafts, agriculture, fisheries, etc, are indirect employment. Induced employment opportunities can also result as increased tourism earnings generate additional employment in other sectors (Mathieson and Wall 1982). It is, however, difficult to estimate the total number of persons employed by the industry due to the diverse range of onward linkages.

Archer *et al.* (1974) states that tourism creates at least twice the jobs resulting from general spending. In his study of employment generated by tourist activity in Anglesey (Gwynedd), only 2.39 jobs were produced from each additional £10,000 of general spending compared to 4.83 jobs in tourism. Being a service industry, tourism is

labour-intensive and the principle type of labour required - both semi-skilled or unskilled - is in abundant supply in most developing countries. Thus, tourism can contribute significantly to the creation of jobs or the alleviation of unemployment. However, the benefits of employment generation may be reduced because managerial and professional positions that require specialised skills may require the use of expatriate staff.

Tourism's role as a source of employment in Malaysia is, however, far from encouraging. First, despite its linkages to other sectors of the economy and the resulting indirect employment, it employed only 68,837 workers or 0.98 per cent of the work force in 1990 (*New Straits Times* 27th March 1991). Nevertheless, employment in tourism has been increasing. In 1995, the estimated employment rose to 134,990 or less than 2 per cent of the labour force (Table 2.4). The main source of employment was in hotels. Direct employment in hotels in Malaysia rose from 5,200 in 1970 to 17,600 in 1980, 39,961 in 1990 and 67,214 in 1995 (Government of Malaysia 1991 & 1996). However, about 65 per cent of the employment are in the semi-skilled or unskilled category. Secondly, because of the dominance of lower grade jobs, the average earnings of employees in hotels and travel agencies are much less than those in other services such as advertising, shipping and bus transport. This situation is also probably affected by the large number of relatively lower paid female employees, who make up 51 per cent of staff in travel agencies and 40 per cent in hotels (Goh 1989). Thirdly, tourism's claim that it employs more unskilled seasonal or part-time employees than other sectors has also been disputed. Goh (1989) cites a part-time employment figure of only 1.5 per cent in hotels and 2.3 per cent in travel agencies and asserts that there are in fact more part-timers in

other services such as shipping and advertising.

Table 2.4. Number of Direct Employees in Tourism Sectors, 1995 and 1996

Tourist Sector	1995	Per cent	1996	Per cent
Hotel	67,214	54.4	73,749	54.6
Travel and Tour Operating Business	22,731	18.4	25,068	18.6
Airlines	21,309	17.0	19,791	14.7
Tourist Attractions	12,309	9.9	15,584	11.5
Tourism Educational Institutions	352	0.3	798	0.6
Total	123,655	100.00	134,990	100.0

Source: MTPB 1996 and 1997.

Tourist Establishments

The emphasis on tourism promotion since the mid-1980s was to initiate a boom in the construction of tourist facilities, particularly hotels. In 1980, there were only 833 hotels with a total of 27,527 rooms in Malaysia. By 1985, the number had increased marginally to 851 hotels and by another 8,193 rooms. But with the interest in tourism development, another 138 hotels were added between 1985-90. The potential of the tourism industry and the problem of room inadequacy that was highlighted by VMY 1990 spurred a rapid expansion of accommodation facilities. A total of 300 hotels were added bringing the overall total to 1,289 hotels while the number of room almost doubled between 1990 to 1996 (Figure 2.6). As there was only a 30 per cent addition in the number of hotels, the phenomenal increase in room numbers implies that there was a

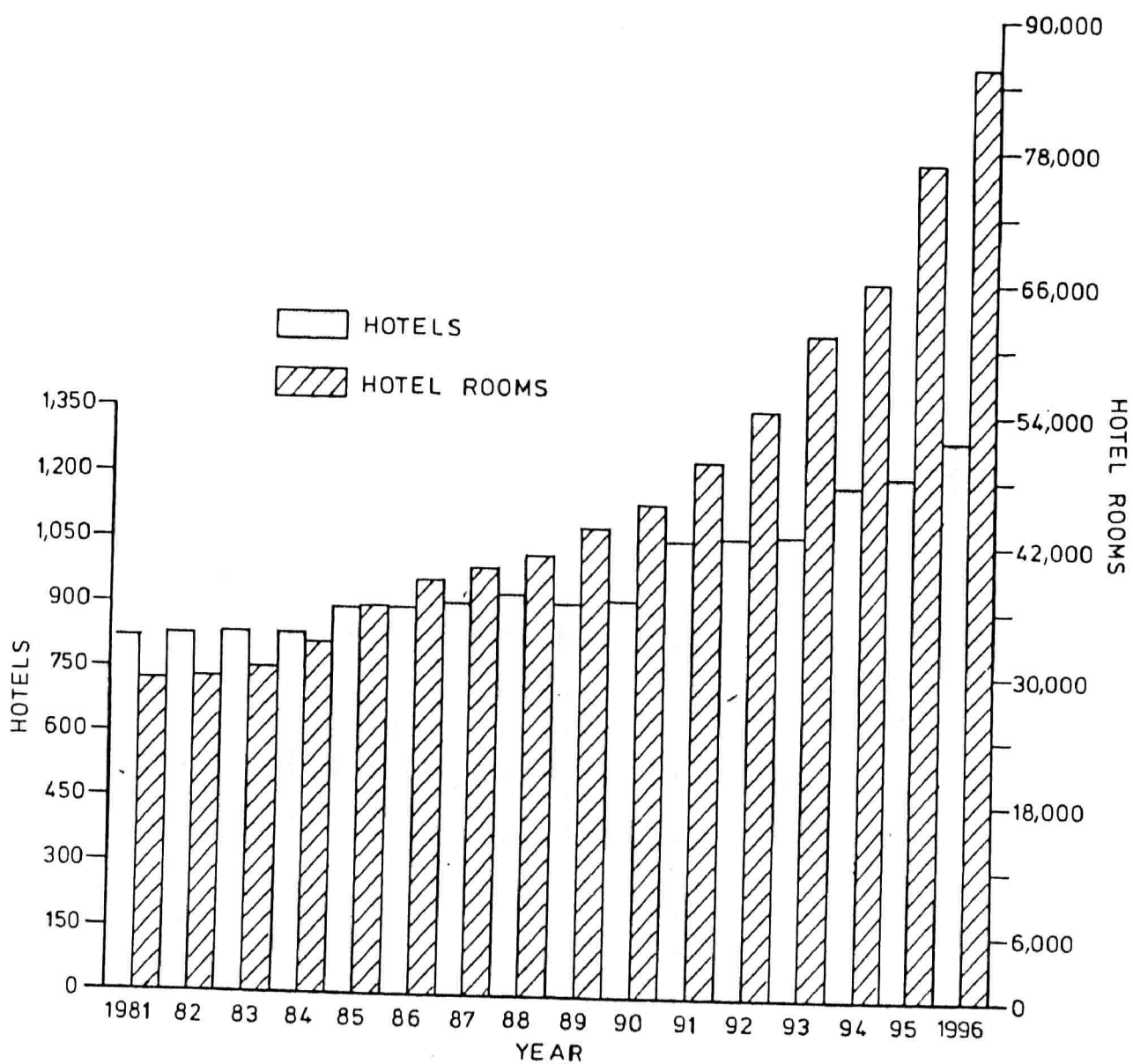


Figure 2.6. Number of Hotels and Rooms in Malaysia, 1981-96.

Source: MTPB 1997

concentration on the building of large international hotels. Most of the hotels are concentrated in the main tourist destinations of Kuala Lumpur and Penang (Figure 2.7a and b). Together these two destinations account for a quarter of the 85,514 rooms available in the country in 1996.

The hotel industry has been plagued by a shortage of unskilled workers to undertake cleaning and general maintenance work and had to resort to using foreign labour for a period of time in 1997. This is perhaps due to the rapid rate at which hotels had been constructed in the last five years. An indication of the oversupply of rooms is the decline in the average occupancy rates in practically all the major tourist destinations between 1995-96. The average hotel occupancy declined from 65.5 per cent in 1995 to 62.3 per cent in 1996. The decrease was particularly severe in island resorts. For example, Pangkor Island's occupancy rate declined by ten percentage points to 27.4 per cent, the lowest in the country (Table 2.5).

With the expansion in both international (inbound and outbound) and domestic travel there was a nation-wide increase of 873 travel and tour agencies between 1990-96. Of the total of 2,418 agencies presently in operation, 770 (32 per cent) are located in Kuala Lumpur. However, most of these agencies are involved only in ticketing functions and out-bound tours. For those agencies involved in in-bound tours, a primary problem has been the lack of tour guides conversant in foreign languages. Of the 3,923 registered tour guides in the country, most are fluent in English and Chinese but the number conversant in other foreign languages is relatively small.

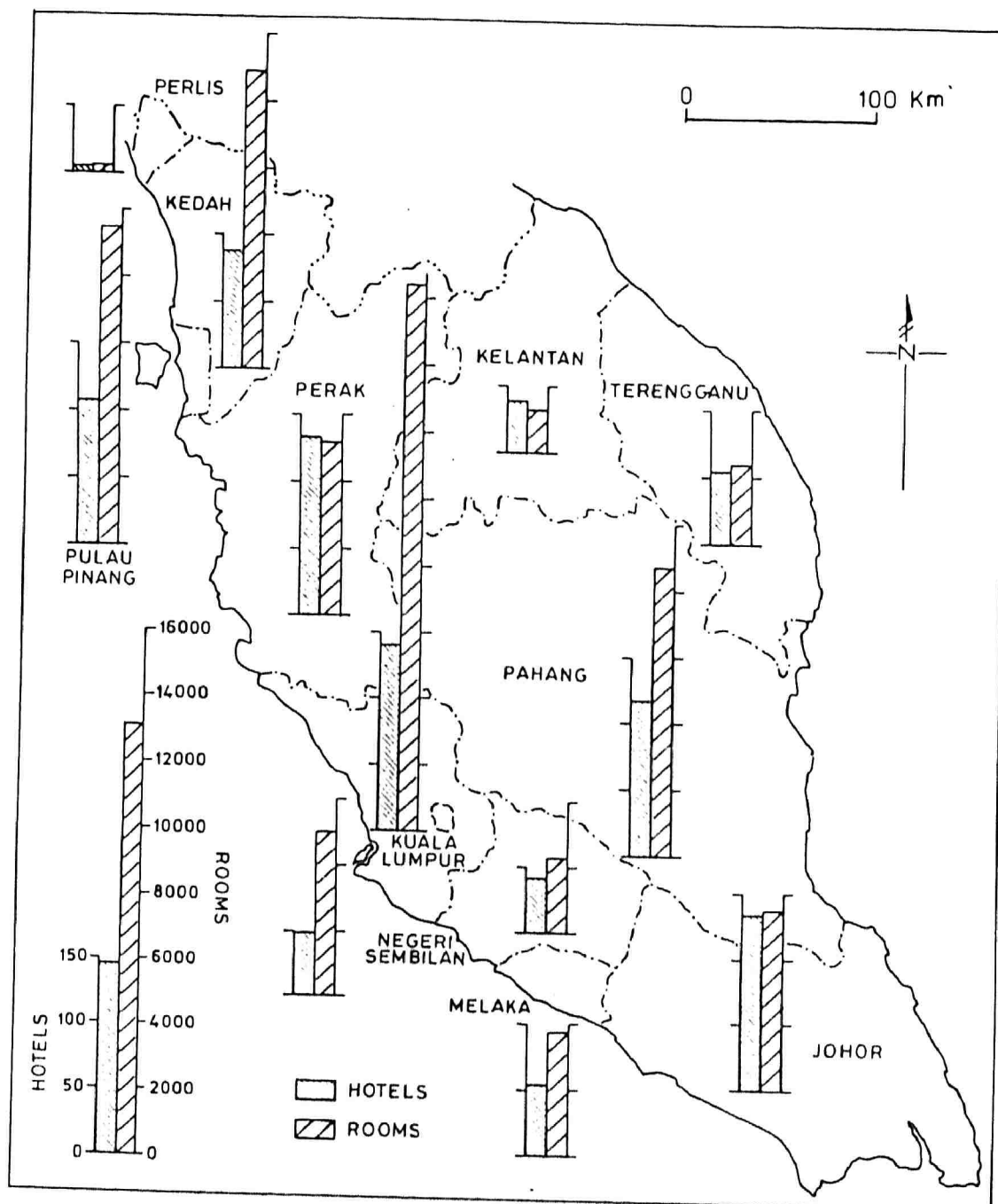


Figure 2.7a. Distribution of Hotels and Rooms by States in Peninsular Malaysia, 1996

Source: MTPB 1997.

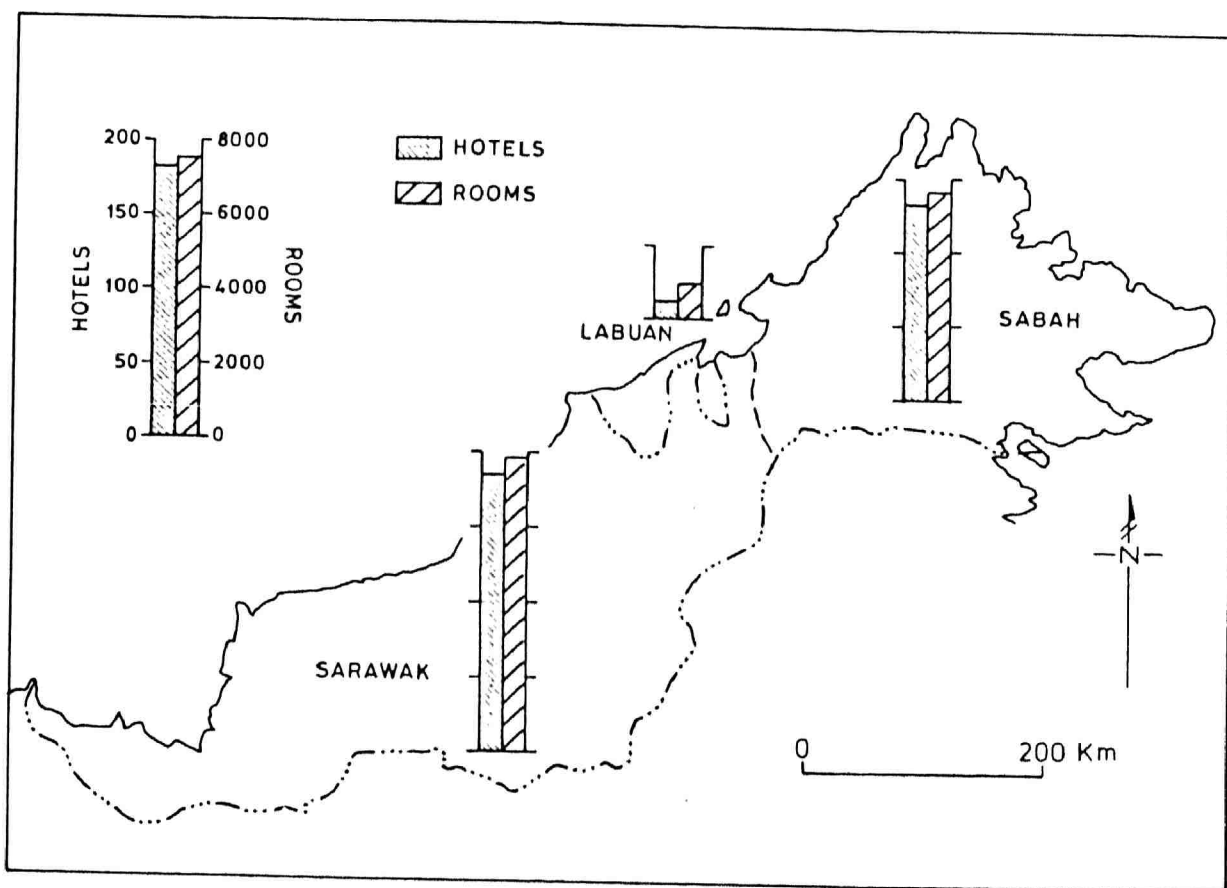


Figure 2.7b. Distribution of Hotels and Rooms in Sabah and Sarawak, 1996.

Source: MTPB 1997.

Table 2.5. Average Occupancy Rate of Hotels in Selected Tourist Destinations, 1995 and 1996

Locality	Occupancy rate		Per cent Change
	1995	1996	
Kuala Lumpur	76.2	73.4	-2.8
Penang	62.4	57.1	-5.3
Johor Bahru	59.8	55.4	-4.4
Melaka	65.5	59.7	-5.8
Cameron Highlands	39.6	31.6	-8.0
Langkawi Island	68.1	59.6	-8.5
Tioman Island	68.1	51.7	-16.4
Pangkor Island	37.5	27.4	-10.1
Port Dickson	49.6	43.4	-6.2
Kota Kinabalu	68.1	69.6	1.5
Kuching	60.2	62.7	2.5

Source: MTPB 1996 and 1997.

CONCLUSION

Undoubtedly, tourism is a thriving industry in Malaysia. The Government has set a target of 20 million tourist arrivals and revenue of RM8.3 billion by the year 2000 as early as in 1985. While the targeted number of tourists may not be attained, the targeted revenue has been exceeded six years earlier (*Malaysia Tourism*, January-February 1998). The increased accessibility afforded by more than 90 foreign destinations now served by the national airlines and 998 international scheduled flights per week, adequate

accommodation, diversification and development of new tourist attractions and the improved economic situation in major market areas augers well for the continued development of tourism. However, caution is necessary in not overdeveloping the industry. Already, there are indications of an oversupply of hotel rooms in certain locations and increasing concern over the impact on the natural environment. The industry is not only competitive and segmented but it is also affected by various structural changes in the global economy and political situations which are beyond the control of the country. For example, the depreciation of the Southeast Asian currencies since July 1997 caused a decline in regional travel and consequently the number of regional tourists to Malaysia. Tourism revenue fell by 14 per cent to RM6.2 billion in 1997 while tourists from Singapore dropped by 40 per cent (*New Straits Times* 3 March 1998). At the same time, the depreciation of the ringgit will also provide an opportunity for Malaysia to promote the country as a value-for-money destination and increase significantly the share of non-regional tourists, particularly those from new market sources such as South Africa and China. Despite the myriad problems plaguing the industry such as accessibility, dependence on regional tourists, lack of budget accommodations, tourism is being promoted aggressively by practically all the states. In comparison to other states in the country, perhaps no other state as Melaka has placed such an important stake on the tourism industry for its economic prosperity.