

OVERVIEW OF TOURISM

Tourism is the world's largest industry playing an importance role in the global economy. Its contribution has risen drastically over the recent years. The industry is highly fragmented with the involvement of a large number of small businesses. The characteristics of the tourism industry worldwide, along with its significance to many economies, have led governments to fund a variety of bodies existing to promote tourism at home and overseas.

Defining the tourism industry is difficult simply because it is not grouped into a single heading within the Standard Industrial Classification (SIC). The defining feature of tourism is not the product, but the purchaser or tourists. Most definitions concentrate on services that a number of different industries such as travel industry, hotel and catering, retailing and entertainment provided to tourists. However, the internationally agreed definition of tourism refers to "the activities of persons traveling to and staying outside their usual environment for not more than one consecutive year for leisure, business and other purposes" (The World Tourism Organisation, 1994).

Tourism is a vital component of the international economy. It is not only a pleasure sector; but also an economic activity developed according to economic forces (Raymond J. Wanhill (1994) argues that tourism is a demand-led industry whose influence touches many different sectors of the economy. Another important factor is that tourism is a labour intensive industry giving rise to job creation. It plays an important role in the balance of Payments of many developing countries, including Malaysia.

1.2 THE SEVERE ACUTE RESPIRATORY SYNDROME OUTBREAK

After the Asian financial crisis of 1997-1998, the severe acute respiratory syndrome (SARS) is perhaps the most serious single factor that adversely affected the growth of Asia. The deleterious impact of SARS, aggravated by a growing uncertainty, affected almost all economic sectors, including tourism. The sudden outbreak and continuous spread of SARS had been referred to as “another blow of confidence”, along with the Iraq war and economic recession in Japan.

The SARS scare came about at a time when the region was facing a weak external environment. Even though the cases reported in Malaysia were considered moderate compared to the rest of the world, a lack of understanding paired with domino effect continued to deter the government efforts to promote the “Cuti - cuti Malaysia” campaign.

The World Health Organization (WHO) issued a global alert on a deadly disease known as SARS on 12 March 2003. Believed to have no cure and life threatening, it originated from Guangdong province in southern China in November 2002. It continued to spread rapidly over 30 countries, infecting more than eight thousand people and causing death of 774 over a short period of 9 months (See Table 1).

Table 1 shows that China, Hong Kong, Taiwan, Canada and Singapore were the top five nations recording the highest number of cases as well as deaths. Interestingly, The United States and several European countries managed to curb the disease from spreading and avoid fatality. The two imported cases in Malaysia were resolved on 14 March 2003, with no reoccurrence later.

Table 1.1: The cumulative number of reported probable cases up to July 31 2003.

COUNTRY	TOTAL CASES	NUMBER OF DEATHS	FIRST PROBABLE CASE	LAST PROBABLE CASE
Australia	6	0	26 – Feb – 03	1 April – 03
Canada	251	43	23 – Feb – 03	12 – June – 03
China	5328	349	16 – Nov – 02	3 June – 03
Hong Kong	1755	299	15 – Feb – 03	31 – May – 03
Taiwan	346	37	25 – Feb – 03	15 – June – 03
France	7	1	21 – March – 03	3 – May 03
Germany	9	0	9 – March - 03	6 – May – 03
India	3	0	25 – Apr – 03	6 – May – 03
Indonesia	2	0	6 – Apr – 03	17 – April – 03
Italy	4	0	12 – March – 03	20 – April - 03
Kuwait	1	0	9 – April – 03	9 – April – 03
Malaysia	5	2	14 – March – 03	14 – March – 03
Mongolia	9	0	31 – March – 03	6 – May – 03
New Zealand	1	0	20 – April – 03	20 – April – 03
Philippines	14	2	25 – Feb – 03	5 – May – 03
Ireland	1	0	27 – Feb – 03	27 – Feb – 03
Republic of Korea	3	0	25 – April – 03	10 – May – 03
Romania	1	0	19 – March – 03	19 – March – 03
Russian Federation	1	0	5 – May – 03	5 – May – 03
Singapore	238	33	25 – Feb – 03	5 – May – 03
South Africa	1	1	3 – April – 03	3 – April – 03
Spain	1	0	26 – March – 03	26 – March – 03
Sweden	5	0	28 – March – 03	23 – April – 03
Switzerland	1	0	9 – March – 03	9 – March – 03
Thailand	9	2	11 – March – 03	27 – May – 03
United Kingdom	4	0	1 – March – 03	1 – April – 03
United States	29	0	24 – Feb – 03	13 July – 03
Vietnam	63	5	23 Feb - 03	14 – July - 03
TOTAL	8098	774		

Source: The World Health Organisation: June 2003

As evident from the data produced by the WHO, the first case was detected in China on 16 November 2002 while the last reported probable case dated 14 July 2003 in Vietnam. The largest number of deaths was recorded in China followed by Hong Kong, whereas Malaysia only registered two deaths both of which were imported cases. Many countries were able to completely avoid fatality.

SARS is contagion and found to be transmitted through aerosolized droplets or secretions. The speed and severity of the virus left little choice for governments in the affected region, mainly Hong Kong, China and Singapore to impose travel restrictions. Neighbouring countries, including Malaysia also began to take precautionary measures to prevent the outbreak from spreading as early as March 2003 when the government prepared and circulated reference materials and guidelines on Clinical Management of SARS Cases and Public Health Surveillance. By the middle of March 2003, the National Steering Committee set up to control SARS was actively responding to the global alert issued by the WHO.

The impact of SARS on an economy critically depends on its seriousness, duration and the structure of the economy, particularly the importance of service industries to a country's Gross Domestic Product (GDP). The pronounced impact of SARS can be attributed to the combination of two aspects of information about the illness:

- i) the almost costless and rapid transmission of information due to the development of modern media and communication technologies, and
- ii) the lack of sufficient medical information on the disease itself.

The initial impact of SARS was experienced by those in the travel and tourism related activities, namely hotels and retail trade. Major airlines including the Malaysian Airlines Systems too voluntarily suspended direct flights to destinations where incidences of SARS were high, such as in Singapore and Hong Kong. As the cause of the world worst epidemic was still a mystery, many countries decided to take precautionary measures in ensuring safety at home. Although the governments of the affected region continued to create awareness and hoped to see business going on as usual, the majority of tourists decided to either postpone or cancel their traveling plans.

Generally, SARS affected the Malaysian economy in three primary ways. It reduced:-

- a) consumption resulting from the uncertainty factor and fear of contracting the disease,

- b) service exports, particularly those related to tourism; and
- c) flow of foreign direct investment, as investors delayed their investment decisions.

Although the local authorities took considerable initiatives to minimize the contagion effects from the deadly disease, SARS continued to deter tourists from visiting Malaysia until reassurance for safety was given by the international community to travel to East Asia.

There are several channels by which SARS adversely affects our economy. The most immediate medium is through the demand side, i.e., in the short run, economic consequences arise almost entirely from public perception and fear of the unknown.

Economies including Malaysia relying heavily on the service sectors, began to feel the pain as an increasing number of business conferences and personal trips from abroad was cancelled. Even domestic spending showed a drastic fall as local consumers altered their shopping behaviour by limiting their outdoor activities. It was hard to determine just how long the process of recovery would take. At the same time, planning for future business also became almost impossible. While the WHO and regional ministries of health worked together to identify the cause and find the antidote for the feared virus, leaders began to devise a contingency plan to support their economies from yet another crisis.

1.3 LITERATURE REVIEW

To date, no official reports have been published pertaining to the effects of SARS epidemic on the Malaysian tourism in particular. This is probably because it was only a temporary economic shock and was successfully managed by the government. It is also worthy to keep in mind that Malaysia was not classified as one of the severely affected countries together with China, Hong Kong, Singapore and Vietnam.

However, for a better understanding of the factors affecting the local tourism industry, specifically natural hazards, works of several economists and academicians have been carefully analysed to seek for similarities of past natural diseases in regions known for tourist attractions.

In 2001, the foot and mouth disease had a significant impact on the United Kingdom's agriculture and tourism sectors. A study conducted by Blake, Sinclair, and Sugiyarto (2001) showed that the imposition of restricted areas, postponement or cancellation of public events reduced tourist arrivals and caused an adverse effect on the government expenditure. They discovered that most businesses relying heavily on sales to tourists such as hotels, air transport and entertainment are expected to experience a decline in earnings even after a region is declared to be safe for visits.

Looi (1998) in his empirical analysis concluded that man- created disaster had considerable contagion effect namely on Malaysia and Brunei. The deteriorated air quality within the South East region was estimated to result in an economic loss totaling up to USD127.4 million for Malaysia compared to USD70.4 million for Indonesia and USD58.4 million for Singapore. It was clear that as soon as tourist perceived a destination as hazardous, its attractiveness becomes immaterial as the costs of travel increase.

The Caribbean islands, famous for its coastal beauty is constantly exposed to storms and hurricanes. Assessment by The Unit of Sustainable Development and

Environment, Organisations of American States (2000) reveals that tourism related activities experiences losses in the form of reduced foreign exchange revenues, employment and increased liability for guests.

Other findings include the wildfires in Florida, volcanic eruptions in Philippines and tropical cyclones in Australia, all which show the adverse effect on the respective economies' tourism industries.

On the local front, the Cocksackie virus B epidemic in Sarawak in the middle of 1997 posed a threat to the East Malaysian tourism, as the media continued to sensationalise the issue. The Nipah outbreak, transmitted from pigs to farm workers also shunned tourist away from visiting Malaysia between September 1998 and late June 1999. Therefore, it is imperative for relevant authorities to act transparently by disseminating timely sufficient information to help soothe the fear among the public. Otherwise, the image of a destination could be seriously tarnished.

1.4 THEORETICAL BACKGROUND

Classical economic theory implies that the major determinants of the demand for foreign tourism should include; the price of tourist goods and services relative to the price of relevant substitutes, the incomes of tourist and any other specific factors may alter the tastes of travelers for tourism (Walsh, 1996).

There are essentially two measures of tourism activities, namely tourism flow (arrivals) and tourism expenditure. The average daily census, which combines arrivals and the length of stay, gives a more accurate measure of the volume of tourists destination on a given day. However, neither of these measures takes into account the 'expectation' factor of tourism.

While the interpretation of tourism is not strictly a technical definition, it does convey the essential nature of tourism, i.e.;

- i) tourism arises out of the movement of people to , and their stay in, various places or destinations.
- ii) There are two elements in tourism – the journey to the destination and the activities at the destination.
- iii) Destinations are visited for purposes other than taking up permanent residence or employment in the places visited.

As with the demand-side, the supply-side definition of tourism has two possible approaches, the conceptual view, as Leiper, N. (1979, p.400) suggests that the tourist industry consists of all those firms, organizations and facilities which are intended to serve the specific needs and wants of tourists.

Logically, when potential tourists foresee danger related to health or in other negative consequences, they will perceive the destination to be of higher risk, i.e. increased cost of travel. Under these circumstances, one usually opts between delaying their travel plans or diverting to another tourist spot which offers similar getaways. Competition then comes into play. In other words, there is a strong negative correlation between the decision to tour and an exogenous economic shock affecting the destination of interest.

Historical evidences support this notion, as tourism is an industry which is extremely sensitive to customer perceptions and expectations. Events categorized as natural disasters have in the past affected many tourism destinations and their neighbouring regions adversely.

Factors affecting the tourism industry can either be systematic or unsystematic. While the former is usually difficult to avoid due its source the latter is often wisely managed to minimize and in some cases eliminate its negative impact on the economy as a whole.

Political stability and natural disasters are classified as exogenous factors, normally having a greater impact than expected due to its degree of uncertainty and loss of confidence amongst tourists. Whereas socio-economic factors such as changes in tourists

motivation to travel and competitiveness among destinations are found to predictable, hence making it rather easy to deal with.

From an economic point of view, explanatory factors that best describe a tourism demand model include level of income, price elasticity, and government participation in promoting the industry.

1.5 OBJECTIVES OF THE STUDY

There has yet to be any formal study on the effects of SARS on the Malaysian tourism. Therefore this paper will contribute to provide a clearer picture on the tourism industry in Malaysia especially with regards to the effects of SARS. The objectives of this research paper is to examine the impact of SARS on the Malaysian tourism industry, particularly on the total number of arrivals.

It also attempts to provide a platform for policy prescription for future natural disasters that could significantly affect the local tourism industry.

1.6 RESEARCH METHODOLOGY

This study employs a deductive approach, whereby rational expectations lead to towards evidences. For the purpose of analyzing the effects of the deadly virus SARS on the Malaysian tourism industry, the monthly statistics of the number of tourist arrivals from January 2000 to March 2003 was used to justify the fact explained above. Observations on tourists arrivals and expenditure data were made to identify the possibility of sharp declines in both categories attributing to the SARS outbreak.

The data used in this study were obtained from a variety of sources including the World Tourism Organization, World Travel & Tourism Council, World Health Organization, Government Ministries and agencies.

1.7 LIMITATIONS OF THE STUDY

Generally, there are two major constraints associated to this research. First, is the time factor in accessing the necessary information pertaining to the effects of SARS on the local tourism industry, as the respective authorities are still in the process of examining the real impact of the outbreak on the economy as a whole. Second, is the common constraint faced in any qualitative research work, i.e. pertaining to the availability of first hand information.

The reliability of the available data is directly related to validity of the secondary sources. There may be differences in the way the information is presented and possible discrepancies in some figures. For example, tourist is defined in many ways depending on the primary user's needs. The quality of this study directly linked to the quality of the data provided by the various government ministries and authorities.

1.8 ORGANIZATION OF THE REPORT

This research paper consists of five chapters. Chapter 2 provides some background information on the tourism industry followed by the deadly virus, SARS acting as the key explanatory variable for the model. The tourism industry is captured in three interrelated aspects, from the macro point of view, i.e. international level followed by the Asia Pacific region.

Chapter 3 presents a general perspective of the Malaysian tourism industry, identifying some key determinants of its success to be one the major economic contributor. It also explains the initiative undertaken by the government in curbing the outbreak.

Chapter 4 deals with empirical analysis of tourism demand incorporating the SARS outbreak in an attempt to isolate its impact on the number of arrivals to Malaysia. Data on tourist arrivals between year 2000 and 2003 is presented to reflect the findings.

Chapter 5 summarizes the findings and makes relevant conclusions addressing the hypothesis that SARS did have significant impact on the Malaysian tourism industry. Some policy prescriptions are developed to both serve as a guideline in facing future natural hazards towards the industry and to be in line with other economies competing for tourism income. Related references are available in the appendix.