

CHAPTER 3

THE MALAYSIAN TOURISM INDUSTRY

3.1 INTRODUCTION

Tourism was virtually unknown in Malaysia until the late 1960s, ever since it has being seen by the government as one of the keys to promoting a greater understanding of the various cultures and lifestyles of Malaysia's multi-ethnic population. Currently The World Tourism Organization ranks Malaysia as the third most popular destination in the Asia Pacific region in terms of international tourist arrivals, yet it ranks only tenth in terms of receipts (1999)- well behind some to its major competitors. This is attributed to the fact that average length of stay in the country is only 5.8 nights and the vast majority of its tourists are from relatively low-yield neighbouring markets. Only about 30 per cent of Malaysian arrivals are by air.

3.2 RECENT PLANS AND STRATEGIES

Despite hosting the successful Commonwealth Games in 1998, international arrivals continued to fall to its lowest level causing the authorities to seriously consider crisis measures. A three-pronged strategy was drawn up by the Malaysian Tourism Promotion Board to boost arrivals and earnings from tourism, amongst others, to go after markets not affected by the East Asian Economic Crisis, such as China, India, The Middle East and Europe, go after neighbouring markets including Singapore, Thailand, Hong Kong and Japan and develop domestic tourism.

The Government's role in supporting the tourism industry became more transparent as it increased the budget allocation to RM150 million for the fiscal year 1999/2000, and further increased it by another 33 per cent to RM200 million for the following year. However, this figure still compares somewhat unfavourably with the budgets of other national tourism organizations in the region. In addition to the federal government's involvement in tourism, each state also has its respective tourism body.

The tourism sector continued contributing towards generating foreign exchange earnings, employment opportunities and income during the Seventh Malaysian Plan

period (1995-2000). Although the industry was affected by the Economic crisis in 1997/1998, its quick rebound helped speed the economic recovery by 2000. This was mainly attributed to the concerted efforts by the public and private sectors.

3.2 TOURISM PRODUCT DEVELOPMENT

The Malaysian tourism product development is being greater emphasis in order to capture a bigger market share of the world tourism market. In this regard, a vast array of tourism products are offered to cater the diverse interests and demands of the growing number of tourists. The tourism products presently available include the following:

- a. Hill and Island Resort such as the Penang Hill, Fraser's Hill, Cameron Highlands and Genting Highlands. The famous island resorts are Pulau Tioman and Pulau Pangkor.
- b. Shopping destination. In addition to the depreciation of the Ringgit , three Mega Sales Carnivals throughout the nation in the months of March, August and December were introduced
- c. Thematic events featuring various activities are organized on a regular basis to maintain the uniqueness of the local tourism. The Merdeka Celebration and inaugural Colours of Malaysia are known to attract the most crowd as it is packed with cultural performances, parades and Malaysian cuisine.
- d. Sports and Recreation tourism basically began in year 1998 with the organization of the Kuala Lumpur '98 – XVI Commonwealth Games which involved 6,670 athletes and officials. Other world class events are the Formula One Grand Prix, World Amateur Inter-Team Golf Championship and Labuan Sea Challenge.
- e. Cruise Tourism which exploits the country's comparative advantage in terms of port facilities and attractive land-tour packages is another effort to stay competitive among the other tourist favoured destinations such as Thailand.

- f. Eco-tourism entails visitation on relatively undisturbed natural areas and has low visitor impact. Projects completed during the Seventh Malaysian Plan were Tasik Bera in Pahang and Taman Hidupan Liar Kinabatangan in Sabah.
- g. Agro-tourism and Homestay Programmes provide opportunities for local participation. It builds on the concept of warm and friendly hospitality within private homes at reasonable prices.
- h. Cultural and Heritage Tourism is aimed at generating greater international awareness and providing impetus to the conservation programmes.
- i. Education, Student and health Tourism centers around higher learning twinning programmes and the collaboration of the private sector to offer medical-cum-leisure experience.
- j. Meetings, Incentives, Conventions and Exhibitions, the only market segment that was not adversely affected by the Economic Crisis 1997/1998 continues to generate increasing revenue.
- k. Theme Parks have family appeal filled with excitement is targeted at tourists looking for adventure. The popular parks are Sunway Lagoon, A'Famosa Water World and Mines Wonderland.
- l. Wilayah Persekutuan Putrajaya, the latest development showcases the new Administrative Center of the Federal Government as well as as Malaysia's first Intelligent Garden City is a must-see destination for tourists. The architecture of the buildings was designed for their aesthetic value and to blend with the environment.

The Eighth Malaysian Plan policy thrust is to achieve rapid ecotourism growth on a sustainable basis.

3.3 TOURIST ARRIVAL TREND

Tourist arrivals increased at an average rate of 6.5 per cent per annum between 1996-2000. However, it declined during the East Asian Crisis of 1997/1998 due to a

variety of factors including occurrences of haze, localized outbreaks of Nipah and Cocksackie viruses as well as the after affects of the crisis itself, (by approximately 13 per cent in 1997 and 10.6 per cent in 1998). Efforts targeted at markets not affected by the crisis such as China, The Middle East and Europe resulted in a quick recovery of the tourism industry, whereby a total of 10.2 million tourist arrivals record surpassed the expected 6.5 million tourists by year 2000.

A more detailed analysis of the trend on tourist arrivals in Malaysia is reserved for Chapter 4, in which the findings in relations to SARS are elaborated.

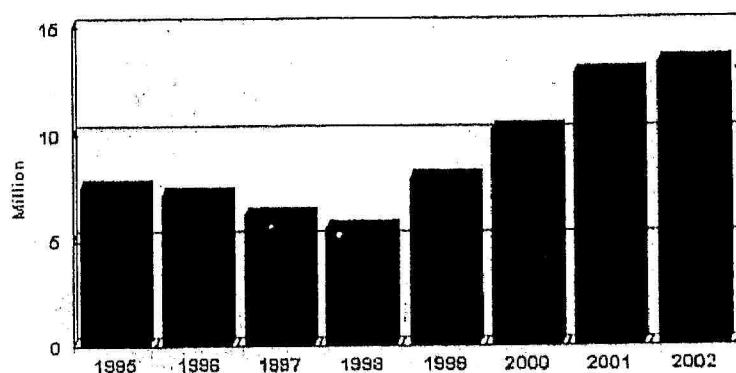
Table 3.1: Top Ten Tourist Arrivals to Malaysia

COUNTRY	Jan – June 2003	Jan – June 2002	Percentage change
Singapore	1,451,899	1,803,280	(19.5)
Thailand	260,340	201,893	28.9
Indonesia	170,078	166,643	2.1
China	133,111	125,836	5.8
Brunei Darussalam	86,200	56,252	53.2
Japan	77,600	82,151	(5.5)
Taiwan	47,720	51,309	(7.0)
Australia	40,075	47,745	(16.1)
India	38,488	33,616	14.5
United Kingdom	34,763	65,884	(47.2)
Grand Total	2,875,147	3,075,737	(6.5)

Source: Dept. of Immigration, Malaysia (2003)

Statistics in Table 3.1 reveals that Singaporeans, accounting for the majority visitors to Malaysia, mainly due to geographical closeness to Malaysia cut back on traveling drastically for the first half of year 2003 as a result of SARS. All travelers were carefully screened during this critical period by the local authorities as part of their SARS control measure. The Australians and British voluntarily changed their travel plans acting quite naturally to avoid the hazard altogether.

Graph 3.1: Malaysian Tourist Arrivals, 1995 –2002



Source: Malaysia Tourism Promotion Board

Graph 3.1 illustrates a steady rising trend of tourist arrivals to Malaysia, except for year 1998 which was mainly attributed to the haze pollution and East Asian Financial Crisis 1997/1998.

Table 3.2: Malaysian Tourism Arrivals by Country, 1995-2003

INDICATOR	1995	2000	2001	2002	2003 (1 ^Q)
Number of tourists arrivals ('000)	7,469	10,221	12,775	13,292	2,875
By Country of Origin (%)					
ASEAN*	73.5	70.3	72.1	74.1	69.4
Japan	4.4	4.5	3.1	2.7	2.7
China	1.4	4.2	3.5	4.2	4.7
Taiwan	3.9	2.1	2.0	1.6	1.7
Hong Kong SAR	2.0	0.7	1.1	0.9	0.7
India	0.4	1.3	1.1	1.4	1.3
Australia	1.8	2.3	1.7	1.5	1.4
United Kingdom	2.2	2.3	2.1	1.8	1.2
USA	1.3	1.8	1.1	1.0	1.2
Others	9.1	10.5	12.1	10.8	15.7

*Excludes Myanmar, Vietnam and Cambodia

As shown in Table 3.2, more than 70 per cent of the tourist arrivals were from ASEAN countries, mainly Singapore. The local tourism industry was supported by fast growing tourist arrivals from China and India.

The drop in tourist arrivals in 1997 (-13 percent) and 1998 (-11 per cent) showed the sensitivity of the tourism industry in Malaysia to health and economic factors such as the occurrence of haze, the localized outbreak of Nipah and Cocksackie, and the East Asian Financial Crisis.

The tourism industry is also sensitive to the adverse developments in the global environment such as the US-Iraq war, and the SARS outbreak. Similar to other tourism industry within the region, Malaysia was significantly affected by the outbreak as shown by the sharp drop in tourist arrivals between March and May of 2003.

Table 3.3: Annual Growth in Tourist Arrivals, March- May 2003 (%)

COUNTRIES	March	April	May	2003 (March – May)
China, People's Republic	-6.5	-30.1	-	-
Hong Kong, SAR	3.9	-64.8	-67.3	-43.7
Taipei, China	-0.2	-50.7	-82.0	-42.0
Indonesia	-21.3	-37.6	-38.6	-32.3
Malaysia	-35.6	-58.6	-59.0	-50.5
Philippines	-9.9	-24.4	-33.0	-22.2
Singapore	-14.6	-67.3	-70.7	-50.1
Thailand	-11.0	-45.3	-55.0	-35.7

Source: Asian Development Bank, Asia Economic Monitor 2003, July 2003

Although the tourism industry is vulnerable to major uncertainties and shocks mentioned earlier, it has the capacity to quickly recover once the shocks are resolved. For

example, in 1999, the Malaysian tourism industry recorded an amazing 43 per cent in tourist arrivals after the resolution of the East Asian Financial Crisis and the outbreaks of Nipah and Cocksackie.

Part of the increase was credited to the focused efforts by the Government to draw tourists from economies which had not been affected by the regional economic crisis including China, Middle East, Australia and Europe.

Table 3.4: Malaysia: Tourism Receipts by Country, 1995 – 2002

COUNTRIES	1995 (% share)	2002 (% share)	Growth (%) 1995 - 2002
ASEAN	59.5	63.1	16.9
Japan	7.4	3.5	4.0
Taiwan	6.9	2.0	(3.1)
United Kingdom	3.5	2.7	11.6
China	1.9	5.8	36.1
Australia	2.7	2.1	11.6
Hong Kong SAR	3.1	1.0	(1.2)
Others	15.0	19.9	20.6
TOTAL	100.0	100.0	15.9

Source: Malaysian Tourism Board; Economic Planning Unit, Prime Minister's Department, The Eighth Malaysian Plan, 2001-2005

Another key trend of the industry is the rising tourism receipts. It increased by 15.9 per cent in the period 1995-2002 and is positively correlated with the number of tourist arrivals depicted in Table 2.4.

Table 3.5: Tourist Expenditure Composition, 1995 and 2000

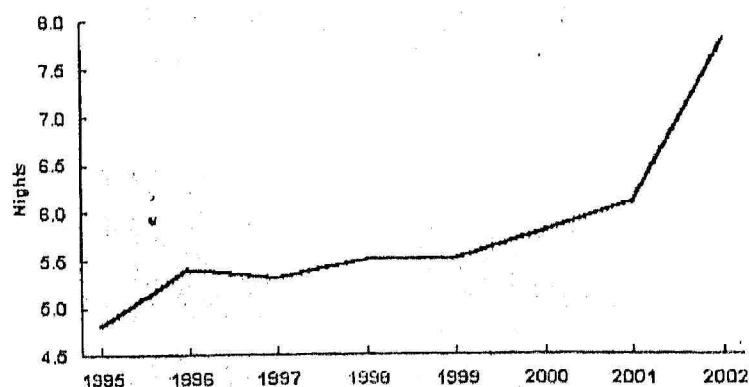
ITEM	1995 (%)	2000 (%)	2002 (%)
Accommodation	32.0	32.8	36.6
Shopping	21.0	23.1	20.6
Food & Beverages	18.0	19.5	18.5
Local Transport	8.0	7.1	8.8
Domestic Airfares	5.0	4.6	4.6
Organized Sightseeing	4.0	4.2	4.9
Entertainment	6.0	5.0	3.1
Miscellaneous	6.0	3.7	2.9
TOTAL	100.0	100.0	100.0
TOTAL (RM mill)	9,174.9	17,335.4	25,781.1

Source: Malaysian Tourism Board; Economic Planning Unit, Prime Minister's Department. The Eighth Malaysian Plan, 2001-2005

The tourism sector assumed a greater role in stimulating the growth of the Malaysian economy during the Eighth Plan period. Tourist arrivals are expected to grow at an average rate of 6.9% per annum to reach 14.3 million by the year 2005.

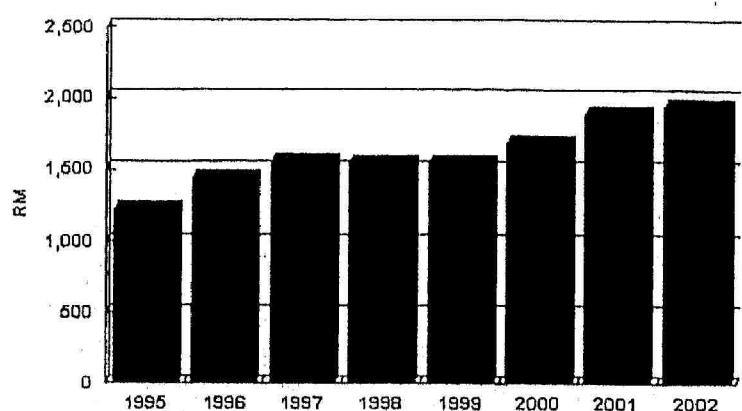
There was also an evidence of an increase in the average length of stay among the tourists and the per capita expenditure of tourists in Malaysia. As reflected in Graph 2, in 2002 the average length of stay increased to 7.8 nights from 5.5 nights in 2000.

Graph 3.2: Malaysia's Tourists Average Length of Stay, 1995 - 2002



Source: Malaysia Tourism Promotion Board

Graph 3.3: Malaysia's Tourists Per Capita Expenditure, 1995 - 2002

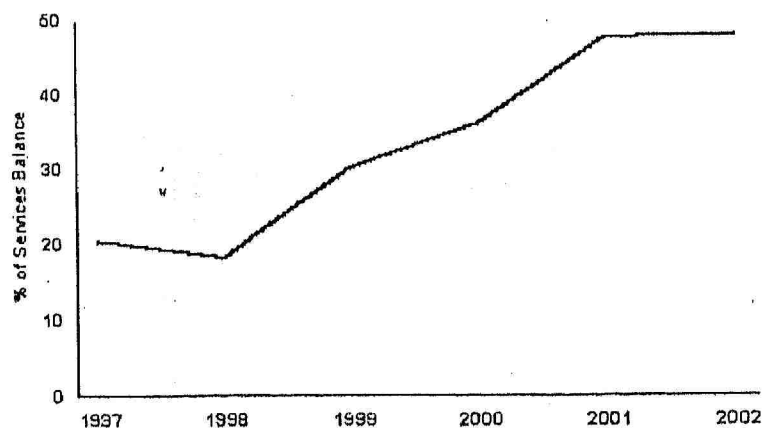


Source: Malaysia Tourism Promotion Board

The average per capita expenditure of tourists increased by 58 per cent from RM1,228 in 1995 to RM1,939 in 2002.

The tourism industry continued to contribute towards the foreign exchange earnings, as reflected by the sharp increase of travel receipts in the services account. The travel receipts rose by 28 percent between 1997 and 2002.

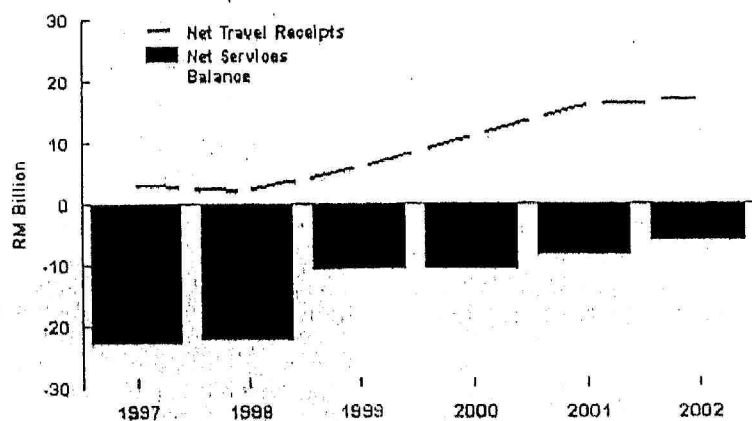
Graph 3.4: Malaysia's Travel Receipts as Percentage of Services Receipts, 1997-2002



Source: Department of Statistics, Malaysia. Quarterly Balance of Payments Report, various issues

There appears to be a sharp increase in the ratio between travel receipts and service receipts reflecting the importance of tourism accounts to the national balance of payment.

Graph 3.5: Malaysia's Net Services Balance and Net Travel Receipts, 1997 - 2002



Source: Department of Statistics, Malaysia. Quarterly Balance of Payments Report, various issues

Once again, the significance of the travel receipts is obvious as it continued to facilitate to deflate the deficits in the services account between year 1997 and 2002.

It is important to note that the travel component of the services account continued to generate large surpluses and helped reduce deficits in the services account of the balance of payment of the country. This is imperative to support Malaysia for its pegged exchange rate regime.

Realizing the importance and vast potential in domestic tourism, a set of measures was undertaken to enhance its development. In this regard, aggressive promotional activities were carried out under the theme “Cuti - cuti Malaysia”, with the aim of encouraging domestic travel and reducing currency outflows. The private sector actively stimulates the growth of the tourism industry through its investment in hotels and other tourism-related projects, while the government complemented the efforts by implementing tourism development programmes, including restoration and conservation of historical sites and upgrading tourism facilities and infrastructure.

The strategies pursued are as follows:

1. Emphasizing sustainable tourism development
2. Focusing on a holistic and integrated approach to its development
3. Projecting Malaysia as a fascinating destination with year-round carnival atmosphere
4. Engaging in customer-focused product development and promotions
5. Enhancing human resource development
6. Facilitating and increasing accessibility
7. Ensuring comfort, safety and security of tourists and
8. Forging strategic alliances and enhancing international cooperation

3.3 ACTIONS TAKEN BY THE MALAYSIAN GOVERNMENT TO COMBAT SARS

The Malaysian government has done a good job in maintaining its credibility of managing the spread of SARS from its neighboring countries. It acted swiftly and expeditiously by stepping up public health surveillance and instituted barrier nursing the very next day the WHO issued a Global Alert on the 12 of March 2003. Soon after, the Cabinet established the National Committee for SARS Control comprising of representatives from 16 ministries, agencies and organizations to set policies to battle SARS. Strategies to contain the outbreak were clear and decisively implemented and these included early case detection, screening activities, strict isolation of cases, quarantine of contacts, enhanced infection control practices and other general preventive measures.

In May 2003, Malaysia launched a USD1.92 billion (RM7.93 billion) stimulus package to offset the damage caused by the SARS menace and revive the sluggish economy. This amount includes a RM1 billion relief fund and tax breaks for the tourism sector, liberalization of foreign investment rules and new funds to help traders. Hotels' monthly electricity bills were cut by 5%, road tax for taxis was halved and an exemption of service tax for hotels and restaurants to soften the impact of SARS was allowed.

Health workers such as doctors and medical staff were offered a monthly bonus of RM400 and RM200 respectively for their initiatives to fight the deadly disease. The fund was internally generated from the government budget, Bank Negara Malaysia and other development financial institutions.

Table 3.1: A comparison of stimulus packages offered by other governments in the region.

COUNTRY	AMOUNT
China	US\$415 million
Singapore	US\$130 million
Thailand	3 billion Bath
Philippines	US\$273 million
Hong Kong	USD\$1.5 billion
Taiwan	USD\$1.4 billion
Korea	USD\$5.5 million

Source: The official Gateway and Guide to Thailand Investors (2003)

Information in Table 3.1 suggests that, Hong Kong and Taiwan have allocated significant amount of money to stimulate their economies. However, the Malaysian government remains the one offering the largest fiscal stimulus. Korea on the contrary set aside a relatively smaller fund in managing its economy.

The National Steering Committee on SARS Control was set up to deal with the epidemic. Malaysia's response to the Global Alert includes:

- a. Setting up of a National Reference Laboratory for SARS at IMR
- b. Issue of guidelines, directives and pamphlets on SARS
- c. Designated hospitals and special presentations to strategic groups
- d. Weekly feedback to Malaysian Cabinet

Guidelines and directives issued by the Malaysian government are

- a. Monitoring of incoming flights from SARS affected areas

- b. Screening at entry points
- c. Advisory to shipping lines and on masks and respirators
- d. Epidemic control measures in schools and offices

3.6 CONCLUSION

Like any other industry, Malaysia's tourism industry has its ups and downs as a result of changes relevant to the local and global environment. The authorities responsible are expected to stay on guard, especially in a time when the neighbouring countries are experiencing crisis which is damaging to the travel and tour activities.

Despite the adverse impacts from the recent SARS outbreak, the long-term outlook for tourism remains positive. The ability of the government to contain the deadly disease timely has protected the industry from suffering a major collapse. The preventive measures implemented were effective and serves as a guide to face potential threats alike.