

Chapter 1

Introduction

1.1 Definition of Tourism

The World Tourism Organization (WTO) and World Tourism and Travel Council (WTTC) defines tourism as “Tourism comprises the activities of persons traveling to and staying in places outside their usual environment for not more than one consecutive year for leisure, business and other purposes.”¹

The term ‘usual environment’ is meant to exclude trips that a person makes regularly, such as commuting to work, visiting family members or friends. The capacity to travel has increased dramatically over the past two decades as technology reduces travel costs and time. As tourists increase in number, more and more countries are seeking to develop tourism as a major economic activity.

Malaysia actively pursued tourism as an economic activity since the early 1980s, but it was not until the 1990s that tourism started to develop its potential for economic growth.

The terminology adopted by the Malaysian Tourism Board (MTB) is as follows:

Tourists – Foreigners traveling to Malaysia for reasons other than following an activity remunerated from within Malaysia and staying at least a night but not exceeding a year.

¹ Goeldner, Charles R; Ritchie, Brent J.R; and McIntosh, Robert W. (8th Edition) (2000), ‘Tourism Principles, Practices, Philosophies’, John Wiley & Sons, New York, p 14 – 16.

Excursionists – Foreigners traveling to Malaysia for reasons other than following an activity remunerated from within Malaysia and staying less than 24 hours without an overnight stay.

Visitors – Foreigners traveling to Malaysia for reasons other than following an activity remunerated from within Malaysia and staying not exceeding one year.

In late 2001, the WTTC published the first simulated Tourism Satellite Account (TSA) for Malaysia. The report was a collaborative effort between the Malaysian Ministry of Culture, Arts and Tourism and the WTTC, and the report was completed in August 2001. DRI-WEFA and the Malaysian Institute of Economic Research (MIER) supplied research material. The message from the report included a statement as follows:

*"In 2003, Malaysia's **Travel and Tourism Industry** is expected to generate 3.9 percent of GDP and 372,361 jobs, while the broader **Travel & Tourism Economy** is expected to total 12.2 percent of GDP and 1,030,940 jobs. Looking ahead, the forecast for **Travel & Tourism Demand** is expected to total 9.3 percent real growth in 2003, and 8.2 percent real growth per annum between 2004 and 2013."* (WTTC Malaysia Report 2003)

[The Travel & Tourism Industry refers to the key players that provide goods and services directly for tourists. This includes hotels, restaurants, travel agents and transport services. The Travel & Tourism Economy is broader, and encompasses the indirect supply of goods and services to the above suppliers of tourism goods and services. This includes toiletries, manufacturing of tour buses, laundry services, farms that supply foodstuff and construction of hotels.]

1.2 Objective of Study

The objective of this research is to study the development of tourism as an economic activity in Malaysia for the period 1992 to 2002. The study will review the demand for tourism in Malaysia, the various supply-side activities that have evolved to meet that

demand and the economic implications for growth and employment. The study will include a brief review of the Tourism Satellite Account as a methodology for managing tourism economics. The study will conclude with some recommendations and conclusions pertaining to the potential of tourism to contribute towards sustainable economic growth in Malaysia.

1.3 Methodology

The methodology adopted in this thesis is more qualitative than quantitative. The approach involves extensive literature review about tourism as a social and economic activity to understand what various experts have concluded about the potential of tourism to contribute to economic growth. Data about trends in tourism are taken mainly from Malaysian Tourism Board (MTB) resources as well as World Tourism Organisation (WTO) / World Travel and Tourism Council (WTTC) reports in forming conclusions about the Malaysian tourism industry.

Broadly, the methodology involves the following steps, which are treated as individual chapters in this study.

Chapter 2 provides a short literature review of major themes discussed about tourism in recent years. It helps the reader understand how tourism evolved over the past several decades from a local industry into a global and highly complex economic issue. **Chapter 3** discusses the demand for goods and services by tourists, and the receipts from tourists. This part of the thesis will describe the characteristics and state of demand for the tourism industry in Malaysia. The DSA (Demand Side Analysis) will be done based on publicly available statistics and papers. The focus will be on international tourists since the

economic impact is greater than that associated with domestic tourism, and MTB did not explicitly collect data on domestic tourism until very recently.

Chapter 4 discusses briefly the challenges and prospects for the Malaysian tourism market. **Chapter 5** discusses the industries that support tourism, and are very much integral to the 'tourism industry'. These include hotels, restaurants, local travel, international travel and a range of 'destination' hosts, such as entertainment, museums or heritage sites. The availability and service standards of these destination hosts are critical determinants for repeat business and referred business. The underlying hypothesis is that the SSA (Supply Side Analysis) factors determine why tourists come to a particular location, how long they stay, how much they spend and whether they are keen to return.

Chapter 6 discusses the support and involvement of the government agencies in promoting tourism in Malaysia. **Chapter 7** on Regional Tourism Issues discusses how competition and collaboration influence the success of national tourism efforts. **Chapter 8** discusses how tourism contributes to macro economic activity. The recent study by WTTC and the Ministry of Culture, Arts and Tourism (MOCAT) to develop a Tourism Satellite Account (TSA) for Malaysia is included in this chapter. Additionally, data on GDP and exports will be used to assess the contribution of tourism to the Malaysian economy. Key ideas that are explored include:

- The contribution of tourism to the country's GDP and national income.
- The influence tourism has on the country's balance of payments.
- The contribution of the Tourism Satellite Account for managing national accounts.

Chapter 9 will present the conclusions and recommendations.

1.4 Limitations of the Study

Since the methodology is to use secondary sources of data, the discussion, including the recommendations and conclusions, must be subject to the limitations of the material provided by the Malaysian Tourism Board, World Tourism Organisation and World Travel and Tourism Council. However, it is unlikely that these limitations will cast doubt on the data used in this study since all the sources have high credibility.

A second limitation is the scarcity of data on domestic tourism in Malaysia, and the difficulty of separating domestic from international tourists when assessing the secondary economic effects of tourism. The Malaysian Tourism Board has not collected data on domestic tourism until very recently, but has data on international tourist arrivals and spending for the entire period relevant for this paper. Hence, the demand side analysis, which is contained in Chapter 3, is based on data related to international tourists visiting Malaysia. The supply side analysis, which is contained in Chapter 5, is based on data that would effectively include domestic tourism, although it is not possible to segregate between domestic and international. For instance, hotel occupancy rates include domestic tourists, but there is not enough data to separate domestic from international. As a result, the demand side analysis reflects international tourists to Malaysia, but the supply side analysis includes both domestic and international. In completing the study, this limitation is overcome by treating the demand and supply side factors in separate chapters. Chapter 8, which focuses on macroeconomic analysis, includes a review of the Tourism Satellite Account for Malaysia. This part of the study provides a view that includes both domestic and international tourists in terms of assessing the economic impact of tourism.