Chapter 2

Literature Review

"What we are looking for is evidence of that urge to travel to strange places which inspires the modern tourist. We need to consider not only the physical aspects of traveling, but also the intellectual or mental approach to traveling. To a large extent, being a tourist is a matter of attitude. A tourist is not an explorer, for example, entering the unknown. Tourists generally follow. Almost indispensable to the tourist is the guide. Tourism as a common activity occurred only with the improvements in transportation which by the end of the 19th century were making travel safer and more comfortable. Mass tourism had to wait for the development of cheap, reliable transport and the provision of accommodation and services for large numbers of people. Early travelers lacked these amenities, but they could still display attitudes common to present-day tourists. A tourist travels for pleasure in order to see new places and to meet new people from societies different from his own. A tourist looks for the exotic, but does not wish to stray too far from the familiar, or from home comforts. A tourist collects mementoes of his or her travels, be they artefacts, sketches and drawings or photographs. A tourist will not, except in the most superficial way, enter into the society which he or she visits. Tourism requires a smoothly functioning support system including reliable transport, accommodation, information, financial services and leisure facilities."

Hitchcock, King and Parnwell, Tourism in South East Asia, 1993, p 272

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2.1 Economic Activities Associated with Tourism

The tourism industry may be defined as the sum of the activities that produce goods and services wholly or mainly for tourist consumption (Weaver & Lawton, 2002). Broad categories associated with the tourism industry include accommodation, transportation, food and beverage, tour operations, travel agencies and merchandising of souvenirs. These categories are distributed between origin regions (where the tourist is coming from) and destination regions (where the tourist is going to). Travel agencies and certain types of transportation, such as air and international rail, are concentrated more in origin countries. Accommodation, merchandising, food and beverage, attractions and local transportation are to be found more in destination regions.
In most of the above categories, there is ambiguity over whether the industry exists mainly to serve tourists, or to serve locals who are traveling within their own country. Due to these complications, a Standard Industrial Classification (SIC) code has not been allocated to tourism, thus making it very difficult to collect meaningful data on tourism.

Nonetheless, research into tourism has continued to grow. Early academic work in tourism focused more on hospitality management issues, such as customer service, hotel management, restaurant management, cooking, room service and travel agency services. The focus was more local conditions and domestic tourism. Since the late 1970s the economic implications of tourism were studied more rigorously (Tourism in Asia: The Economic Impact, 1983). In particular, several factors that influenced demand for tourism and travel became more significant in the latter part of the 1970s. These factors were (Wahab and Cooper, 2001, p 70):

- Proliferation of technology both on transportation and information technology
- An increase of multicultural societies
- A quest for education and entertainment, where education and entertainment merge to offer personal development opportunities

2.2 Critical Mass in Demand Leads to “Tourism Economies”

Tourism demand evolved rapidly in the last couple of decades. This was driven by falling costs of travel, increase in leisure time, availability of information about different destinations and fewer restrictions on cross border travel. As technology increases productivity, and working hours per week declined in the 1970s onwards, leisure time increased. O’Brien (1996) explains that “The West European leisure travel market is
undergoing structural and cultural changes ....” as the European Union works towards establishing a maximum of 48 hours per week, and possibly even to an average of 35 hours per week. The leisure products industry begin to boom in America, Europe and Latin America, where countries are located close enough for people to travel across borders.

In addition seasonal climate conditions also create demand for long-distance travel. Affluent Middle-East families spend the scorching summers of June to August in cooler countries. Likewise, Europeans also take longer vacations during the summer, and during the winter months to places closer to the equator. Availability of affordable long-distance travel has further stimulated demand.

The early boom in tourism was driven by demand for leisure and adventure. But advances in global transport, communications and education have aroused tremendous interest in
‘knowing the world’. Diagram 2.1 above neatly summarizes the emerging trends in tourism. Tourism shifted from simple leisure activities to opportunities for adventure, romance, education, business and to explore the world. From the perspective of the supplier of tourism products, this shift involved opportunities for greater segmentation, specialization, sophistication, satisfaction and seduction.

Segmentation means designing products that cater for different types of tourists based on their demographic profiles and behavioral criteria. Major segments include leisure, family, adventure, education, health, entertainment, ecology and multi-cultural destinations (Tourism in South East Asia, 2000). As segmentation became commercially viable due to increase in the number of tourists, and reductions in travel costs, specialization became more important. Today we have tour guides and agencies that specialize in specific market segments. Specialization allows in-depth knowledge to be accumulated, and agencies can offer a superior product at affordable rates.

As per capita income grew in the more developed countries of the West, the demand for tourism products also grew. According to the WTTC ‘The 2003 Travel & Tourism Economic Research’ publication, the global tourism industry is expected to generate US$ 4,544.2 Billion of economic activity (total demand). The report claims that more than 67 million jobs will be linked directly to tourism, and some 194 million jobs linked directly and indirectly to tourism. WTTC further forecasts that total travel and tourism demand will touch US$ 8,939 Billion by 2013, accounting for almost 250 million jobs linked

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![Diagram 2.2: International Stayover Arrivals 1950 - 1999 (’000)](image)

This substantial growth in demand has created more sophisticated tourists, and the suppliers of tourism products are competing aggressively to deliver satisfaction by seducing the tourist to sample their range of products. The competition is evident at the level of retail tourism players, and is becoming more evident at the national level. According to the World Tourism Organisation, many countries are now allocating substantial parts of their national budgets to investments that will promote tourism

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products. The economic potential of tourism is evident from the growth in international tourist receipts, from US$ 263.4 Billion in 1990 to US$ 462.2 Billion in 2002 on a global cumulative basis.

The factors that encourage tourist generation are geographical proximity, cultural homogeneity, population size and sufficient wealth to travel abroad (Tourism in Southeast Asia, 2000). Consequently, countries that share borders have greater potential for tourism, with the poorer country being the major recipient of tourist traffic. The main visitors to Malaysia were Singaporeans, followed by Thailand and Indonesia. The main visitors to Thailand were Malaysians and Singaporeans. The main visitors to the United States of America are Canadians, and of course vice versa. Although there are many tourists who visit countries very unlike their own, the majority prefer to visit places that are culturally similar to their own. For instance, 90 percent of German tourist trips were taken in Europe, and Germany is the main tourist generating country in the world during the mid-1990s (Tourism in Southeast Asia, 2000).

Competition between destination countries becomes more intense if there are only a few origin countries within close proximity. The term origin country refers to a country with many citizens that can afford to travel abroad. For instance, in Europe, Germany is the main origin country, whereas in South East Asia it is Singapore, and in all Asia it is Japan.

Where to go is the big question for the potential tourist. The answer depends in part on price, product, promotion, preference and prior experience (WTTC Indicators, Trends and Issues, Volume 3, 1993). The key to making a decision is having sufficient reliable information. The 1990s has witnessed an explosion in all forms of information, including
tourism, due to the phenomenon known as the Internet. Information on almost any
destination, any type of accommodation, food, adventure and travel opportunity can be
found by browsing the Internet. In one sense this has leveled the playing field between
major tour operators, and smaller operators with low advertising budget. On the other
hand, countries with more attractions have substantial advantage because there is so much
more content for the tourist to browse through.

According to King, Victor T. (1993), the promotion of tourism as a major export in
Malaysia gained critical mass in the mid-1980s. While Singapore and Indonesia had begun
promoting tourism in the 1960s, the Malaysian Tourist Development Corporation was
established only in 1972. The Ministry of Culture, Arts and Tourism was established in
1987, and from then there was a more focused attempt to promote tourism. For instance, in
1963 just under 27,000 tourists were recorded in Malaysia, in 1970 there were 76,000 and
by 1976 there 1.2 million arrivals. Between 1980 and 1989, it grew from 2.25 million to
3.67 million. As a result of Visit Malaysia Year 1990, the target of 4 million was exceeded,
with total arrivals of 7.4 million. It can be seen that tourism as a major industry in
Malaysia only began in the 1990s.

Tourism economics is a relatively new field. Lundberg, Krishnamoorthy and Stavenga, the
authors of ‘Tourism Economics’, claim in the preface of the book that it is the first
textbook written on tourism economics from a US perspective. The book was published in
1995. From an economics perspective, the demand for tourism is influenced by the
economic concept of utility: the benefit or satisfaction that a person derives from the
consumption of a good or service. However, utility is an abstract concept, and extremely
difficult to quantify. Economic analysis focuses more on the supply side factors, i.e.
linking analysis to tourism receipts and investments in tourism products. The book cites the following as main components of tourism economics: hotel economics, restaurant economics, airline economics and other subsidiary components such as car rental, cruise line, travel agency, theme park, camping grounds, rail travel and local travel.

New money entering an economy in whatever form - investments, government grants or expenditure, remittance from workers abroad or tourism expenditure - stimulates the economy, not once, but several times as it re-spent, thus creating the 'multiplier effect'. What goes out of the economy after a tourist receipt depends in large part on the linkages within the economy, how the money is spent within the economy.

This is illustrated in Diagram 2.3 showing in simple terms the multiplier effect and increase in government revenue as a result of tourist receipts. The more spent within the
economy that remains as a benefit, the higher the multiplier. For instance, in Mexico the
linkage between visitor spending and the economy of places like Puerto Vallarta and
Cancun are high, but it is negligible for remote villages. (Lundberg, Krishnamoorthy and
Stavenga, 1995)

2.3 Methodologies in Tourism Economic Data

There are two main methods of estimating tourism economic data. The first is using
surveys, and the second is using the national balance of payment accounts system. Surveys
are done by requesting tourists to provide simple information, whether at the immigration,
hotels, restaurants and during travel. Standard forms are used to collate information. This
is the method used by most governments and the international agencies (Tourism in Asia:
The Economic Impact, 1983).

The other method is the broad Balance of Payment Account approach where tourism is part
of the ‘Travel’ category, which in turn is under the ‘Services’ category. However, this
approach is too vague for the purposes of making policy about tourism economies. A
significant surplus in ‘Travel’ clearly suggests in-bound tourists exceed out-bound tourists,
but the data does not explain why this is so. It may because in-bound tourists are more in
number, or more in terms of per-diem expenditure, or more in per capita expenditure.
Further, data about tourist demographics is not captured. Consequently, policies to
promote tourism cannot be properly introduced.

There was a strong need to capture more detailed data, with more special categories related
to tourism. It was important to integrate tourism economics with mainstream national
economies. The tourism economic analysis had to fit with the conventional balance of
payment method of analyzing national accounts. The Tourism Satellite Account came into being to meet this need.

2.3.1 The Tourism Satellite Account

Tourism industry is the sum total of the goods and services demanded by the tourist. This demand is translated into different types of purchases, and these purchases are captured in a methodology known as the Tourism Satellite Account (TSA)\(^4\).

A Satellite Account is a term developed by the United Nations to measure the size of economic sectors that are not defined as industries in national accounts. The TSA is a new statistical instrument designed to measure the goods and services purchased by tourists according to international standards of concepts, classifications and definitions, which allow for valid comparisons with other industries and eventually between countries. The TSA provides credible data on the impact of tourism, and allows this impact to be understood in economic terms, especially with regards to how tourism affects a country’s balance of payments.

The key players required in the development of a TSA are agencies that produce statistics and supply basic tourism information, such as national statistical offices, national tourism administrators, central banks and associations of national tourism enterprises. Other key players include the customs and excise, immigration and transportation departments. The users of TSA information include the main suppliers of such information, as listed above, as well as academia and government policy-making bodies.

\(^4\) World Travel and Tourism Council (2001), “Malaysia - The Impact of Travel & Tourism on Jobs and the Economy”, London, United Kingdom, p 25
The TSA is not yet a well established methodology. Several countries have used the TSA, including Malaysia, in collaboration with the WTO / WTTC. Malaysia’s Ministry of Culture, Arts and Tourism (MOCAT) worked with WTTC to publish the first simulated TSA for Malaysia in August 2001. The TSA quantifies all aspects of Travel and Tourism demand, from personal consumption to business purchases, capital investment, government spending and exports. It then translates this information into economic concepts of production such as gross domestic product, employment and taxes that can be compared with other industries and the economy as a whole. The TSA for Malaysia found that travel and tourism is one of the largest industries and employers in Malaysia, expected to generate 4.7 percent of gross domestic product and 393,600 jobs in 2001\(^5\).

The TSA represents a substantial improvement over traditional methods of estimating the economic impacts of tourism, but still has important limitations. First, they are applied only to nationwide statistics and cannot be calculated for state entities. Second, the value-added measurement does not take into account the indirect effects of tourism (for example, the purchase of food by a hotel restaurant) and therefore cannot be used to calculate a more accurate multiplier effect. Third, the TSA released in any given year is based on data that is two or three years old, since it takes this amount of time to collect and organize the data required to make the calculations.

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World Travel & Tourism Council, London, United Kingdom
2.4 Import Leakage

The gross data on tourism receipts is only the first step since there is often a certain amount of leakage that must be accounted for by the statisticians. In general the possible areas of leakage through imports can be identified as follows (Tourism in Asia: The Economic Impact, 1983, p 273):

- The import cost of goods and services consumed by the tourists. These include not only the direct imports by the tourist establishments but also the import component of goods and services purchased locally.
- The import cost of capital goods required to provide tourist amenities such as accommodation, transport, recreational facilities, infrastructure, etc.
- Payments in foreign exchange to factors of production such as interest, profits and dividends, salaries and wages of expatriate staff, foreign management fees, etc.
- Foreign exchange expenditure for services abroad such as publicity and promotion, foreign travel, membership fees, personnel training, etc.

The pattern and amount of import leakage depends on the destination country's own resources. For instance, in less developed countries, there is a greater need to import experts in building infrastructure, constructing tourist amenities and promoting the country's tourism potential. Countries that are rich with agricultural resources may need to import steel, petroleum and other material to build and sustain the physical infrastructure. Countries that have insufficient funds for long-term capital investments such as hotels, roads, bridges and airports need to borrow and than service the loans, resulting in higher outflows of funds. Another cause for import leakage to increase is the practice of employing 'global brands' to maintain tourist facilities. Hotels are a classic example, with
names like Hilton, Marriott, Sheraton and Ritz-Carlton providing hotel management services although the building and infrastructure belongs to local investors. These global management agencies set global standards in room service and décor, food and beverages and various other amenities for hotel guests. Consequently, if local producers are unable to meet these standards, the material is imported.

2.5 The Many Faces of Tourism Management

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<thead>
<tr>
<th><strong>Diagram 2.4</strong></th>
<th><strong>Multi-disciplinary Approach to Tourism Studies</strong></th>
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</thead>
<tbody>
<tr>
<td><strong>Economics</strong></td>
<td><strong>Geography</strong></td>
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<tr>
<td>e.g. Economic impact of tourism, demand &amp; supply forces in tourism</td>
<td>e.g. Spatial patterns of tourism, tourism regions and tourism resources</td>
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<tr>
<td><strong>Political science</strong></td>
<td><strong>History</strong></td>
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<tr>
<td>e.g. Tourism policy, influence of politics on tourism</td>
<td>e.g. Evolution of tourism, interpretation of historical attractions</td>
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<td><strong>Agriculture</strong></td>
<td><strong>Law</strong></td>
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<td>e.g. Rural and farm tourism, animal husbandry</td>
<td>e.g. Tourism laws, tourism legislation, international laws and treaties</td>
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<tr>
<td><strong>Marketing</strong></td>
<td><strong>Ecology</strong></td>
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<td>e.g. Marketing of tourism products, market segmentation</td>
<td>e.g. Ecotourism, environmental impact</td>
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<tr>
<td><strong>Anthropology</strong></td>
<td><strong>Psychology</strong></td>
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<tr>
<td>e.g. Cultural impacts of tourism, interpretation of cultural attractions</td>
<td>e.g. Tourist motivations</td>
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<tr>
<td><strong>History</strong></td>
<td><strong>Sociology</strong></td>
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<tr>
<td>e.g. Evolution of tourism, interpretation of historical attractions</td>
<td>e.g. Social impacts, social behaviors, religion, morality</td>
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<tr>
<td><strong>Business management</strong></td>
<td><strong>Source:</strong> Weaver and Lawton, (2002) Tourism Management, p 15</td>
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<tr>
<td>e.g. Management of tourism, tourism organization</td>
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Diagram 2.4 above provides a broad view of tourism management issues faced by a country’s government in cases where there is a national strategy to develop tourism as an industry. Countries with advanced tourism industries have invested in research projects to study all these different aspects of tourism. Only by doing so can the government and
private sector design clear strategies and policies to promote sustainable tourism development. The Malaysian government, through the Ministry of Culture, Arts and Tourism is working with WTO / WTTC, local institutions of higher education and the private sector in enhancing tourism management from many of the above perspectives. Relative to more developed tourist destinations, a great deal more remains to be done in Malaysia, but current efforts promise to close the gaps in the near future.