

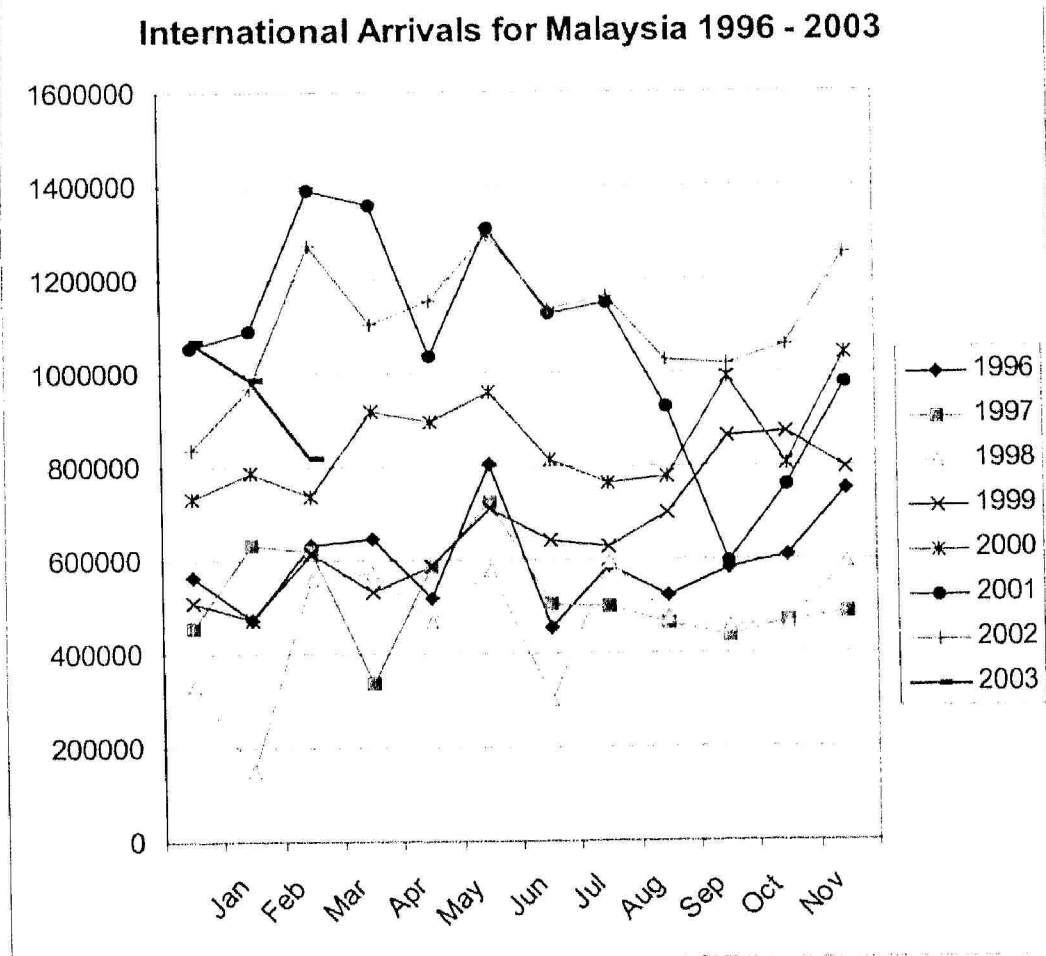
Chapter 4

Challenges and Prospects

4.1 Volatility in Demand

The year 2003 was particularly challenging for the Malaysian tourism industry because of the War in Iraq and the SARS (Severe Acute Respiratory Syndrome) epidemic. Even in the absence of such disasters, the tourism industry is prone to uncertainty because demand tends to be rather volatile, as indicated in Diagram 4.1.

Diagram 4.1



Source: Malaysian Tourist Board, Ministry of Culture, Arts and Tourism, Malaysia

The year 2003 witnessed considerable volatility in tourism arrivals the world over. The Middle-East crisis, anticipated by the end of year 2002, caused a slowdown in European tourism, particularly to Asian destinations. The situation was greatly aggravated by the SARS (Severe Acute Respiratory Syndrome), which spread through Asia, and to Canada and the USA very suddenly. The resulting spate of travel warning and restrictions led to sharp declines in tourist arrivals, with Asian destination especially affected.

Diagram 4.1 illustrates the monthly arrival pattern of international tourists for the period 1996 – 2003. The pattern indicates that Malaysia's aggressive promotional campaigns by the Ministry of Arts, Tourism and Culture since 1999 were paying off handsomely with rises in incoming visitors. The 2001 ended on a dismal note due to the September 11 tragedy in the USA, but the numbers in 2002 bounced back. The sudden reversal in 2003 is very clear in the Diagram. This is due to the war in the Middle-East, and even more by the SARS epidemic.

Hotel occupancy levels in Malaysia fell from an average of 60 percent to as low as 25 percent during April and May 2003. The situation was aggravated because many countries, including Singapore and Thailand, as well as China, Japan and Taiwan were all badly hit by the SARS epidemic¹⁰. Actions taken by the government, such as restriction on travel to SARS affected countries compounded the problem. For instance, on April 9, Malaysia froze the issuance of visas and visas-on arrival to nationals from China, Hong Kong, Taiwan, Vietnam, and Canada.

Domestic tourism was also affected since many people were afraid to move around in 'tourist related locations' during the height of the epidemic, particularly after the World

¹⁰ Please refer to Appendix I

Health Organization issued a travel alert with respect to destinations in SARS affected areas. Conferences, trade fairs, business meetings and international site visits were put on hold. The cumulative effect was a significant slowdown in international business, both from an intra-Asian perspective as well as Asia and the rest of the world. This caused passenger load factors for most Asian airlines to plunge, and non-Asian carriers accustomed to using Hong Kong and Singapore as the Asian hub also suffered severe losses. In April, a survey by the Business Advocacy Group, an advocacy group for international travelers, found that 27 percent of respondents were banning travel to Asia, and another 8 percent were considering imposing a ban.

Clearly there is a high level of inherent risk associated with the tourism industry. The tourism infrastructure (e.g. airlines, ships and travel agencies) and state apparatus (e.g. Tourism ministry officials, policy-makers and associations) must be capable of acting decisively when 'bad news' hits the tourism industry. The nature of the tourism industry demands that national tourism information systems work in close collaboration with international agencies to mitigate the damage caused by 'bad news' risk elements.

The Middle-East political crisis and the SARS epidemic demonstrated vividly the sensitivity of the tourism industry to 'bad news' in the destination country, and to a lesser extent the country of origin. For instance, the Association of Asia Pacific Airlines (AAPA) announced on 16 April 2003 that its 17 member airlines had slashed about 650 flights a week as a result of SARS. This drastic drop in passenger traffic would translate into huge losses for the airlines. The economic repercussions do not stop there. Airlines that suffer cash flow problems are unable to service loans, make payments to suppliers and in some

cases are forced to retrench employees. The September 11 tragedy in the United States of America was so bad that several major airlines were forced to seek bankruptcy protection.¹¹

However, by September 2003, signs of recovery were evident. The World Health Organization (WHO) SARS report for the month of August 2003 indicated there had not been any SARS case reported, and most of the Asian region was removed from the list of SARS affected areas¹². Data from Abacus, Asia's largest air ticketing and reservation company, showed that intra-Asia travel approached the 500,000 bookings for the 1st two weeks of June, compared to just over 100,000 for the week beginning March 30 to April 5. Abacus normally receives over one million intra-Asia bookings a month¹³. This is the other story depicted in Diagram 4.1, namely the nature of tourism to rapidly bounce back once the bad news fades into the background.

4.2 Specific Challenges for the Malaysian Tourism Industry

Based on the demand side analysis, the following challenges need to be understood:

- Tourists are extremely sensitive to higher than normal risks associated with the journey or the destination. Consequently demand for travel can be extremely volatile when 'bad news' makes the headlines. The challenge is to anticipate and manage the periods of low demand. The challenge will be greater for suppliers with high fixed cost structures, and poor access to funding.

¹¹ 'American Airlines Bankruptcy Looms', Wisconsin State Journal, 16 April 2003

¹² World Health Organization (<http://www.who.int/csr/sars/en/index.html>)

¹³ <http://www.abacustravel.com>

- Tourists are price sensitive, and will respond to special holiday packages all other factors being constant. The challenge is to maintain reasonable profit margins during low demand periods since competition on price could become extreme. The challenge will be greater for suppliers operating in the 'average price band' where margins are already quite low.
- Tourists visiting Malaysia are largely seeking 'affordable holidays', and per diem spending is not very high. The challenge is to maintain profitability in the industry because the peak demand periods may not provide sufficient premium to offset losses incurred during low demand periods. A related challenge is to expand the range of tourist offerings to increase the per diem spending, and the length of stay.
- Tourists visiting Malaysia are mainly 'short haul' tourists i.e. from Asian countries. There are many choices of Asian destinations for the average Asian tourists, hence competition will be greater among the Asian countries. The challenge will be to sustain growth in tourist arrivals.
- Tourists with special interests, such as eco-tourism, culture tourism or adventure tourism are growing fast, and offer premium returns. The challenge is to develop and maintain destinations in Malaysia that meet world class standards, provide authenticity, portray a positive image to the 'special tourist segment' and are easily accessible.

4.3 Prospects for the Malaysian Tourism Markets

- Demand has proven to be very resilient, with tourist numbers quickly picking up after a crisis has abated, suggesting that travel for business and pleasure is very much a right

expected by those who can afford to travel. The future of the tourism industry looks positive as more people want to engage in travel experiences the world over.

- Malaysia has good infrastructure relative to most of its Asian neighbors, (excepting Hong Kong and Singapore). The country has the physical capacity to handle large volumes of international tourist in terms of accommodation, local travel and choice.
- Malaysia enjoys a geographical location that enables it to tap a potentially very large tourist market, and has adequate air travel, sea travel and road travel facilities to bring in international tourists.
- Malaysia offers value for money for tourists seeking an affordable holiday, with good accommodation, good food and good shopping.
- Malaysia's large Chinese and Indian migrant population are part of the attraction for many tourists from China and India since not only do they have relatives here, but there are also cultural similarities. China and India have the world's largest population groups, and have a rapidly growing middle-income group.