

## Chapter 5

### Key Economic Sectors linked to the Tourism Industry

#### 5.1 Overview

This part of the paper will focus on supply side factors. Supply side includes hotels, restaurants, shopping outlets, tour guides 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. Tourists that enjoy their stay and local visits are more likely to return, or encourage their friends to make the same visits. Supply side factors are influenced by both the private sector as well government agencies. Government agencies are heavily involved in infrastructure development, education, technology and demand promotion (Elwood and Tzong, 1983)<sup>14</sup>. Government expenditure is needed to produce and maintain public goods. Public goods, such as public toilets, security, decent roads, traffic control, transport to rural areas and medical facilities for the poor are necessary to create an environment attractive to tourists.

The distribution of tourism spending, as shown in Diagram 5.1, indicates which sectors of the domestic economy tend to benefit from tourist spending. As indicated, the main beneficiaries are the hotel industry, the food and beverages industry and the retail shopping industry. Each of the industries shown in Diagram 5.1 will be briefly covered in this paper.

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<sup>14</sup> Pye, A. Elwood; and Tzong-biau Lin.(Eds) (1983), "Tourism in Asia: The Economic Impact", Singapore University Press, Singapore

Diagram 5.1 (a)

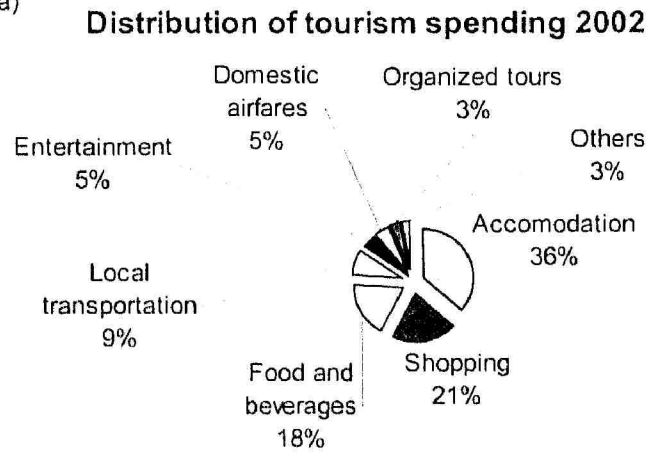
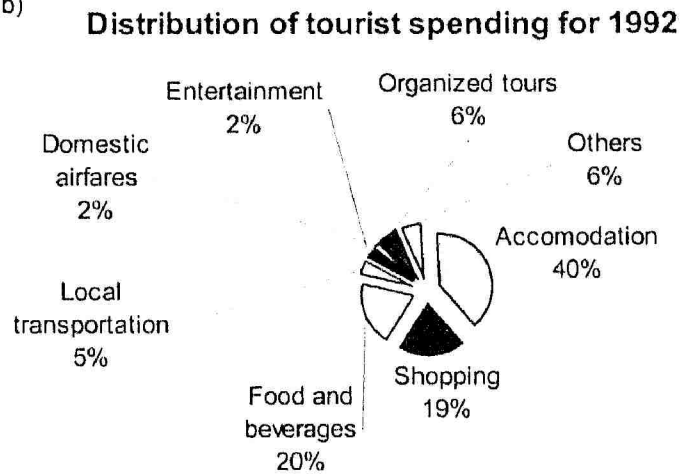


Diagram 5.1 (b)



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

Diagram 5.2

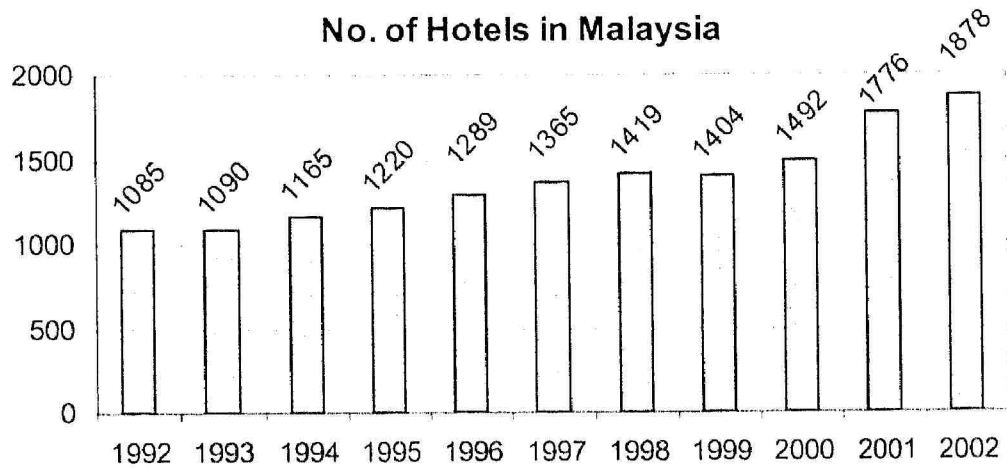
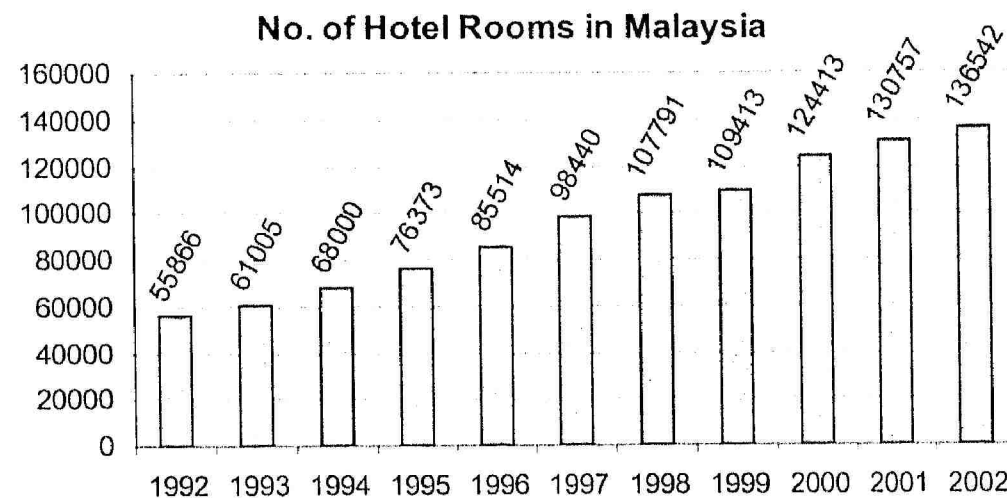


Diagram 5.3



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

## 5.2 Hotel Industry

Since 1992, the number of hotels has increased by 74 percent and the number of rooms by 145 %. Average occupancy rates are between 55 percent and 70 percent. Locations such as Genting Highlands, central Kuala Lumpur, island resorts in Penang and some of the beach resorts in Pangkor and Langkawi consistently record much higher occupancy rates, between 80 percent and 100 percent. The only year in which there was negative growth in

hotels was 1999, due in part to a moratorium on building of new hotels, imposed by the government during the height of the Asian financial crisis. Under the 7<sup>th</sup> Malaysia Plan, the target was to have 1340 hotels by 2000. This target was overshoot by 1997 (1365 hotels), and there has been excess supply in the hotel industry for the past few years (WTTC, 2003).

The Malaysian hotel industry structure (see Diagram 5.4) is analyzed using the well-known Five Forces Model developed by Michael Potter of Harvard Business School<sup>15</sup>. The analysis, which is based on data provided by Department of Statistics and the Malaysian Association of Hotels<sup>16</sup>, suggests that the Malaysian hotel industry is highly competitive, with many players, excess capacity and low profit margins. The larger 'foreign brand names' have greater control of the high-end market where premium prices are charged. Typically the larger hotels have higher occupancy rates during peak seasons. Names such as Hilton, Marriott, Regency and Sheraton attract the premium segment of the market.

The following general conclusions can be drawn about the Malaysian hotel industry:

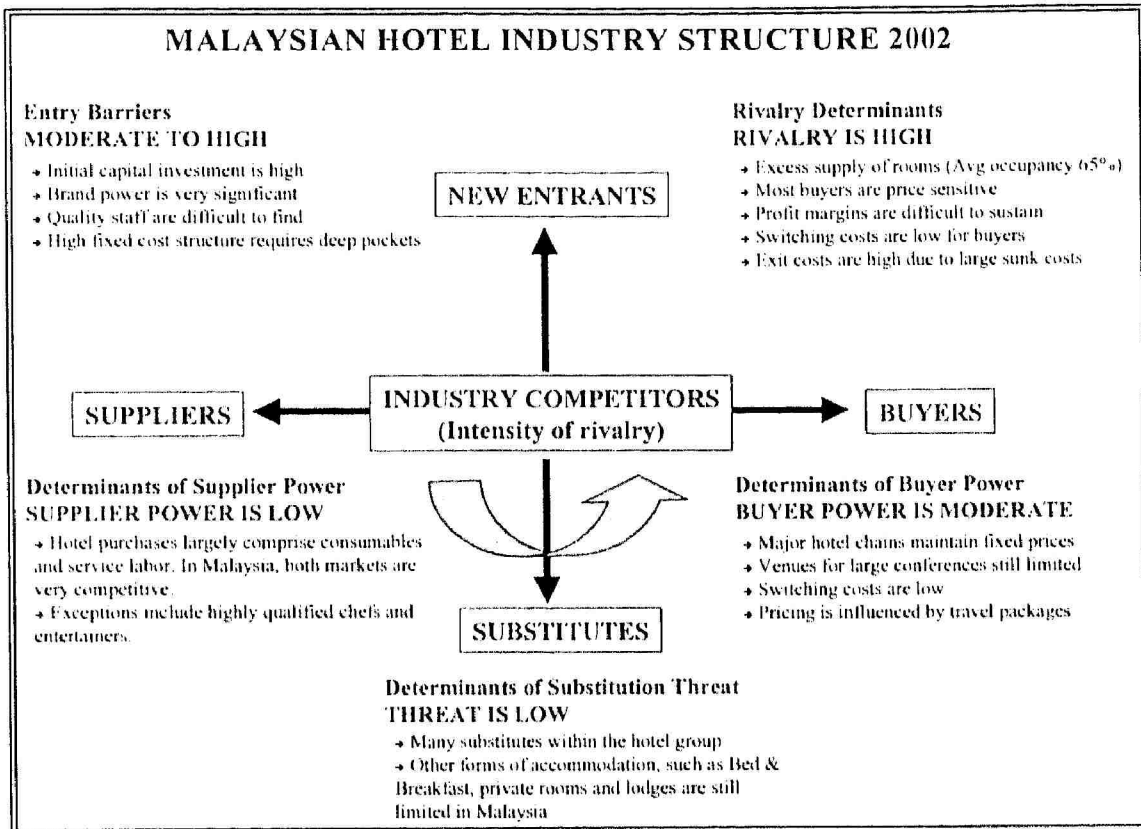
- The hotel industry is highly competitive
- The hotel industry needs to improve on the quality of staff in order to offer added value services
- Pricing within the hotel industry is competitive internationally
- The industry is highly vulnerable in financial terms during periods of slowdown in tourist traffic
- Key players are international brands, and there are limited domestic brands

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<sup>15</sup> Potter, Michael E. (1985), "Competitive Advantage", The Free Press, USA

<sup>16</sup> [http:// www.hotels.org.my](http://www.hotels.org.my)

Diagram 5.4 – Malaysian Hotel Industry Structure 2002

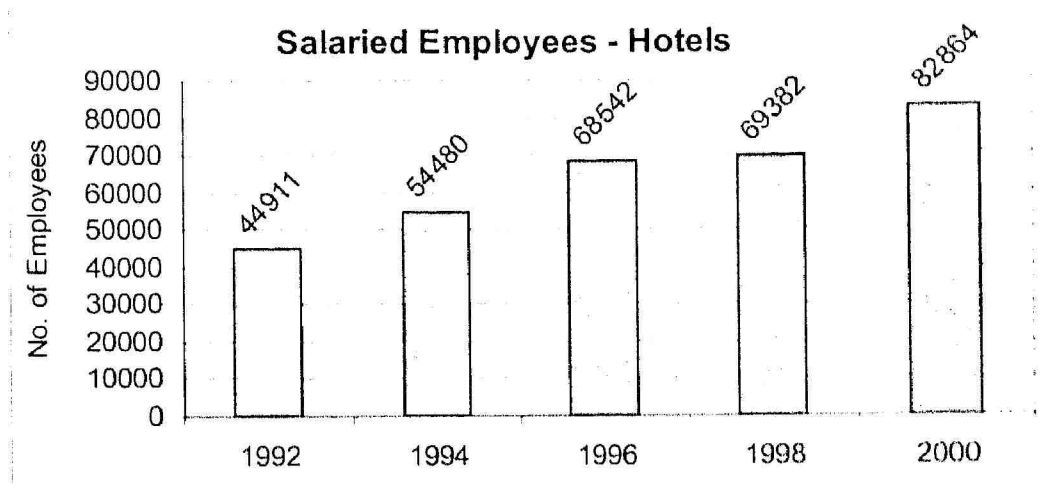


Source: Compilation based on the 5-Force Model for Industry Analysis by Michael E. Potter, "Competitive Advantage", 1985, and information obtained the Malaysian Hoteliers Association website ([www.hotels.org.my](http://www.hotels.org.my))

If tourist arrivals are not sustained, the hotel industry could easily succumb to financial crisis. Based on data from the Bank Negara Malaysia Annual Report 2002 on non-performing loans suffered by the banking system, the Restaurant and Hotel sector had higher non-performing loans after the 1997 Asian financial crisis, at a time when tourist arrivals declined. Non-performing loans to the Restaurant and Hotel sector rose sharply from RM 247 million in 1997 to RM 1,271 million in 2002, after peaking at RM 1,495 million in 2001. If tourism continues to be an engine for economic growth in Malaysia, loans to the hotel industry will continue to grow. Adequate risk management guidelines

must be in place to minimize the risk of these loans becoming non-performing during periods of downturn in tourist traffic.

Diagram 5.5



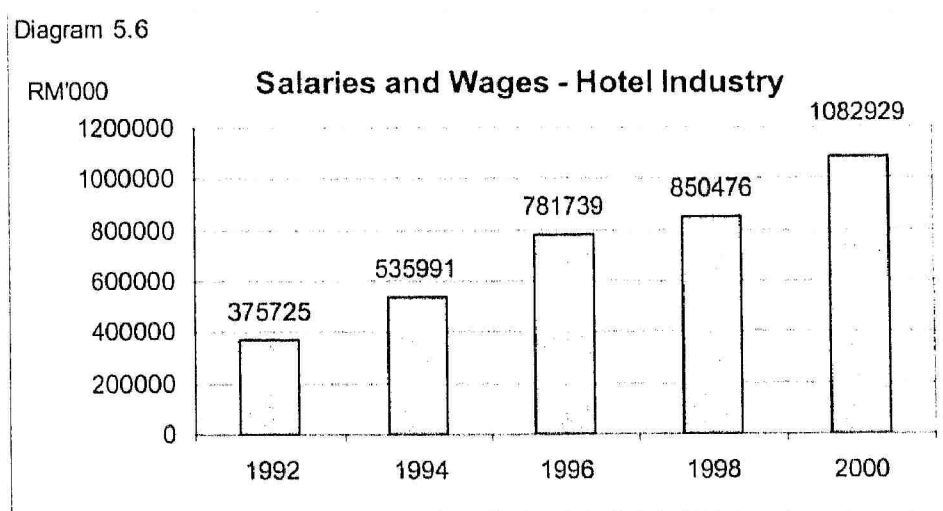
Source: Department of Statistics, Malaysia

### Employment in the hotel industry

Hotels are labor intensive, with 3 star hotels employing on average 60 to 70 employees for every 100 rooms, and the 4 star or higher categories employing 1 staff for each room<sup>17</sup>. The ratio suggests some 90,000 jobs maybe available assuming 70 percent occupancy for the total 137,000 rooms as of 2002. Data from the Malaysia Department of Statistics matches this estimate, as shown in Diagram 5.5. Most of the jobs require low skilled labor, with public relations being the most important skill for frontline staff. Total remuneration on average is low, at RM 13,068 per annum in 2000, of which the bulk is variable according to how much hotel generates in terms of revenue.

<sup>17</sup> Lundberg, E. Donald; Krishnamoorthy, M; and Stavenga, H. Mink. (1995), "Tourism Economics", John Wiley & Sons Inc, New York

The hotel industry is not very attractive in terms of remuneration. There are two main categories of staff, which can be described simply as management and employees. Management staff includes specialists, such as the head chef. Management staff is paid a conventional salary, but employees have a base salary plus a share of the 10 percent Service Tax imposed by the hotels and restaurants upon the customer. Base salary ranges between RM 180 to RM 500 per month, giving an average annual salary of RM 3000 to RM 6000 per year. In a normal business year, the share of the Service Tax will add RM 10,000 or more to the annual salary<sup>18</sup>. The key point is that the major part of the salary expense has been converted to a variable cost. This protects the hotel during a major drop in occupancy rates, but also means that the income of hotel staff suffers a significant decline.



Source: Dept of Statistics, Various Years

Based on the data available (see Diagram 5.6), the hotel industry contributed close to RM 1.2 billion in salaries to employees in the year 2002 (estimate). The availability of simple

<sup>18</sup> Based on interview with Ivo R. Nekvapil, Vice-President, Malaysian Association of Hotels

manual jobs that are offered by the hotel industry, such as cleaners, sweepers, laundry services and bell-boys is critical because in many instances the jobs are sought after by individuals with limited paper qualifications. The income supplements the family income, since a single income is often inadequate to meet the rising costs of living and working in the major cities. However, in the absence of regulations that set minimum wages, such low paying jobs will foster an environment that provides individuals with lower pay, poorer working conditions and minimal career prospects.

With respect to opportunities for growth, although there is an excess supply of hotel rooms in the country, certain types of locations still provide opportunities for growth. One area of growth has been island beach resorts, such as Pangkor Laut Resort, Avillion Village Resort, Nexus Resort Karambunai, Sutera Harbour as well as several resorts in Langkawi Island and Batu Feringgi in Penang. These resorts are an extremely popular destination with tourists seeking a comfortable holiday with the sea, sand and sun<sup>19</sup>. The local economy benefits as the resorts value chain extends to include food and beverages, local transport, local entertainment and special activities like scuba diving, water sports and paragliding. For instance, the Union Internationale Motonautique (U.I.M.) Formula 1 Powerboat World 2001 Championship was held at Tanjung Puteri, Johor. Events such as these will attract tourists interested in water sports. The events also generate additional economic growth in other industries, such as event management, transport, food, waste management and management of civil amenities.

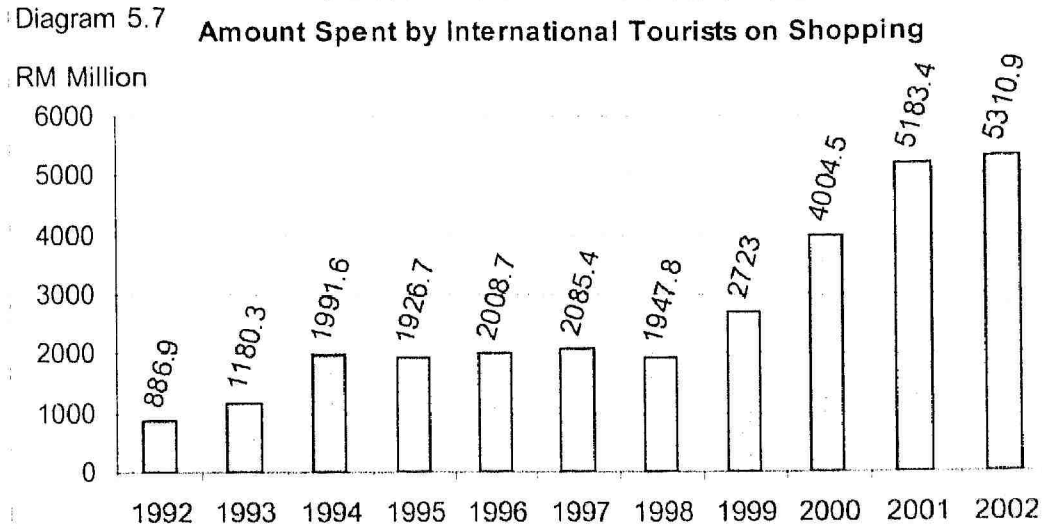
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<sup>19</sup> Malaysia Tourism Board (2001), "Profile of Tourists by Selected Markets 2001 Malaysia", Ministry of Culture, Arts and Tourism, Malaysia



In conclusion, the hotel accommodation industry is an increasingly important contributor to economic activity in Malaysia. It increases the country's foreign exchange earnings by attracting tourist dollars. For the year 2002, more than RM 9 billion of international tourist receipts was spent on accommodation. It contributes more than RM 1.2 billion in terms of salaries, and more than RM 2 billion in terms of purchases of goods and services. The hotel industry has a high fixed cost structure, and a prolonged slump in tourism could have potentially devastating effects upon the financial viability of the hotel industry, with serious repercussions for the banking sector.

### 5.3 Retail Shopping Industry



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

International tourists spent more than RM 5 billion in shopping during 2002 (excluding foodstuff), with the bulk of the spending going to textiles, followed by handicraft, shoes and batik (refer earlier Diagram 5.7). As indicated in Diagram 5.7, the growth in shopping expenditure increased significantly since 1999.

The sharp growth in international tourist arrival since 1999 is reflected in the amounts spent by tourists on shopping. However, most tourists visit Kuala Lumpur, followed by Penang and Johor as the 2<sup>nd</sup> and 3<sup>rd</sup> most popular destinations. Consequently, money spent on shopping is localized to these cities. Supply side factors have responded by investing in additional large shopping complexes and departmental stores seeking to capture the lucrative tourist market segment.

The value chain that supports retail businesses, such as food, textiles and household products, extends from the retail premises to large distribution warehouses, transport

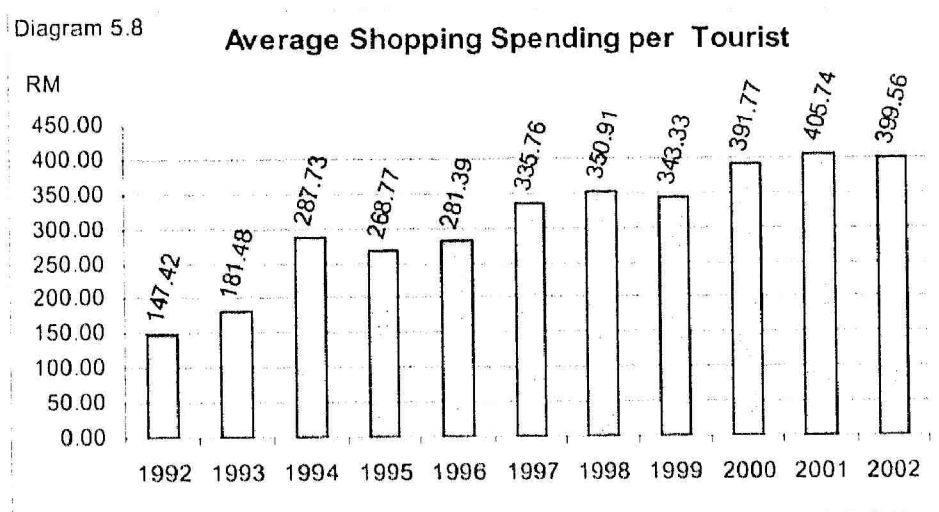
services, import services, banking services and information technology services. Again, much of these products and services have been located in or around the major urban centers.

Shopping on a large scale has a profound impact upon the economy and on social activities. The ability to draw the crowd, especially tourists, depends on how the shopping experience contributes to the overall 'tourist experience'. Popular shopping destinations in Kuala Lumpur that have evolved to attract tourists include Bukit Bintang's Bintang Walk, Sunway Pyramid's Lagoon, Wang Utama's mega shopping complex, Petaling Street's open market, KLCC's Twin Towers and most recently Times Square. The implication to the social life of locals is evident when we visit any of these shopping centers. Malaysians in the major urban centers spend a considerable amount of time walking around in shopping centers. In turn, new forms of in-house entertainment, such as arcade games and kids playground have also developed in the shopping centers. Although this contributes to economic activity, there is a serious social problem known as the 'lepak culture', where youths spend hours in unproductive activity in these mega malls. This will increasingly impose a social cost upon the nation.

### **Tourism Promotion Strategy - Malaysia A Shopping Paradise**

The government has promoted Malaysia as an international shopping destination by increasing the number of duty free items and introducing the concept of Mega Sales Carnivals on a nationwide basis. These carnivals, first introduced in 2000, included attractive events such as Made in Malaysia Exhibition, Malaysia Fashion Week and Midnight Sales. The shopping agenda is also given more character and fun with thematic events, such as Colors of Malaysia, National Water Festival, Merdeka Celebrations and

Arts & Craft Festival. These ‘nation-wide discounts’ also draws significant numbers of excursionists from Singapore and Thailand. Malaysia is being hailed as a ‘shopping paradise’, and the promotion campaigns appear to have been quite successful, especially in the past couple of years, as indicated by the higher spending by individual tourists shown in Diagram 5.8.



Source: Malaysian Tourist Board, Ministry of Culture, Arts & Tourism, 2002

### **The positive impact on the economy of making Malaysia a shopping paradise**

The success of Malaysia as an international shopping center has several benefits to the economy. International shoppers bring in foreign currency, stay in hotels and spend money on food, entertainment and travel. These activities help to create and sustain an extended supply chain to provide stock for the shopping outlets, sustain employment in the wholesale and retail sales sector and sustain an environment where new products are introduced to maintain competitiveness. The indirect benefits include growth in the construction sector in terms of building large shopping complexes. Another major indirect benefit is the capacity to sustain a wide range of domestic industries in agriculture, manufacturing, small and medium enterprises, financial services, legal services and

advertising and marketing services. Finally, the success of the shopping paradise strategy attracts 'global brands' such as Dunhill, Debenhams, Ermenegido Zegna, Christian Lacroix, Hugo Boss, Stuart Weitzman and Burberrys to Malaysia. This in turn attracts affluent tourists who are 'big spenders' to Malaysia.

### **The negative impact on the economy of making Malaysia a shopping paradise**

The downside of promoting Malaysia as a shopping paradise is that import leakage rises as Malaysian retailers seek to match the product range of retailers in Singapore or Hong Kong by importing more products. This increases outflow of money from the system. Another drawback is the over-concentration of shopping outlets in major cities, especially Kuala Lumpur, since the large outlets need economies of scale, and must be located within areas of high population density. This reduces investment in many smaller cities and towns, resulting in unbalanced economic growth in the country. According to Henry Butcher Shopping Center Consultants Sdn Bhd, there are nearly 140 shopping centers in Klang Valley, with some 32 million square feet of retail space. There is over-capacity in terms of space<sup>20</sup>. Pricing of many products are distorted since shopping outlets are selling an 'international brand', and therefore goods reflect international pricing strategies (International pricing strategy means pricing is done by considering the prices of similar goods in other competing markets.) Hence, the local prices reflect pricing of the tourist's country of origin, which may be a developed country with a higher cost structure. Prices are artificially inflated, and during the sales campaigns massive discounts of up to 80 percent are given to move remaining old stock. The high prices during normal sales period is a disadvantage for local consumers. Finally, there tends to be over-investment in fixed capital, principally office space and shopping outlets, as evidenced in Malaysia since 1998.

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<sup>20</sup> The Star Bizweek, 27 December 2003, page 22

It is estimated that there is about RM 29 billion in property throughout the country, including commercial and residential units that have yet to be purchased or tenanted as of May 2003<sup>21</sup>. Another serious flaw with the Malaysian strategy is that Malaysia's tourist promotion campaign advertises the Malaysian shopping experiences as 'value for money', which generally translates into 'cheaper than your competitor' in practice. Price becomes the determining factor, rather than quality and other like attributes. This type of 'shopping paradise' attracts family shoppers, budget shoppers and bargain hunters. It is not surprising therefore that the per diem expenditure in the case of tourists from Europe, Australia, Japan and Singapore are quite low since most shoppers are mainly seeking bargains. Tourists from India, South Africa and China tend to have higher per diem expenditure since their own countries may not offer as wide a choice of items. There is also lack of differentiation between the major shopping centers, which again forces competition along price. Interesting exceptions include Sunway Pyramid, with its Sunway Lagoon theme park and Times Square, with its in-door theme park.

In conclusion, the strategy of promoting Malaysia as a shopping destination has as many negative attributes as positive attributes. It is not clear whether the overall economic gain in 'selling to tourists' is offset by losses such as unproductive use of land space, higher prices for local consumers and attracting more 'budget tourist' to Malaysia. The fact that huge volumes in retail shopping supports an extended value chain employing thousands of individuals suggests there are significant short-term gains. But if 'value for money' is the main attraction, there is a high risk of losing our competitiveness to China, Thailand and other developing economies where costs are lower. In particular, as major manufacturing houses shift to China, the availability of retail consumer items will almost inevitably make

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<sup>21</sup> News Straits Times, Property Section, 31<sup>st</sup> May 2003  
(<http://property.nst.com.my/Weekly/PropertyTimes/News/Proptalk/20030616105704/Article/>)

China a 'shopping paradise' in the near future. Unless Malaysian retailers are able to provide a more unique shopping experience, the Malaysian mega malls may only cater for Malaysians. This will increasingly make it more difficult for small retailers in Malaysia to survive.

Another strategy would be to focus on the 'well to do tourists' from 'poorer countries', i.e. from China, Indonesia, India, Thailand, Sri Lanka, Vietnam and South Africa. These tourists come from economies where choice is limited, and purchase of 'imported Westernized products' is still considered trendy. Tourists from Western countries have ample choice in their home countries, or in neighboring countries. Targeting the affluent in poor countries could add to the success of Malaysia's shopping paradise.

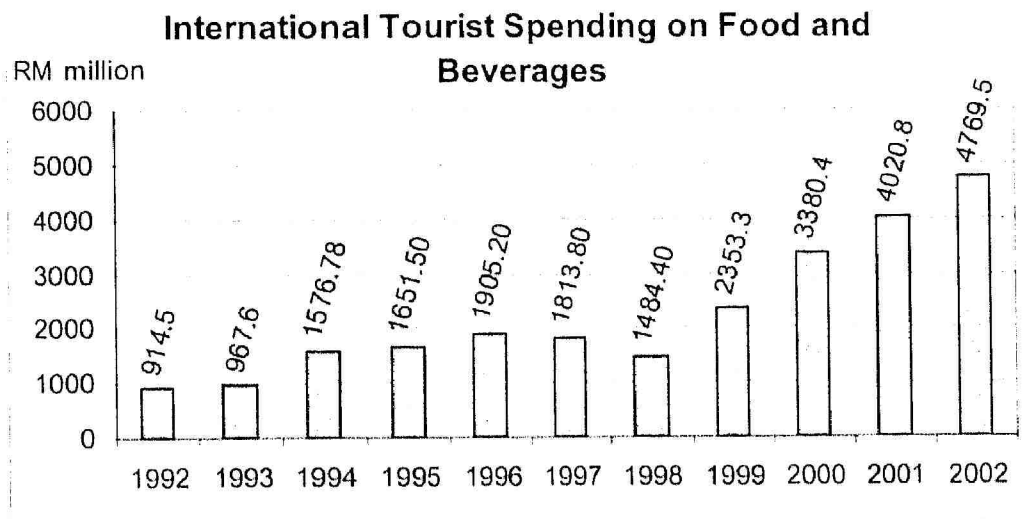
It is also important to develop niche 'Malaysian' products, such as batik, pewter, Malaysian fashion houses, preserved foods and Malaysian 'tongkat Ali' to name a few examples. These products have a unique 'Malaysian flavor' and attract international tourists looking for local specialities. The KL Fashion Week promoting the works of homebred fashion designers like Sarimah Adzrina, Zang Toi and Edmund Ser is a good example of local Malaysian flavors<sup>22</sup>. Another recommendation is to develop international chains selling products affordable to average income tourists. Examples include the Laura Ashley department store, Marks & Spencer and Starbucks Coffee. Luxury names like Dunhill, Cartier and similar names are beyond the reach of the average tourist from Indonesia, Thailand and China.

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<sup>22</sup> The STAR, 4<sup>th</sup> April 2003, page 27

There is still a lack of data and analysis on the subject, and it remains ambiguous whether the strategy of 'Malaysia as a shopping paradise' is positive to the economic prosperity of the country.

Diagram 5.9



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

#### 5.4 Food and Beverages Industry

The Food & Beverages industry has benefited significantly from tourist arrivals, recording an impressive average growth of 40 percent per annum over the past five years. In terms of image, Malaysia has a reputation for being a food paradise. Hence, tourists are keen to sample a wide range of dishes and restaurants. Reliable statistics on employment within the food and beverages industry is not available, but the growth in terms of tourist spending suggests employment in this sector has increased substantially.

Based on a per diem of RM 350 and a ratio of 20 percent for food expenditure, it can be inferred that on average approximately RM 70 per person, per day is spent on meals. This sort of pricing reflects hotel restaurants or medium to up-market establishments in



Malaysia. Many of the up-market establishments import food products, especially dairy products, alcohol, chocolates, fresh fruits and red meat. Most other products can be sourced locally. However, there is insufficient data to assess the level of import leakage that is caused by restaurants importing food ingredients.

Another interesting issue is the fact that restaurants have a relatively high fixed cost structure, particularly those located at more expensive localities frequented by vacationers from Europe, Japan and America as well as most business travelers. Sharp drops in tourist arrivals, as was the case during the SARS epidemic, could make it difficult to recover fixed costs in the short term, and result in negative cash flow<sup>23</sup>. Kuala Lumpur has witnessed many up-market restaurants that have closed down in less than a year because the high fixed cost structure does not allow the business to withstand temporary periods of low customer traffic.

In terms of industry structure, the food and beverages business has many substitutes and customers are price sensitive within each category of product. Competition between restaurants is strong. Another significant competitor to established restaurants is the large pool of hawkers and night market vendors. These businesses are part of the hidden economy since their numbers are not reflected in official statistics. This means that the contribution to the economy from food and beverages could be substantially more than the data above would suggest. While the presence of hawkers and night markets are in themselves a great tourist attraction, health considerations must be taken into account. An outbreak of cholera or similar disease could have potentially devastating effects on the tourism business generally. Health and safety considerations are being increasingly

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<sup>23</sup> TheStar, Wednesday 26 March 2003, p 22

emphasized by the Government, and the regulations being tightened to ensure consumers are consistently receiving a high standard of service.<sup>24</sup>

The food and beverages industry has an extended value chain, comprising the raw materials that are grown in farms, processed in food factories, transported through a nation-wide transportation system, and finally reaching its end destination through a distribution system of wholesales and retailers. The money spent by tourists on food has a trickle down effect to many small and medium enterprise businesses, and therefore has a profound economic multiplier effect. It is also important to realize that fresh food is a perishable item, and must move from the supplier to the end consumer within a short period of time. Consequently, suppliers who are left with excess stock will suffer significant losses since the stock will lose its value in a short time. The economic effects during a sharp downturn in tourist arrivals, such as during the height of the SARS epidemic, can be very adverse for suppliers of perishable food items.

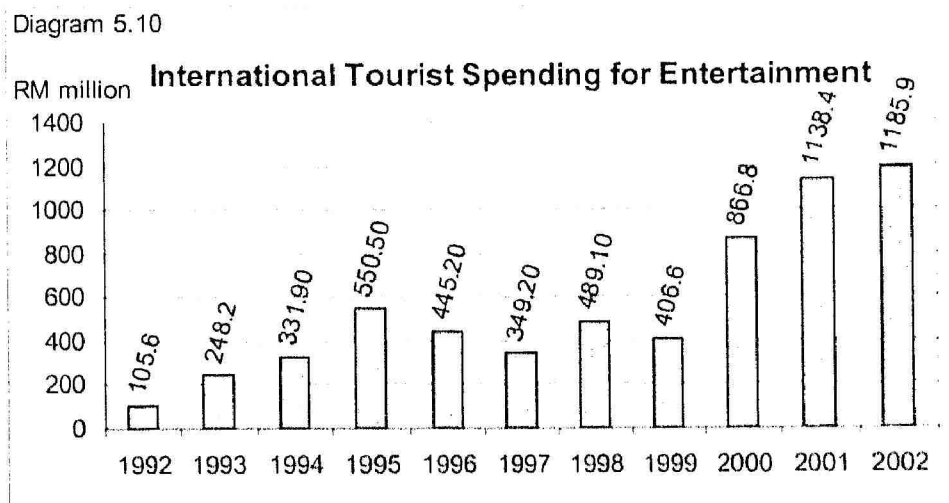
In conclusion, the greater the variability in tourist arrivals, and hence the demand for food and beverages, the greater the risks to the retail food supply chain catering for tourists and visitors. Any initiative that is able to reduce the variability will contribute towards more efficient and effective capital investment in the retail food sector, and a more equitable distribution of profits amongst the different players in the industry. While there is insufficient data to draw conclusions on the dependence of the food and beverage industry upon international tourist arrivals, it is reasonable to state that the RM 4.8 billion spent by international tourists will make a significant difference to the viability of restaurants

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<sup>24</sup> TheStar, Tuesday 8 April 2003, p 4

located around the tourist hot spots. The multiplier effect will also generate substantial local economic activity.

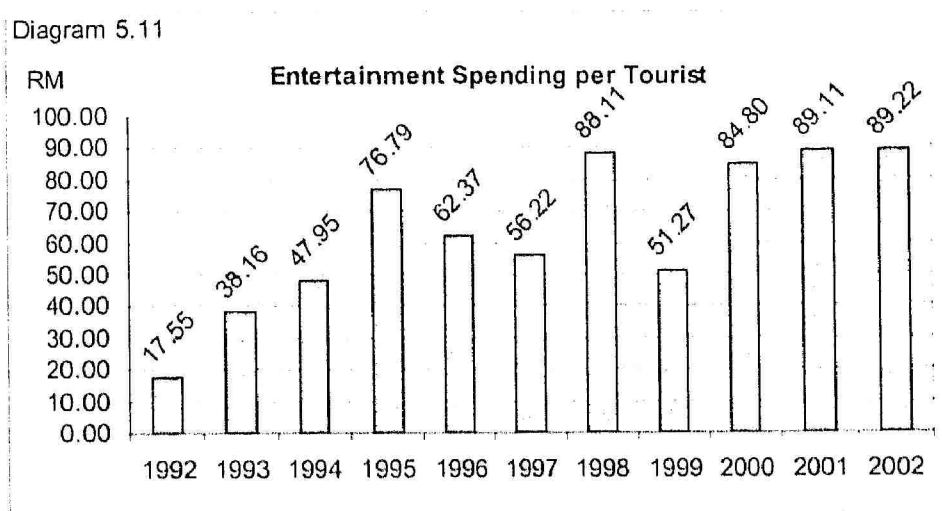
## 5.5 Entertainment Industry



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

Entertainment refers to activities and locations that provide an enjoyable or educational experience. It refers tourist attractions such as Genting Highlands, Sunway Lagoon, Mines Wonderland, Wet World Resort, Pedas Hot Spring, Langkawi Island, Bukit Tinggi Resort and Midlands Park Centre. These are self-contained entertainment complexes, catering for children and adults alike. Other forms of entertainment include zoos, parks, museums, interesting monuments or architecture as well as institutions such as planetariums, wildlife conservations, marine research expeditions and nature reserves. As shown in Diagram 5.10, international tourists spent almost RM 1.2 billion on entertainment goods and services. The growth rate was very high for the period 1999 – 2001, but is showing signs of tapering off. The pattern is similar to that of international tourist arrivals, suggesting that the entertainment industry is benefiting from tourism, but in direct correlation with the number of international tourist arrivals. In other words, there has not been any significant

growth in the revenue per visitor over time. In order to assess whether the entertainment industry for tourists is expanding its range of products and services, data pertaining to entertainment spending per tourist is more relevant.



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

There are two interesting points to note from Diagram 5.11. Firstly, the spending on entertainment per tourist is **low**, less than RM 100 for 2002. Secondly, the growth in spending per tourist has not increased in the past three years. If we consider some of the main options available to a tourist visiting Kuala Lumpur, the list would include Petronas Twin Towers (free), Putrajaya (free), Gentings Resort & Casino (approx RM 50 per person), the National Planetarium (RM 6), Menara Kuala Lumpur (RM 15), Sunway Lagoon (RM 25), Mines Wonderland (RM 25) and city tours (RM 40). In most cases, the cost is very low. A review of travel guides also suggests that Malaysia still has very little to offer tourists in terms of entertainment options.

Malaysia has a number of heritage sites, including two which have been listed as World Heritage sites – Mulu Park & Caves, and Mount Kinabalu Park. Taman Negara in Pahang

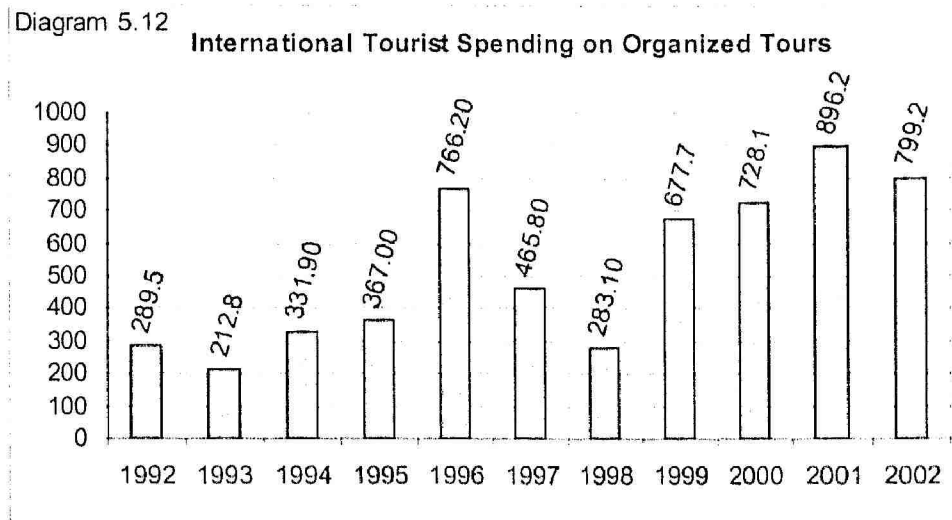
is known as the oldest rainforest in the world, and has potential to be listed as another heritage site. The state of Melaka has a number of cultural and historical sites, as well as attractions such as crocodile farms and nature parks. Johor, Negeri Sembilan, Penang, Terengganu and Kelantan have beach resorts and cultural dances, as well as unique architecture for many of the older dwellings. Sarawak has beaches and cultural sites to offer. Sabah is home to one of the most famous diving locations, at Sipadan island. The state of Kedah, although among the least visited by international tourists, also happens to be the oldest state. It has samples of ancient Hindu and Buddhist artifacts. Kuala Lumpur offers the Petronas Twin Towers, tallest buildings in the world, as well as KL Tower, ranked as the 4<sup>th</sup> tallest tower in the world. The city also offers an interesting mix of old and modern architecture. Kelantan offers handicrafts such as makyong, wayang kulit, batik and woodwork. But the data clearly indicates that the majority of tourists are visiting Kuala Lumpur and Penang, rather than the numerous natural and cultural attractions of the country. The exception is perhaps Melaka, which is closer to Singapore and part of the national highway system. Many of the other remote attractions are not packaged in a convenient bundle to make it accessible to tourists visiting the country for a few days.

One good example of developing a tourist destination is Langkawi. Langkawi is an island offering all the conventional beach resort facilities, plus island hopping. In addition, it has a wide range of hotels from budget to 5 star. But to capture additional tourist dollars, attractions such as the yacht facilities, a crocodile farm, tropical rainforests, wind surfing, mountain biking, jungle trekking and cultural displays are available. More ambitious attractions include the Langkawi Underwater World and the RM 25 million project to feature three different ecosystems at the Langkawi Underwater World. The project includes an Amazonian, sub-Antartica and Antartic ecosystems, with a 3-dimensional theatre that can seat 200 people. Animals completely alien to the Asian region will be

imported, such as penguins, anacondas and whistling ducks. Artificial snow and ice will be made using the latest technology. The facility would act as a educational and research center, in addition to being a tourist attraction.

There are still limited entertainment options available in Malaysia. The average tourist visits a country to see as many interesting sights and to appreciate the differences in culture, cuisine, clothing, religion, history and entertainment. Malaysia has many unique products, and more effort needs to be invested in 'packaging' the unique attributes of Malaysia into an interesting tour package. Additional investment is needed in building and maintaining affordable but exciting entertainment sites. Entertainment is one of fastest growing sectors of the economy in developed countries, and will prove to be the same in Malaysia as disposable income continues to increase.

## 5.6 Tour Operators Industry



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

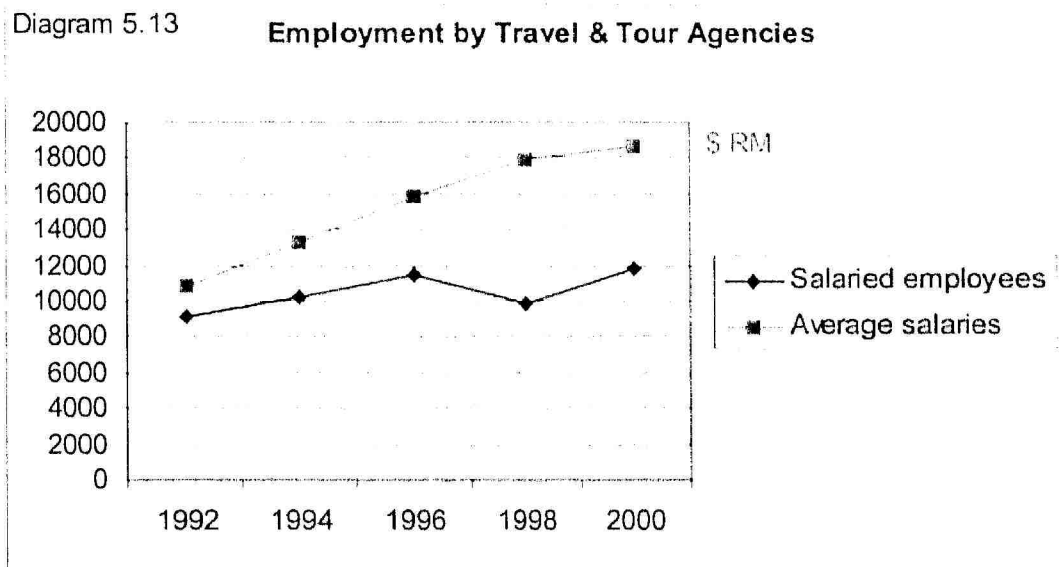
Tourists from South Africa, China, Taiwan, Hong Kong, South Korea, West Asia and United Kingdom prefer organized tours. Tourists on organized tours tend to travel to places outside of Kuala Lumpur, such as Melaka, Penang and Pahang. Spending on organized tours has increased steadily (see Diagram 5.12) as more tourists have come from these countries in recent years.

The number of tour operators in Malaysia has grown from 894 in 1992 to 1021 in 2001, an appreciation of 14 percent over eight years. In terms of industry growth, 14 percent is very high and reflects the opportunities created by tourism business in Malaysia.

As shown in Diagram 5.13, some 12,000 individuals are employed by tour operators, and the average salary is RM 18,904 for the year 2000. This is substantially higher than the average salary in the hotel industry, reflecting the need for more sophisticated marketing and public relations skills. It is also worth noting that the increase in average salaries between 1992 and 2000 was 70.5 percent, far above the increase of 28 percent in the

number of salaried employees over the same period. The travel and tour operators business has added value over the last 10 years, and offers much better employment prospects. In contrast, the hotel industry has increased the number of employees by 84 percent, but average salaries have increased by only 56 percent between 1992 and 2000.

The growth of the tour and travel operators industry owes much to their capacity for self-governance and cooperation through the Malaysian Association of Tour and Travel Agents (MATTA).



Source: Department of Statistics, Malaysia

MATTA began with 30 members in 1975, and today has more than 1,600 members (individuals and agencies), including overseas affiliations. MATTA's objective is to promote the interests of the travel and tour industry in Malaysia. MATTA works closely with the Ministry of Culture, Arts and Tourism (MOCAT) as well as Malaysia Tourism Promotion Board (MTPB), helps organize fairs, seminars, convention and workshops both to create public awareness of the tourism industry as well as to benefit its members. The



MATTA International Travel Fair (MITF) is its flagship event, and is held twice a year. The 15<sup>th</sup> MITF held in 2002 attracted 251 tour agents, more than 100,000 visitors and recorded total sales in excess of RM 80 million. The MITF brings together all the key players in the tourist industry, from hoteliers, travel agents (air, rail, road and sea), travel information providers (ABACUS system), restaurateurs and the mass media (TV, print and radio).

MATTA School of Tourism established in 1996 offers courses based on the National Occupational Skill Standards besides industry related programmed which are recognized by the government of Malaysia and International bodies such as the International Air Transport Association (IATA) and the Universal Federation of Travel Agents Association (UFTAA). There is still a lack of formal education programs addressing the need of the tourism industry. The education system in Australia, New Zealand, United Kingdom and United States of America have a vast range of education programs, ranging from simple certificate courses to PhD programs for various aspects of tourism. In addition, these countries play a key role within the WTO and WTTC, as knowledge leaders in tourism management and economics. Malaysia has yet to develop such credentials, except in limited cases.

Tour guides play a critical role in providing a satisfying experience for tourists. The Malaysian Tourist Guides Council (MTGC) has more than 5,000 members and associates<sup>25</sup>. The Council provides training for members, such as the Continuous Tourist Related Education program sponsored by the Sabah Tourist Guides Association<sup>26</sup>. Tour

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<sup>25</sup> Malaysian Tourist Guides Council (<http://www.sabahtourism.com/links/>)

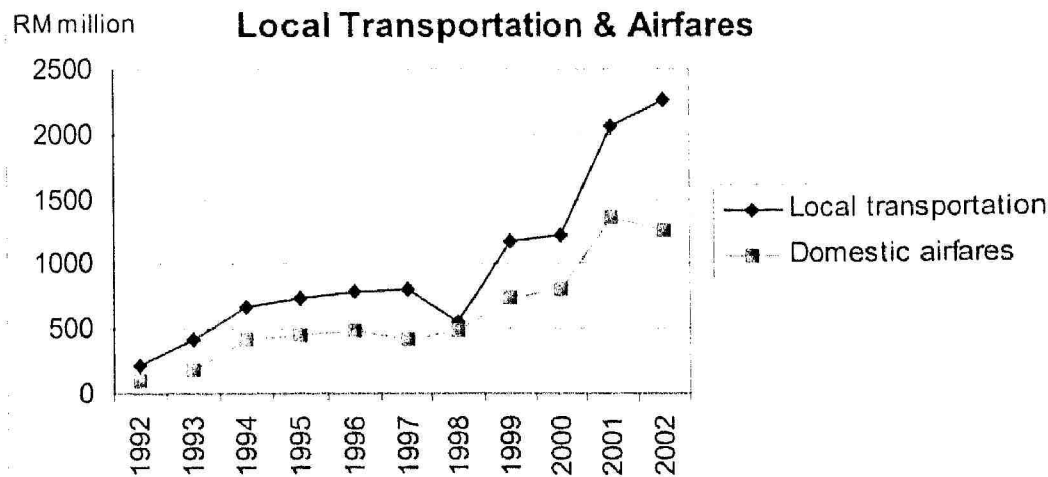
<sup>26</sup> <http://www.stga.com.my>

guides who have language proficiency and knowledge about the tour product are able to add value to a tour package. This value translates into a 'memorable experience' for the tourist, and increases both the probability of repeat business as well as new business from word of mouth advertising by the satisfied tourist. Certain types of products, such as eco-tourism, agro tourism and marine tourism can only be successful if they are part of an organized tour. This is because there are safety issues and minimum group size that must be met in order for such tours to be commercially viable.

Organized tours are extremely important in attracting tourists who are unfamiliar with local customs, languages and practices. An organized tour can package a product more effectively in terms of scheduling, quality and pricing. Organized tours can generate economies of scale that make it worthwhile to hold special cultural events, such as dances and shows. The availability of local organized tours creates tourist products that can be sold as part of an international tour package.

## 5.7 Local Land Transportation Industry

Diagram 5.14



Source: Department of Statistics, Malaysia

The impact of tourism on local transportation is more difficult to assess because local transport exists pre-dominantly to serve Malaysians. Nonetheless, with close to 2.5 billion Ringgit spent by international tourist on local transportation in the year 2002 (see Diagram 5.14), excluding domestic airfares, the impact upon the retail economy is significant. The local transport system comprises taxis, buses, the Putra and STAR Light Rail Transit (LRT) networks, the KLIA high speed train and the newly introduced monorail system.

The dependency on international tourism is higher in the case of transport services between the airport and city, as well as between Malaysia and neighboring countries. For instance, taxi drivers in the main urban areas within Kuala Lumpur, Penang and Johor depend to some extent on tourists, and a sharp fall in tourist arrivals immediately translates into lower income for taxi drivers. Another example is that of the national railway, KTM, which cancelled one regular service to Singapore during the height of the SARS epidemic

because passenger traffic was down by 60 percent<sup>27</sup>. The profitability of the KLIA Express service and the airport taxi service are also directly dependent on tourist traffic. The losses from reduced passenger traffic add to the government or taxpayer's burden.

Apart from airport transit services, tourists also need transportation to reach 'tourist destinations'. The main transport medium within the city is the taxi and the public bus service. Both services have improved in recent years, but complaints of rude drivers, unscrupulous taxi drivers and poor bus service are still common. Intercity transport has less choice, with buses being the easiest and cheapest mode of transport. The city authorities have started to upgrade the bus terminals, but the main terminal at Pudu Raya continues to be congested, dirty and chaotic. The latest intercity transport services such as the LRT and monorail systems have introduced significant improvements for travel along the main shopping zones.

A relatively small country like Malaysia, with a reasonably decent road system connecting all states should have a thriving car rental industry for tourists to self-drive to their destinations. Unfortunately, extremely poor signage and relatively expensive car rentals has meant very few tourist will opt to self-drive (apart from Singaporeans). This poses an obstacle to the tourism industry because tourists are unable to reach some of the destinations in remote areas. The problem is compounded by the fact that transit services between the various terminals and stations are inadequate. Intercity travel is restricted to major towns. Access to certain major tourist destinations, such as Cameron Highlands, Fraser's Hill, Taman Negara, beaches on the East Coast and nature parks scattered throughout the country is difficult because the lack of easy local transportation means

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<sup>27</sup> The Star, 15 April 2003

tourists cannot move freely upon reaching their destination. For remote destinations, simple and affordable transport must be easily available. A good example is the 3-wheel scooters that are widely used in India and Bangkok, to move around the city or small towns.

In terms of economic impact, the RM 2.5 billion spent by tourists on local transportation will contribute towards funding the cost of transport infrastructure being developed by the government and private sector. Equally important is the need to make destinations accessible for tourists, in an affordable and convenient manner. The current standards of local transportation facilities appear inadequate for the purposes of making a tourist want to extend his or her stay in the country. Examples of improvements that would make it easier for tourists include single ticketing, higher frequency of local buses, better signage, improved quality of bus service and introduction of metered taxi services in smaller towns. These improvements will allow more remote tourists destinations to be developed, as well as making it easier for a tourist to visit many destinations within a short trip.

## **5.8 Air Travel Industry**

The Government has continued to liberalize the national aviation policy to have more reciprocal scheduled air services with international destinations. During the period 1996 – 2000, the number of international destinations increased from 66 to 81, with new destinations being introduced for China, Europe and Russia. Malaysia also has open skies agreements with United States, New Zealand and Taiwan. The open skies agreement will enable more flights at lower cost to be arranged between the countries since there is no need to negotiate each landing right separately. The infrastructure to manage international

arrivals is excellent, with the Kuala Lumpur International Airport having excess capacity. KLIA has capacity for 25 million passengers, but actual traffic has never exceeded 16 million. Apart from KLIA, Penang, Kuching, Kota Kinabalu and Langkawi also act as gateways for international flights.

Passenger traffic is very important to sustain the attractiveness of an international airport because major airlines are not interested in landing in airports where there is limited scope to grow passenger volume. During the 1997 Asian financial crisis, several major airlines, such as Qantas, British Airways and Lufthansa stopped flying into KLIA due to low passenger volumes. Lufthansa will resume flying into KLIA effective 2004, and Malaysia Airport Holdings Berhad (MAHB) is negotiating with other major airlines to fly into KLIA. In 2003, MAHB managed to add 3 new airlines to its list, namely Royal Nepal Airlines, Philippines Airlines and Air China. Air Kazakhstan will start flying into KLIA from 2004. Preliminary discussions are also underway with Syrian Arab Airlines, Hainan Airlines of China and South African Airways<sup>28</sup>. As more airlines fly into Malaysia, more tourists will find their way to Malaysia.

Malaysia has generally maintained a very liberal stance with respect to visa regulations. Many nationalities, particularly those associated with the Commonwealth, are able to enter Malaysia for short-stay without requiring a visa. However, countries like India and China, which are the new growth markets, still face considerable difficulties in obtaining visa. Malaysia is working with the Indian and Chinese governments to ease travel requirements and regulations in an effort to promote tourism between these countries.

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<sup>28</sup> StarBiz, Saturday 27 December 2003, News page 3

International travel facilities are excellent and have played a major role in making Malaysia a popular tourist destination. However, the costs and risks associated with international air travel have been compounded in recent years, making it more difficult for airlines to prosper. The vital role played by air travel in promoting and supporting international tourism cannot be understated. Collaboration between government and airlines is necessary to ensure that international air travel continues to expand in a safe and affordable manner.

## **5.9 Conclusion**

It is clear that tourism is a significant contributor to many sectors of the retail economy in Malaysia. The growth in tourism between 1992 – 2002 has contributed to growth in employment, infrastructure, choice in products and services, improvements to retail delivery systems and expansion of capacity in certain domestic agriculture and manufacturing industries. The trend in growth also suggests that certain industries, such as hotel, restaurants, entertainment and travel have a high degree of sensitivity to tourism traffic. Finally, there are still significant opportunities to increase profitability per tourist by providing higher value added services, higher quality products and more choice for international tourists.