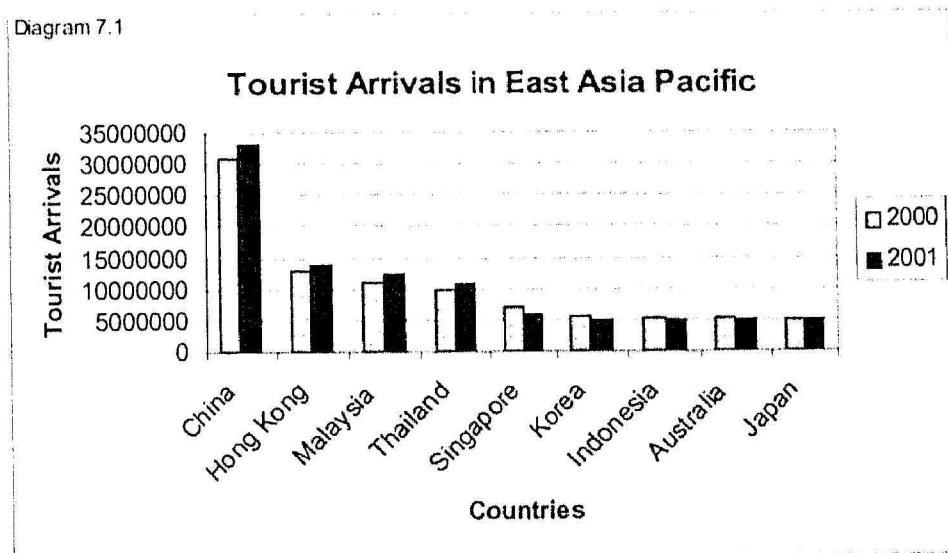


Chapter 7

Regional Tourism Competition and Collaboration

7.1 Key Trends for East Asia and the Pacific

Regional competition is an important aspect of tourism economics and management because tourism is simultaneously a local and global industry. The typical tourist is part of a chain of activities that includes interesting destinations, travel agents, air travel facilities, ground transport facilities and destinations spanning more than one country. Tourists make choices between countries and between tour packages. A study of tourism traffic to Malaysia relative to neighboring countries would provide insights into Malaysia's strengths and weaknesses in terms of regional competitiveness in attracting international tourists.



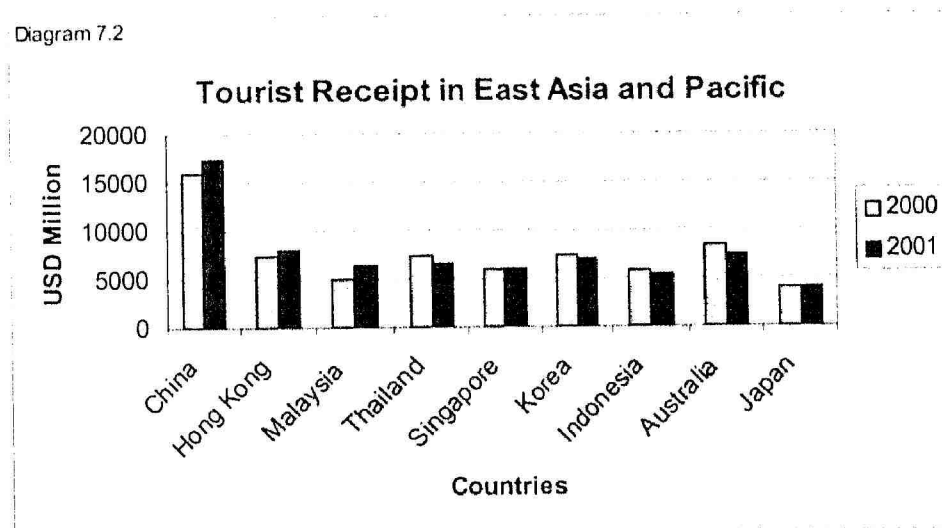
Source: World Tourism Organisation 2002 and Association of South-East Asian Nations (www.aseansec.org)

Data compiled by the World Tourism Organization (see Diagram 7.1) indicates Malaysia was ranked third in Asia Pacific, after China and Hong Kong, in terms of international tourist arrivals. Malaysia's closest competitors would be Singapore and Thailand, in terms

of geographical proximity as well as in tourist product offerings since there are many similarities in climate, culture, cuisine and shopping.

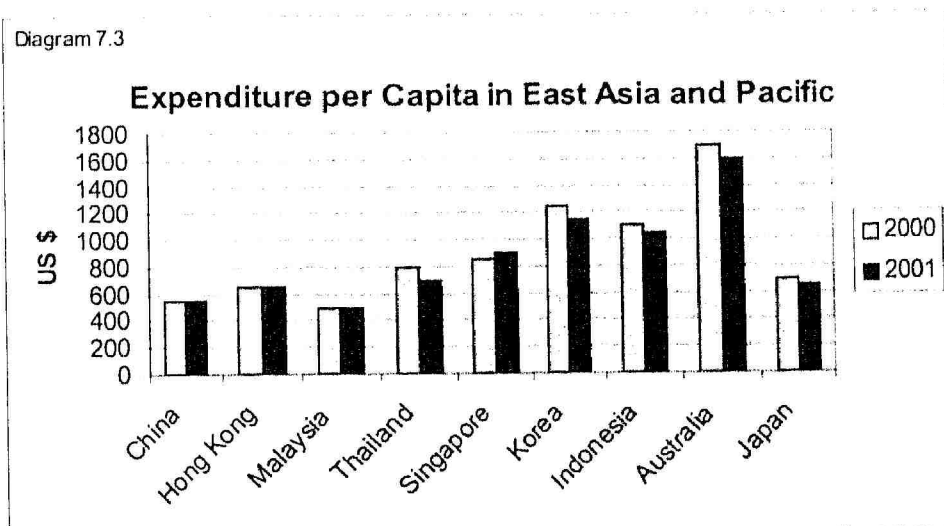
However, when tourist receipts into the East Asia Pacific region are considered, Malaysia falls to 5th place, with China, Hong Kong, Australia and Thailand taking the lead positions in that order. Although Malaysia attracted 11 percent of the arrivals into the East Asia and Pacific region, it managed to attract only 7.7 percent of the receipts (see Diagram 7.2).

Diagram 7.2



Source: World Tourism Organisation 2002 and Association of South-East Asian Nations (www.aseansec.org)

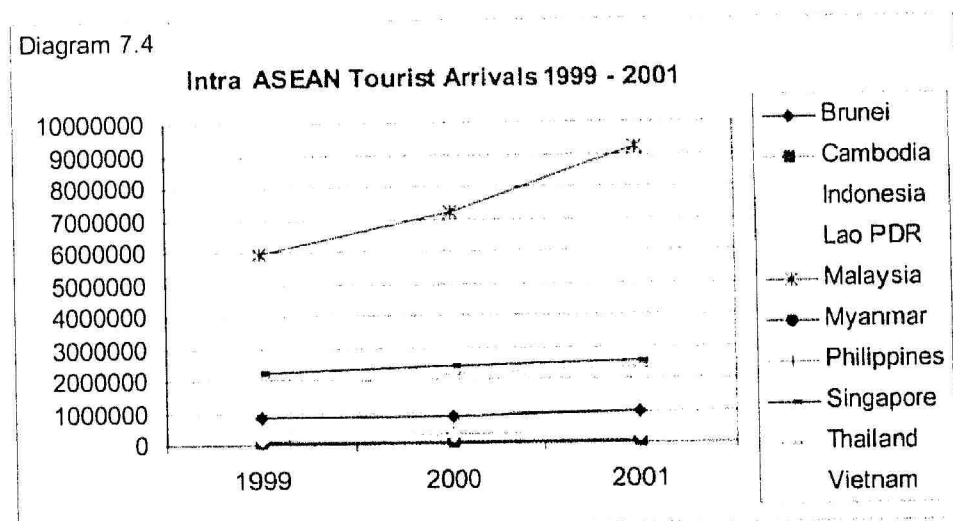
Diagram 7.3



Source: World Tourism Organisation 2002 and Association of South-East Asian Nations (www.aseansec.org)

The assessment of regional competition looks worse for Malaysia when the per capita expenditure figures are considered, as shown in Diagram 7.3. Malaysia falls to the last place, well behind Indonesia, Thailand and Singapore. This data correlates well with earlier observations that Malaysia was attracting more bargain hunters and economy class tourists. In the following paragraphs more data about tourist arrivals to the region will be presented.

7.2 Intra-ASEAN Tourism²⁹



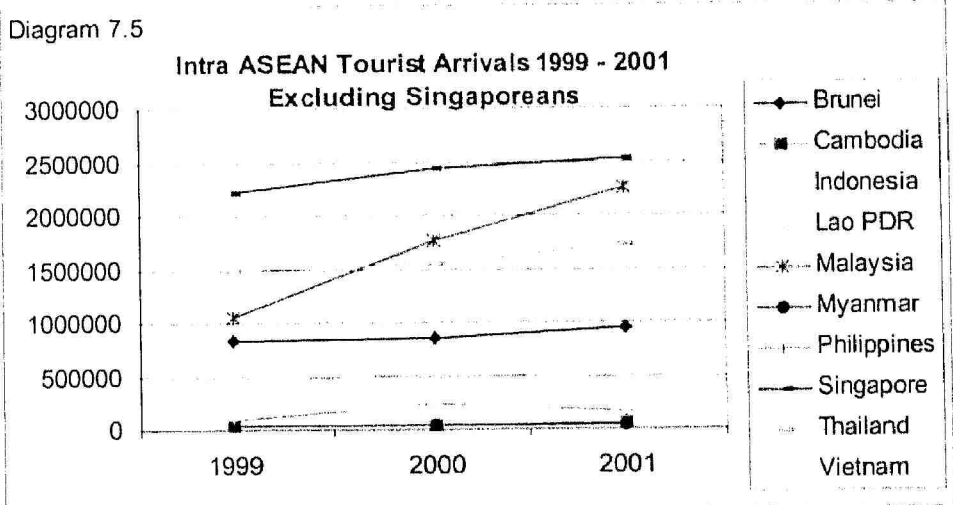
Source: ASEAN National Tourism Organization

Diagram 7.4 is based on statistics provided by ASEAN National Tourism Organization. The graph represents cumulative travel by travelers from the listed countries to another of the listed countries, within ASEAN. The data is shown for the period 1999 – 2001 since prior year data is not available from public sources.

²⁹ <http://www.aseansec.org/economic/ASEAN91-98-2.htm>

It is clear from the trend shown in Diagram 7.4 that Malaysia made tremendous strides in those years, making it by far the most popular destination choice for intra-ASEAN travel. Malaysia receives the largest number of inbound tourists, and also registered strong growth during the period.

In Chapter 3, it was stressed that Singapore introduces significant bias into the data because such a large part of the international tourist arrivals to Malaysia are Singaporeans. In an attempt to assess this bias, Diagram 7.5 has been developed where the Singaporeans



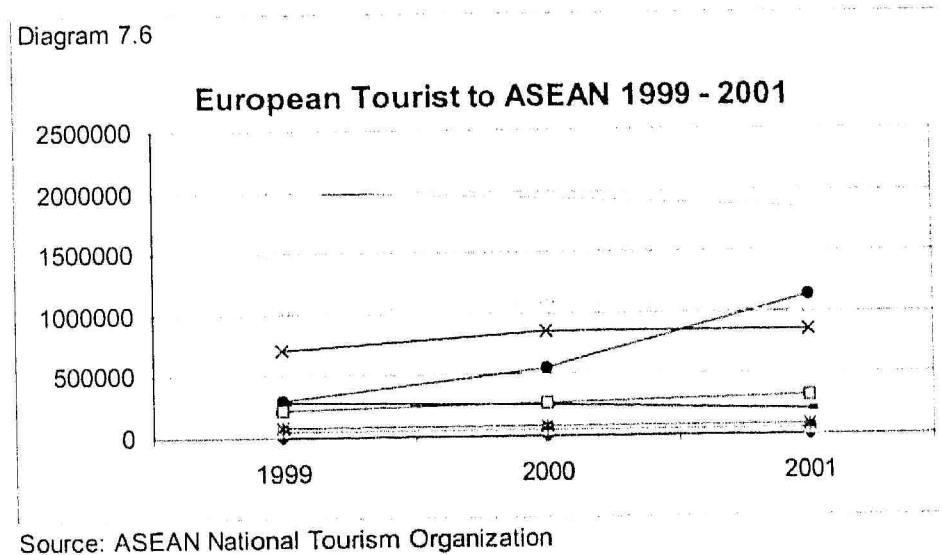
Source: ASEAN National Tourism Organization

traveling to all the Asian destinations has been excluded.

Several interesting points become evident by comparing Diagram 7.4 and Diagram 7.5. First, Singapore itself is seen as the major destination for intra-ASEAN tourists. Second, since 2000 Malaysia has overtaken Thailand as the 2nd most popular destination. Third, the absolute numbers on the Y-axis in Diagram 7.4 is much lower compared to the Y-axis in Diagram 7.5. This is due to the fact that Singaporeans comprise the largest outbound tourist within ASEAN. This is not surprising given that Singaporeans have the highest

disposable income, the strongest currency and limited destinations within their own country.

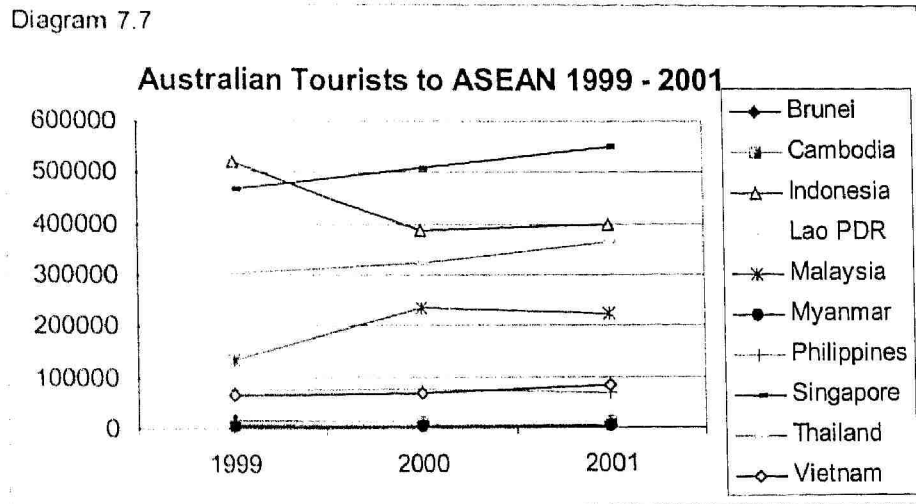
o **Europeans Visiting ASEAN Destinations**



Overall, when we consider the three years, Thailand emerges as the favorite destination for Europeans (see Diagram 7.6), followed by Singapore and Indonesia. Malaysia presents a different trend, registering exceptionally strong growth at a time when other destinations were experiencing minimal or negative growth. Consequently, Europeans visiting Malaysia exceeded the number to Singapore and Indonesia for 2001. The trend reflects the success of the Visit Malaysia campaign, as well as the cheaper exchange rate. There is insufficient data to determine which factor was more influential.

○ Australians Visiting ASEAN Destinations

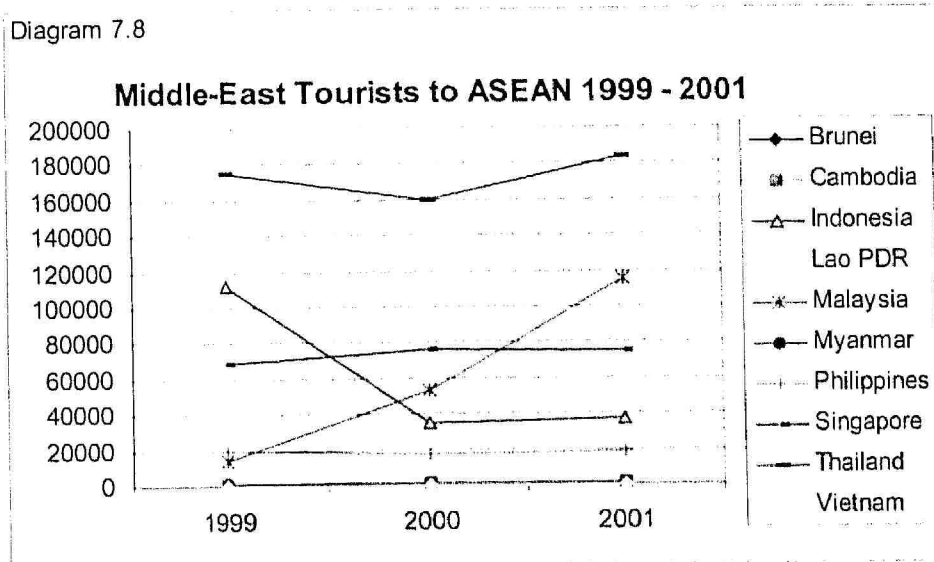
Diagram 7.7



Source: ASEAN National Tourism Organization

There was a sharp rise in the number of Australians (see Diagram 7.7) visiting Malaysia in 1999, but since then the numbers have not continued to grow. 2000 was the peak (236,775), with the numbers falling again in 2001 (222,340) and 2002 (193,794). Australians prefer Singapore, Thailand and Bali, Indonesia.

o **Middle-East Tourists Visiting ASEAN Destinations**



Source: ASEAN National Tourism Organization

The increasing popularity of Malaysia as a destination for Muslim tourists from the Middle-East is vividly demonstrated in Diagram 7.8. Malaysia has replaced Indonesia as a favored tourist destination, but Thailand remains the most popular destination. The September 11, 2001 terrorist incident in the United States of America has compelled Middle-East tourists to look for alternate destinations during the Middle-East summer heat wave. This factor, combined by Malaysia's increasingly strong ties with Middle-East nations, Malaysia's ambition to be the world's financial center for Islamic banking and finance and an environment friendly to the needs of Muslim people, creates significant opportunities to attract tourists from Middle-East and West Asia. The potential business synergies between expanding the Middle-East tourist market and seeking other opportunities in the Middle-East are equally promising.

7.3 Why the dramatic growth during 1999 - 2001?

Why did Malaysia's competitive advantage increase so significantly between over the 1999 - 2001 period shown above, and continue to be sustained beyond 2001? In Chapter

3, it was concluded that Malaysia was seen as a destination offering 'value for money'. It is argued here that the value proposition in this case was driven by two factors, which by chance occurred at the same time in 1999. The first is the aggressive Visit Malaysia Truly Asia campaign that provided the 'value for money' by giving generous discounts and holiday packages, and second is the cheaper exchange rate.

The Lower Currency Advantage

Table 7.1: The Exchange Rate Advantage

Exchange Rates Relative to Malaysian Ringgit			
	Jan-97	Jan-00	Change
Singapore	1.8	2.28	27%
Indonesia	0.064	0.0525	-18%
Thailand	8	10.2	28%
USA	2.56	3.8	48%
UK	4.2	6.3	50%
Australia	2.8	2.5	-11%
Japan	2.15	3.6	67%
Hong Kong	32.9	50.1	52%

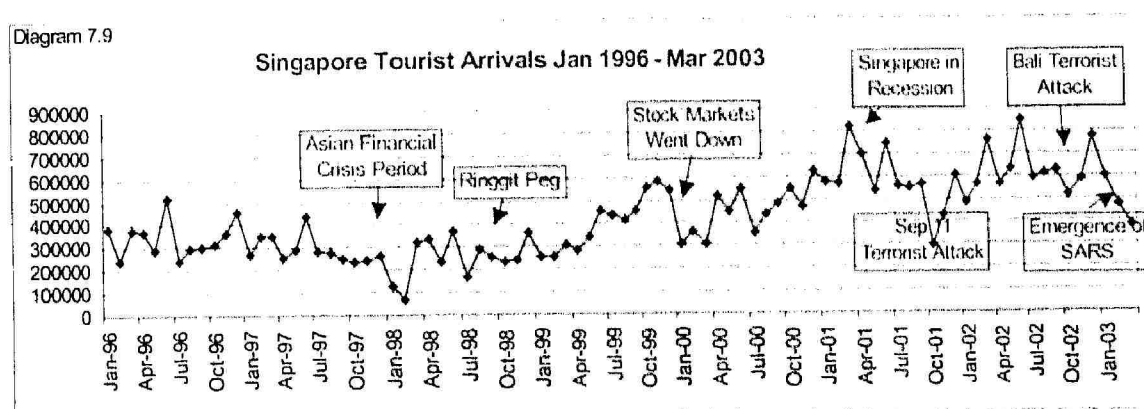
Source: Bank Negara Malaysia Website
(www.bnm.gov.my) Currency Tables

Tourists from Singapore and Thailand found it almost 30 percent cheaper to visit Malaysia. Visitors from Hong Kong, Japan, USA and UK were seeing 50 percent or more in cost savings relative to pre-1997 exchange rates. Malaysia's fixed exchange rate policy is one of the main contributors to the boom in tourism, and this conclusion is based on the findings of Chapter 3 of this thesis – that most of the tourists visiting Malaysia are from Asian countries, and looking for an affordable holiday abroad.

The average international tourist spends just over 30 percent of the budget on accommodation, over 20 percent on shopping and another 20 percent on food. All of these

items are 30 percent to 50 percent cheaper for the international tourist because of the lower Ringgit.

The 1997 Asian financial crisis caused the Ringgit, Singapore dollar, Thai Baht and Indonesian Rupiah to plunge to extremely low levels, before the currencies began a recovery from 1998 onwards. The Malaysian government fixed the Ringgit in September 1998, and thereafter the neighboring currencies appreciated relative to the Ringgit because the Ringgit peg was at a historically low value of 3.8 ringgit to the US dollar (the long term average exchange rate vis a vis the US dollar is 2.5).



Source - Created from information published in major newspapers

Using Singapore as an illustration, Diagram 7.9 shows much stronger growth in tourist arrivals from January 1999, four months after the pegging of the Ringgit. The growth has been sustained with three notable exceptions – all related to unexpected ‘bad news’ – a stock market decline that led to a fall in financial wealth; an increase in uncertainty during terrorist attacks; and fear of traveling combined with immigration restrictions during the SARS epidemic. The same rising trend is not evident during the period Jan 1996 – Jan 1999. As shown earlier in Diagram 3.1 at the beginning of this paper, the rapid growth in international tourist arrivals to Malaysia started in 1999.

It can be concluded that one of the main reasons why Malaysia's regional competitive advantage was enhanced substantially was the lower exchange rate. The question that needs to be addressed is can regional competitive advantage be sustained if the Ringgit appreciates relative to neighboring currencies? How vulnerable is tourism to an appreciation of the Ringgit (or for the moment, appreciation of the US dollar since the Ringgit is pegged to the US dollar)? These issues are however beyond the scope of this paper, and will not be discussed here.

The current volume and scope for growth in tourism within the Asian region is very positive. However, countries can opt to engage in price wars and other unhealthy forms of competition, or to collaborate in attracting tourists to the entire region. Malaysia has enjoyed some degree of competitive advantage due to the strong Visit Malaysia campaign, as well as its relatively cheap currency. But these advantages cannot be sustained indefinitely. Further, as a 'cheap destination', Malaysia is not attracting high value tourists. Malaysia needs to improve its strategy in this respect. Collaboration with neighboring countries could help in attracting tourists with spending power into Malaysia.

7.4 Regional Collaboration Initiatives

Malaysia faces very strong competition from Singapore and Thailand in attracting TOURIST DOLLARS. The competition is not about attracting more tourists, but about attracting more tourist dollars. Competitive advantage is gained if a country can offer a unique value proposition. Thailand offers Amazing Thailand with wonderful sights, food, exotic nightlife, sex, religion and miles of sand and sea resorts. Singapore offers a developed Asian nation with branded products for shopping, superb business and facilities

for business conferences and seminars, as well as a convenient gateway to Asia and the world. According to the WTTC Report 2001 on Malaysia, Malaysia however does not offer 'something unique' for the tourist. Its Malaysia Truly Asia campaign is catchy but the Truly Asia value proposition is not well articulated, and certainly not captured by the world media. Instead, Malaysia is known as moderate Islamic country, with enviable economic growth, quasi-capital controls and a handful of shopping malls. Many of Malaysia's natural wonders remain unknown to prospective tourists. Many of Malaysia's cultural icons are not well promoted to international tourists.

If Malaysia seeks to maintain tourism as a major foreign exchange earner and generate employment in the various related economic sectors, it is important that a collaborative approach be adopted in regional tourism promotions. This form of healthy competition will result in more tourists visiting all the Asian destinations. But unhealthy competition, such as each country offering a better shopping experience, could result in price cutting, undesirable tax benefits and flooding the country with excess shopping malls. Collaborative tourism planning could include Malaysia's cultural icons, natural attractions and ethnic diversity as part of a regional tour that includes the unique values offered by Singapore, Thailand and Indonesia.

In the following paragraphs, two important initiatives are presented as examples of regional collaboration, namely the ESCAP Initiatives and the EAGA Initiatives. This is followed by a short discussion on how aviation policies and immigration policies can influence regional collaboration, as well as international travel.

7.4.1 The ESCAP Initiatives

ESCAP (Economic and Social Commission for Asia and the Pacific) is a body established by the United Nations to help promote development in the Asia Pacific region. The following paragraph from the publication 'Asia-Pacific Tourism: Regional Co-operation, Planning and Development, 1999' organized by the Center for Asia-Pacific Studies, Victoria University of Technology summarizes the broad intent of regional collaborative efforts in tourism, in which ESCAP plays an important role.

'Tourism is making significant contributions to the socio-economic development in many countries in the Asian and Pacific region through its role in expanding their economic bases, increasing foreign exchange earnings, providing employment and enhancing standards of living. The role of tourism has become particularly significant in developing countries, where there may be few alternative development opportunities. Recognizing the important role of tourism in the socio-economic development of developing countries, ESCAP (Economic and Social Committee for Asia and the Pacific) has been undertaking a number of activities ... the objective of these activities is to help governments maximize the socio-economic benefits from tourism development while minimizing any possible social, environmental and other adverse impacts. This is done through strengthening national capabilities to develop tourism in a comprehensive, properly planned way and through the promotion of regional and sub-regional co-operation. Recent initiatives of ESCAP include establishment of the Network of Asia-Pacific Education and Training Institutes in Tourism (APETIT) in 1997 and launching of the Plan of Action for Sustainable Tourism Development in the Asian and Pacific Region (1999-2005).³⁰

An interesting example of regional collaboration in tourism is an initiative by ESCAP in 1996. ESCAP initiated a survey to identify major tourism attractions along the Asian Highway in 12 countries, namely Bangladesh, India, Indonesia, the Islamic Republic of

³⁰ Kee Pookong; and King, Brian. (Eds) (1999), "Asia-Pacific Tourism: Regional co-operation, planning and development", Hospitality Press Pty Ltd, Melbourne

Iran, Lao PDR, Malaysia, Pakistan, Philippines, Singapore, Sri Lanka, Thailand and Vietnam. Each country nominated five attractions, along with actions to be taken at national and regional levels to promote tourism. A variety of regional tour packages, as well as separate single country destination packages can be designed to offer tourists choice in experience and destinations. ESCAP also promotes Technical Co-operation among Developing Countries (TCDC) through seminars that encourage sharing of information amongst the member countries. In 1997, a Meeting for Establishment of a Network of tourism Training Institutes and Organizations in the Asian and Pacific Region was organized by ESCAP at Tehran in September 1997. Apart from the region's countries, representatives of the United Nations Environment Programme (UNEP), the International Labor Organization (ILO), the world Tourism Organization (WTO) and World Travel and Tourism Council (WTTC) also participated.³¹

The outcome of the deliberations was the formation of the Network of Asia-Pacific Education and Training Institutes in Tourism (APETIT). APETIT would provide the structure and mechanism for the following services and activities:

- Information management through the establishment of a website and database about training courses and events;
- Communication links through the circulation of a newsletter and marketing the network in international, regional and sub-regional tourism trade fairs;
- Training and advisory services through sharing of training facilities, consultancy services and attachment programs;
- Sharing experiences thorough workshops and study tours; and

³¹ Kee Pookong; and King, Brian. (Eds) (1999), "Asia-Pacific Tourism: Regional co-operation, planning and development", Hospitality Press Pty Ltd, Melbourne, p 30

- Research and development through a discussion forum related to technology transfer and professional accreditation.

Regional initiatives of this nature will allow tourism to be developed as an industry in a more stable and economically viable manner. The amount of resources spent by individual governments on advertising, campaigning, public relations and marketing can be greatly reduced, and more resources directed towards constructive activities like preservation of heritage sites, improving transport systems and education within the tourism industry.

7.4.2 The EAGA Initiatives³²

The governments of Brunei, Malaysia, Indonesia and Philippines in 1994 launched the EAGA (East Asian Growth Area) initiative. The aim of EAGA in the tourism sector was to bring together the diverse tourist attractions in the region, and make EAGA a major world-class destination in eco-tourism. The underlying strategy had two dominant themes, namely to encourage private sector involvement in tourism, and to use tourism as a positive force for environmental conservation and cultural enhancement. Actions included liberalization of cross-border movement through the elimination or reduction of travel taxes and protocol requirements; enhancement of air access by developing airport facilities; improving road access and encouraging foreign direct investment.

7.4.3 Aviation Policies

Aviation, immigration and tourism are highly inter-dependent. Looking first at aviation issues, a report by the Asia Pacific Economic Cooperation (APEC) Tourism Working

³² The Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area is referred to as EAGA

Group (1996) entitled 'Impediments to Tourism Growth in the APEC Region' confirmed the view that aviation related issues are the most significant impediment to the development of tourism, citing both airport congestion and airline capacity.³³ Apart from Singapore and Thailand, other international tourists depend on air travel to visit Malaysia. In particular, long-haul tourists from Europe, the Americas, the African continent and Australia/New Zealand allocate a significant amount of time and money for travel. Initiatives that reduce the cost and time spent in travel will boost demand from long-haul tourists.

There is however a major obstacle, namely the competition between airlines of different countries. The global aviation industry operates with significant high cost structures, and requires volume (seat capacity) in order to remain profitable. In a competitive market, inefficient carriers will be forced out. In this case, some national carriers could be forced out. Governments are of the view that a national carrier is a necessity to ensure they have independent means of travel, and to preserve national security. Consequently, the global aviation industry operates with numerous restrictions, such as landing rights, which protects the national carriers from financial ruin. This practice restricts frequency of flights, keeps travel costs high and reduces the scope for economies and scale, and hence growth. The tourism industry is one of the major casualties.

In recent years, as tourism is seen as strategic growth sector, governments have deliberately made trade-offs between protecting the national carriers and promoting tourism. The 'open skies agreement' approach has been adopted by many countries to increase international air travel, even though in some cases the domestic airline may lose competitive advantage. These agreements are mainly bilateral and multilateral agreements

³³ http://www.apec.org/apec/ministerial_statements/annual_ministerial/1996_8th_apec_ministerial.html

between governments. The United States of America led the way in bilateral 'open-sky' agreements, and as of June 2002 had some 54 such agreements in place with different countries. There are also some 12 multilateral agreements in place in different parts of the world. Malaysia, Singapore and Thailand have adopted numerous agreements with other countries, and have witnessed substantial growth in incoming tourism traffic. For instance, Malaysia has opened new routes in 2003 through various bilateral agreements which have resulted in increased direct flights between London – Langkawi, KLIA – Frankfurt, KLIA – Beijing, KLIA – Guangzhou, KLIA – Delhi, KLIA - Chennai and other destinations.

Open-sky agreements also pave the way for code-sharing agreements between airlines. Code-sharing agreements allow two or more airlines to share seat capacity by cross-selling seats on their respective flights. This strategy increases capacity, increases frequency of flights, increases the potential for economies of scale and minimizes growth in capital expenditure. Malaysian Airlines has code sharing agreements with major airlines, such as Virgin, British Airways, Singapore Airlines, Thai Airways, United Airlines and Air India.

Growth in air travel capacity and adequate airport facilities is a necessary pre-requisite for a sound regional strategy of promoting tourism. The nature of the aviation industry is such that in the absence of regional cooperation, it would not be possible to expand capacity, lower costs and maintain the commercial viability of the airline industry. Growth in the tourism industry has driven changes in the aviation sector as governments seek to capture a share of the global tourism industry. Europe has witnessed the development of many small but efficient private airlines that cater for short-haul tourists within Europe. Similarly, Air

Asia in Malaysia has captured a significant market share in the domestic market with its no-frills, cheap seats strategy. As the cost of air travel decreases, there will be a corresponding increase in tourism as more people can afford to travel.

7.4.4 Travel Protocol and Immigration Requirements

Malaysia has liberal immigration requirements, including the complete waiver of visa requirements for many countries provided the length of stay is short. The visa requirements listed on the Malaysian Immigration Department's website as of October 2003 are shown in Appendix II.

There are relatively few countries where visa restrictions for short-stay apply. The two countries where immigration rules are being urgently reviewed are India and China since both markets have been identified as new areas of growth in international tourist arrivals. Restrictive immigration procedures raise the barriers for stimulating growth in tourism, and increase the cost of managing tourist arrivals for the host country. Regional collaborative efforts are necessary to continue bringing down barriers for international travel and mobility.

7.5 Conclusion – Regional Collaboration

The initiatives currently pursued by the Malaysian government, whether directly with other governments, or through regional associations like ESCAP and ASEAN, should contribute to further growth in tourism. Malaysia already has a relatively liberal aviation and immigration policy, and can leverage on this to encourage tourists visiting neighboring countries to visit Malaysia. Malaysia should continue to aggressively promote regional

tourism, along with its Asian neighbors because competing with these countries for a slice of the cake would be more costly and less productive. The purpose of regional collaboration is to increase the market of potential tourists, reduce costs of inter-country travel and develop travel and information systems between countries. The economic impact is expected to be positive in terms of foreign exchange earnings, employment and greater stability in tourist traffic patterns.