Chapter 8

Malaysia's Tourism Macroeconomics

8.1 Overview

This part of the paper will seek to understand how tourism contributes to economic activity. The recent study by WTTC and the Ministry of Culture, Arts and Tourism (MOCAT) to develop a Tourism Satellite Account (TSA) for Malaysia will be the basis for much of the analysis in this chapter. Additionally, data on GDP and exports will be used to assess the contribution of tourism to the Malaysian economy. Key ideas to explore include:

- The contribution of tourism to the country's GDP and national income.
- The different components of tourism that contribute to national income to understand the factors that influence tourism as an economic force.
- The influence tourism has on the country's balance of payments.
- The contribution of the Tourism Satellite Account for managing national accounts.

There are several methods currently used to measure tourism from a macroeconomics perspective. The three main methods discussed in this paper are:

1. The International Receipts from tourism relative to Gross Domestic Product (GDP) to assess the relative contribution of tourism towards foreign exchange earning and economic growth.

2. The Balance of Payment approach where Travel is generally the item that captures tourism related information in very broad terms.

3. The Tourist Satellite Account (TSA), which is a comprehensive accounting framework to measure tourism economics.

The earlier chapters of this paper have clearly established the importance of tourism as an economic activity, and as a social phenomenon. Tourism is a powerful economic force providing employment, foreign exchange, income and tax revenue. The key determinants of economic impact for a city, a state, a province, a country, or a destination area are the influx of visitors, their expenditures, and the multiplier effect[34].

8.2 The Multiplier Effect

It has been established so far that the economic impact of tourism arises from the fact that at the destination, tourists become consumers of a variety of goods and services. Their level of consumption expenditure is generally higher at the tourist destination than at home. The various sectors that produce goods and services for direct sale to tourist are accommodation, restaurant, travel agency, tourist shops and recreational. The production of goods and services in these sectors give rise to a range of direct and indirect economic effects. Some of the important direct economic effects of tourism can be listed as follows[35]:

1. Production of goods and services in the tourist sector increases the national income of the country.

[34] Goeldner, Charles R; Ritchie, Brent J.R; and McIntosh, Robert W. (8th Edition) (2000), "Tourism Principles, Practices, Philosophies", John Wiley & Sons, New York, p 412
[35] Pye, Elwood A; and Tzong – biau Lin. (Eds) (1983), "Tourism in Asia: The Economic Impact", Singapore University Press, Singapore pp 256 – 257.

2. Since the goods and services produced in the tourist sector are sold largely to foreigners, the income is earned in the form of foreign exchange – an invisible export – and an asset to the country.

3. Production and investment in the tourist sector creates employment opportunities for the local population.

4. The government derives revenue by means of direct and indirect taxes, levies fees, and duties, etc., both on tourist as well as tourist establishments.

The indirect economic effects of tourism are created as a result of the demand for goods and services generated within the tourist industry. Those sectors in the economy that sell goods and services to the tourist sector are termed "supplying sectors". The process of generating output which is used as input in another economic sector is known as "backward–linkage effects ". The income and employment created in other sectors of the economy through the operation of the backward–linkage effects are the indirect economic effects of tourism. The relationships are demonstrated in Table 8.1 below. Spending by the tourists is the Direct Effect. Spending by the Travel Enterprises is the Indirect Effect. The spending by the Ultimate Beneficiaries creates what is commonly referred to as the Multiplier Effect[36].

Table 8.1: Multiplier Effect: How Tourism Spending Flows into the Economy

Tourists spend for	**Travel enterprises spend for**	**Ultimate beneficiaries**
Lodging	Wages and salaries	Accountants
		Appliance stores
		Architects
	Tips – gratuities	Arts and crafts products
		Attorneys

[36] Goeldner, Charles R; Ritchie, Brent J.R; and McIntosh, Robert W. (8^{th} Edition) (2000), 'Tourism Principles, Practices, Philosophies", John Wiley & Sons, New York, p 426

Tourists spend for

- Food
- Beverages
- Entertainment
- Clothing, etc.
- Gifts and Souvenirs
- Photography
- Personal care, drugs & cosmetics
- Internal transportation

Travel enterprises spend for

- Payroll taxes
- Commissions
- Music & entertainment
- Administrative and general expenses
- Professional services
- Purchase of food, beverages, etc.
- Purchase of goods sold
- Purchase of materials and supplies
- Repairs and maintenance
- Advertising, promotion, and publicity
- Utilities – electric, gas, water, etc
- Transportation
- Licenses
- Insurance premiums
- Rental of premises and equipment

Ultimate beneficiaries

- Automobile factory
- Bakers
- Bank workers
- Beach accessories
- Butchers
- Carpenters
- Cashiers
- Charities
- Chemists
- Cinemas
- Clerks
- Clothing stores
- Confectioners
- Cooks
- Cultural organizations
- Dairies
- Dentists
- Department stores
- Doctors
- Electricians
- Farmers
- Fishermen
- Freight Forwarders
- Garages & auto repairs
- Gardeners
- Gift shops
- Government
- Education
- Health
- Roads & railroads
- Utilities
- Development & others
- Greengrocers
- Furniture stores
- Insurance workers
- Laundries
- Manufacturing workers
- Office equipment suppliers
- Painters
- Pastoralists
- Petrol stations
- Plumbers
- Porters

Tourists spend for		Travel enterprises spend for		Ultimate beneficiaries
		Interest and principal payments of borrowed funds		Printers – sign painters
				Publishers
				Resorts
Tours & sightseeing		Income and other taxes		Restaurants
	⇒		⇒	Room Maids
		Replacement of capital assets		Sporting events
				Transportation
Miscellaneous		Return to government		Taxi – hire car services
				Wholesale establishments

Source: Lundberg, Donald E; Krishnamoorthy, M; and Stavenga, Mink H. (1995), *"Tourism Economics"*, p138.

8.3 International Tourism Receipts relative to GDP

Table 8.2: Tourist Receipts as Percentage of GDP

Year	Tourist Receipts	GDP(current prices)	Tourism % of GDP (current prices)	GDP(constant prices)	Tourism % of GDP (constant prices)
1992	4600	150682	3.05%	126408	3.64%
1993	5100	172194	2.96%	138916	3.67%
1994	8300	195461	4.25%	151713	5.47%
1995	9200	222473	4.14%	166625	5.52%
1996	10400	253732	4.10%	183292	5.67%
1997	9700	281795	3.44%	196714	4.93%
1998	8600	283243	3.04%	182237	4.72%
1999	12300	300764	4.09%	193422	6.36%
2000	17300	342612	5.05%	209959	8.24%
2001	24200	334309	7.24%	210640	11.49%
2002	25800	360658	7.15%	219309	11.76%

Source: Bank Negara Malaysia Annual Reports and Department of Statistics

The tourist industry's contribution to GDP (current prices) in 1992 amounted to 3.05 percent, but by 2002 it was 7.15 percent. In addition, Table 8.2 shows the growth of tourism as a component of exports of services and foreign exchange earnings. Since

Malaysia's GDP is driven by exports, such a comparison is very useful because it suggests that the export of tourism services and products has been successful, and may offer opportunities for further economic growth.

8.4 Impact on the Balance of Payments[37]

The format for reporting Balance of Payment data was changed in 2001 to conform with the methodology set forth in the Fifth Edition of the Balance of Payment Manual of the International Monetary Fund. Data for 1999 and 2000 were reclassified, but prior year data were not reclassified. Consequently, the analysis below addresses balance of payment in two parts – the first for 1992 – 1998, and the second for 1999 – 2002.

Table 8.3: Balance of Current Account 1992 - 1998

Balance of Current Account 1992 - 1998	1992	1993	1994	1995	1996	1997	1998
1. Merchandise f.o.b.	8609	8231	4460	97	10088	10274	69216
1.1 Export	100910	118383	148506	179491	193363	217713	281669
1.2 Import	92301	110152	144046	179394	183275	207439	212453
2. Balance on Services	-14568	-16670	-17005	-19229	-18371	-22795	-22239
2.1 Freight and Insurance	-4265	-4890	-7367	-9028	-8203	-9080	-8448
2.2 Other Transportation	-355	-196	441	737	1725	1670	1720
2.3 Travel & Education	657	906	3603	4143	4801	3237	2338
2.4 Investment Income	-7920	-8174	-9448	-10338	-11629	-14639	-14817
2.5 Government Transactions n.i.e.	54	-72	-36	-23	-27	-137	-229
2.6 Other Services	-2739	-4244	-4198	-4720	-5038	-3846	-2803
Balance on Goods & Services (1 – 2)	-5959	-8439	-12545	-19132	-8283	-12521	46977
Unrequited Transfers	337	513	-2225	-2515	-2943	-4176	-9583
Balance of Current Account	-5622	-7926	-14770	-21647	-11226	-16697	37394

Source: Bank Negara Malaysia Monthly Statistical Bulletin September 2003

The Travel & Education component of the Balance of Payment reflects the net position of payments and receipts pertaining to travel and education. For the period 1992 – 1998, the money received from international tourists has always exceeded the money spent by Malaysians going abroad for holiday and education. The merging of travel and education

[37] Monthly Statistical Bulletin September 2003, Bank Negara Malaysia

as a single item makes it difficult to assess the impact that tourism has on the balance of payment position.

This issue was partially resolved by the new format adopted in 2001, where travel and education were separated. Education is a significant drain on domestic resources because many Malaysians go abroad to study, whereas very few foreigners come to Malaysia for their studies. Combining education and tourism travel data distorts the impact that each have on the country's balance of payment position. As seen in Table 8.7 below, the growth in tourism since 1999 has made a tremendous impact upon the balance of payment position, helping to reduce the large Services deficit. In fact, it is clear from studying the data that for the period 2000 – 2002, international tourism receipts helped to cushion the declining contribution from the Merchandise sector (which was adversely affected by declining export of electronics).

Table 8.4: Balance of Current Account 1999 - 2002

Balance of Current Account 1999 - 2002	1999	2000	2001	2002
1. Merchandise f.o.b.	86049	79144	69854	68914
1.1 Export	319568	374033	334326	354855
1.2 Import	233519	294889	264472	285941
2. Balance on Services	-10701	-10670	-8366	-5966
2.1 Transportation	-8464	-11736	-11352	-11542
2.2 Travel	6135	11158	16148	17102
2.3 Other Services	-8395	-10030	-13187	-11242
2.4 Government Transactions n.i.e.	23	-62	25	-284
Balance on Goods & Services (1 – 2)	75348	68474	61488	62948
Income	-20886	-28909	-25623	-25061
Current Transfers	-6567	-7313	-8178	-10567
Balance of Current Account	47895	32252	27687	27321

Source: Bank Negara Malaysia Monthly Statistical Bulletin September 2003

However, the nature of the contribution from tourism is not clear from such simple data. Policy makers need to understand the components that make up the numbers, as well as what influences these individual components. This is where the Tourism Satellite Account (TSA) is used to interpret the economic implication of tourism.

The TSA is a new system in Malaysia, and work is in progress to integrate the system with the national accounting system. The results of the TSA may not be directly comparable to the national accounting system since the underlying rules may be different. For the purpose of this paper, the economic impact of tourism using the TSA will be done without any attempt to reconcile the data to the national accounts since such reconciliation is beyond the scope of this paper.

8.5 TSA Economic Concepts[38]

The Travel & Tourism Satellite Account is based on a "demand – side" concept of economic activity, because the industry does not produce or supply a homogeneous product or service like traditional industries (agriculture, electronics, steel, etc). Instead, Travel & Tourism is an industrial activity defined by the diverse collection of products (durables and non-durables) and services (transportation, accommodations, food and beverage, entertainment, government services, etc) that are delivered to visitors. There are two basic aggregates of demand in The TSA:

Travel & Tourism Consumption represents the value of products and services that have been consumed by tourist. It uses the demand-side aggregate (what tourist demand) to

[38] World Travel and Tourism Council (2001), "Malaysia – The Impact of Travel & Tourism on Jobs and the Economy", London, United Kingdom, p 25

construct an explicitly defined production–side "industry" equivalent for comparison with all other industries. Travel & Tourism Consumption includes:

- **Personal Travel & Tourism**, more formally known as consumer expenditures, which captures spending by Malaysia residents on traditional Travel & Tourism services (lodging, transportation, entertainment, meals, financial services, etc) and goods (durable and nondurable) used for Travel & Tourism activities.

- **Business Travel** by government and industry, which mirrors Personal Travel & Tourism's spending on goods and services (transportation, accommodation, meals, entertainment, etc), but represents spending related to business or government work.

- **Government Expenditures (Individual)** by agencies and departments which provide visitors services such as cultural (art museums), recreational (national park) or clearance (immigration/customs) to individual visitors.

- **Visitor Exports,** which include spending by international visitors on goods and services.

Travel & Tourism Demand builds on Travel and Tourism consumption (direct spending) to include Travel & Tourism products and services associated with residual components of final demand (explained below). It is used to construct a broader 'economy–wide' impact of Travel & Tourism. The residual elements of Travel & Tourism demand are:

- **Government Expenditures (Collective)** made by agencies and departments associated with Travel & Tourism, but generally made on behalf of the community at large, such as tourism promotion, aviation administration, security services and resort area sanitation services.

- **Capital Investment** by Travel & Tourism providers (the private sector) and government agencies (the public sector) to provide facilities, equipment and infrastructure to visitors.
- **Merchandise Trade Exports (Non–Visitor),** which include consumer goods sent abroad for ultimate sale to visitors (such as clothing, electronics or petrol) or capital goods sent abroad for use by industry service providers (such as aircraft or cruise ships).

Malaysia Tourism Satellite Account 2001[39]

Table 8.5: WTTC-Malaysia Tourism Satellite Account 2001

SATELLITE ACCOUNT TABLES							
	1997	1998	1999	2000	2001E	2002E	2010P
Malaysia Travel & Tourism - RM mn							
Personal Travel & Tourism	11732.2	11212.9	12316.3	15349.7	16323.6	17391.8	34597.3
Business Travel	1496.5	1442.9	1530.5	1827.7	2238.8	2612.9	5992
Corporate	931.4	871.7	926.3	1106.1	1182.4	1273	2471.5
Government	565.1	571.1	604.2	721.6	1056.4	1339.9	3520.4
Gov't Expenditures - Individual	219.2	181.5	265.4	323.4	473.5	600.6	1578
Visitors Exports	13322.7	13054.5	18660.3	23952.9	25121.3	27525.9	61655.9
Travel & Tourism Consumption	26770.7	25891.7	32772.5	41453.8	44157.1	48131.3	103823.2
Gov't Expenditures - Collective	269	222.7	325.7	396.9	581.1	737.1	1936.7
Capital Investment	9744.3	12026.6	10780.3	10407.3	11086.6	11692.3	20800.6
Public	421	348.7	372	726.1	773.4	815.7	1451.1
Private	9323.3	11677.9	10408.3	9681.2	10313.2	10876.6	19349.4
Exports(Non-Visitor)	7554.1	11851.6	12200.5	13341.2	13933.3	15146.8	31652.4
Travel & Tourism Demand	44338.2	49992.7	56079	65599.2	69758.2	75707.5	158212.8
Travel & Tourism Industry Aggregates							
(Direct Impact Only)							
Employment	258.9	276.9	349.4	390.6	393.6	403.1	520.7
Gross Domestic Product	10451.8	11222.8	13140.8	15718.7	16901.9	18309.8	38712.8
Indirect Taxes	810.7	540.3	704.9	796.4	852.1	926.1	1980.2
Travel & Tourism Economy Aggregates							
(Direct and Indirect Impact)							
Employment	591.5	721.4	794.6	814.7	822.9	837.9	1038.5
Gross Domestic Product	25318.8	31694.2	32888.7	36381.8	39053.9	42123.8	86285
Imports	19029.4	18306.8	23202.3	29232.1	30725.8	33611	71999.6
Indirect Taxes	1963.8	1525.7	1764.1	1843.4	1968.9	2130.6	4413.6
Personal Taxes	577.6	772.1	689.2	746.8	801.7	864.7	1771.3
Corporate Taxes	1499.4	1935.2	1709.9	1749.4	1877.9	2025.5	4149.1
Other Taxes	657.2	651.5	547.6	610.7	655.5	707.1	1448.4
Total Taxes	4698.1	4884.5	4710.9	4950.4	5304.1	5727.9	11782.3
Note: Employment in '000s of jobs							

E – Estimate   P – Prelude

Source: World Travel and Tourism Council (2001), "Malaysia - The Impact of Travel & Tourism on Jobs and the Economy", London, United Kingdom, p 42

[39] The first Malaysian TSA was completed in August 2001 through a collaborative effort between the Malaysian Ministry of Culture, Arts and Tourism and the World Travel and Tourism Council.

The analysis draws upon data and views presented by the WTTC report for Malaysia but additional comments and conclusions are inserted by drawing on the work done in the earlier chapters of this paper. The analysis is presented according to the following sub-topics:

- Total Demand
- Employment
- Gross Domestic Product
- Capital Investment
- Personal & Business
- Exports
- Government Spending
- Taxes

Total Demand

The TSA states that the Travel & Tourism economy in Malaysia will be worth RM 69,780 million in 2001. The number is derived from the following components:

Table 8.6: Travel & Tourism Economy 2001

Gross Domestic Product	
Personal travel & tourism consumption by Malaysian residents	RM 16,324 million
Business and government by resident companies / government	RM 2,239 million
Government expenditure to provide tourism services	RM 1,076 million
Capital investment (public and private)	RM 11,087 million
Merchandise trade exports	RM 13,933 million
Total	RM 44,659 million
Foreign Exchange Earnings	
International visitor exports	RM 25,121 million
Total Demand	RM 69,780 million

Source: WTTC Report on Malaysia, 2001

According to a statement by the Minister of MOCAT, Datuk Paduka Abdul Kadir Sheikh Fadzir made in February 2003, the tourism industry contributed RM 67 billion to the country's economy in 2002. This comprised RM 42.6 billion to the national GDP, and RM

25.2 billion in terms of foreign exchange[40], a pattern very similar to the data for 2001 shown above. Tourism was the second biggest income earner for the country in 2002.

The WTTC report also stipulates that Total Demand is expected to grow in real terms at 6.4 percent per annum, resulting in Total Demand of RM 158.2 billion by 2010. However, the report does not make clear where the growth will be focused with respect to total demand. As discussed in this paper, infrastructure and capacity is currently adequate in terms of hotels, transport and airport facilities, although there are some aspects of infrastructure in terms of tourist attractions that needs to be improved. These aspects include promoting eco-tourism, marine tourism and other special niche markets where Malaysia has strong points. Shopping malls in Kuala Lumpur are already plentiful, and it is not clear whether Malaysia can compete with Thailand, India and China in terms of prices. The growth in international arrivals for 2001 – 2003 also suggests that growth is tapering off, although the irregularities of the past two years make it extremely difficult to draw any clear conclusions. Irregularities include the September 11, 2001 tragedy, the Bali bombing, the war in Iraq and on-going tensions in Northern Korea.

It is proposed here that if we accept that the huge growth in international tourist arrivals was due mainly because of the low Ringgit since 1998, and the Visit Malaysia campaign re-launched in 1999, then it is more likely that growth in international tourism will be much more modest than the growth experienced in the boom years of 1999 - 2002.

[40] The Star, Wednesday 12 February 2003 pg 8

Employment

According to the WTTC report, a total of 822,900 jobs (direct and indirect) are expected to be generated across the broader spectrum of the Travel & Tourism Economy. This represents 8.8 percent of the workforce as of 2000. Chapter 5 of this paper has described the various sectors where employment is being generated. But it has also been highlighted in this paper that many of the jobs are low paid, with minimum perks and benefits and generally do not offer much scope for self-development. Tourism has generated economic value in terms of employment numbers, but the quality of that employment is a matter that has not been addressed adequately. Quality needs to be addressed by raising the professional standards of the industry in terms of training, basic salaries, job security, career development and service standards. The general strategy currently pursued by MOCAT is to promote Malaysia as a multi-cultural country and a shopping haven for those seeking bargains. Neither attraction is designed to attract the premium segment of the global tourism market because tour products are designed to bring in larger numbers of tourists, rather than targeting high-value tourists. Malaysia continues to attract tourists with limited budget, looking for an affordable holiday. This translates into competition based on price, and low margins. Typically industries with low margins do not offer excellent employment prospects, in terms of training, career development and higher salaries. The rise in non-performing loans amongst hotels and restaurants during the 1997 – 1999 period provides additional evidence that the tourism industry may not have the financial means to survive extended periods of economic slowdown. In good times, everyone gets a better deal, but during the occasional inevitable economic downturn, there could be significant declines in real income. These factors need to be taken into account if the country is to depend on this sector to provide viable and sustainable economic growth.

Gross Domestic Product

This paper has described how the travel and tourism industry generates economic activity. The direct and indirect contribution to GDP by the travel & tourism industry was estimated to be RM 39,054 million, or 10.8 percent for 2001 (see Table 8.5). This compares to 13.1 percent for Thailand, 12.8 percent for Papua New Guinea, 10.2 percent for Singapore and 8.5 percent for Indonesia (Data from the WTTC Malaysia Report for 2001). As air travel becomes more affordable, and the number of people in the world who can afford to travel increases, it is natural that many countries will find travel and tourism contributing more to GDP. The impact is more pronounced for 'destination countries', like the USA, Italy, France, Spain, United Kingdom, Germany, China, Austria and Canada. With 13 million international arrivals in 2002, Malaysia could be considered a 'destination country', and hence its national economic policy and management has to pay special attention to the implications of tourism as an export item.

The implications of tourism to GDP are similar to that of other economic sectors, like manufacturing, palm oil, rubber or crude petroleum. A good analogy is the recent decline in Malaysia's export of electronics because many manufacturers with factories in Malaysia are transferring their base of operations to China. The impact upon local employment and support industries due to the closure of large electronics factories can be severe if the decline is sharp and not compensated by new growth areas. Similarly, if there are serious political problems in this region (escalating tensions in North Korea for instance), or serious contagious diseases (recurrence of SARS for instance) or local problems (like coxsackie virus or contaminated water issues), demand for tourism will decline sharply.

One major difference between tourism as an economic sector and the other commodity / manufacturing based sectors is that many of the factors that influence tourism are not easily controlled, nor anticipated. The war in the Middle-East, the September 11 tragedy and the SARS epidemic are all good examples of how vulnerable the industry is to external factors. The main compensating factor is that the industry appears to be very resilient, and bounces back quite rapidly.

What is important in terms of sustaining GDP growth is to ensure that tourist attractions are continuously enhanced and developed, and there are viable means to provide a cushion during a period of contraction in demand. The government's tourism development policy has identified numerous projects to add to tourist attractions. However, there is little data available to understand what initiatives are in the pipeline to provide a cushion. Some potential examples include better financial management standards to ensure major tour operators are able to sustain a short-term contraction in demand; improved quality standards to attract the premium segment of the global tourist market; and improved economic tools to anticipate and diagnose the financial implications of various factors that could adversely affect the tourism industry.

Capital Investment

The bulk of capital investment originates from the private sector. The WTTC report highlights the private sector is expected to invest some RM 10,313 million, and the public sector some RM 773 million in new travel and tourism infrastructure during the year 2001.

The research supporting the supply side analysis suggests that most of the capital spending was directed towards construction of hotels, malls, transport facilities, roads and bridges and entertainment venues. Private sector investment has also been directed towards development of niche tourism products, such as marine tourism and eco-tourism. However, there is far less capital investment in education facilities to support the tourist industry, such as enhancing quality of services, raising standards in tourism products and developing managerial talent in tourism and hospitality industries. There is inadequate capital investment in refurbishing and maintaining historical sites, maintaining the cleanliness of natural surroundings and supporting attractions like the National Zoo, Planetarium, Bird Park and animal sanctuaries. There is inadequate capital investment in upgrading the facilities in rural areas to support rural tourism. Inadequate attention is given to rainforests, coastal development, national parks and marine parks. There is inadequate re-investment in developing cultural, natural and heritage sites. Many of the cultural and religious sites in the country are falling into a state of disrepair. And very few attractions are supported by quality information systems to explain the meaning or history of the attraction.

Generally, capital investment is skewed towards accommodation, shopping and entertainment, with a 'invest in real estate' mindset. There needs to be more capital investment in the intellectual property and delivery of quality services associated with tourism.

Personal and Business

Data on domestic tourism is limited since the focus in the earlier years was on attracting international tourists. Attention turned to domestic tourism after the 1997 financial crisis and the need to boost tourism, as well as limit the outflow of money. The WTTC report states in 2001 domestic tourism generated some RM 16,324 million of personal travel and tourism consumption. However, the distinction between a 'resident traveling within the country' and a 'domestic tourist' is not clear. If a resident travels to visit friends and stays at a hotel, does that make him a 'domestic tourist'? Nonetheless, what is clear is that domestic tourism is fast increasing as Malaysians not only have more options for sightseeing and holidays in their own country, but more Malaysians can afford to travel away from home for a holiday.

From an economic perspective, a strong domestic tourism markets provides a cushion against the more volatile conditions that can exist in the international market for tourists. Less money flows out of the country, and local employment is boosted. Domestic tourism also provides greater economies of scale for local tour operators to offer packages to international tourists. This is because part of the demand comes from a more assured supply of domestic tourists. The higher level of certainty allows more competitive pricing and efficient management of the fixed overhead costs, such as rental, utility bills, salaries and maintenance, which are a major factor in capacity planning. Hotels, theme parks, restaurants and most tourist attractions have to make capital investment decisions about capacity planning, and the knowledge about domestic demand will help manage the risks associated with excess capacity.

Exports

The WTTC report states in 2001 the Travel & Tourism exports were RM 39,055 million This figure is made up of two components, namely receipts from international visitors (RM 25,121 million, or 64 percent), and the export of consumer and capital goods - also known as non-visitor exports - (RM 13,933 million, or 36 percent). The exports in total represent 56 percent of total Travel & Tourism Demand. The growth in visitor exports has been positive, averaging 6 to 7 percent per annum.

In the national accounts, non-visitor exports are reflected under manufacturing or export of goods. Non-visitor exports refer to the local production of items, which are exported for the purpose of meeting demand in tourist markets abroad.

Government

The WTTC report states in 2001 national and local government agencies in Malaysia spent RM 1,076 million of operating funds for the travel and tourism industry. This represents 2.1 percent of government expenditures. The comparatives figures are 2.6 percent for Thailand, 3.5 percent for Philippines, 8.4 percent for Indonesia and 9.1 percent for Singapore.

The government also made special allocations to counter the effects of SARS and the war in the Middle-East. The expansion of MOCAT by establishing new offices in various countries such as India, the Middle-East, the United States of America and Europe will add to the government's operating expenditure in the years to come. The spending by the government has increased by more than 100 percent (inclusive of special allocations) over the past five years as seen by comparing the 7th Malaysia Plan and 8th Malaysia Plan. Proponents of government spending for tourism promotion argue that the spending is worthwhile as evidenced by the increase in tourist arrivals. Tourism is now a major foreign exchange earner and contributor to the economy. Critics argue that the future growth in tourism may not reflect the success of the last few years. Critics also point out that while the numbers of tourist arrivals has grown rapidly, the spending per tourist is not as encouraging. If the government's promotion efforts continue to attract more tourists but not more tourist spending, it is possible that government spending per tourist may grow faster than spending per tourist. This is a trend that should be avoided since it erodes the value of tourism to the Malaysian economy.

Taxes

The WTTC report for Malaysia states that Malaysia's Travel and Tourism economy generated a total of RM 5,304 million in taxes in 2001. This comprises RM 1,968 million of indirect taxes, RM 801 million of personal taxes; RM 1,877 million of corporate taxes and RM 655 million of other taxes. The taxes generated by the travel and tourism economy makes up almost 10 percent of total taxes paid in Malaysia. The tourism business is a significant contributor to the government's coffers, and helps the government to fund new areas of growth in tourism.

There are also various incentives given for hotels and tourism projects by way of exemption from taxes. Under the Budget for 2004, the following proposals were gazetted effective 13 September 2003:

- It is proposed that hotel and tourism project operators who invest in expansion, modernization and renovation be given another round of incentives for a period of 5 years as follows:
    - Companies located outside the promoted areas:
        - Pioneer Status with tax exemption of 70 percent of statutory income; or
        - ITA of 60 percent on qualifying capital expenditure incurred with the allowance deducted in each year of assessment against 70 percent of the statutory income.
    - Companies located in the promoted areas:
        - Pioneer Status with income tax exemption increased from 85 percent to 100 percent; or
        - ITA increased from 80 percent to 100 percent of capital expenditure deducted against 100 percent of the statutory income in each year of assessment.

Other tax benefits include double deduction for the employer expenses related to leave passage for domestic travel granted to employee. This is meant to encourage employers to organize domestic tours. Hotels and restaurants were also given exemption from Service Tax of 5 percent from 1st June 2003 until 31st December 2003.

Malaysian Export Receipts and Tourism

Table 8.7: Major Economic Sectors for Malaysia

Exports/ Year	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Manufactured goods	71457	89694	120294	147253	158540	178945	237648	271730	317908	285316	298924
Palm oil	5435	5798	8365	10395	9435	10817	17779	14475	9948	9876	14838
Saw Logs	3842	2914	2543	2263	1942	2345	1865	2662	2489	1522	1789
Sawn Timbers	3487	4545	4331	3837	2699	2775	2525	2806	3020	2273	2227
Rubber	2357	2131	2927	4038	3509	2970	2828	2343	2571	1886	2491
Crude Petroleum	9146	7996	6546	6701	7211	7068	7509	9305	14240	11117	11597
Liquefied natural gas	2540	2654	2550	3170	4746	6485	5981	6348	11422	11118	9931
Other Exports	2641	2647	948	1831	5277	6304	5529	9895	12432	11214	13053
Total Exports of Goods	100910	118383	148506	179491	193363	217713	281669	319568	374033	334326	354855
Tourism	4595	5065	8298	9174	10353	9699	8580	12321	17335	24221	25781
Ranking	4	4	3	3	2	3	3	3	2	2	2

Source: Department of Statistics, Malaysia

The TSA and National Accounts

It is apparent that the TSA is major achievement in managing tourism as an economic activity. The current format of national accounts does not capture tourism as an economic activity in its own right, and hence there is no credible data to develop economic policies in the area of tourism. The national accounts largely capture travel related data only to the extent of determining the amount of flowing in and out of the country due to travel purposes. The TSA goes a lot further by showing how tourism contributed to the country's GDP by reflecting the consumption, investment, government expenditure, export receipts and import expenses related to tourism ($Y = C + I + G + (X - M)$).

The TSA helps in making more efficient and effective policies because policy-makers have data to understand issues such as the following:

- How much indirect taxes are contributed by tourism?
- How much direct personal and corporate taxes are contributed by the tourism sector?
- What is the proportion of tourism related taxes to total taxes?
- How much has the government spent on tourism projects, and what are the expected returns?
- What is the growth in personal consumption pertaining to domestic tourists?
- What is the growth in private investment with respect to tourism?
- What is the growth of tourism related exports and foreign exchange earnings?
- What is the proportion of demand/consumption from tourism activities relative to total demand / consumption in the economy?

- What is the consequential effect or multiplier effect that tourism has on related economic sectors?

The TSA also provides a common platform to discuss economic issues in relation to tourism, and facilitates inter-country comparison. Eventually, when the TSA is properly integrated with the national accounts, a comprehensive view of tourism as an economic activity will be available.