

# Economic impacts of tourism in malaysia

[Sport & Tourism](#), [Ecotourism](#)



## **CHAPTER ONE: INTRODUCTION**

### **Introduction and Background of the Study**

Economic of Malaysia is growing rapidly in this few years; Malaysia has a lot of natural resources, such as tin, palm oil and rubber. Therefore, the natural resources can be the largest sources of income in Malaysia; it can help Gross Domestic Product (GDP) increasing and earning foreign exchange and tourism is the second largest sources income of foreign exchange. Tourism plays an important role for Malaysia. Tourism industry effects positively on the economy besides it can increase in foreign exchange earnings, would help promote new investments in the country, and it can increased the employment opportunities. In 1999, Malaysia tourism board has come out one campaign called “ Malaysia Truly Asia”, it success to bringing in over 7.9 million of tourists into Malaysia and receipts around RM 12.3 billion revenue and the revenue and tourist arrival number are keep increasing year by year.

According to Tourism Malaysia official website, their objective is to promote Malaysia as an outstanding tourist destination. They aim to showcase Malaysia’s unique wonders, attractions and cultures, develop domestic tourism and enhance Malaysia’s share of the market for meetings, incentives, conventions and exhibitions (MICE). Their ultimate goal is to increase the number of foreign tourists to Malaysia, extend the average length of their stay and increase Malaysia’s tourism revenue. (Tourism Malaysia Official Website, 2010)

Malaysia government was also allocated amount of fund to tourism industry besides providing sufficient basic infrastructure. In 2006, tourism Malaysia received 30% more funding for advertising and other promotions in preparation for Visit Malaysia Year in 2007. The Malaysian government will spend RM1. 8 billion under the Ninth Malaysian Plan (2006-2010), on upgrading tourist destinations and infrastructure, as well as on marketing promotions in major source markets. (Government Malaysia, 2006)

Tourism can bring in a lot of foreign exchange and creating many job opportunity, therefore it play an important roles in Malaysia economy. Tourism must work with state government, regional and local community planning and the economic development. Economic impacts are also important in marketing and management decisions.

According to 2005 data from World Tourism Organization (WTO), Malaysia places 14th in the ranking of counties either by international tourism arrivals. International tourism arrivals in Malaysia increased from 7. 9 million in 1999 to 23. 6 million in 2009, representing an average annual growth about 15. 7 million and the growth of tourist receipts has been even more spectacular, rising from RM 12. 3 billion in 1999 to RM 53. 4 billion in 2009 with an annual growth about RM 41. 1 billion (Malaysia Tourism Statistics, 2010).

In 2010, Malaysia's tourism is expected to generate RM 98 billion of economic activity. The industry's direct and indirect effect of travel and tourism in Malaysia in 2010 was expected to account for 37 billion of GDP (equivalent to 5. 1% of total GDP) and 597, 000 jobs (5. 3% of total employment). However, since the tourism touches all the sectors of the

economy, it bring a real impact is even greater. The travel and tourism sector generated RM 98 billion in economy GDP (equivalent to 13. 4 of total GDP), export revenue, services and merchandise representing RM 89 billion (equivalent to 12. 7% of total exports), economy employment representing 1, 331, 000 jobs (11. 9% of total employment) and it making tourism in Malaysia is the second largest contributor of foreign exchange earnings to the country after the manufacturing sector. (WTTC, 2010)

### Problem Statements

The problem is economy will bring many positive and negative impacts to tourism in Malaysia. When year 1997 and 2007, global economic crisis were happening, it affects all the industry, tourism also affected by it. During the crisis, everyone will faced financial problem therefore there are less people willing to travel, so that it will affect the tourist arrival in Malaysia. Due to financial crisis, in 1998 tourist arrival in Malaysia only has 5. 8 million. The tourism industry will affected by the economic problem, once the economic conditions was bad, many tourism industry like hotel, travel agency and restaurant, they will cut cost for example, cut down manpower, some of the hotel and travel agency's private bus or car driver, tour leader and staff for cost saving, therefore in that financial crisis years many people losing their job.

After the financial crisis in 1997, tourism Malaysia trying to increase the tourist arrival and receipts, therefore, in 1999 the financial condition in Asia are growing slowly, Malaysia tourism board come out one campaign “ Malaysia Truly Asia”, is promote Malaysia to the world and attract more

foreign tourists and encourage local people travel within Malaysia, promote inbound tourism and domestic tourism.

In 2001, September 11 terrorism attacks issue was happen in America, there are less Europe tourists come to Asia country travel and do investment, on that period Malaysia economic will affect by that reason. Terrorism picks tourism as their target because tourism is one of the main resources from income and it has generated relationship which leads to political, social and economical issues.

Nowadays, because of this financial crisis tourism has dropped with many foreign tourists are cutting their spending, and for business tourism, in order to cost cutting policies and have to reduced corporate travels to overseas to having their meeting, they using internet video conferencing and telephone conferences. Those small travel agencies company have feel to the decline in reservation and bookings, they need to cut down their manpower, if they haven't to do so, the company will bankrupt or facing many debts they owing. Same with the hotels with low occupancies, they will ask their staff to work for lesser hours and will reduce their wages.

Tourism plays an important role in Malaysia's economic. The effects of global economic crisis reaches many countries that are can't imagine. Only when the global economy gains strength and gets the financial more stable it will have a better future for tourism industry in Malaysia.

Research Objectives

1. To understand the positive and negative impacts of economic towards tourism in Malaysia.
2. Analyze how economic affect the tourism industry.
3. Understanding the tourist behaviour in spending during the travelling period.
4. To evaluate the economic impacts of changes in tourism demand.
5. To understand the development of economic on tourism in Malaysia.
6. Analyze how important that the economic for tourism industry.
7. To evaluate the economic impacts of changes in tourism supply.

#### 1. 4 Research Questions

1. What is economic impact?
2. What are the positive and negative impacts of economic to tourism?
3. What are the effects of the economic to tourism?
4. How much earnings of foreign exchange towards tourism?
5. Who get the benefits of the tourism?

#### 1. 5 Theoretical and Conceptual Framework

#### 1. 6 Significance of the Study

We need to know how important that economic for tourism industry. Tourism is one of the major industries in the world. In year 2010, the tourism economy contributes US\$ 5, 834. 5 billion to global GDP, is around 9. 3% of the total of global GDP. This is expected to growth to US \$ 11, 270 billion, is around 9. 7% for the total of global GDP by 2020. The directly and indirectly industry supports over 235 million jobs in 2010 in global and the total is forecast to increase to just over 303 million in 2020. The global tourism investment is estimated at US\$1, 255. 5 billion in 2010 and should reach US\$2, 722. 3 billion by 2020. (WTTC, 2010)

This all figure it means that the tourism is very important for economic, it helps the global economic gain strength in financial crisis and makes it more stable. International tourism can become a major foreign exchange earner for many low income countries like Cambodia, Indonesia, India and Africa. Many countries are trying to develop tourism sector and increase the number of incoming visitors because international tourism brings a lot of foreign exchange to the host country.

In Malaysia, tourism was important to economic, it creates around 1, 331, 000 jobs in 2010, and it helps Malaysia's job opportunities increasing and the tourism investment brings around RM 19. 9 billion revenue in 2010 , its should reach RM 49. 8 billion in 2020. The economic impacts of tourism usually focus on the related tourism sectors that change in sales, income and employment.

Besides that, this study is make us to know and understand that economic can influence many industry, it affect the income of foreign exchange, gross

domestic profit (GDP), and the job opportunities within the country. There are some primary tourism sectors like lodging, dining restaurant, transportations, and retail shops are affected directly by economic.

## 1. 7 Scope and Limitation

This study is about the impacts of economic that bring to tourism. This research focus more on how economic affects the tourism and will discuss the positive and negative impacts. This study will cover the spending behaviour of international tourist in Malaysia, tourism demand in Malaysia, and many aspects of the economic impacts of tourism in Malaysia and will related with many tourism sectors. In order to complete this study, all the information will be found in internet, newspapers, magazine and journals. Although, the information about the economy of tourism in Malaysia is very limited, the World Travel and Tourism Council (WTTC) which is the forum of the business leaders in the travel and tourism industry through by this internet website can get a lot of information about the economic impact of tourism in Malaysia.

## **CHAPTER TWO: LITERATURE REVIEW**

### 2. 1 Development of economic on tourism in Malaysia

Before Malaysia independence in 1957, Malaysia's economy is more focus in tin, rubber, and palm oil and petroleum products. On that period, tourism industry haven't fully affects on Malaysia economy, but after independence, the Malaysia government has attention on develop of tourism industry, therefore on 1972 Malaysia government established Tourist Development



Corporation of Malaysia (TDC), to the tourism developing programme.

However, Malaysia government focus more on tourism industry on 1980s, because of the decrease in oil and world economic crisis. Tourism industry not only affects positively on economy also affect the increase foreign exchange earnings, taxes revenues and job opportunities on 1980s.

Consequently, the government was established one more department called The Ministry of Culture, Arts and Tourism on 1987 and TDC has merged to this department become to the Ministry of Tourism in 2004. In order to encourage and improve private and local investment in tourism industry government was launched two types of funds to help the investors on 2001, which is Tourism Infrastructure Fund with allocation of RM 700 million and Special Fund for Tourism Infrastructure with allocation of RM 400 million. Nevertheless, in 2005 the government increase the Tourism Infrastructure funds to RM 1. 2 billion. (Government Malaysia, 2006)

In 1980, international tourist of arrivals in Malaysia only 2. 3million and the receipts revenue were RM 7 billion but its increase year by year. In 1999, Malaysia Tourism board has launched one campaign call “ Malaysia Truly Asia”; it is a program that promotes Malaysia to worldwide tourist. Due to this campaign, Malaysia receipts 7. 9 million of international tourist arrivals in Malaysia and receipts around RM 12. 3 billion revenue. Moreover, during year 2001 until 2005 there have many terrorism attacks issue and natural disaster occur, it affect the growth of tourism industry and economy in Malaysia, especially on year 2003 and year 2004 there have terrorism and SARS issue in that two years the economic and tourism industry in Malaysia was decline, therefore Tourism Malaysia was launched “ Visit Malaysia Year”

on 2007, its success to increase the international tourists arrivals numbers to 20. 9 million and receipts around RM 46. 1 billion revenue.( Tourism Malaysia Statistics, 2010). Table 1, it shows that during year 2000 to 2009 international tourists arrivals to Malaysia and receipts.

Table1. International Tourists Arrivals and receipts – 2000 to 2009

(Source: Tourism Malaysia Official Website)

In order to develop tourism in Malaysia, Tourism Malaysia was launched one campaign that can stimulate the economic in Malaysia. The campaign is called “ Malaysia My Second Home Programme” (MM2H), which is promoted by the government of Malaysia, this programme is encourage and allow the foreigners come to Malaysia to invest and stay in Malaysia for long time. This programme bring a lot of foreign exchange and investors to Malaysia, it can helps the economy and increase the job opportunities in Malaysia. Besides that, Ministry of Tourism Malaysia work with many sectors to launch many programmes to helps the economy and tourism such as student tourism programme which attract more overseas student come to Malaysia having education once they come to Malaysia to study, there can earn more foreign exchange; this programme is collaboration with Minister of Education.

Under the Ninth Malaysia Plan (2006-2010), because of the revenue of foreign exchange are keep growing and for maintain it government Malaysia will develop Malaysia as a main international tourist destination while will enhancing domestic tourism during 2006 to 2010. Besides that, under the Ninth Malaysia Plan one of the main programmes is the government will

allocate RM 1 billion of an expenditure of improving access and facilities for tourist arrivals, upgrade and maintaining the public and tourist infrastructure and on some marketing campaigns in major source markets. On the other hand, government Malaysia started to develop Malaysia as a regional centre for health tourism, it can attract more and difference of investment and visitor come and Malaysia for travel and invest. (Government Malaysia, 2006) According to Tourism Minister Datuk Seri Ng Yan Yan saying that Tourism Malaysia is target to attract around 2.4 million of international tourist arrival to Malaysia in year 2010, and more focus in Middle East, China and India because these country they are more sufficient visibility and will promote and encourage them join the MM2H programme and invest in Malaysia.

## 2.2 Changes of Tourist Demand and Tourism Supply

Nowadays, tourist behaviours are keeping changing therefore the tourism demand and tourism supply also need to change. Changes of the tourism supply may take to two forms; one is a quantity change which is the number of the new facilities, attraction and shopping complex or the expansions and contraction in capacity. Once the tourists increase, the demand also will increase therefore the quantity form must keep changing to satisfy and fulfil tourist's demand like create more new facilities and infrastructure like airports and tourist attractions. Another form is quality changes, which is respect to the environment and the local infrastructure and public services that support to the tourism or the local tourism products and services. The environment and economic are keep changing and getting better, so that tourist's demand and their aspects are getting higher. In spite of, fulfil

tourist's satisfaction all the infrastructure and services must be more standard.

However, the changes of tourist demand is the tourists arrivals population changes, changes in the competitive position or marketing of the region and the changing of the consumer's tastes and preferences, their shopping activity and the method of spending.

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## 2. 3 Economic impacts of Tourism in Malaysia

When discussing the economic impacts of tourism, will touch on how the economic affect the tourism and how the tourism industry influence the economic. In year 1997 to 2000, the global economic downturn, it serious to affect the tourism industry in Malaysia, in year 2000 the international tourist arrivals only get 10. 2 million and receipt 17. 8 billion of revenue. On that financial crisis period, many tourism industry were facing financial problem it is because the economy of that period is unstable, there are less people are going travel all around the world. The hotel and the travel agencies will facing can't get their room occupancy and less booking and reservation's problem, so they need to cut down their manpower, and they offer their workers to work less hours and paying low salary or hire labour that from

other country because their salary and wages is cheaper than local labour, therefore many local people losing their jobs. Due to economy downturn, there are less tourist come to Malaysia to travel, the foreign exchange earnings and tax revenue and job opportunities are decline and decrease. Once the local people's income is affected, they will reduce to expend their money, it will influence many industries.

According to Archer (1989) states that economic impact analysis is an economic approach used to measure inter alia the amount of income, government revenue, employment and imports generated in an economy by the direct and secondary effects of the tourist expenditure. Direct effects is the tourist paying and spending their money directly flow through the economy or the tourism sectors, for example, the tourist spent RM 1500 for lodging and this amount of money will directly affect the sales in the hotel sector, and the hotel will using this money to pay for labour wages and salary and paying various government taxes and charges. Secondary effect is the sales, and job resulting from the activity generated other companies or industry of the economic system because of the demand of the tourism industry. For example, the hotel need to buys cutlery and cooking material from supplier to deliver the services to their customers. The cutlery and cooking material supplier also need to buys raw materials and machinery from other industries, therefore the sales of the supplier and other industries, income and job opportunities is related and come from direct effect.

On the other hand, tourism industry can contribute many foreign exchange, gross domestic product (GDP), government taxes revenue and job opportunities to Malaysia. Every year, Malaysia received many tourists that come from other country, once the tourist come to Malaysia to travel it will bring a lot of foreign exchange, increase Malaysia's gross domestic product (GDP) and increase government taxes revenue.

## 2. 4 Positive and negative impacts

Once discuss about impact of certain issue, there have positive and negative impacts will be discussed. The positive and negative impacts are must related to the local community, because local community playing an important role in tourism and economic. Without local community, the tourism and economic can't get their target.

Positive impacts:

(1) Increasing the gross domestic product (GDP), increase foreign exchange earnings and increase government revenue like taxes collection

Tourism can bring many foreign exchanges to Malaysia, and it also increases the gross domestic product within Malaysia. Once the foreign tourist come to Malaysia travel they will spend and they will pay the government taxes and charge while they staying in hotel or they went to shopping, it can increase the taxes and charges revenue of Malaysia.

(2) Contribute and increase job opportunities

Tourism can contribute a lot of job opportunities, once the economy growth the tourism sectors such as hotel, restaurant, theme park, travel agencies and etc, they will hire more workers to fulfil their requirements. Tourism is a more seasonal industry, because there have peak season and shoulder season in a year. When peak season, many tourism sectors will hire more workers or wants their workers work overtime and they will increase their wages and salaries.

### (3) Increase local community income and improving the living standard

In some rural area and some place that is create as tourist attraction, therefore it will attract many tourist go to visit and travel. Tourism brings a lot of tourist to that place it helps the economy on that area more thriving and prosperous because once many tourists go there, the local community have a chance to earn money and satisfy the tourist demand. Once the local community's income increase, their living standard also will improve.

### (4) Improves and increase investments, development and infrastructure

Tourism not only can bring a lot of foreign exchange, it also can bring a lot of investment to Malaysia. There are many international hotel come to invest in Malaysia, they will invest to local hotel or open new hotel. It will attract more investors to come Malaysia to invest other industry, and it can increase Malaysia's international investment. When there many tourist and investors come and visit Malaysia, they will using and evaluate the facilities and infrastructure, it will effect Malaysia's goodwill. Therefore, government will

develop and upgrade some of the facilities and infrastructure, it not only benefit to the tourist, and local community also will get the benefit of it.

Negative impacts:

#### (1) Inflation

Tourism developments often generate inflationary effects on local economies relating to land, property and goods. The prices of goods, services, land and housing will increase because of the tourism. If all the prices of the goods and services are increasing but the local community's income didn't increase, therefore their living standard will be affected.

#### (2) Increases potential for imported labour

Because of the tourism is a seasonal industry, there have peak season and low season in a year. Therefore, when in low season or on financial crisis many tourism sectors will hire labour that come from third country because their wages and salaries are cheap and lower than the local people.

Nowadays, many restaurant, theme park and hotel are hiring many imported labour, so that it will affect local community's job opportunities.

#### (3) Leakage

Leakage is means repatriation of profits generated from foreign capital investment or capital flight. A leakage will occurs is when the money will flow out to the economy of a region because a local consumer has purchased a product from an outside supplier. For example, if a theme park needs to buy a playing machine like roller coaster but it couldn't found in Malaysia,



therefore they need to buy it from other country. Due to that kind of reason, there are many money will flow out to the country. Another reason is Tourism Malaysia need to promote Malaysia to all around the world, therefore they need to do promotion in overseas, and government will spend a lot of money to advertise in overseas, so that the money will goes to other country.