UNIVERSITI PUTRA MALAYSIA

DISTANCE, PRODUCTS AND TRAVEL COMPANIONS AS KEY DRIVERS TO MALAYSIAN TOURISM DEMAND

PANG LOOI FAI

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By

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March 2017

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Faculty: Economics and Management

To increase tourism's contribution to the Malaysian economy, the current national policy is to increase tourist arrivals and tourist expenditure. However, tourists are not homogeneous, nor is tourism a single product and studying tourism demand as such will lead to flawed conclusions. Therefore, a disaggregated study of tourists and tourism products would consider the characteristics of different categories of tourists and as such will be more informative and relevant.

Hence, the objectives are to firstly study the determinants of tourism demand of Long Haul (LH), Medium Haul (MH) and Short Haul (SH) tourists from the perspectives of tourist arrivals and tourist expenditure, secondly study the demand for the tourism products of accommodation, shopping, food and beverage (F&B) and transportation and thirdly study the demand for accommodation by tourists categorized by travelling companions using the methodology of System Generalised Method Of Moments (SYS GMM), Seemingly Unrelated Regression (SUR), Pooled Ordinary Least Squares (POLS) and Fixed Effect Method (FEM) with Driscoll and Kray standard error correction, whilst applying the Almost Ideal Demand System (AIDS) and Lancaster's characteristic demand models.

The findings indicate that the word of mouth effect is important for all travellers, price of tourism is important for LH travellers, whereas travel cost is an important consideration for MH travellers. Thailand is a complimentary destination for LH, MH and SH travellers, whereas Indonesia is a substitute country for LH and MH travellers and Singapore is a substitute country for MH travellers.

The findings from the study of tourism products show that the own price elasticity of shopping and F&B are elastic whereas accommodation and transportation are inelastic indicating that the former goods are luxury goods and the later goods necessities. The cross price elasticity findings indicate that accommodation,

shopping and F&B are complimentary goods with prices affecting them in tandem whereas transportation is a substitute good where a change in prices of other tourism goods will affect the demand for transportation in the opposite. The expenditure elasticity indicate that transportation will receive the largest expenditure and shopping the least expenditure when income increases.

The findings from the study on the impact of travelling companion on accommodation demand indicate that accommodation is a necessity for all segments of travelling companions. However, the travelling with spouse segment has the least inelastic demand indication that this segment would more likely switch to cheaper accommodation when room rates increase.

The familiarity and word of mouth effect is significant, hence word of mouth marketing (WOMM) tactics is essential with monitoring of review webpages and negative reviews swiftly attended to. The varied results obtained when LH, MH, SH were studied indicated that market segmentation and price discrimination policies would be beneficial in achieving the objectives of increase numbers and higher yield. Due to their elastic price elasticity shopping and F&B prices should be kept low whereas accommodation and transportation should be increased. Demand for accommodation varies with the travelling companion, hence price discrimination policies could be applied to different segments.

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Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia
sebagai memenuhi keperluan untuk ijazah Doktor Falsafah

JARAK, PRODUK-PRODUK DAN TEMAN PERJALANAN SEBAGAI PENCETUS PERMINTAAN PELANCONGAN MALAYSIA

Oleh

PANG LOOI FAI

Mac 2017

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Untuk meningkatkan sumbangan sektor pelancongan kepada ekonomi
Malaysia, dasar negara semasa adalah untuk meningkatkan jumlah kedatangan
pelancong dan perbelanjaan pelancong. Walaubagaimanapun, pelancong
adalah tidak homogenus; malahan pelancong juga bukan satu produk tunggal
and mengkaji permintaan pelancongan sedemikian akan membawa kepada
kesimpulan yang tidak tepat. Satu kajian yang lebih terperinci untuk pelancong
dan produk pelancongan secara mempertimbangkan ciri-ciri kategori pelancong
yang berbeza adalah lebih bermaklumat dan relevan.

Oleh itu, objektif pertama sepatutnya mengkaji factor penentu permintaan
pelancongan jarak jauh (LH), jarak sederhana (MH) dan jarak pendek (SH) dari
perspektif kedatangan pelancong dan perbelanjaan pelancong. Kedua;
mengkaji permintaan terhadap produck pelancongan seperti penginapan,
pembelian belah, makanan dengan minuman (F&B) dan pengangkutan. Ketiga;
mengkaji permintaan untuk penginapan oleh pelancong yang dikategorikan
mengikut teman perjalanan menggunakan metodologi SYS GMM, SUR, POLS
dan FEM dengan pembetulan ralat standard Driscoll dan Kraay; sambil
menggunakan AIDS dan model permintaan ciri Lancaster.

Kajian ini menunjukkan bahawa kesan rekomendasi secara mulut adalah
penting untuk semua pelancong, manakala harga pelancong adalah penting
untuk pelancong LH, sedangkan kos perjalanan adalah pertimbangan yang
utama untuk pelancong MH. Kajian ini juga menunjukkan bahawa negara Thai
adalah destinasi penggenap untuk pelancong LH, MH dan SH; manakala
Indonesia adalah negara pengganti untuk pelancong LH dan MH; sedangkan
Singapura adalah negara pengganti untuk pelancong MH.

Hasil penemuan daripada kajian produk pelancongan pula menunjukkan
bahawa keanjalan harga sendiri membeli-belah dan makanan dengan minuman
(F&B) adalah anjal, manakala penginapan dan pengangkutan adalah tidak anjal.
Ini menandakan bahawa barangan pertama adalah barangan mewah dan

barangan kedua adalah barangan keperluan. Harga penemuan keanjalan silang harga menunjukkan bahawa penginapan, membeli-belah dan makanan dengan minuman (F&B) adalah barangan penggenap dengan pengaruhan harga yang seiring, sedangkan pengangkutan adalah barangan pengganti di mana perubahan dalam harga barangan pelancongan lain akan menjejaskan permintaan pengangkutan di sebaliknya. Keanjalan perbelanjaan menunjukkan bahawa pengangkutan akan menerima perbelanjaan terbesar dan membeli-belah perbelanjaan terkurang apabila pendapatan meningkat.

Penemuan daripada kajian impak teman seperjalanan atas permintaan penginapan menunjukkan bahawa penginapan adalah satu keperluan bagi semua segmen teman perjalanan. Walaubagaimanapun, melancong dengan segmen pasangan mempunyai nilai ketidakanjalan terkecil; menandakan segmen ini lebih cenderung beralih ke penginapan yang lebih murah apabila kadar harga bilik meningkat.

Kebiasaan dan rekomendasi mulut menpunyai kesan yang terbesar, oleh itu taktik pemasaran secara rekomendasi mulut (WOMM) adalah perlu serta pemantauan ulasan laman web dan melayan ulasan negatif degan pantas. Perbezaan dalam keputusan kajian LH, MH, SH menunjukkan bahawa segmentasi pasaran dan dasar diskriminasi harga akan memberi manfaat dalam pencapaian objektif peningkatan pelancong dan penghasilan yang lebih tinggi. Oleh kerana keanjalan harga membeli-belah dan makanan dengan minuman (F&B), harga barangan ini harus diturunkan; manakala harga penginapan dan pengangkutan perlu dinaikkan. Permintaan untuk penginapan berubah mengikut teman perjalanan, oleh itu dasar diskriminasi harga boleh digunakan untuk segmen yang berbeza.

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I wish to express my sincere gratitude to my thesis committee chairman Dr Lee Chin for her guidance and support during my Phd, the other members of my supervisory Dr Law Siong Hock for his advice on methodology and Dr Khairil Wahidin bin Awang for his insight on current tourism matters. I also wish to thank my colleagues at Sunway University for their advice and assistance. Most and not least I wish to thank my wife Pheobe and son Luke for their encouragement during my Phd journey.

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I certify that a Thesis Examination Committee has met on March 2107 to conduct the final examination of Pang Looi Fai on his thesis entitled Distance, Products and Companions: Drivers of Malaysian Tourism in accordance with the Universities and University Colleges Act 1971 and the Constitution of the Universiti Putra Malaysia [P.U.(A) 106] 15 March 1998. The Committee recommends that the student be awarded the Doctor of Philosophy, (PhD). Members of the Thesis Examination Committee were as follows:

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This thesis was submitted to the Senate of Universiti Putra Malaysia and has been accepted as fulfilment of the requirement for the degree of Doctor of Philosophy. The members of the Supervisory Committee were as follows:

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Date:

Declaration by graduate student

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Declaration by Members of Supervisory Committee

This is to confirm that:
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	Associate Professor Dr Law Siong Hock

Signature: Name of Member of Supervisory Committee:	
	Associate Professor Dr Khairil Wahidin Bin Awang

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ADR	Average Daily Rate
ADS	Approved Destination Status
AIDS	Almost Ideal Demand System
ALOS	Average Length of Stay
ANOVA	Analysis of Variance
AOR	Average Occupancy Rate
APC	Average per Capita Expenditure
AR	Auto Regressive
ASEAN	Association of South East Asian Nations
BLU	Best Linear Unbiased
BO	Business Opportunities
COICOP	Classification of Individual Consumption according to Purpose
CPI	Consumer Price Index
Diff-GMM	Difference Generalised Method of Moments
DVS	Departing Visitor Survey
EPP	Entry Point Project
EPU	Economic Planning Unit
ER	Exchange rates
ETP	Economic Transformation Programme
F&B	Food and Beverage
FEM	Fixed Effects Model
FGLS	Feasible Generalised Least Squares
GDP	Gross Domestic Product
GMM	Generalised Method of Moments
GNI	Gross National Income
IMF	International Monetary Fund
IPS	Im, Pesaran and Shin
ISUR	Iterative Seemingly Unrelated Regression
IV	Instrumental Variables
LAIDS	Linear Almost Ideal Demand System
LCC	Low Cost Carriers
LCC	Levin, Lin and Chu
LES	Linear Expenditure System
MAH	Malaysian Association of Hotels
MHTC	Malaysia Healthcare Travel Council
MICE	Meetings, Incentives, Conferences and Exhibitions
MOM	Method of Moments
MOTAC	Ministry of Tourism and Culture

MP	Malaysia Plan
MTPB	Malaysian Tourism Promotion Board
NEP	National Ecotourism Plan
NKEA	National Key Economic Area
NKRA	National Key Results Area
NTA	National Tourism Authorities
NTP	National Tourism Policy
OECD	Organisation for Economic Cooperation and Development
OLS	Ordinary Least Squares
PATA	Pacific Asia Travel Association
PEMANDU	Performance Management And Delivery Unit
POLS	Pooled Ordinary Least Squares
PPP	Purchasing Power Parity
RevPAR	Revenue Per Available Room
RM	Ringgit Malaysia
RP	Relative Price
SARS	Severe Acute Respiratory Syndrome
SEA	South East Asia
SERVQUAL	Service Quality
SUR	Seemingly Unrelated Regression
Sys-GMM	System Generalised Method of Moments
TA	Tourists Arrivals
TALC	Tourism Area Life Cycle
TDC	Tourism Development Corporation
TM	Tourism Malaysia
TR	Tourists Receipts
TSA	Tourism Satellite Accounts
UK	United Kingdom
UNWTO	United Nations World Tourism Organisation
US	United States
VFR	Visiting Friends and Relatives
VMY	Visit Malaysia Year
VOA	Visa on Arrival
WB	World Bank
WOMM	Word of Mouth Marketing
WTO	World Trade Organisation
WTP	Willing To Pay
WTTC	World Travel and Tourism Council

CHAPTER 1

INTRODUCTION

1.1   Overview of tourism

Tourism as described by the United Nations World Tourism Organisation (UNWTO) consists of the activities of people travelling to the another place and staying for more than a day. In 2015 the number of international tourists were over 1 billion generating earnings of US$ 1,260 billion worldwide making tourism an important revenue source for many countries. In 2015, 54% of tourist travel were by air, making air transportation a growing tourism product. As such, in addition to receipts earned in destinations, international tourism also generated US$ 211 billion in exports through international passenger transport services rendered to non-residents, bringing the total value of tourism exports up to US$ 1.5 trillion, or US$ 4 billion a day on average. The purposes of tourism travel were mainly for holidays and leisure (53%), business (14%) and visiting friends and relatives (27%) making leisure travel the principle reason to travel. (source: UNWTO tourism highlights, 2016).

1.2   Economic contribution of tourism

Tourism is important for Malaysia in terms of its revenue contribution for growth and in non monetary terms, a showcase of Malaysia for the international stage. In relation to other industries of Malaysia, the contribution of the tourism industry to the Gross Domestic Product (GDP) was 13.7 percent (RM151.7 billion) in 2014 as compared to 13.4 (RM128.7 billion) percent in the preceding year. (Department of Statistics, TSA 2010-2014). In terms of inbound tourism, the expenditure by these tourists was RM80.1 billion in 2014 as compared to RM73.4 billion in 2013. The increase was due to the higher number of arrivals, 27.4 million visitors, an increase of 6.7 percent as compared to the previous year. The expenditure of inbound tourists was primarily on country specific tourism characteristic products (shopping), accommodation, food and beverage (F&B) and passenger transport with shopping the largest revenue earner with 28 percent share in 2014. These four tourism products constitute 77.6 percent of the total inbound tourism expenditure.

The effect of tourism on the Gross Domestic Product (GDP) is illustrated by figure 1.1 whereby tourism expenditure by domestic tourists, inbound tourists and government spending on tourism promotion and infrastructure results in the purchase of tourism products like accommodation, retail products, F&B, transportation, entertainment and building of attractions, access roads and facilities. These expenditures in turn affect the industrial sectors of hotels, retail, F&B outlets, transportation and attractions. A multiplier effect occurs, eventually leading to indirect contributions to GDP and employment. Indirect contribution in

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the form of investments in the hotel and tourism industry for January to March 2016 was RM957.9 million by domestic investors and RM139.7 million by foreign investors, totalling RM1,097.6 million (Ministry of Finance, Malaysia Economic Report 2015/16).
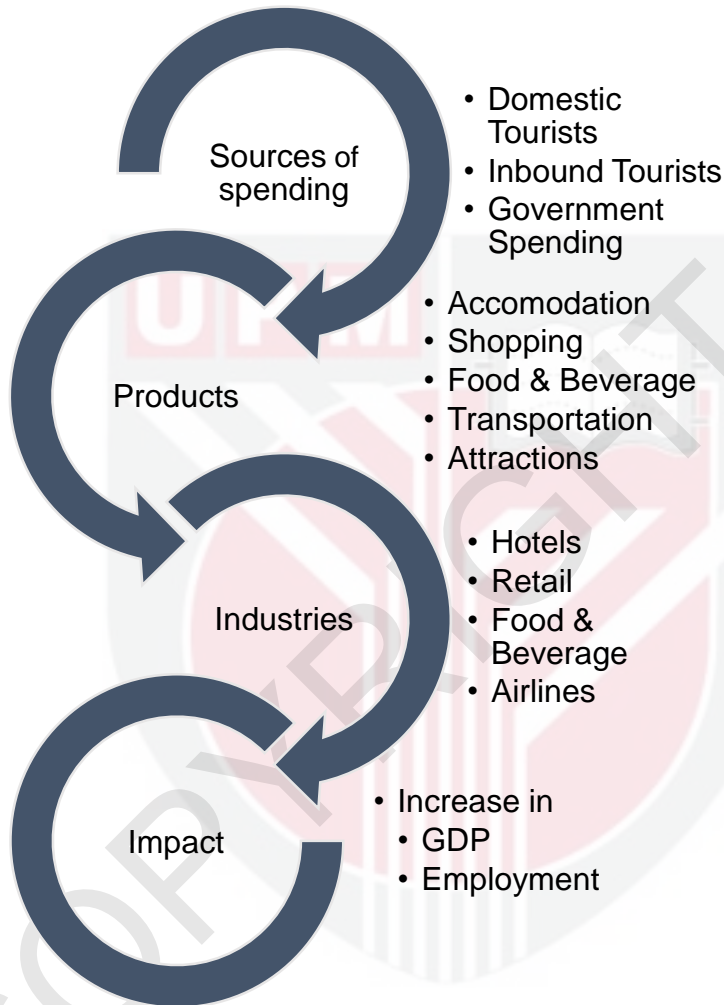
Figure 1.1: Tourism economic flow

The economic effect is shown in table 1.1 The figure shows the yearly contribution of tourism in gross value, Malaysia's Gross Domestic Product (GDP) and the year on year percentage change. The table shows that the total output of products and services produced and consumed by tourists have experienced continuous growth. In 2010 the gross value added by tourism industries was RM104.7 billion, by 2014 the amount was RM151.7 billion an increase of 45

percent from 2010. The year on year change was 9.6 percent for 2010 to 2011, 8.3 percent for 2011 to 2012, 9.6 percent for 2013 to 2013 and 11.5 percent for 2013 to 2014, showing a steady growth in gross value. The difference between production and consumption is the direct gross value added by tourism sectors to the economy and this amounted to RM68.3 billion in 2014 and was contributed mainly by the accommodation, F&B, retail and transportation sectors. The year on year increase of the direct gross value were 11.4 percent in 2011, 7.7 percent in 2012, 10 percent in 2013 and 13.1 percent in 2014. In relation to Malaysia's GDP, tourism constituted 12.75 percent in 2010 and apart from 2011, the percentage share of tourism to GDP has been increasing with 12.79 percent in 2012, 13.36 percent in 2013 and 13.71 percent in 2014. This demonstrates the increasing importance of tourism to the Malaysian economy.

Table 1.1: Economic contribution of tourism industries

	RM billion / Percentage change				
	2010	2011	2012	2013	2014
Total Gross Value Added of Tourism Industries	104.7	114.7(9.6%)	124.2 (8.3%)	136.1 (9.6%)	151.7 (11.5%)
Tourism Direct Gross Value Added	45.7	50.9 (11.4%)	54.8 (7.7%)	60.3 (10.0%)	68.2 (13.1%)
Tourism Direct Gross Domestic Product	45.7	51 (11.6%)	54.9 (7.6%)	60.4 (10.0%)	68.3 (13.1%)
Gross Domestic Product	821.4	911.7 (11.0%)	971.2 (6.5%)	1018.8 (4.9%)	1106.5 (8.6%)
Percentage share of Gross Value Added of Tourism Industries to GDP	12.75%	12.59% (-1.3%)	12.79% (1.6%)	13.36% (4.5%)	13.71% (2.6%)
Percentage Share of Tourism Direct Gross Value Added to overall Gross Value Added	5.62	5.65 (0.5%)	5.7 (0.9%)	5.99 (5.1%)	6.24 (4.2%)
Share of Tourism Direct GDP	5.57	5.6 (0.5%)	5.65 (0.9%)	5.93 (5.0%)	6.17 (4.0%)

Note: * Year on year percentage changes are in parentheses
Source: Malaysia Tourism Satellite Account, 2010-2014

Table 1.2 shows the yearly number of people employed in different sectors of tourism. In terms of employment, tourism sectors employed 2.1 million persons in 2010 and by 2014 the amount was 2.6 million which was a growth of 23 percent from 2010. This amounted to 19.1 percent of the nation's workforce in 2014 (TSA 2010-2014). Table 1.2 also indicate that a majority of people in the tourism industry were employed in the F&B and retail sector with 868, 000 and 742,800 people respectively. In terms of percentage share, the F&B and retail sector employed the larger number of tourism related people with 33.6 percent and 28.8 percent respectively in 2014.

Table 1.2: Employment in related tourism industries

Industry	No. of persons ('000)				
	2010	2011	2012	2013	2014
Accommodation services	176.2 (8.4%)	171.8 (7.8%)	189.1 (8.1%)	179.2 (7.4%)	227.7 (8.8%)
Food and beverage serving services	647.6 (30.9%)	738.6 (33.4%)	738.1 (31.8)	808.3 (33.2%)	868.0 (33.6%)
Passenger transport services	143.5 (6.9%)	140.1 (6.3%)	152.5 (6.6%)	153.1 (6.3%)	152.8 (5.6%)
Travel agencies and other reservation services	22.8 (1.1%)	23.5 (1.1%)	28.1 (1.2%)	31.7 (1.3%)	36.6 (1.4%)
Cultural, sports and recreational services	84.3 (4.0%)	80.2 (3.6%)	80.0 (3.4%)	75.0 (3.1%)	87.2 (3.4%)
Retail sale of automotive fuel	23.2 (1.1%)	30.1 (1.4%)	35.3 (1.5%)	31.8 (1.3%)	35.6 (1.4%)
Retail trade	669.0 (31.9%)	678.4 (30.6%)	692.4 (29.48%)	733.4 (30.2%)	742.8 (28.8%)
Country-specific tourism characteristic services	328.0 (15.7%)	351.2 (15.9%)	407.6 (17.5%)	419.7 (17.3%)	431.3 (16.7%)
Total	2,094.7 (100%)	2,213.8 (100%)	2,322.9 (100%)	2,432.1 (100%)	2,581.8 (100%)

Note: *The percentage share of employment are shown in parentheses.
Source: Malaysia Tourism Satellite Account, 2010-2014

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Based on its economic contribution to the GDP and the employment sector, the Malaysian government has recognised the importance of tourism in the development of the Malaysian economy. To sustain and promote the growth of tourism, the strategic plan is to encourage both mass and luxury tourism as mention by Prime Minister, Datuk Seri Najib Razak on January 25, 2016. The following sections describe the evolution of the tourism industry in Malaysia, the organisational structure and the various strategies, plans and policies to promote demand. This will provide an insight to the current targeted tourist market and the tourism products being marketed.

1.3   Development of Malaysian tourism

Tourism started in Malaysia with the establishment of the Cultural Department in 1953, by the British. With Malaysia's independence, this department was restructured in 1964 and named the Ministry of Culture, Sport and Youth. However, the tourism sector in Malaysia during that period played no prominent role as Malaysia focused on the development of the agricultural and mining sectors of rubber and tin. Tourism gained prominence in the 1970s after Malaysia hosted the 1972 Conference of Pacific Area Travel Association (PATA) where the benefits of tourism were recognised. This lead to the establishment of the Tourism Development Corporation (TDC) which was tasked to promote tourism. The National Tourism Plan was subsequently drawn up in 1975, establishing the initial strategies, policies and objectives of Malaysia's tourism sector.

In the 1980's more impetus was placed on tourism by separating the Ministry of Culture, Sports and Youth and creating the Ministry of Culture and Tourism in 1987. On 20 May 1992, the Ministry of Culture and Tourism was renamed Ministry of Culture, Arts and Tourism or MOCAT. In April 2004, MOCAT was split to facilitate the establishment of a separate ministry, the Ministry of Tourism (MOTour) which was responsible solely for matters related to tourism. On 15 May 2013, MOTour was transformed to Ministry of Tourism and Culture (MOTAC) and was tasked with expanding tourism activities and markets. These include Volunteer Tourism (Voluntourism), Malaysia My Second Home (MM2H), Student Tourism Programme, Education Tourism, Agro-Tourism and Sport Tourism. In addition, MOTAC conducts courses for front liners of the tourism sectors. These courses include We Are The Host (WATH), Eco-Host Malaysia, Tourist Boats, Tourist Guide Level 2, Tourist Guide Level 3, Think Tourism, Spa Therapist Training Programme, Travel and Tours Management Courses (TTMC) & Travel and Tours Enhancement Courses (TTEC), Hotel Assist On The Go and Umrah Specialized Enhancement courses.

The promotion arm, TDC was replaced in 1992 with the Malaysia Tourism Promotion Board (MTPB), more readily known as Tourism Malaysia and placed under the supervision of MOTAC. The objectives of MTPB or Tourism Malaysia now a dedicated marketing arm were to promote Malaysia as a tourist destination to the overseas market, increase the number of arrivals, extend the length of

stay of tourists, increase revenue and develop the Meetings, Incentives, Conventions and Exhibitions (MICE) sector of tourism.

1.3.1   Government authorities involved in tourism

Apart from the core National Tourism Authorities (NTA) of MOCAT and Tourism Malaysia, other federal agencies involved in tourism development albeit indirectly, are the Department of Agriculture which oversees agro tourism, Department of Forestry which oversees ecotourism, Department of Fisheries which oversees coastal tourism, Department of Wildlife and National Parks which oversees ecotourism, Department of Aboriginal Affairs which oversees ethnic tourism, Department of Museums and Antiquities which oversees heritage and cultural tourism, Ministry of Health which oversees medical tourism under the umbrella of the Malaysia Healthcare Travel Council (MHTC).

1.3.2.   Tourism policies and plans

Policies relating to Malaysian tourism are included in a few national plans, namely the five yearly Malaysia Plans, Economic Transformation Plan, National Tourism Policy and the National Ecotourism Plan. These plans are described in the following sections.

Malaysia Plans, which are a series of five-year national economic plans that describe the development objectives and strategies, sets the allocation of national budgets to various economic sectors of which tourism is a sector. There were no noteworthy tourism policies in the First Malaysia Plan (1966-1970), however after the Pacific Asia Travel Association (PATA) conference in 1972, which showcased the benefits of tourism, there were more focused tourism development strategies incorporated in the Second Malaysia Plan (1971 – 1974). These strategies include developing more destinations, providing better infrastructure for domestic and foreign tourists, like air travel to and within East Malaysia. As tourism became more significant, the subsequent Malaysia Plans beginning with the Fourth Malaysian Plan has a chapter on tourism indicating more emphasis on tourism in national development. The Plans also reveal that more funds were allocated for tourism infrastructure, product development and marketing activities with each subsequent plan stressing the growing importance of tourism.

A national policy for the development of Malaysian tourism was the National Tourism Policy (NTP) designed to be implemented over a period of 10 years. It was launched in 1992 and laid emphasis on marketing the concept of sea, sand and sun. Product development under the NTP included new tourism products like fly-drive holidays, riverine tourism, ecotourism, agro tourism, culture and heritage tourism and Meetings, Incentives, Conferences and Exhibitions (MICE)

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tourism. The proposal to promote Malaysia as a shopping destination was initiated by the NTP.

In view of Malaysia's abundant natural environments of forests, coast and wildlife, ecotourism was seen as a niche product and subsequently a National Ecotourism Plan (NEP) was drawn up for the development of ecotourism in 1996. The NEP detailed the policies, strategies and plans for the establishment and development of land and marine ecotourism in Malaysia.

The latest tourism policies on tourism are stated in the Economic Transformation Programme (ETP) a comprehensive national plan to achieve a developed nation status by 2020, launched on 25 September 2010. This goal of a developed nation is benchmarked by a Gross National Income (GNI) per capita of US$15,000 which is the per capita income of a high income economy. The ETP proposed 12 National Key Economic Areas (NKEA) which represent the economic sectors of Malaysia that will contribute significantly to GNI and within each NKEA there are recommended Entry Point Projects (EPP) that explore new growth areas and Business Opportunities (BOs) that suggests businesses to develop.

Tourism was named as one of the NKEAs in the ETP with 12 EPPs clustered under the 5 themes of affordable luxury, nature adventure, family fun, events, entertainment and business tourism. In addition, the tourism NKEA has identified three Business Opportunities (BOs) available in the tourism industry, namely food and beverage outlets, local transportation and tour operations. The tourism EPPs are described in table 1.3 with the four tourism products studied in this thesis, accommodation product, highlighted in EPP 12, Shopping, highlighted in EPP 1, 2, 3, F&B, highlighted in the BO1 and transportation in EPP 11 and BO2. The remaining EPPs of 4, 5, 6, 7, 8, 9a, 9b and 10 highlight the development of niche tourism products of nature, spa, cruise, golf, MICE tourism.

Table 1.3: Tourism Entry Point Projects and Business Opportunities

EPP	Description
EPP 1	Positioning Malaysia as a duty-free shopping destination.
EPP 2	Designating Bukit Bintang – Kuala Lumpur City Centre Area as a vibrant shopping precinct in Malaysia.
EPP 3	Establishing premium outlets in Malaysia.
EPP 4	Establishing Malaysia Mega Biodiversity Hub (MMBH).
EPP 5	Developing Eco-Nature Integrated Resorts.
EPP 6	Developing cruise tourism.
EPP 7	Targeting more international events.
EPP 8	Establishing Dedicated Entertainment Zones (DEZ).
EPP 9a	Developing local expertise and a better regulated spa industry.
EPP 9b	Developing golf tourism.
EPP 10	Establishing Malaysia as a leading business tourism destination.
EPP 11	Enhancing connectivity to priority medium haul markets.
EPP 12	Improving rates, mix and quality of hotels.
BO	
BO 1	Food and beverage outlets
BO 2	Local transportation
BO 3	Tour operator segment

Source: Economic Transformation Programme (ETP) Annual Report 2011

1.3.3   Promotional campaigns

To realise the EPP and to encourage inbound and domestic tourism, various promotional and marketing campaigns were carried out. The significant ones being Visit Malaysia Year(s), Mega Sale Carnival(s), Cuti – Cuti Malaysia and Malaysia My Second Home.

Visit Malaysia Year (VMY) campaigns were promotional campaigns designed to attract foreign tourists with specific themes. The first VMY in 1990 had the theme "Fascinating Malaysia. Year of Festivals", the second VMY in 1994 had the theme "Fascinating Malaysia. Naturally More". The third VMY was launched in 2007 in conjunction with Malaysia's 50th Independence Anniversary, hence, the theme "Celebrating 50 years of Nationhood" and the latest VMY in 2014 with the theme "Celebrating 1Malaysia Truly Asia" to reflect the diversity of Malaysians. Prior to all VMYs, special events and activities are highlighted in the preceding year to create interest for that VMY.

To promote Malaysia as a shopping destination, a promotional campaign called Mega Sale Carnival was introduced, where a period within a year is designated as a sale period whereby retail outlets nationwide are encouraged to have discounts on their products. Its objectives are to create greater spill-over effects of consumer shopping, and assist in increasing tourist arrivals and spending.

To encourage domestic tourism, Cuti – Cuti Malaysia promotional campaigns are usually held during Malaysia school holidays and during off peak seasons for international tourists, whereby discounts are given by hotels, travel agents and attractions during that period to persuade Malaysians to spend their holidays in Malaysia.

To promote longer stays, Malaysia My Second Home an international residency scheme directed towards foreign retirees above the age of 50 years encouraging them to own properties and live in Malaysia was introduced. To achieve this, incentives like a long-stay visa up to 10 years would be granted and applicants are entitled to enter and leave the country on a largely unrestricted basis.

1.4   Tourist arrivals and receipts

Table 1.4 shows the top ten most visited destination from the period 2011 to 2014 ranked by the number of international visitors. In terms of tourist arrivals Malaysia is ranked as one on the top ten most visited countries in 2011 and 2012 as shown in table 1.4. However, in 2013 and 2014 Malaysia was no longer ranked in the top ten most visited country. This indicates that Malaysia has been falling in ranking for the top ten destinations since 2011.

Table: 1.4: Top ten tourists' destinations, by year and arrivals (in millions).

Rank	2011		2012		2013		2014	
1	France	(79.5)	France	(83.0)	France	(83.6)	France	(83.7)
2	United States	(62.3)	United States	(67.0)	United States	(69.8)	United States	(74.8)
3	China	(57.6)	China	(57.7)	Spain	(60.7)	Spain	(65)
4	Spain	(56.7)	Spain	(57.7)	China	(55.7)	China	(55.6)
5	Italy	(46.1)	Italy	(46.4)	Italy	(47.7)	Italy	(48.6)
6	Turkey	(29.3)	Turkey	(35.7)	Turkey	(37.8)	Turkey	(39.8)
7	UK	(29.2)	Germany	(30.4)	Germany	(31.5)	Germany	(33)
8	Germany	(28.4)	UK	(29.3)	UK	(31.2)	UK	(32.6)
9	Malaysia	(24.7)	Russia	(25.7)	Russia	(28.4)	Russia	(29.8)
10	Mexico	(23.4)	Malaysia	(25.0)	Thailand	(26.5)	Mexico	(29.1)

Table 1.5 shows the top ten countries with the largest amount of tourism receipts from international tourists, with the United States receiving the largest amount of revenue yearly. However, when the two tables are compared, although France has been the most visited destination, the United States receives the most revenue. This difference between arrivals and receipts suggests that indicators of tourism demand has two perspectives, the number of tourists and the amount they spend.

Table 1.5: Top ten tourist receipts by year and receipts (US$b)

Rank	2011		2012		2013		2014	
1	United States	(116.3)	United States	(126.2)	United States	(173)	United States	(177.2)
2	Spain	(59.9)	Spain	(55.9)	Spain	(62.6)	Spain	(65.2)
3	France	(53.8)	France	(53.7)	France	(56.7)	China	(56.1)
4	China	(48.5)	China	(50)	China	(51.7)	France	(55.4)
5	Italy	(43)	Macao (China)	(43.7)	Macao (China)	(51.6)	Macao	(50.8)
6	Germany	(38.8)	Italy	(41.2)	Italy	(43.9)	Italy	(45.6)
7	United Kingdom	(35.9)	Germany	(38.1)	Thailand	(42.1)	United Kingdom	(45.3)
8	Australia	(31.4)	United Kingdom	(36.4)	Germany	(41.2)	Germany	(43.3)
9	Macao (China)	n/a	Hong Kong (China)	(32.1)	United Kingdom	(40.6)	Thailand	(38.4)
10	Hong Kong (China)	(27.7)	Australia	(31.5)	Hong Kong	(38.9)	Hong Kong	(38.4)

Note: * Receipts in US$ billions are shown in parentheses
Source: Adapted from World Tourism Organisation (UNWTO) Tourism Highlights. (2012 -2015)

From the perspective of arrivals Malaysia was ranked in the top ten in arrivals in 2011 and 2013, however in terms of tourist receipts, Malaysia is not ranked in the top ten (table 1.5) from 2011 to 2014, hinting that the per capita yield of tourists is lower than the other top ten countries. In 2013, Malaysia's revenue from tourism is not in the top ten, whereas Thailand which is the tenth in terms of visitors and seventh in terms of tourism revenue indicating that Thailand receives more high yielding tourists than Malaysia.

The disparity between arrivals and receipts for Malaysia is revealed in table 1.6 which shows the tourist arrivals, receipts and the per capita yield of tourists to South East Asian (SEA) countries for the years 2011 to 2014. The table shows that Malaysia consistently has the largest number of tourist arrivals among the South East Asian countries. However, in terms of tourism receipts Thailand record higher yearly receipts. Additionally, when the tourism receipts of each country are divided by the number of arrivals, the expenditure per tourist or the per capita yield show that Malaysia consistently has lower per capita yield than many of its neighbours. In 2014, the highest per capita yield among SEA countries was from Singapore (US$ 1,619) followed by Thailand (US$ 1,539), Indonesia (US$ 1,044) Philippines (US$ 976) and Vietnam (US$ 931), whereas Malaysia's per capita tourist yield was US$ 795.

Table 1.6: Tourist arrivals, receipts and per capita of SEA countries, 2011 - 2014

Destination	Arrivals (1,000)				Receipts (US$ million)				per capita (US$)			
	2011	2012	2013	2014	2011	2012	2013	2014	2011	2012	2013	2014
Brunei	242	209	209	..	..	92	..	..	..	440	..	..
Cambodia	2,882	3,584	4,210	4,503	2,084	2,462	2,659	2,953	723	687	632	656
Indonesia	7,650	8,044	8,802	9,435	7,997	8,324	9,119	9,848	1,045	1,035	1,036	1,044
Lao	1,786	2,140	2,140	..	406	451	596	642	227	211	279	..
Malaysia	**24,714**	**25,033**	**25,715**	**27,437**	**19,656**	**20,250**	**21,496**	**21,820**	**795**	**809**	**836**	**795**
Myanmar	391	391	900	3,081	281	539	929	..	719	1,379	1,032	..
Philippines	3,917	4,273	4,681	4,883	3,190	4,061	4,690	4,767	814	950	1,002	976
Singapore	10,390	11,098	11,898	11,858	18,086	18,939	19,301	19,203	1,741	1,707	1,622	1,619
Thailand	19,230	22,354	26,547	24,980	27,184	33,855	41,780	38,437	1,414	1,514	1,574	1,539
Timor-Leste	50	55	78	60	21	21	29	35	420	382	372	583
Vietnam	6,251	6,848	7,572	7,874	5,710	6,850	7,250	7,330	913	1,000	957	931
S.E. Asia	77,505	84,231	93,068	96,715	85,005	95,843	108,244	106,791	1,097	1,138	1,163	1,104

Note: .. Data unavailable
Source: Adapted from World Tourism Organisation (UNWTO) Tourism Highlights 2015

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This low yield has been acknowledged in the Economic Transformation Programme (ETP)'s 2010 report on tourism where it is stated that Malaysia's tourism revenue has been dependent on the number of arrivals rather than the yield per tourist. This also implies that Malaysia's tourism growth is driven by arrivals rather than by per capita yield. The implication of being arrival driven is that Malaysia would become dependent on mass tourism and low yield tourists from neighbouring countries of Singapore, Thailand, Indonesia and Brunei to provide tourism revenue. The ETP has cautioned that mass tourists would require more resources, thus placing a strain on the quality of services and products provided (ETP, 2010). The ETP has identified the reasons for the low yield as firstly, the lower average length of stay, with long-haul (LH) tourists currently spending 10 nights in Malaysia versus 14 nights in Thailand, secondly, tourists to Malaysia have a lower spend per day and thirdly, dependence on arrivals from short-haul (SH) markets. As such the ETP has recommended focusing on growing yield per tourist rather than to rely heavily on tourist arrivals to drive tourism growth.

Table 1.7 compares the yearly percentage growth of tourist receipts, arrivals and per capita for 15 years from 2000 to 2015 for Malaysia. Apart from 2004 tourist receipts have a greater percentage growth than arrivals. However, when the measures are merged to obtain the per capita percentage growth, the growth per capita is less than 1 percent per year indicating minimal growth in yield. For example, in 2009, the growth in arrivals is 8% whereas the growth in yield is only 0.4%. the ETP has proposed an increase in yield from RM2,257 in 2009 to RM4,675 by 2020 (ETP handbook, 2010, p.321). In addition, from table 1.7 above the yield for 2015 is only RM2,687 which is half the target set by ETP. Additionally, the yield is still within the range of RM2,000 – RM3,000 from 2006 to 2015 indicating only a small growth in yield. The ETP has acknowledged that that Malaysia is reliant on arrivals rather than yield to increase tourism revenue (ETP handbook, p.320). But, arrivals also influence total revenue and should not be ignored. Hence, the two measures of arrivals and receipts are important because they give different perspectives of tourism demand with arrivals revealing mass tourism whereas receipts representing economic influences. Therefore, there is a need to use different tourism measures in analysing demand.

Table 1.7: Yearly receipts, arrival and per capita percentage growth

Year	Receipts		Arrivals		per capita	
	RM	Growth %	Persons	Growth %	RM	Growth %
2000	17,335,400,000	41%	10,221,582	0%	1,696	0.000%
2001	24,221,500,000	40%	12,875,073	26%	1,881	0.109%
2002	25,781,100,000	6%	13,310,010	3%	1,937	0.030%
2003	21,291,100,000	-17%	10,573,915	-21%	2,014	0.040%
2004	29,651,400,000	39%	15,703,406	49%	1,888	-0.062%
2005	31,954,100,000	8%	16,431,055	5%	1,945	0.030%
2006	36,271,700,000	14%	17,546,863	7%	2,067	0.063%
2007	46,070,000,000	27%	20,972,822	20%	2,197	0.063%
2008	49,561,200,000	8%	22,052,488	5%	2,247	0.023%
2009	53,367,700,000	8%	23,646,191	7%	2,257	0.004%
2010	56,492,500,000	6%	24,577,196	4%	2,299	0.018%
2011	58,315,900,000	3%	24,714,324	1%	2,360	0.027%
2012	60,556,700,000	4%	25,032,708	1%	2,419	0.025%
2013	65,443,300,000	8%	25,715,460	3%	2,545	0.052%
2014	71,998,800,000	10%	27,437,315	7%	2,624	0.031%
2015	69,119,600,000	-4%	25,721,251	-6%	2,687	0.024%

Source: Tourism Malaysia

The amount spent or per capita yield may depend on the income of the tourist, with higher income tourists willing to spend more and stay longer. However, tourists are not the same economically. Table 1.8 shows the top ten outbound tourist spenders of 1999 and 2014. A comparison of the top spenders indicate that new market leaders of tourism have emerged. Chinese tourists as a result of their rising disposable income, an appreciating currency and an easing of travel restrictions has increased their tourism expenditure from US$10.9 billion in 1999 to US$165 billion in 2014, making Chinese tourists the top spenders in 2014. In 2014 the gap in expenditure between China and the second largest spender United States widened to US$54 billion with US tourists spending only US$111 billion in comparison to China's US$165 billion (Source: UNWTO Highlights 2000, 2015). In line with this the ETP has proposed EPP 11, which proposes enhancing connectivity to priority medium haul markets of China, Japan, Australia, India, Korea and Taiwan as these countries possess the economic strength to provide the growth of high end tourists to Malaysia. (ETP annual report, 2012). As such it would be erroneous to treat tourists as homogenous, and infer that the income determinant of tourism demand apply uniformly to tourists from LH, MH and SH countries.

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Table 1.8: Top ten outbound tourist spenders

Rank	1999	Expenditure (US$ billions)	2014	Expenditure (US$ billions)
1	US	59.4	China	164.9
2	Germany	48.5	US	110.8
3	UK	35.6	Germany	92.2
4	Japan	32.8	UK	57.6
5	France	18.6	Russia	50.4
6	Italy	16.9	France	47.8
7	Netherlands	11.4	Germany	33.8
8	Canada	11.3	Italy	28.8
9	China	10.9	Australia	26.3
10	Belgium	10.1	Brazil	25.6

Source: Adapted from: UNWTO Highlights (2000 and 2015)

In addition to income the influence of other demand determinants like the price of tourism in Malaysia, preference of alternative destinations, travel cost and population may vary between the travel hauls of LH, MH, SH. The ETP has implied this variation when it put forward that short haul tourists have a lower yield because their shorter duration of stay result in the smaller amount spent and recommended attracting more long haul tourists which tend to stay longer and consequently spend more. However, it would be a mistake to ignore the short haul market, for although their per capita yield may be low, the volume of SH tourist results in an overall large expenditure amount. Therefore, the demand determinants of LH, MH and SH should be studied individually.

1.5 Tourism products

In addition to the number of arrivals, tourism revenue is determined by the expenditure of tourists. However, tourism is not a single product but consists of a composition of accommodation, F&B, transportation, organized tours, entertainment, shopping for tourism related goods and miscellaneous tourism services. The table 1.9 shows the different categories of tourism products and the allocation of tourism expenditure among each product in ringgit Malaysia (RM) billions and the percentage share of tourism budget between the products. Apart from entertainment, expenditure on the other tourism products have been increasing yearly, with accommodation increasing from RM 17.3 billion in 2010 to RM 21.4 billion in 2014, F&B from RM10.2 billion to 10.8 billion, transportation RM 12.8 billion to RM 17.9 billion, organised tours RM 2.5 billion to RM 2.8 billion, purchase of tourism related good (shopping) RM 17 billion to RM22.4 billion and expenditure on miscellaneous tourism services RM 1.4 billion to RM 2.6 billion.

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Table 1.9: Inbound tourism expenditure of tourists by products

| | RM billion | | | | | Percentage share | | | | |
---	2010	2011	2012	2013	2014	2010	2011	2012	2013	2014
Accommodation	17.3	18.0	18.7	19.8	21.8	27.5	27.5	27.8	27	27.2
F&B	10.2	10.2	10.1	8.6	10.8	16.1	15.7	15.1	11.7	13.5
Transportation	12.8	12.3	12.6	17.6	17.9	20.3	18.8	18.9	24	22.3
Organised tours	2.5	2.8	2.5	2.5	2.8	4	4.3	3.8	3.4	3.5
Entertainment	1.8	2.3	1.9	2.1	1.7	2.9	3.5	2.8	2.9	2.1
Shopping	17.0	18.3	19.5	20.8	22.4	26.9	28	29	28.3	28
Misc, services	1.4	1.5	1.7	2.0	2.6	2.3	2.2	2.6	2.7	3.3
Total	63.1	65.3	67.1	73.4	80.1	100	100	100	100	100

Source: Department of Statistics, Malaysia

An analysis of the yearly percentage shares of 2010 and 2014 shows that transportation, shopping and miscellaneous services have an increased percentage share of the budget, whereas the accommodation, F&B, organised tours and entertainment have a decreased percentage share of the budget. The largest increase in the percentage budget share was transportation of 2 percent, whereas the largest decrease was F&B of 2.6 percent. The ETP has termed this as 'trading up and trading down' whereby a tourist may choose to splurge on one item while economising on another (ETP handbook, p.318). This is illustrated in table 1.9, whereby percentage share increases in expenditure on the tourism products of transportation, shopping and miscellaneous services is at the expense or decreased percentage share on accommodation, F&B, organised tours and entertainment.To increase tourist arrivals and expenditure, the ETP for tourism has suggested 12 EPPs and 3 BOs (table 1.5), with EPP 1, 2 and 3 targeted at developing the shopping component of tourism. This indicates that shopping is becoming a preferred tourism product to promote. This has resulted in Malaysia being named the fourth shopping destination by CNN Travel and second best shopping city in Asia Pacific by Globe Shopper Index in 2013. *Enhancing Malaysia's position as a shopping hub* (2014). Additionally, the ETP has also proposed EPP 11 which is to enhance connectivity or transportation to medium haul markets and EPP 12, which is to improve rates, mix and quality of hotels. Thus EPP 1,2 and 3 promotes the shopping product, EPP 11 the transportation product and EPP 12 the accommodation product. However, tourists usually have a budget, thus promoting a tourist product, which may result in an increased expenditure on the products but at the expense of another product. Therefore, the plan to promote shopping may be at the expense of other products.Therefore, this study seeks to investigate is the effect of the growth of demand of one tourism product on the other tourism products. The study would investigate the relationship between the products, the price effect, the substitution effect and expenditure effect. The study also seeks to identify how readily a tourist will switch demand between products. A tourist will not readily

change demand or substitute to another product if the product is a necessity or essential whereas and a change in demand or switch would be readily done for a luxury or non-essential good.

1.6   Economic importance of the accommodation sector

In line with the Economic Transformation Programme (ETP)'s strategy of targeting high yield tourists the ETP Annual Report of 2011 proposed EPP 12 which recommends improving rates, mix and quality of hotels with the target of a GNI of RM5,528.7 million and 64,424 jobs in the accommodation sector by 2020 (ETP report, 2011). Accommodation is a strategically important tourism sector for in terms of revenue it's the second largest tourism revenue contributor with RM 21.8 billion in 2014 (table 1.9). Table 1.10 shows the revenue earned by each person employed in tourism sectors. The per capita revenue for accommodation is RM95,805 for 2014, making it the second largest productive sector after transportation in terms of revenue generated per person employed. EPP 12 advocated increasing the number of five star and four star hotels in Malaysia, with the rationale that these hotels will have higher room rates, encourage luxury tourists and provide more employment due to the services provided.

Table 1.10: Revenue per employee

Tourism product	2010 RM	2011 RM	2012 RM	2013 RM	2014 RM
Accommodation	98,429.1	104,547.7	98,633.0	110,654.6	95,808.5
F&B	15,714.8	13,870.4	13,750.4	10,628.4	12,495.3
Transportation	89,043.9	87,481.1	82,903.6	114,930.1	116,945.7
Organised tours	111,587.7	119,366.0	90,295.4	78,050.5	75,617.5
Entertainment	21,758.0	28,894.0	23,787.5	28,406.7	19,729.4
Shopping	25,382.8	26,966.7	28,125.1	28,300.5	30,209.7
Misc. services	4,329.3	4,167.1	4,201.9	4,748.9	6,070.0
Total	30,451.6	29,921.3	29,316.5	30,565.5	31,446.9

Source: Adapted from TSA (2010 and 2014)

Hotels are generally classified by star ratings with five star hotels having the most facilities and a high degree of personal service. Facilities include rooms that are large and furnished with amenities that may include televisions with in-room video library and radios, garden tubs or jacuzzis. The hotels will have at least three restaurants with different ethnic menus and room service available 24 hours a day. Spacious hotel lobbies with concierge, business and fitness centres, swimming pools and car parking spaces are available. Most five star hotels are large properties and belong to international chains of hotels. Four star hotels are similar to five star hotels, but its facilities like restaurants, rooms, lobbies are

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smaller. Restaurant dining is usually available but may be limited to a single restaurant. Five and four star hotels charge higher room rates because of the better quality facilities and services. Three, two and one star hotels are smaller, with lesser number of rooms and usually would not include facilities like restaurants, swimming pools, fitness rooms and business centres and as such will have lower room rates.Table 1.11 shows the number of hotels and rooms available from 2000 to 2015 and the respective year on year percentage change in the number of hotels and rooms and the number of tourist arrivals and the year on year percentage change in arrivals.

Table 1.11: Percentage change in hotels, rooms and arrivals

Year	Hotels	Percentage Change	Rooms	Percentage Change	Arrivals (m)	Percentage Change
2000	1,492		124,413		10,221,582	
2001	1,778	19%	131,838	6%	12,875,073	26%
2002	1,878	6%	137,196	4%	13,310,010	3%
2003	1,990	6%	144,112	5%	10,573,915	-21%
2004	2,224	12%	151,135	5%	15,703,406	49%
2005	2,269	2%	155,356	3%	16,431,055	5%
2006	2,336	3%	57,251	1%	17,546,863	7%
2007	2,360	1%	160,327	2%	20,972,822	20%
2008	2,373	1%	165,739	3%	22,052,488	5%
2009	2,373	0%	168,844	2%	23,646,191	7%
2010	2,367	0%	168,497	0%	24,577,196	4%
2011	2,707	14%	193,340	15%	24,714,324	1%
2012	2,724	1%	195,445	1%	25,032,708	1%
2013	3,094	14%	209,527	7%	25,715,460	3%
2014	4,072	32%	262,021	25%	27,437,315	7%
2015	4,799	18%	304,721	16%	25,721,251	-6%

Note: Percentage change is on year on year basis
Source: Tourism Malaysia

Building five and four star hotels required large investments of money and time. For example, the St Regis hotel to be built in Kuala Lumper will have 208 rooms, 200,000 square feet of convention facilities and 160 units of hotel managed residences. The estimated investment in the hotel by 2020 will be RM 1.2 billion.[1]

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[1] www.ETP.pemandu.my

In addition, five and four star hotels need to provide quality service to justify their star rating and hence require skilled staff. Consequently, due to the large investment and number of staff five star hotels experience high fixed cost in the form of depreciation of facilities, staff salaries, interest on loans and so on. An effect of fixed costs is that the total fixed cost will not change with the volume of room sold. Unoccupied rooms do not generate revenue to offset the fixed costs. Another feature of hotels is that its product, rooms are perishable in that unsold rooms for the night become an opportunity cost. Additional, supply of rooms are fixed, with hotel unable to increase or decrease the amount of rooms. Therefore, occupancy becomes a priority, sometimes at the expense of reducing room rates when demand is low. In the years 2013 to 2015, there was a rapid increase in number of hotels and rooms, however from table 1.11, the percentage number of tourist arrivals are less than the growth of hotel rooms. The issue would be whether the supply of hotels and rooms will match the demand. The supply side which are hotels that range from the five stars to the budget hotels of three stars and below have different facilities, furthermore a five-star city hotel would have different facilities than a five-star beach resort hotel. The demand side which are hotel guests are varied, from the business traveller, to a leisure traveller with different requirements of facilities and services. A business traveller may prioritise location near his business meeting, whereas travellers with family may prefer a resort with facilities for families. As such another issue would be whether facilities and services meet the requirements of the hotel guests. However as mentioned earlier tourists are not homogeneous, as such demand for accommodation may vary among different segments of tourists. Tourism Malaysia has categorised tourist based on their travelling companions namely tourists that travel alone, travel with spouse, travel with children only, travel with family, travel with friends or travel with business associates. Table 1.12 shows the percentage breakdown of travelling companions

Table 1.12: Percentage breakdown of travelling companions

Year	Alone	Spouse	Children	Family	Friends	Business	Others
				Percentage (%)			
2012	25	25.9	3	23.1	19.7	2.7	0.6
2011	32.5	28.3	1.3	15.8	18.9	2.5	0.7
2010	30.6	26.1	1	16.4	22.3	2.6	1
2009	29.8	26.8	1.1	13.6	24	3.3	1.4
2008	29.6	23.7	1.8	17.2	23	2.7	2
2007	28.3	23	1.5	17.2	24	2.2	3.8
2006	27.5	24.9	1.4	15.9	22.7	3.8	3.8

Source: Tourism Malaysia, Profile of tourists 2006 -2012

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The table indicates that travelling alone is the largest category of guests in hotels. This category would generally require single rooms. The next largest category of hotel guests would be travellers with spouse, as such would require larger double rooms which would be at a higher room rate. The third category would be those travelling with friends which can be in a group of two or more and would entail sharing rooms or separate rooms. The next category would be travellers with family which would be with spouse and children and/or relatives. This category would probably require adjoining rooms and facilities for recreation like swimming pools. Another category are travellers with children only without spouse. This is the smallest category. The final category is travellers with business companions. These may share rooms or have separate rooms. A study on the demand for accommodation by these groups would provide useful information for planning and room allocation to groups.

1.7   Problem statement

As described earlier, tourism is important as an economic growth agent in terms of international revenue, investments and employment. As such various strategic objectives, policies and campaigns have been established to stimulate demand. The ETP has identified tourism as a National Key Economic Area (NKEA) in achieving a developed country status and the latest policies and strategic plans for tourism have been encapsulated in the proposed 12 Entry Point Projects (EPP). The arching strategy in the EPPs is to encourage higher yield by promoting luxury tourism. Long haul and medium haul markets are the preferred market for high end tourists because LH tourists tend to stay longer and MH markets have the economic strength (ETP Handbook, 2010, p.319). Although SH markets result in mass tourism and low per capita yield, they cannot be ignored as the revenue from SH markets due to the volume of travellers is sizable. Out of the 24 million tourist arrivals into Malaysia in 2009, 78 percent came from SH markets especially from neighbouring countries, 15 percent from MH markets and 7 percent from LH markets. (ETP, handbook, 2010 p.320) As such, the latest approach to raise revenue from tourism as declared by Prime Minister, Datuk Seri Najib Razak on January 25, 2016 is to attract both mass and luxury tourists. (Office of the Prime Minister Putrajaya Malaysia, 2016). However, this is in conflict with the aspirations of the ETP, which is to focus on growing yield per tourist rather than to rely heavily on growth in tourist numbers (ETP handbook, 2010 p.321)

Although demand is generally described as the amount of a particular product or service that a consumer will want to purchase at a given price the demand for tourism is more complex as tourism is not a single product but consists of many services and attractions. This is further complicated by the actuality that the consumer, the tourists are not a homogeneous group. Therefore, to study tourists as similar and tourism as a single product is too simplistic (Dolnicar and Huybers 2007). In this thesis on tourism demand, three core issues anchored by a disaggregated approach are studied. Firstly, the determinants for tourism demand, then the demand of different tourism products and finally, the demand of accommodation by different segments of tourists.

The first issue identified was the low per capita yield of international tourists to Malaysia. Evidence has shown that Malaysia has the largest number of arrivals among the SEA countries but in terms of receipts has the lowest per tourist capita yield as shown in table 1.6 (UNWTO Highlights, 2015). Thus Malaysian tourism is driven by arrivals rather than the amount spent per tourists. To increase the yield, long haul and medium haul markets are targeted (ETP Highlights, 2010). However, SH markets should not be ignored as a number of tourists to Malaysia come from SH countries and they contribute significantly to Malaysia's tourism revenue (Office of the Prime Minister Putrajaya Malaysia, 2016) Malaysia needs both mass, high end tourism. An investigation of the determinants of tourism demand of each group would provide useful insights. However, a review of literature on studies on tourism demand determinants revealed limited studies

that segmented tourists into LH, MH and SH markets. The review of literature also revealed that most tourism studies on determinants aggregate the analysis, treating tourists as homogeneous, Belenkiy and Riker (2012), Fourie and Santana-Gallego (2013), Mohd Hafiz and Mohd Fauzi (2010), Serra et al (2014) and Rodriquez et al (2012).

The second issue is that tourism revenue in addition to the number of arrivals is also influenced by the amount spent on tourism. However, to treat tourism as a single product is an oversight for tourism consist of many products and services Smith (1994), Merinero-Rodriguez and Pulido-Fernandez, (2016). Additionally, tourists have a budget and would tend to allocate the budget among the various tourism products, thus 'trading up and trading down' which involves forgoing a less valuable or desirable product in exchange of a more valuable or desirable one (Canziani et al., 2016). An example would be staying in cheaper accommodations in order to travel to more destinations. Or a tourist will save on food and beverage, in order to spend more on shopping. A study of the inter-relationship or cross elasticity among the tourism products would provide useful insight to current policies like promoting Malaysia as a shopping destination. This study would like to investigate the inter-relationship between shopping and other tourism products. If a tourist increases his/her shopping expenditure, how will this affect his/her expenditure on other tourism products. A review of literature on tourism demand reveal that inter relation studies of tourism demand between countries and demand for tourism product usually used the Almost Ideal Demand System model Athanasopoulos, et al (2014), Chang et al (2010), and Saayman and Cortes-Jimenez (2013). However, there are limited studies on the demand interrelationship among tourism products of Malaysia.

The third issue is that EPP 12 has proposed improving rates, mix and quality of hotels and to achieve this more five and four star hotels are proposed. Conceptually these hotels will charge higher room rates and hence attract luxury or high end tourists with larger budgets. However, demand for accommodation will vary with the type of tourists and their requirements Tanford et al, (2012). Tourists that travel alone, with spouse, children, family, friends or with business associates may have different preferences on accommodation. A study on the demand of accommodation based on the tourists segmented by travelling companions will provide insights on the elasticity of demand by each segment. The elasticity of demand will assist in making room rate decisions. Although a review of literature revealed studies on accommodation demand where hotel guests were segmented, there were a limited of studies on the demand for accommodation by tourists categorised by their travelling companion.

1.8   Objectives of study

The general objective of this thesis is to systematically analyse the demand for tourism from the economic perspective, focusing on the determinants of tourism demand, the inter-relationships of tourism products and the demand of accommodation by tourists. This analysis is structured into three areas.

i.   To appraise the determinants of tourist demand of LH, MH and SH segments
ii.   To compare the interrelationship of the tourism products of accommodation, shopping, F&B and transportation.
iii. To estimate the demand for hotel accommodation by different types of travellers.

1.9   Contribution of study

Given the scale of inbound tourism's contribution to Malaysia's economy of RM67.7 billion, policy makers ranging from the Economic Planning Unit (EPU or Pemandu), Tourism Malaysia, state tourism bodies, to owners of attractions, hotels, retail and F & B outlets, would find the results of this study on tourism demand useful for strategy planning and tactical decision making. From the practical aspect, an understanding about the demand measures of tourist arrivals and tourist expenditure are relevant for planners and marketers to design and implement pricing strategies that will increase arrivals and/or tourism yield.

As mentioned tourism consists of two components, tourists and tourism products. Aggregation of the analysis on tourists has resulted in the perception that tourists are homogeneous. Furthermore, the ETP has proposed various strategies that target LH and MH tourists. Although studies on determinants of Malaysian tourism has been conducted, a review of literature on studies of tourist demand determinants showed a limited of studies that segmented tourists into LH, MH and SH market segments. A study on the tourism determinants of tourist segments of LH, MH, SH would augment the current literature on tourism demand determinants uncovering differences and/or similarities among the determinants of different travel haul segments. In addition, the findings would be useful for evaluating the tourism policies of the ETP that target different travel haul segments. The information from a disaggregated study can be applied towards the marketing strategy of market segmentation which involves dividing a broad target market like tourists into sub groups of tourists which in this study are LH, MH, and SH that have common needs, interests, and priorities, and then designing and implementing strategies to target them. The finding from this study would provide insights to Malaysia's tourism marketing agency, Tourism Malaysia in international promotional campaigns.

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Whereas the aggregation of tourist result in the homogeneity interpretation of tourists, the aggregation of tourist products and services like accommodation, F&B, shopping and transportation into a single product termed tourism creates the unrealistic perception that the demand for these products are similar. The study on the inter-relationship between tourism products will provide information like own price demand, cross price demand, expenditure on different products. The ETP has pointed out the trading up and trading down effect. The results of the cross price elasticity study of tourism products will provide information on the extent of this effect resulting from strategies like promoting Malaysia as a shopping destination and the imposition of Tourism Tax on hotels. The findings from the own price elasticity of accommodation will be helpful in evaluating EPP 12 of increasing accommodation rates. Furthermore, the identification of the interrelationship between the different variables of demand will encourage cooperative partnerships not only between government agencies and businesses but also among businesses like airlines, hotels, malls and restaurants. In contrast identifying the competitive relationships between the tourist products and services will provide information to develop strategies to compete and/or cooperate. A review of literature reveal that inter relational studies of tourism demand using the Almost Ideal Demand System model were predominantly on choices between countries for example Saayman and Cortes-Jimenez (2013) who studied tourism demand for South Africa by intercontinental tourists, Gang Li et al (2004) who studied US demand for Western European countries and De Mello et al (2002) who studied UK demand for neighbouring countries, whereas there were limited studies on choices between tourism products and these were by Wu et al (2010, 2012), Saayman and Cortes-Jimenez (2013), Divisekera and Deegan (2010) and Fujii (1985). The literature also revealed that there were limited studies conducted on the demand interrelationships among the tourism products of accommodation, shopping, F&B and transportation of Malaysia.

To increase revenue Robert Cross has recommended selling at different prices to micro-markets whose demand elasticities differ, (Cross, 1997). The study on the demand of hotel accommodation by guests segmented by their travelling companions will give insight to hoteliers on these segments or micro-markets. This information will enable hoteliers to set policies on room rates, room availability and room types according to the demand of these segments which is to sell the right product at the right time to the right customer at the right price, thus meeting EPP 12's proposal of improving, rates, mix and quality of hotels.

A review of literature revealed studies on accommodation demand where hotel guests were segmented. For example Siquaw (2006),segmented hotel guests into repeat or loyal guests and transient guests, Wong and Lam (2001) segmented guests into leisure and business. However, to my best knowledge, there is no study on the demand for accommodation by tourists categorised by their travelling companion.

From the theoretical aspect, this research would contribute to approaches towards tourism demand studies, impact of disaggregated data and the

relationship between tourism product market and product segmentation and price discrimination.

1.10   Organisation of thesis

This study is organised in five chapters. Chapter 1 introduces the thesis, providing an overview of the economic components of Malaysian tourism. It describes the sources of tourism revenue and the issues affecting them. This includes the problem identification, objectives, research questions, importance and scope of study. Chapter 2 reviews the related literature, focusing on the recent literature on tourism demand and Chapter 3 presents the methodology adopted by this study, namely the conceptual framework consisting of the economic theories, concepts and the functional form model of tourism demand, analytical framework and data variables. Chapter 4 presents and discusses the findings of the study and finally chapter 5 which presents the conclusion, implications, limitations and recommendations for future study

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