

**CRISIS MANAGEMENT FOR THE TOURISM SECTOR:
MALAYSIA'S RESPONSE TO THE
ASIAN FINANCIAL CRISIS**

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**Submitted in fulfilment of the requirements
for the Degree of Doctor of Philosophy**

September 2003

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ABSTRACT

The purpose of this research was to investigate crisis management in the context of the tourism sector by means of a case study of the Malaysian response to the Asian financial crisis. Not only was the reaction of the Malaysian government to the crisis examined but the possibility of developing a strategy to protect the sector against future crises was also explored.

Primary data were collected by means of semi-structured interviews with senior Malaysian public and private sector policy makers. Areas of interest addressed included the crisis management measures employed to assist the recovery of the tourism sector; the lessons learnt from the crisis; the potential for public/private sector cooperation to develop a crisis management plan for the tourism sector; and how such a plan might be implemented.

It was generally felt by the participants that the measures employed had been effective in restoring the tourism sector status quo, although there was some concern expressed over how long this had taken. It was agreed that there is a need for a sectoral crisis management plan but no consensus as to who should fund it, which figures could be used as indicators of the approach of a crisis and how they should be collected, and what form any such plan should take.

This research indicates that there is a case for the government to work with the private sector to develop some sort of crisis management provision for the tourism sector. However, it is apparent that it may be extremely problematic to formulate an appropriate plan and there may be difficulties as to how it should be funded and who should take responsibility for its implementation. It appears that an approach at state level would have more potential than a federal plan but more research in this area is required.

ACKNOWLEDGEMENTS

I should first like to thank my supervisor Professor C L Jenkins for his invaluable help and encouragement over the last four years. In addition, I am grateful to Dr Peter Dieke, now of the Emirates Academy of Hospitality Management and Dr Alison Morrison of The Scottish Hotel School for their advice and comments. I should also like to thank Keith Ingham for his help with logistical details of my field trip as well as his support while I have been in Glasgow. In addition, I am grateful to James Duffy for his prompt assistance in keeping my computer gremlins under control and to Muriel Gracie for her help with the final administration.

I am very grateful to all my contacts in Malaysia for their help during my visit there but my special thanks must go to Puan Suzzaini Abdullah of the Ministry of Education and her husband Yusuf; Professor Mohamad Muda from the Universiti Teknologi MARA and Associate Professor Dr. Shaharuddin Tahir, Dean of the School of Tourism Management, Universiti Utara Malaysia, who were all instrumental in setting up the interviews and facilitating other aspects of my data collection. I could not have managed without their assistance and friendship and I am most grateful to them for giving me so much of their time. I should also like to express my appreciation to all those who participated in the interviews, as well as to my Malaysian colleagues who took part in the pilot interviews.

I should not have reached this point without the camaraderie and encouragement of my fellow research students who have kept me sane during the last four years. I would like specially to thank Constantia Anastasiadou for her support along the way and for her patience when explaining the finer points of Economics and English grammar. Last but not least, I must thank Gail Gyi, without whose constant bullying I would never have finished this thesis and without whose friendship I would never have survived Glasgow.

LIST OF ABBREVIATIONS

APEC	Asia Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
ASEANTA	ASEAN Tourism Association
CAQDAS	Computer Assisted Qualitative Data Analysis Software
CDRC	Corporate Debt Restructuring Committee
COBR	Cabinet Office Briefing Room
EAEC	East Asian Economic Caucus
EAGA	East ASEAN Growth Area
EAP	East Asia Pacific
EPF	Employees Provident Fund
EPU	Economic Planning Unit
FDI	Foreign direct investment
GDP	Gross domestic product
HK\$	Hong Kong dollar
ICT	Information and Communication Technology
IMF	International Monetary Fund
IMS-GT	Indonesia-Malaysia-Singapore growth triangle
IMT-GT	Indonesia-Malaysia-Thailand growth triangle
ISIS	Institute of Strategic and International Studies
KLCC	Kuala Lumpur City Centre
KLIA	Kuala Lumpur International Airport
LADA	Langkawi Development Agency
MAH	Malaysian Association of Hotels
MAHO	Malaysian Association of Hotel Owners
MATTA	Malaysian Association of Tour and Travel Agents
MIDA	Malaysian Industrial Development Authority
MOCAT	Ministry of Culture, Arts and Tourism
MTAC	Malaysian Tourism Action Council
MTEN	Majlis Tindakan Ekonomi Negara
MTPB	Malaysian Tourism Promotion Board
NEAC	National Economic Action Council

NERP	National Economic Recovery Plan
NPL	Non performing loans
NTO	National Tourism Organisations
PAS	Party Islam Se-Malaysia
PATA	Pacific Asia Travel Association
PC	Personal computer
PERC	Political and Economic Risk Consultancy
RM	Malaysian ringgit
SARS	Severe Acute Respiratory Syndrome
SFR	Swiss franc
TAT	Tourism Authority of Thailand
UMNO	United Malays National Organization
US\$	US dollar
VFR	Visiting Friends and Relatives
WHO	World Health Organisation
WMO	World Meteorological Organisation
WTO	World Tourism Organisation

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In memory of my father

George F de Sausmarez

Introduction

Crises are neither rare nor modern phenomena. Natural disasters have been occurring since prehistory but it is as a result of advances in technology and increased pressures on industry and transportation, as well as the rise in terrorism that crises are becoming more frequent. Today's global media and the internet ensure that information about such events is known worldwide which may increase their impact due to negative publicity. In many countries tourism is a sector of enormous importance today and in some developing countries it may play a major role in the national economy, with many people dependent on it for their livelihood. It offers the potential for development and employment, particularly in areas that are unsuitable for other industries, such as mountain and coastal regions, as well as a means by which declining cities can be regenerated. Ironically it is such locations that are most vulnerable to natural disasters and these may cause such heavy economic losses that in 1989 the United Nations launched the International Decade for Natural Disaster Reduction (General Assembly Resolution 235) in an attempt to minimise the damage caused. In addition, international tourism as a source of foreign exchange is especially attractive to developing countries. However, tourism is a fragile industry and vulnerable to changes in both the generating markets and in the destination itself. These changes may be actual economic, social, environmental or political changes or they may simply be an alteration in public perception. Today, with a global media thirsting for news, small occurrences in one country may be beamed worldwide and events of relatively small significance locally may assume disproportionate importance on the other side of the world. Competition between destinations may be so intense that a short burst of negative publicity in one destination may be enough to start the tourist exodus to another, as was seen in Egypt after the Luxor massacre in 1997.

Crisis management is a concept that has become increasingly popular during the last 40 years. The term was coined during the Cuban missile crisis in 1962 by the United States Secretary of Defence, Robert McNamara, and it came into general usage shortly afterwards. To date crisis management has generally been applied both at a federal and at an organisational level, the former in international conflict situations

and in the nuclear industry and the latter more commonly in the pharmaceutical and engineering industries than in the service industries. But nowhere is it applied at a sectoral level. It can be argued that the tourism sector is so important to many countries that it merits some attempt at protection through crisis management. Crises seen in 2001 – the foot and mouth outbreak in the United Kingdom and the terrorist attacks on the Pentagon and the World Trade Centre in the United States – not only had an enormous impact on the tourism sectors of both countries concerned but also had a knock-on effect on numerous other countries, organisations and enterprises around the world.

Whilst there may be little that can be done about a crisis itself, through the judicious practice of crisis management the damage caused by a crisis may be reduced or at least contained and may even be turned to good effect during the recovery period. Identification of an approaching crisis by the monitoring of appropriate indicators offers the possibility of averting the crisis altogether or minimising its impact and the means by which this may be achieved is the holy grail of crisis management practitioners. Failure to manage a crisis adequately may lead to the withdrawal of public support, which in turn may result in the collapse of an organisation or, at a national level, widespread loss of employment, disruption of services, social unrest and political turmoil.

In 1997 Southeast Asia experienced a financial, market-driven crisis of proportions unprecedented in the region. One by one the currencies of the countries in the area collapsed and as a result international trade was disrupted, companies became bankrupt and many people lost not only their jobs but their savings as well. National industries were all affected to a greater or lesser extent, as was tourism. Because of the extent and severity of the crisis, governments had to take whatever action they deemed necessary in order to counteract the damage caused and to try to set the national economies on a sound footing once again. This action varied from country to country and its effectiveness varied likewise: in some cases international organisations such as the International Monetary Fund (IMF) or World Bank offered assistance and were involved in the recovery, in others the steps that were taken were

independent of external agencies. The extent to which they were effective can be seen today, five years later, in the region.

One of the Southeast Asian countries that was severely affected by the financial crisis was Malaysia. The Malaysian government refused the assistance of the IMF and World Bank and instead forged its own rather unconventional path to economic recovery. Measures which were unique to the region in this case were employed to combat the severity of the damage caused by the crisis, such as the introduction of capital controls and the pegging of the currency to the US dollar, as well as a number of social measures. How effective these have been and whether it would have been better to follow an alternative course is open to question and still hotly debated by interested parties. During the period of the crisis the tourism sector overall suffered considerably, although certain sectors of the industry escaped more lightly than others. Attempts were made to support the tourism industry and to manage the impacts of the crisis and these were successful insofar as the tourism sector has survived, albeit altered.

Crisis management is a well-established practice in many organisations and has been well researched and documented, particularly in the United States; the much scantier European research has had a greater focus on national issues requiring crisis management. What is uncertain is whether it is possible to identify the principles of crisis management as practised at an organisational level and apply them to a sector. Because the tourism sector is so fragmented and its component organisations and enterprises so heterogeneous, it cannot be treated as a discrete sector in the way other industries might. For this reason it offers a real challenge for crisis management.

The purpose of this research is to consider crisis management in a tourism context, with the experience of Malaysia through the Asian financial crisis as a case study. The research has two main objectives. The first is to look at what actually happened during the crisis, in Southeast Asia in general and in more detail in Malaysia, and the extent to which the Malaysian tourism industry was affected. The response to the crisis of both the Malaysian government and the private sector is considered, in

particular the strategies employed to overcome the damage caused and the perceived effectiveness of these. The second objective is to investigate the potential for the development of a crisis management plan for the tourism sector, whether it appears desirable and practical and, if so, to consider how such a plan might be formulated and implemented. Issues of public-private sector cooperation, the identification of possible crisis indicators and sources of funding are also addressed.

The empirical part of the research was carried out during a two-month visit to Malaysia and was inductive in approach. The primary data was collected by way of semi-structured interviews with senior representatives from public and private sector organisations involved in most cases with tourism.

While this research considers the response of a single country to a specific crisis, it is hoped that through a detailed examination of one case it may be possible to take any lessons learnt by Malaysia and apply them in a wider and more general context so that other countries may be better prepared in the event of a crisis and protect their tourism sectors which may not be as resilient as Malaysia's has proved to be.

The first chapter of this thesis offers an overview of crisis management and evaluates published research with special attention paid to that with a tourism perspective. Chapter 2 looks at Southeast Asia as a background to the Asian financial crisis and then summarises the progress of the crisis itself and its impact on tourism in the region. Next it focuses on Malaysia, examining the country in general terms and then looking specifically at the impact of the crisis on the economy and the response of the Malaysian government. The methodology and progress of the fieldwork in Malaysia is dealt with in Chapter 3. In the next two chapters the primary data are analysed and interpreted in the light of the first two chapters. In Chapter 4 the Malaysian response to the Asian financial crisis is examined from a number of different perspectives. This is followed in Chapter 5 by an evaluation of the crisis experience and what can be learnt from this, in particular from the point of view of preparing for another crisis. The implications of the findings are discussed in a wider context and conclusions to this research are drawn in Chapter 6.

Chapter 1: Crisis Management

This chapter offers a general overview of the field of crisis management and the literature in this area. It starts by considering the background to crisis management and the various fields of research and the literature associated with it. Next it looks in some detail at crises themselves and focuses on their terminology, anatomy, classification and their management. This is followed by an analysis of crisis management, firstly in anticipation of and secondly in response to a crisis.

1.1 BACKGROUND AND HISTORY

Ever since he emerged from the African plains and started to manipulate his environment, man has tried to manage crises. Many will be familiar with the story of Noah's building of the ark or the actions taken to contain the great European plagues of the Middle Ages, which may be considered as attempts at crisis management even though the concept was unknown at the time. Crisis management has been a recognised practice since the 1960s and initially the term was used to describe behaviour in crisis situations which threatened national security. These were usually international political crises and crisis management was seen as a special skill within the field of diplomacy.

Much of the earlier literature on crisis management in the 1970s, such as the classics by Bell (1971) and Williams (1976), focuses on conflict situations and their peaceful resolution. In the same vein, a collection of papers given at the 1976 Conference on International Crises and Crisis Management, edited by Frei (1978), considers issues of diplomacy and international political mediation and the lessons learnt from crises such as Cuba in 1962, the Middle East in 1973 and Cyprus in 1974. Here the background, development and practice of crisis management are examined and special attention is given to the nuclear threat, which with the nuclear proliferation after World War II had become a major concern. This latter issue is treated in some detail by Lebow (1987), who looks at strategy to avoid nuclear war altogether, highlighting early warning systems, risks, negotiation and national vulnerability.

Still on the topic of national threat but at a slight tangent, Shultz and Sloane (1980) edit a collection which looks at the response to the threat from terrorists.

The industrial crises of the 1980s gave rise to a substantial literature on crisis management effected at an organisational level. One of the earliest classics is Fink's (1986) account of the Three Mile Island crisis in the United States in 1979 in which he was personally involved. Most of this work is from the United States and the context is primarily the pharmaceutical and engineering industries rather than the service industries. Other fields traditionally associated with crisis management are medicine, with research by, for example, Gaba, Fish and Howard (1994) in the field of anaesthesiology. Also at a corporate level and more relevant to this research are books by Meyers and Holusha (1986), Register (1989), Booth (1993) and Mitroff, Pearson and Harrington (1996). In the last decade there has been a tendency to write more comprehensively on the subject of crisis management, either from a particular perspective such as marketing (González-Herrero and Pratt 1995) or the management of public services (Huque and Lee 2000); or using a selection of case studies as illustrations, as with Bland (1998), Heath (1998) and Seymour and Moore (2000).

More recently, in response to the increase in violent incidents seen in the last few years and the real danger to many of sabotage and terrorism, there has been quite a lot written on crisis management at an individual level, as in the case of bomb threat management (Decker 1999), or as a result of shootings in both American and British schools, Blauvelt's (1999) proactive school safety plan and Herman (1994) on post crisis bereavement in schools. However, these studies have such a specific focus that it is hard to apply the lessons learnt to a wider context. For example, Decker describes exactly what should be said to a terrorist who telephones with a bomb warning, while Blauvelt discusses how the furniture should be arranged in the room used when talking to problem pupils.

Tourism growth has been continuous over the last 40 years and tourism now may in fact make a substantial contribution to many economies. In many developing countries international tourism is welcomed by the government as an option for

development, for reasons discussed principally by Jenkins (1982) and Dieke (1989); it is regarded as a means of attracting foreign exchange and investment, increasing employment opportunities and earnings, improving infrastructure and local services and, through linkages, encouraging local production. As the tourism sector develops, both in developed and in developing countries, many people become dependent on tourism for their livelihood and may often have no other potential source of income. A crisis which seriously damages the tourism sector will have a far reaching and possibly devastating effect on a large number of people, especially in a developing country. It is therefore surprising that there has been relatively little research into crisis management in this context, particularly in view of the increase not only in the length and frequency of journeys, and therefore a higher risk of serious accidents, but also in the number of developing country destinations where natural disasters occur with greater frequency (WTO/WMO 1998). Those studies that have been done are very piecemeal and the focus of each is usually unconnected with any other.

A substantial proportion of the published research into crisis management and tourism has a specific focus; this may be an organisation or sector within tourism (Ray 1999); one or more destinations (Cassedy 1991); acts of violence against tourists (Barton 1994) or terrorist incidents (Sönmez, Apostolopoulos and Tarlow 1999); the impacts on a specific destination of a natural disaster such as hurricanes (Durocher 1994; Sönmez and Backman 1992), a forest fire (Snepenger and Karahan 1991), a volcanic eruption (Murphy and Bayley 1989), an earthquake (Huang and Min 2002); or crisis management in the context of a particular discipline, such as travel public relations (Lehrman 1986), sports tourism (Santana 1998), or the food and drinks industry (Bartlett 1997; Webster 1990). Faulkner (2001) has taken his research one step further and has combined an overview of crisis management with the development of a framework for tourism disaster management, applicable to any destination hit by unforeseen disaster. Finally, worth mentioning although at a more superficial level, general awareness of crisis management seems to have increased, especially amongst tourism stakeholders, possibly as a result of the increase in frequency of crises affecting tourism and greater media coverage since the late 1990s. There now appears to be more published on this topic in the travel trade media and

on tourism organisation websites, such as a special issue of the online destination travel marketing publication, *Eclipse* (Website 1.1).

As can be seen from the above, the trend has been from crisis management at the macro level towards crisis management at a micro level, with the focus on organisations and more recently the individual, which possibly correlates with the rise in the importance ascribed to the individual over the last 40 years. What does, however, become apparent to the researcher in the field of crisis management is the scarcity of literature on crisis management at a sectoral level. Whilst the value of crisis management at the organisational level is not disputed, two recent crises have highlighted the necessity for some form of crisis management provision for the tourism sector itself. Neither the British foot and mouth crisis in 2001 nor the terrorist attacks in New York and Washington DC on September 11, 2001 had anything to do with tourism initially and yet both had a devastating impact on the tourism sectors of the respective countries.

The number of studies or cited instances of national crisis management is small but in each case there is a serious threat from a crisis occurring in the particular field which has prompted the government of the country concerned to make provision for such an occurrence. The small number of cases may be misleading, however, as it must be borne in mind that just because a crisis management plan is not published either as hard copy or on the internet, it does not exist; in many cases such information may be considered sensitive and therefore not in the public arena. Of those found, however, it is not difficult to appreciate the threat to the country of the crisis from the potential damage caused; Japan had a well-developed plan to tackle the Millennium Bug which would have had very serious consequences for an economy so dependent on microelectronics (Website 1.2); St Lucia as a small island economy is especially vulnerable to hurricanes and has a comprehensive plan to deal with the inevitable damage and disruption and possible loss of life should one strike (Website 1.3); and the United Kingdom has made provision for a nuclear accident which includes monitoring of radiation levels and the treatment of civilians in the chaos which would inevitably follow (Willby and Potter 1995).

There have been a number of case studies of national responses to crises affecting the tourism sector. Sharpley and Craven (2001) comment on the policy implications of the 2001 foot and mouth outbreak in Great Britain. In the field of conflict and political turmoil, Richter (1999), Mansfeld (1999) and Ioannides and Apostolopoulos (1999) consider the management of tourism in three Asian countries, in Israel, and in Cyprus respectively. However, tourism recovery in these cases differs substantially from recovery after an economic crisis because of the parameters imposed by the climate of danger. Of much greater relevance to this research is Henderson's (1999a) comparison of the response of Thailand and Indonesia to the Asian financial crisis, although recovery at the time of writing was still very much in the early stages. None of these studies, however, considers crisis management in very much detail. In contrast, Cassedy (1991) tackles the issues around developing a crisis management plan with the aid of three case studies, one of which is of Fiji's response to the 1987 political coup. Greater relevance is added to this case by Berno and King's (2001) examination of the recovery of the Fijian tourism industry after the subsequent coup in 2000, in the light of the earlier experience.

The extent to which the lessons learnt in one crisis can be applied to another, or the principles of crisis management at the corporate level can be applied at a national level is uncertain and the determination of this is one of the objectives of this research. Although in the Frei (1978) collection some of the information is rather dated (such as Groom's (1978) complaints as to the rudimentary nature of computer simulation), many of the recommendations made are very similar to those in the more recent literature. This would suggest that there is some value in extrapolating from the micro to the macro level, although it may be unwise to generalise too greatly from the specific. Crisis management is a growing field and as each crisis, sector and country is different, the value of the experience of one crisis with regard to the management of another may be questioned. What can usefully be derived from this literature, however, are the key components of crisis management: the definitions and classification of crises and crisis management; the stages of a crisis and when intervention is most effective; the issue of indicators; and the development of a crisis

management plan and its implementation. Once these have been examined, crisis management in anticipation of and in response to a crisis can be explored, together with other issues relevant at a macro level, such as international cooperation and levels of implementation of strategy.

1.2 DEFINING TERMS

1.2.1 A crisis

The word 'crisis' comes from the Greek 'krisis' meaning a decision. It is in common usage and is a pejorative term used to describe an occurrence or event which is usually unexpected, happens at short notice and causes damage. A sense of urgency is also implicit. Definitions range from the simple "an event that can destroy or affect an entire organization" (Mitroff *et al* 1996: 7) to the much more complex and detailed. However, the term is often used loosely to convey the notion of threat or adversity without the severity, shock or damage; Dutton (1986: 502), for example, comments that the word crisis implies that "an individual or set of individuals faces a potentially negative outcome unless some type of corrective action is taken", which in fact may be applied to many everyday situations which are far from being crises. Faulkner (2001: 136) makes a distinction between crises and disasters, suggesting that the fundamental cause of the former is poor management or inability to respond to change, whereas the latter results from "sudden, unpredictable, catastrophic changes" over which an organisation has little control.

Virtually every piece of work on crisis management contains a definition but the one felt to be most relevant to this research is that of Fink (1986: 15), who describes a crisis as

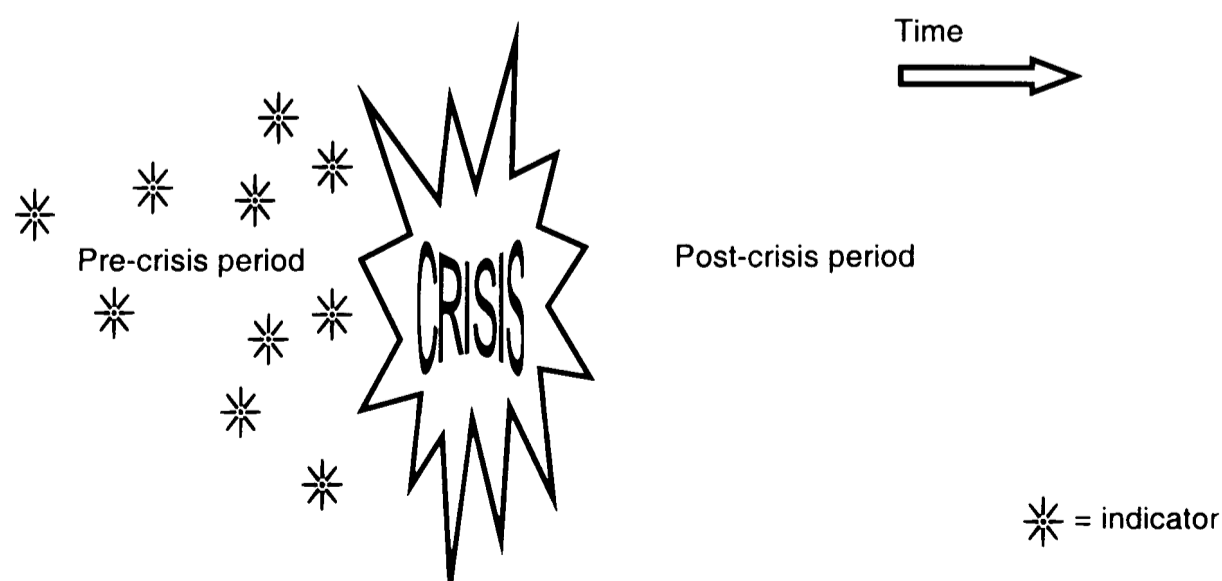
a situation that runs the risk of: i. escalating in intensity; ii. falling under close media or government scrutiny; iii. interfering with the normal operations of business; iv. jeopardising the positive public image presently enjoyed by a company or its officers; and v. damaging a company's bottom line in any way.

The reason this is felt to be particularly appropriate is that if the word ‘company’ is replaced by ‘sector’, the definition still makes sense as the components are all crucially important to the tourism sector, in particular the aspects of media scrutiny, the jeopardising of the positive public image and financial damage. Sönmez, Backman and Allen (1994) consider that the harm caused to tourism by a crisis may be physical, such as damage to infrastructure or tourism facilities and loss of life, which might be the result of a severe hurricane or forest fire. Alternatively it may be intangible and might include negative media coverage; damage to an area’s image; loss of visitor confidence; a decrease in tourist numbers and the resultant loss of revenue and market share; and economic downturn. This would be the case, perhaps, in a destination where a crisis is followed by political instability or civil unrest.

1.2.2 The stages of a crisis

It is generally accepted that there is a pattern to the unfolding of any crisis during which the sequence of events is predictable (Fink 1986; González-Herrero and Pratt 1995; Meyers and Holusha 1986; Murphy & Bayley 1989). Although simplistic, this can be represented in a linear fashion and broken down into stages as shown in Figure 1.1; in its most basic form, an initial pre-crisis period is followed by the crisis itself and then a post-crisis period. Intervention at any stage may be termed crisis management, the aim of which is to minimise the negative impacts of a crisis and maximise the positive.

Figure 1.1: The anatomy of a crisis



The pre-crisis stage is the phase that may vary the most in length and be somewhere on the continuum between very long or so short as to be virtually non-existent. In a business environment crises are averted every day, as an aspect of many jobs is to be prepared for the unexpected and to deal with anything out of the ordinary. Engineers working on the Channel Tunnel report that for every accident that occurs, there are 600 incidents which have the potential to escalate into an accident but are successfully dealt with in time (Morton, Noulton and Morris 1995). Every day in any given field potential risks are identified and options evaluated and corrective action is taken in response to warning signals. Many consider this pre-crisis stage to be the natural state of affairs. Just as in the case of an illness or potential epidemic, the most effective time for intervention is during this stage, when good management may delay the crisis or head it off altogether. It is, however, necessary to have some system whereby early warning sensors or indicators detect an imminent crisis so that its threat may be acknowledged, a team mobilised and efforts made to head off the danger. If the crisis is swift to strike, this stage may not exist. Even if warning signals are detected, there may not be time to deal effectively with the situation, which may well develop into a crisis. However, Fink (1986) suggests that awareness alone is a positive factor and allows an organisation to brace itself against the crisis.

The crisis itself may last a comparatively short time and there may be little that can be achieved through intervention during this period. However, it is considered important to have a short term plan to limit the immediate damage. In a corporate context, Meyers and Holusha (1986) suggest that a crisis can be described as failure followed by panic and then collapse, although if controlled it can instead be regarded as a climax, after which all the options are assessed and future plans formulated. Once this stage is reached there is no return. Inevitably some damage will be done but the key to good crisis management is to control as much of this stage as possible, by gauging the speed and intensity of the crisis. The former depends on the type of crisis, the latter on the severity or value of the possible outcome.

The post-crisis stage may last a considerable time. The shock sustained by the crisis is followed by uncertainty which in turn gives rise to radical change. It is this radical

change that is important and inevitable – if the situation were not to change the crisis would continue. In a managed crisis it is at this point that the rebuilding and recovery begins and the process of adapting to the change is initiated. It is during this period that Meyers and Holusha (1986: 5) suggest that

the opportunities created by a crisis should be sought out even as damage control is underway. A lot can be done during a crisis that would be difficult or impossible to accomplish during a business-as-usual period.

This final stage may extend over a considerable period of time and Murphy and Bayley (1989) suggest that recovery may require substantial government funding and possibly even international assistance. Fink (1986) divides this phase into two, with first a post-mortem phase that he calls the chronic stage, characterised by blame, self analysis and a period of healing and which in a corporate context may involve financial upheaval, management shake-ups, hostile take-overs and bankruptcy. This phase may linger indefinitely although crisis management reduces the length of time it lasts. It is followed by a crisis resolution stage which is the crisis manager's goal, when the immediacy of the crisis is past and the future can be rebuilt.

1.2.3 The classification of crises

Crises vary enormously. They may occur on a large or small scale and include natural or technical disasters, economic or political crises, conflicts, riots and terrorist actions. There are a number of different ways that they may be classified but the most common is by division into natural and man-made crises. Natural crises include flooding, earthquakes and volcanic eruptions. There is nothing new in such disasters; in 79AD 16,000 people were killed in Pompeii and Herculaneum when Mt Vesuvius erupted, while 36,000 were killed by the tidal wave following the 1883 eruption of Krakatoa (Rowe, O'Connor and Wroclawski 1995). More recently, 300,000-500,000 perished in Bangladesh in the cyclone in 1970 (Website 1.4). Such natural hazards kill more than a million people annually world-wide, leaving many more homeless, and the economic losses they cause are increasing both in developed and developing countries. The global economic cost of natural hazards rose by

36.4% from US\$44,000 million in 1991 to US\$60,000 million in 1992, which is a substantial setback to economic growth (WTO/WMO 1998).

In the second category are found those crises that are a consequence of man's activities. These include industrial explosions such as Bhopal in 1984 and Chernobyl in 1986, plane crashes, terrorist events, like the 1997 massacre at Luxor, and market-driven crises, for example the currency crisis in Mexico (also known as the Tequila crisis) in 1993/4 and in Argentina in 2002. Shrivastava (1988: 283) suggests that industrial crises are not primarily the result of a technological problem but rather an organisational, social and political one and comments that:

Industrial crises represent the dark side of the Faustian bargain that modern society has struck with technology, a bargain whose down side risks are not fully known to us.

Man-made crises are now occurring with greater frequency, possibly as a result of the development of technology; the increased pressures of business and industry leading to human error; higher media profile making terrorist attacks a powerful weapon against governments; and the globalisation of industry and improved international transport networks.

There are, however, those who argue that it is simplistic to classify a crisis as natural or man-made. What is more realistic, and possibly of more use when thinking in terms of crisis management, is to classify crises according to the length of the pre-crisis period. In his paper on assessing responses to industrial crises, Siomkos (1992) suggests the terms discrete and continuous, where a discrete crisis is one where there is very little warning and a massive impact, such as an earthquake, volcanic eruption, flash flood, tsunami (tidal wave), cyclone, in fact virtually any natural disaster *plus* terrorist events, factory explosions or plane crashes. In contrast, a continuous crisis is one where there is a relatively long period of trouble brewing and the crisis evolves over time and the impact or harm appears later. Examples of these would be droughts, receding coastlines, slow environmental poisoning, economic crises, and in the context of tourism, the decline in generating markets or loss of competitive destination popularity. Murphy and Bayley (1989: 36) make a similar distinction but

call them 'sudden impact catastrophes' and 'insidious disasters'. The management of each type varies and this has implications for the development of a crisis management strategy. Whilst some consider that a crisis is a crisis and any attempt to classify them is a waste of time, the type of crisis may be significant when considering crisis management in general and indicators in particular. The classification of crises by the length of the pre-crisis period offers the possibility of linking the scope for and extent of proactive crisis management with the type of crisis. This may be of considerable importance in tourism which is so vulnerable to public perception and loss of investor confidence, as was seen in the 1997 Asian financial crisis.

1.2.4 Crisis management

The main reason that crises are so grave in today's commercial world is that they cost money and jobs, and these costs may be considerable. Apart from the global economic cost of natural hazards cited above, since 1980 in developing countries there have been more than 12 banking crises with bail-out costs of US\$250 billion (Goldstein 1998). The impact on employment at a national level may be significant. The Zimbabwe Tourism Authority reported that the closure in 2001 of 100 small and medium sized tourism companies as a result of the fall in tourist numbers due to the political crisis had cost an estimated 20,000 jobs (*Financial Gazette (Harare)*, 24 January 2002). Terrorism too is affecting tourism demand with increasing frequency. Pizam and Smith (2000) have attempted to analyse major terrorist events to see the magnitude and duration of their impact on tourism demand, although not only is this research rather superficial as it is derived from estimates in wire reports and newspapers but it also pre-dates the rise in Al Qaeda activity.

Crises are characterised by risk and uncertainty but their effect may not be all negative; there may be considerable advantages, such as their leading to significant change. Intervention in the course of the unfolding of the crisis may ameliorate the situation by preventing escalation or, in the best-case scenario, may avert the crisis altogether. If this is not possible, the damage done by the crisis may be limited or contained, and recovery effected as quickly and successfully as possible. This is

termed crisis management. Rosenthal and Pijnenburg (1990: 279) summarise it as the following:

Crisis management involves efforts to prevent crises from occurring; to prepare for a better protection against the impact of a crisis agent; to make for an effective response to an actual crisis; to provide plans and resources for recovery and rehabilitation in the aftermath of a crisis.

Augustine (1995) observes that every crisis contains the seeds of success but because of *mismanagement* a bad situation may be made considerably worse and he gives the Watergate cover-up by Richard Nixon as an example. Fewer than 10-15% of large corporations in North America and Europe have developed crisis management programmes, according to Pauchant and Mitroff (1992), in spite of the fact that crises attract the attention of the public and have increased in number in recent years.

For the sake of clarity, there are two points to be made here. Firstly, Pauchant and Mitroff (1992) observe that because of the complexity of a given system and the interrelationships between variables, rather than an event causing a crisis it in fact triggers it. The implications of this will be discussed in Chapter 6.3. Secondly, when discussing crisis management it is usual to consider a single crisis. In reality, however, there may well be a number of crises occurring at the same time, either brought to a head by the same event, or compounding their impact as was the case in Malaysia in 1997 and will be discussed in more detail in Chapter 2.5.1. For this reason it is essential to identify the crisis early on and not only deal with the technical situation but also focus on issues of perception, as often it is changes in public perception which cause a crisis. This is particularly relevant in the case of international tourism.

Crisis management does not seek to apportion blame but instead concentrates on dealing with the instability so as to reach strategic objectives.

The essential point of crisis management is to break the sequence of the unmanaged crisis and to redirect events. ... Proper preparation can prevent some crises and minimise the impact of those which cannot be avoided. (Meyers and Holusha 1986: 22)

The direction that events take can be influenced in a number of different ways and this is where management comes in and where there may be opportunities for decision-makers to gain power and status (Rosenthal and Pijnenburg 1990), as was shown by the stance of the British Prime Minister Tony Blair at the time of the Iraq crisis in early 2003. With proper advance planning there is the possibility of capitalising on the crisis, removing the risk and uncertainty and turning it to good effect. It is important to bear in mind the observation made by Bell (1978: 51) that the word 'management' implies

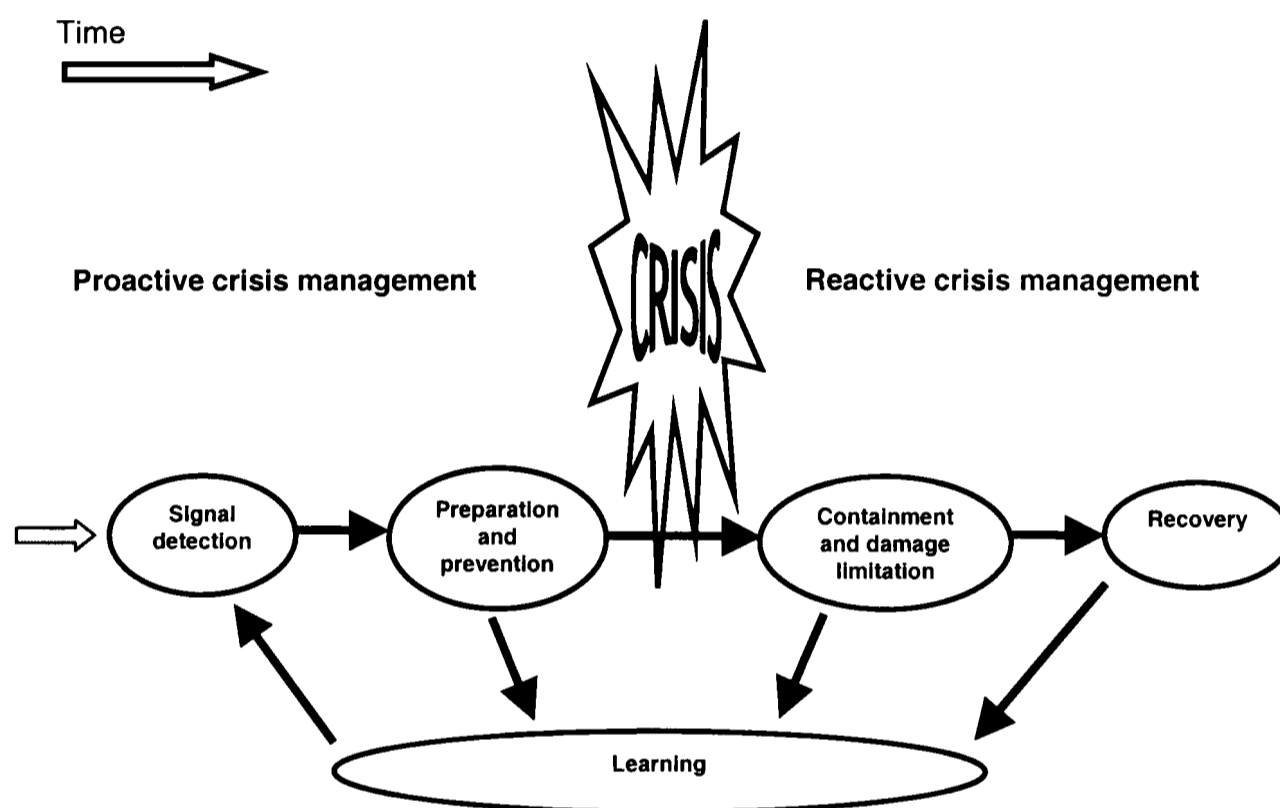
a rational, dispassionate, calculating, well considered activity, conducted with judgement and perhaps even at a leisurely pace with a view to long term as against short term interests

whereas in reality most crisis management takes place under conditions of extreme stress, frequently under the direction of people who are inadequately prepared or qualified for the task, who are making the best of the situation but liable to make serious errors. In practice, the means via which crisis management strategies may be implemented is one of the challenges facing the crisis manager. In an organisation there exists the necessary framework by means of which a response to a crisis may be effected; at sectoral level and especially in tourism, there is much less in the way of a clearly defined institutional structure to facilitate crisis management. The implications of this will be discussed in more detail in Section 1.5.3.

Crisis management can be represented as a sequential series of stages, shown in Figure 1.2. It is perhaps appropriate at this stage to note that there may be some variation in the use of the terms *proactive* and *reactive*. When discussing crisis management during the post-crisis stage, particularly in the context of the media, the term *proactive* is sometimes used when referring to actions or communication with the public carried out by an organisation before it is absolutely necessary, or as Mitroff *et al* (1996) suggest, when an organisation actively responds to a crisis *before* the full extent of the damage is established. This is as opposed to a *reactive* response, when nothing is done, no action taken, no information released, until absolutely necessary, such as after a court order. However, for the purposes of this research, the term *proactive* crisis management will be used to describe that which

occurs during the pre-crisis stage, while *reactive* crisis management will refer to that which occurs during the post-crisis phases. Reactive crisis management is sometimes referred to as crash management. Pauchant and Mitroff (1992) observe that 90% of crisis management articles are about crash management; what should be done when the crisis strikes and everything falls apart. They suggest that it is in fact more important to consider *why* crises occur and what can be done to prevent them.

Figure 1.2: Sequential representation of the stages of crisis management



Source: Pauchant and Mitroff (1992)

The simplest and cheapest way to control a potential crisis is to avoid it altogether. In order to do this there must be a continuous analysis of the status quo so as to identify potential trouble and the possible consequences and to evaluate the cost of prevention; although this would appear to be of great importance, Augustine (1995) suggests that it is rarely done. Other proactive measures include communication, decision-making, and post-crisis reviews (Webster 1990). Proactive strategies are predominantly found in the engineering and nuclear industries, possibly because here the financial investment in any project is considerable and an accident may have a devastating and widespread effect with serious economic and even political impacts.

It is therefore imperative that a crisis is not be allowed to occur and comprehensive measures must be taken. It is interesting that almost every aspect of the design of the Channel Tunnel was driven by safety considerations and planning for an emergency began even before the digging (Morton *et al* 1995). The rest of this chapter will consider proactive and reactive crisis management in more depth and the issues most relevant to the development and implementation of a crisis management strategy.

1.3 IN ANTICIPATION OF A CRISIS

1.3.1 Developing a framework

There is little published research which focuses specifically on proactive crisis management and within this, as mentioned earlier, there are only a few examples of crisis management as an integral part of national policy. Firstly, Neuhold (1978) in his review of crisis management to date identifies three components of crisis management for conflict situations. The first is *strategic groundwork* when a middle or long-term policy is formulated to resolve the conflict that gave rise to the crisis and there is continuous monitoring of the political, economic and social environment so as to identify trouble brewing and the outbreak of further crises can be prevented. The second is *contingency planning* for future crises, when attempts are made to anticipate those crises most likely to occur in the future and prepare the most appropriate responses, through simulations studying possible logistical, communication and coordination problems and the collection and analysis of information about opponents from the press and other media. The third is *operational framework* where administrative and operational systems are established in order that decisions can be made fast and efficiently by those in authority. At this stage coordination of people and departments is vital, as is the clarification of the functions of each and the location and communication facilities. He stresses that care must be taken to leave room for improvisation as each crisis is different and there needs to be a flexible approach.

Secondly, an interesting piece of research which was carried out by McKercher and Young (1999) examines the potential impact of the Millennium Bug on tourism. The

worry at the time was that because tourism is so complex and so dependent on transportation and information technology, with so many interconnections between independent businesses there was considerable scope for a knock-on or domino effect and the Bug could therefore do substantial damage. At corporate level it was found that large tourism players, such as the computer reservation systems, had taken precautions but the smaller businesses had not had the resources to spend on upgrading their systems and therefore were at greater risk. Destinations reached by air were considered to be the most vulnerable, whilst those relying on domestic tourism or visitors arriving by road were less so. While loss of consumer confidence was felt to be a serious danger at this time because tourists want to visit exotic destinations but not at a risk to personal safety, this can be considered as a 'one-off' crisis with substitution the main threat to post-millennium recovery.

What is unusual about this study is that it was done *before* the turn of the century so there was no benefit of hindsight to influence the research findings. Any crisis management provision that was discovered by the researchers, therefore, could be nothing other than proactive. Although crises by definition are unpredictable and are characterised by shock, the Millennium Bug was not unexpected but rather the epitome of the cliché 'a disaster waiting to happen'. For all that, there is still value in this research as although the Millennium Bug was widely anticipated, the extent of its impact was uncertain. There is undoubtedly a need for national crisis management in such cases as this, as small businesses operate on very tight margins and are unable to withstand a fall in business. The authors make four recommendations which will be considered in more detail below: Firstly, in order to reduce global impacts, there should be broad-based collaboration rather than competition between governments; secondly, resources should be spent on increasing awareness and encouraging action; thirdly, the components of tourism products should be coordinated; and fourthly, efforts should be made to reduce hysteria in the market.

When considering proactive crisis management, a practice known as Doomsday Management and defined by Dumaine (1993: 80) as "a strategy [that] leaders can use to radically transform a successful and profitable company before its success – and

overconfidence and complacency and bloat – catches up with it” may also be of interest. An organisation that is successful eventually becomes arrogant and may become complacent about threats to its operation. Many such organisations become inflexible and unable to adapt so that it takes a catastrophe to trigger change, by which time it may be too late to save profits or jobs. Dumaine describes how once a potential, albeit distant, crisis has been identified, a strong leader can alter the direction of a company by offering employees a plan of action and making available the resources, time and trust so that appropriate changes can be effected but he warns that there may be a severe backlash from those who think that the organisation is good as it is. Whilst once again the focus of this practice is the organisation, the above description can be applied to the tourism sector of a given country which faces a possible crisis. Such a crisis would be classified as continuous and might arise from, for example, political or environmental instability in another country in the region, or should any of its markets become saturated or consumer fashions change.

Neuhold’s (1978) three components of crisis management might form a framework for proactive crisis management except for the fact that conflict situations differ from most other crises in that it is possible for one or more parties involved to walk away from the confrontation; in most crisis situations those afflicted by a crisis or disaster are passive and have no choice in the matter. However, the salient points which can be derived from his research are firstly, the monitoring of indicators of trouble brewing; secondly, the assessment of the greatest risks; and thirdly, also strongly stressed by Dumaine (1993), the development of an appropriate response by means of a crisis plan and a selected team. In addition, McKercher and Young (1999) identify as important the collaboration between governments, together with clear communication in order to increase awareness and coordination as well as to reduce public anxiety. These points will be treated in more detail in the rest of this section.

1.3.2 Indicators

If, as discussed above, the best way of managing a crisis is to avoid it altogether or if this is not possible, to take appropriate steps to minimise its impact, it follows that it is crucial to detect its approach. Mitroff *et al* (1996) state that early warning signals

are sent out by almost all crises before they actually occur. It is essential therefore to scan the environment and to analyse any information obtained in order to identify as many warning signs as possible. Once identified, these indicators can be monitored and any changes evaluated. This two-part process is known as risk assessment and is discussed in more detail in the next section. Although some research has been done into indicators and their identification (Coombs 1999; Mitroff *et al* 1996), the scale of this research does not reflect their real potential. Indeed, there is very little specific reference made to indicators in the crisis management literature at all. This in itself is strange, considering the financial and political gains which may result from successful crisis management. Most research into crisis management focuses on the post-crisis rather than the pre-crisis period, possibly because the latter is much more complex. In the context of tourism, most work on indicators is in the area of sustainability and the impact of tourism development on the environment (Manning 1999; Wight 1998).

Manning (1999: 180) describes how in 1993 the World Tourism Organisation (WTO) sponsored an initiative to develop indicators which would act as an early warning system and identify emerging problems and risks to tourism in the future and would therefore be of interest to tourism managers, regulators and local communities. Twelve core indicators were developed, all of which were demand driven and useful in any situation, and there were some others more specific to particular destinations. He considers that “a risk management approach is ... core to the selection of indicators”. Tourism is dependent on stability and tourists abandon bad environments fast. It is necessary therefore to be sensitive to the values of all stakeholders in a destination and the potential risks to these values.

Indicators of approaching trouble may be relatively insignificant and hard to identify and very often may be ignored; they may take many forms. In the 45 years before the 1987 fire at London’s Kings Cross station which killed 31 people, the escalator had caught fire 18 times. This was undoubtedly a warning of a looming crisis but it prompted no action by the authorities (Heath 1998). Huque and Lee (2000) consider that the inability of the authorities to anticipate the onset of a crisis because of lack of

monitoring constituted a serious weakness. Wight (1998: 89) observes that because the indicators selected are often the easiest to measure and those which reflect the most visible changes, more important issues may be obscured. She suggests, amongst other qualities, that indicators should

be directly observable; be relatively easy to measure; reflect understanding that some change is normal and be sensitive to changing use conditions; ... [not] have institutional or administrative boundaries; include social, cultural, economic ... components; relate to the objectives for the area; and be amenable to management.

Although writing of sustainable development of tourism in an ecological context, many of these qualities apply to indicators of crisis in tourism.

Augustine (1995) stresses the importance of not focusing solely on the technical aspects of the organisation and its operation, but of monitoring issues of perception as well. Very often public perception may be the fundamental cause of a crisis, particularly in tourism where image is so important, as was shown to be the case in Cassedy's (1991) three studies. Constant monitoring may pick up early evidence heralding a crisis, such as metaphorical cries for help from employees, changes in customer feedback, emerging competitors or changing industry trends. Public perception may be monitored by sophisticated, electronic means such as computerised scanning systems, originally developed for military, medical or economic forecasting. These are based on an organisation's information technology network and can be used to track issues systematically, such as communication between activists or disaffected minority groups who have the potential to cause a crisis, as was seen in the Greenpeace action against Shell's sinking of the obsolete Brent Spar oil platform in 1995 (Winter and Steger 1998). This is of particular relevance in the current climate of terrorism and the interception of communication between, for example, Al Qaeda cells.

The WTO (1985: 3) offers a guide as to the development of a system of statistical indicators for tourism. Although primarily considering the measurement of normal

changes in patterns of tourism, there is a category of indicator they call an alarm or signal indicator which is defined as:

A simple or compound index that reflects the evolution of an economic or financial magnitude and is provided with a threshold of variation that, on being crossed, indicates that the attainment of certain goals may be jeopardised. The alarm indicators are generally linked to the following five concepts: prices, foreign exchanges, production, productive investment and employment, and their activation indicates *a priori* that the situation is usually serious.

Eighteen years later and in the light of the recent crises to affect tourism, this definition appears somewhat tepid.

For the development of a national crisis management strategy to protect the tourism sector, indicators can be used only to warn of continuous crises, as the length of time taken to collect and then disseminate national tourism statistics means that they are of no use when a crisis strikes very unexpectedly. From the point of view of anticipation therefore, conventionally measured tourism indicators do not give enough advance warning. The WTO (1985: 6) stresses that indicators

must be up to date, and they must be obtained and published frequently. Only the fact that the indicator is currently valid justifies immediate specific action.

In spite of this assertion, especially in the case of developing countries tourism statistics are frequently delayed and the sources are often unreliable. However, as Mansfeld (1999) observes, they provide the information required to construct a baseline against which future changes may be evaluated and strategy formulated. In this way, measures can be taken to counter instability which can be accurately targeted at the source of the trouble and therefore cost-effective.

More recently, in their analysis of the impact of the Asian financial crisis on tourism in the region, the WTO (1999a) recommends that the tourism sector of a destination should develop and monitor indicators in its major markets in order to warn of approaching crises and they divide suggested indicators into three categories. The

first are short term indicators, with a lead time of up to three months, such as the level of advance bookings of industry players from key markets, or any increase in the time taken to settle the accounts between travel agents and airlines. The second category are medium term indicators, with a lead of 3-12 months, such as the allocations at main resort areas negotiated by tour operators, or the growing number of tourism service business failures in key markets. Lastly, there are long term indicators with a lead of more than a year and include large planned increases in hotel room capacity in the absence of demand, the degree to which currencies of key markets are over or undervalued, and trends in GDP, interest rates and inflation in key markets.

1.3.3 Risk assessment

Crisis management should not be confused with contingency planning which is much more precise and is seen, for example, in a military context when there is a detailed and specific series of steps planned to respond to a variety of stated incidents. Prior to contingency planning, a threat or risk assessment is strongly recommended by Bartlett (1997) in order to identify these incidents. Risk assessment identifies what could go wrong and how these risks may best be managed; it is frequently seen at organisational level, often in the field of computing (Myers 1993; Sowton 1988). The risks to an organisation may come from within it and be a factor of, for example, the product, facilities or personnel, or from external sources such as changes in legislation, demand or the competition. Coombs (1999) suggests that the focus of most risk assessment at organisational level tends to be internal rather than external. Once the area of risk has been identified, steps can be taken to alter the situation so as to lower the risk or eliminate it altogether.

As discussed in the Introduction, tourism is vulnerable to a wide range of threats from many different sources and risk assessment is a means of evaluating this. Nankervis (2000) suggests a framework for the assessment of tourism vulnerability to the impact of a possible crisis at sectoral, organisational and individual levels and the extent and duration of such impacts. His framework conveys in some part the complexity of the situation as opposed to the more common linear models. With the

focus at the micro level, the WTO/WMO (1998) consider risk assessment to be an essential part of a disaster mitigation strategy and recommend that national governments should develop a risk assessment capability, either by means of collecting data on past hazard and disaster occurrence or evaluating vulnerability to other threats; anticipation is the key to effective planning. Tourism facilities and activities should be considered in risk assessment because, as mentioned in the Introduction, very often they are located in high risk areas such as mountains and tropical beaches. Tourists too may be more vulnerable than residents because as strangers they are not aware of any existing emergency plans and there may also be language difficulties to contend with. It is therefore important to incorporate risk assessment into site analysis and the development of safety drills.

In the context of a tourism sector, risk assessment at this level would ideally focus on both supply (internal) and demand (external) risk factors. Sources of potential risk on the supply side might include the likelihood of natural disasters occurring; changes in air or water pollution levels; the condition of equipment or infrastructure and its maintenance; and labour relations in the transportation and hospitality sectors. On the demand side, factors would include international political relations which might affect immigration regulations; economic conditions in generating markets; relations with the media which could adversely influence coverage; and the rise in popularity of competing destinations. Tour operators are uniquely situated with access to data on both supply and demand; they have access to the indicators suggested by the WTO (1999a) outlined in the last section, and are situated in or have close links with either the generating markets or the destination. They are therefore in a strong strategic position to act as 'risk brokers' and to monitor and assess changes in the status quo.

As an early step in proactive crisis management, risk assessment involves the evaluation of dimensions such as the likelihood of a crisis occurring, the actual and perceived scale of the crisis and its impact (Heath 1998). Whilst risk assessment may play an initial role in the development of crisis management provision, it may be limited. As crises by definition are unexpected and it is impractical as well as

impossible to anticipate every eventuality, planning should instead be for the worst case imaginable; if the crisis is specified in too much detail the flexibility that Neuhold (1978) emphasises is lost. Once the warning signs have been recognised, the crisis management strategy may be refined into a contingency plan and put into action in order to avert or diminish the crisis. This, however, may be a luxury, as discrete crises happen so fast that there is no time for planning of any sort and any action must inevitably be reactive. This is a consideration in macro level crisis management as in any given country there are an infinite number of things that can go wrong.

1.3.4 The crisis plan and committee

Within the crisis management literature there is a great deal of research into the development of a crisis management plan, with full details as to who should be involved; the operation of the plan; dealing with the media; financial arrangements; and so on (Bartlett 1997; Cassedy 1991; PATA 1998; Sönmez and Backman 1992; Sönmez, *et al* 1994; WTO/WMO 1998). Most of this focuses on organisations and is too specific to the organisation or natural disaster to be of great relevance to this study. A crisis usually takes place over a relatively short time and anyone involved is subject to high levels of stress. A plan ensures firstly that there is already in place a framework of decisions to support those leading the response to the crisis and secondly, that in the immediate aftermath of the crisis precious time is not wasted deciding what to do but instead the changing situation can be dealt with promptly. An important factor in the recovery of Fiji after the political coup in 2000 was that there had been a previous coup in 1987 and it was relatively straightforward to mobilise a response to the crisis even though the circumstances were not exactly the same (Berno and King 2001).

There can be no doubt that the existence of a well prepared plan aids those involved in the crisis. Barton (1994) relates how in the case of Luby's Cafeteria in Killeen, Texas where in 1991 a gunman murdered 23 people, the organisation's crisis management plan offered considerable support to those immediately involved in the crisis even though it focused on issues of food sanitation rather than violence. The

fact that many decisions had already been thought through in the plan allowed the management to ensure that their actions were based on compassion and community relations rather than on the product and therefore served to enhance the public image of the organisation and assist its post-crisis recovery.

Osborne and Tomlinson (1995) warn that however well structured the planning may be, unless it is built on a firm foundation comprising clear policy, positive strategy and well defined objectives, it will have little credibility. It is also necessary to revise and update any plan regularly as it has been shown that corporate crisis plans have a limited lifespan because of changes in, for example, the product and the market (Seymour and Moore 2000). Mitroff *et al* (1996) recommend regular pre-crisis audits to assess the general preparedness of an organisation. Areas of risk must be identified, those involved should be clear as to their roles and responsibilities and there should be no ambiguity as to accountability. This too is stressed by Huque and Lee (2000) who observe that the responsibilities of different government departments frequently overlap which may create obstacles to tackling a crisis effectively. The existence of a crisis plan also reflects well on an organisation; Fink (1986) suggests that shareholders should check with the company they invest in to see whether or not they have a plan, not only because of the potential damage of a crisis to profits but also because it is an indication of the strategic thinking of the management. In the context of tourism, WTO/WMO (1998) observe that a destination which shows evidence of being well prepared should a crisis occur is likely to reassure international tourists. The travelling public, however, may not always be reassured by such measures; airlines do not make public their plans for crisis management in the event of a plane crash for fear of alarming potential passengers.

The existence of a national crisis management plan in itself is an example of macro level proactive crisis management. The plan may be concerned with proactive strategies, as in the case of Japan's plan for dealing with the Millennium Bug before it happens (Website 1.2), or reactive activities, as with the St Lucia national disaster plan (Website 1.3) and the United Kingdom's plans for dealing with a nuclear accident (Willby and Potter 1995). At sectoral level, the existence of a crisis

management plan should encourage investor confidence and so be of potential economic value to the country. Sönmez and Backman (1992) recommend that it should have clear goals and objectives, provide uncomplicated strategies for managing the situation to achieve full tourism recovery and, most importantly, it should be cost effective. Berno and King (2001) observe that many tropical destinations have plans to cope with natural crises such as cyclones and recommend that they should extend these plans to include crises arising from political unrest.

An example of a national crisis management plan, although not in a tourism context, is the set of rules produced by the UK Home Office Emergency Planning Division for handling crises of different types. It has been recommended by the Cabinet Office (2002: 54) that this should be updated and maintained so as

to take account of emerging issues that potentially pose disruptive challenges and to set in place clearer definitions of the role of the lead department. This should be supported by a database of past crises, detailing their impact and the lessons learned (with links to reports or inquiry findings where available).

Cabinet Office surveys have shown that most countries appear to have nothing comparable to the above but instead the Ministry with the major stake in a crisis takes the leading role. The crisis itself and the post-crisis period are of particular importance to tourism, not only the extent of the damage caused by the crisis, but also the speed and efficiency with which the destination recovers its status quo. These will each affect the image of the destination as perceived by the public and the media play a vital role in shaping this perception. Despite this, Sönmez and Backman (1992) found that although many coastal destinations in the United States make provision for crises, only Arkansas, Hawaii and Alaska (since the Exxon-Valdez disaster) have a plan tailored specifically to the needs of the tourism sector.

There have been a number of studies of the crisis management team (Bartlett 1997; Barton 1994; Mitroff *et al* 1996; Sönmez and Backman 1992) and there are many different suggestions as to how the team should be subdivided and who should participate. It is recommended that there should be a designated crisis committee

made up of individuals representing as wide a selection of interested parties as possible and led by an overall director or coordinator. The selection of an appropriate leader well before any crisis occurs Cassedy (1991) stresses as paramount, otherwise suitable candidates may well be involved in managing crises in their own organisations and therefore unavailable. Barton (1994) suggests that participants should come from internal and external sources and might include the marketing and safety managers from the organisation, together with representatives from an insurance company, the Chamber of Commerce, the police and fire departments and from a local hospital. Mitroff *et al* (1996), however, emphasise that while representing the major stakeholders, the team should still contain the fewest people possible. Individual roles and responsibilities should be properly defined and accountability clear and unambiguous. Sönmez and Backman (1992) suggest that the committee should be responsible for communications, public relations, fact finding, damage assessment, fund raising, marketing and advertising. At the micro level this may also include dealing with victims or next of kin (Bartlett 1997). What is generally agreed is that there should be an individual, who may head the group, with responsibility for dealing with the media, referred to by Milo and Yoder (1991) as an 'information tsar' whom hard news reporters can quote as an authoritative source.

At a micro level the designation and training of a crisis management team should present little problem to an efficiently run organisation. At the national level such teams exist but details of their composition and operation may not be easily accessed by the general public. A classic example of such a team is a war committee which is called together in anticipation of international hostilities. In the United Kingdom the national crisis centre is the Cabinet Office Briefing Room (COBR) which is managed by the Defence and Overseas Secretariat. It is from here that the central government response to all types of major crisis is coordinated (UK Parliament 2002). COBR has been convened several times since 1997, in response to crises such as the fuel tax protests in the autumn of 2000, the outbreak of foot and mouth in 2001 and the terrorist attacks in the United States on 11 September 2001 (Assinder 2002). With regard to Malaysia, the National Economic Action Council was formed in response to the Asian financial crisis; this will be discussed further in Chapter 2.4.2.

Until a crisis occurs there is no real way to test the effectiveness of a crisis management plan. At an organisational level, it may be possible to run through planned procedures in order both to test them to see how well they function and also to train the people who will be involved in their operation. Santana (1998) observes that the people most likely to be involved in crisis management will be relatively senior or successful in their organisation and therefore not familiar with crisis and therefore unprepared psychologically or emotionally to deal with it, so training is crucial. Whilst one might dismiss this view as being a sweeping generalisation, the issue of cultural rather than personal attitudes to crisis and failure is of some relevance to this research.

Barton (1994) suggests that the plan should be regularly updated and its effectiveness evaluated through simulations. For training purposes, he suggests that mock decision-making scenarios and press conferences be used, while after the Piper Alpha disaster in 1998, Flin and Slaven (1994) recommend simulated emergencies. With progress in technology, computer simulations can be used to generate complex situations and variables, examples of which can be found in the Rolfe, Saunders and Powell (1998) collection; these include airline training for the few days after an air crash and managing the rescue and care of victims of a disaster. There is no doubt that such crisis simulations work because they focus the minds of the participants on potential problems and possible avenues of action and solutions. At a macro level a simulation is unlikely to be a feasible option, although in early 2003 a simulation of a terrorist attack in London was planned in order to test the preparedness of the population and the emergency services (Oliver 2003). It was, however, cancelled shortly before the planned date because of the outbreak of the Iraq war and industrial action by the British firemen (*The Guardian*, 20 March 2003).

1.3.5 Regional cooperation

There are cases where it is in the interest of more than one country to participate in the formulation of a crisis management strategy. This idea of international cooperation is fundamental to the 'Interdependence Theory', discussed by Clutterbuck (1993), which Sir Norman Angell proposed before World War I when he

observed that it would be folly for the European powers to go to war in 1914 because they were so economically interdependent. The theory had considerable influence and after World War II, in an attempt to create just such interdependence (between France and Germany in particular) and prevent the outbreak of another war, the European Coal and Steel Community was established in 1952, which in turn gave rise six years later to the European Economic Community, now the European Union. Although not a national strategy, an example of such international cooperation between two countries for crisis management is the Channel Tunnel; the Bi-National Emergency Plan was developed to accommodate both France and Britain (Morton, Noulton and Morris 1995). Because national boundaries are often crossed by visitors for tourism purposes and they also offer no resistance to disasters or crises, this cooperation between governments must be of considerable importance, not only in proactive crisis management but also in responding to a crisis, as discussed in Section 1.4.7.

1.3.6 Communication

Although crises are sudden and cannot easily be predicted, often public reaction can be. Issues evoking emotion are easily understood by the public and some issues are more media friendly than others. Activists have the potential to cause a crisis as a result of confrontation and the timing of appropriate action is crucial; early identification of trouble brewing and prompt intervention avoids confrontation and must be balanced against late intervention which avoids wasted effort on issues which do not develop into a situation which justifies attention (Winter and Steger 1998). Seymour and Moore (2000) consider rumour management as a special technique of crisis management as rumours fill any communications vacuum, and they have the potential to cause substantial damage to a corporation. Tourism is also very vulnerable to rumours as it is so dependent on positive public perception.

It is recommended frequently in the literature that there should be good communication between those involved in crisis management, be they government departments, public and private sector, or within an organisation. As mentioned above, one of the objectives of COBR is the coordination of the central government

response to major crises. A weakness to emerge from the Huque and Lee (2000) study of public service management of crises was that there was no attempt made by those who did recognise trouble brewing to draw the attention of colleagues to the problems. Coombs (1999) observes that an intranet offers a means of communicating fast and effectively within an organisation and it also provides a facility where financial data or product information can be prepared and stored in advance so that it can be readily accessed in the event of a crisis.

Keeping the general public informed of developments in a pre-crisis situation where possible will minimise panic, hysteria and irrational behaviour, one of McKercher and Young's (1999) recommendations. In addition to more traditional channels of information, the internet can be an effective vehicle of communication between an organisation and its external stakeholders, through regularly updated web pages or in some cases by email (Coombs 1999). González-Herrero and Pratt (1995) recommend that where possible short-term crisis communication with the public should be avoided in favour of long-term strategies which deal with the public in a less volatile environment and attract little or no negative media coverage. However, although continuous crises evolve over a considerable period of time and thus provide ample opportunity for this, Siomkos (1992) observes that media relations are never as effective as in the case of discrete crises. This initially may be considered illogical as it might be expected that additional time offers greater scope for communication but the explanation may be that the news becomes 'stale' and the general public start to suffer from 'crisis fatigue' if there is long-term exposure to a particular story.

1.4 REACTING TO THE CRISIS

As discussed in the first part of this chapter, the bulk of crisis management literature focuses on the reaction to a crisis but here again there is relatively little research at the macro level. Slatter (1984) considers the macro level response but in the context of organisational level crises, although the principles he describes can also be applied at sectoral level. He looks at state involvement in corporate recovery, commonly

seen in the rescue of failing companies in order to avoid high unemployment; adverse balance of payments effects; strategic dependency on foreign sources of supply; the collapse of confidence in the financial system; and loss of national pride. Such involvement may be politically or economically motivated and may take the form of direct government help to a company, for example to allow investment in new equipment or the development and marketing of new products so as to avert a total collapse, or indirect government action, such as putting pressure on the private sector so as to 'persuade' them to assist companies or organisations in difficulties. A recent example of such intervention in the context of tourism is the bailout of Swissair after its collapse following the 2001 terrorist attacks in the United States, when not only did the federal government and Swiss cantons put up SFR2.5 billion, but they also put pressure on a syndicate of 23 private companies together with the City of Zürich to provide the remaining SFR1.7 billion (Milner 2001).

1.4.1 Restoring confidence

It is important to re-establish the status quo as quickly as possible after a crisis and this means that the chronic stage of the post-crisis period described in Section 1.2.2 must be shortened by effective crisis management. Fink (1986) suggests that this stage will be extended in any crisis that almost or actually involves substantial loss of life; creates a panic; demonstrates an industry weakness or trend; or entails conspiracy, bribes or moral offences. This has considerable implications for tourism, which depends so heavily on the creation of a sense of safety and security, as well as confidence in the industry players. After the 1997 Luxor massacre, gaining the confidence of the foreign markets was considered of primary importance to the recovery (Luhrman 2000). At the organisational level, Augustine (1995) observes that confidence needs to be built in the organisation over the years so when the crisis occurs, people return to the company afterwards. However, where a tourism destination has suffered a crisis, although there may previously have been a high number of repeat visitors, recovery may not be straightforward because of the substitution of other destinations. It may, as a result, take the destination several years to overcome negative publicity from the disaster and for business to reach pre-disaster levels (Durocher 1994).

When considering investor confidence in the context of economic crises, the issue of corruption cannot be avoided. Over the last five years there has been increasing interest in the effects of corruption on aspects of a national economy. National corruption indices which are based on surveys of the international business community are published annually by the Danish organisation, Transparency International (www.transparency.org). It has been shown that the level of perceived corruption of the government and the institutions of a country has a strong and negative effect on its capital inflows as well as having a negative impact on the ratio of investment to GDP (Lambsdorff 1999). Aziz (1998: 1) observes that the countries perceived as least corrupt were relatively unscathed by the Asian financial crisis. Referring to the collapse of investor confidence which precipitated the crisis, he comments:

While we may not always like the way we are perceived, particularly by the international business community, ... [the] effects on our regional economies have been devastating, to say the least. These perceptions have come about largely from their close observation of the way we, and our friends in the region, have been managing our economies, and what they see has given them neither the level of comfort nor the degree of confidence they require for the protection of their investments in the long term.

He argues therefore that transparency and accountability must be major components of building and strengthening confidence in the post-crisis recovery. This issue has considerable relevance to this research and will be discussed further in Chapter 2.

1.4.2 The media

The importance of the part played by the media before, during and after a crisis must not be underestimated. In the first instance, a crisis may be precipitated by the media if, for example, a situation involving either prominent public figures or some form of immorality or dishonesty is discovered, as was seen in the Watergate cover-up which resulted in the resignation of the United States President Nixon on 8 August 1974. Secondly, during the height of a crisis, it may be in the interest of the media to give extensive coverage to the situation. Sönmez *et al* (1999) suggest that in the case of

terrorist attacks on tourism targets, the media and the terrorists have a somewhat symbiotic relationship where each benefits from the actions of the other. The media achieves very high ratings, as an outrage which kills or maims tourists of many different nationalities, such as the 2002 bombings in Bali, receives virtually constant international coverage; the terrorists in turn have their message broadcast free worldwide and cause substantial international disruption to tourism. Both the media and the terrorists consequently are winners in the situation; the losers are the travelling public and the destinations. Thirdly, the media have the potential to perpetuate the crisis in the public's mind by using labels such as 'the worst nuclear accident since Three Mile Island' (Fink 1986). This type of reporting by the media can mean that the public image of an organisation is synonymous with a crisis, just as the name Exxon is now inextricably linked with the Valdez oil spill in Alaska.

Good communication in a time of crisis is considered to be essential and, as discussed in Section 1.3.4, one of the major responsibilities of the crisis committee is keeping the media informed. The public's perception of an incident is influenced very much by how the media report it and therefore if care is not taken, the news and information that is disseminated nationally and internationally may be exaggerated and inaccurate, sensationalising and confusing the situation (Milo and Yoder 1991). Morton *et al* (1995: 54) stress the importance of crisis communications and observe somewhat cynically:

Even if your operations staff handle an incident well, the press will still put a negative spin on the story if you allow them to do so.

Durocher (1994) reports that one of the greatest barriers to the recovery of the Hawaiian island of Kauai after the 1992 hurricane was misinformation, which many consider to have caused more damage to the island's economy than the hurricane itself. Similarly, the 22 murders of tourists over a period of 12 months in the early 1990s in Florida put in jeopardy the US\$31 billion tourism industry as a result of bad press coverage worldwide (Barton 1994).

By cooperating and working with the media, the crisis manager can benefit from their interest in two ways. Firstly, crises make good news and it may be possible to turn

the exposure to good effect and actually capitalise on the free publicity. Media exposure normally costs a great deal, so if a destination can capitalise on free exposure, tourist arrivals and revenue may increase and post-crisis recovery facilitated (Murphy and Bayley 1989). The island of Grenada was able to take advantage of international interest resulting from the media coverage of the political coup in 1983 to promote tourism to the island (Lehrman 1986). The message to tourists must, however, not conflict with the crisis, as was the case described by Berno and King (2001) when holiday advertisements showing peaceful Fijian beaches appeared in the press alongside news coverage of the troubles illustrated by photographs of gunmen in balaclavas. Secondly, Osborne and Tomlinson (1995) point out that it makes sense to harness the communication potential of the media to offer reassurance and advice to the public. Clear, transparent communication channels between the government and the people are of great importance and should be maintained to avoid loss of public confidence (Huque and Lee 2000).

The type of press coverage changes as a crisis develops. Initially during the impact of the crisis hard news reports predominate but as the situation recovers, features on the destination appear, often with a special interest focus. Potential visitors to a destination will consult the media to assess future travel risk in the absence of a personal source of information. National government agencies, including tourism offices, can influence the stories in the daily press and reflect their own agenda and priorities; the sources of media writers therefore are crucial in determining the most effective promotional strategies. Through long-term involvement, productive relationships may be developed between destinations and travel writers, who may disperse knowledge and information about the destination after the disaster and accurately report the damage to tourist attractions (Milo and Yoder 1991).

The internet is playing an increasingly interesting role in the dissemination of information or views worldwide. It allows unrestricted global communication between campaigners or activists which may be a challenge to crisis managers in potential crises arising in areas of high public concern (Winter and Steger 1998). With access to the internet more widespread and technology becoming increasing

sophisticated, there is no longer any possibility of hiding a crisis and it is generally accepted that full and regular statements can counter dangerous rumours (Osborne and Tomlinson 1995). As discussed by Holmes and Grieco (2001), governments no longer have full control over the information that is available to or issued by the general public which may be a good or a bad thing. Following the 2000 coup in Fiji, uncontrolled information about the crisis was projected and discussed on the internet which kept events in the public eye and slowed recovery considerably (Berno and King 2001). However, the internet offers to governments or tourism authorities a means of providing balanced coverage following a crisis which can be regularly updated. This, Murphy and Bayley (1989) stress, is essential to counter sensational media coverage and the international broadcasting of, for example, shocking or distressing pictures, which may cause serious problems for the tourism sector of an affected country, as was the case during the British foot and mouth crisis in 2001 when macabre images of burning animal carcasses were broadcast worldwide.

1.4.3 Steps to recovery

As observed by Rosenthal and Pijnenburg (1990) and discussed in Section 1.2.4, it is after the crisis and during the recovery periods that crisis management can influence the direction that events take in a number of different ways. Richter (1999) comments that it is essential to consider the role that tourism played in the crisis, if any, so that the same critical situation is not reached a second time. This may be particularly important in developing countries where luxury tourism has been developed and there is dissatisfaction and resentment felt by the host communities. In such cases she suggests that new tourism developments should be integrated with other projects targeted at improving infrastructure such as transportation, in order to enhance the feeling of well being of the local people and to encourage investment. More importantly, it is crucial to consider the appropriacy of the type of tourism developed. Luxury tourism may not be successful because of high leakage, foreign ownership and its international clientele; in addition, not only does political turmoil depress this type of tourism but the hotels cannot easily be used for other purposes such as schools and clinics, nor for domestic tourism which may be an important source of income and employment in the period immediately after the crisis.

The speed of recovery depends not only on the extent of the damage caused by the disaster or crisis but also firstly on the efficiency with which tourism facilities are reinstated, and secondly on an effective marketing message announcing that the destination is open again (WTO/WMO 1998). A key factor in the recovery of the Fijian tourism sector following the coup in 2001 was the speed at which they were able to respond, largely due to their having experienced a coup 13 years earlier so it did not take long to formulate and operationalise the response strategies; in addition there were already established procedures for communication between hotels in the event of cyclones (Berno and King 2001). After the foot and mouth crisis in Great Britain in 2001, a new website was established by the British Tourist Authority which was supported by regional websites and call centres together with a public information campaign both at home and abroad (Sharpley and Craven 2001). Durocher (1994) advises that there should be full cooperation between all the different stakeholders in tourism and that they should be available and flexible, initiate action, and view the situation as a whole, as tourism related businesses depend on each other. In addition, he recommends that i. information be processed quickly and disseminated promptly and consistently; ii. a marketing plan be immediately mobilised by means of a hotline and press releases; and iii. the press and travel agents be brought to the destination. These points are of particular relevance to this research and therefore will be considered in more detail in the following paragraphs.

Because the tourism sector is composed of many different entities, full cooperation between stakeholders is essential to post-crisis recovery. In this context other (neighbouring) countries might also be considered as being stakeholders in tourism as tourist packages, especially long haul, may involve visits to more than one country. The WTO/WMO (1998) stress the importance of a coordinated response to a disaster as being cost-effective and as enhancing the benefit of any relaunching effort. This was very much the case in Fiji found by Berno and King (2001: 91) after the 2000 coup when

a coordinated and collective approach to the recovery process, i.e. 'one voice, one message', was essential. Coordinating the recovery effort

... meant that a singular message was disseminated and that consistent responses were made towards situations. Although there has been some internal debate ... the strategy has ultimately been successful in attracting visitors back to Fiji.

Promotional strategies by destinations must be harmonised with increased means of access; airlines need to make available sufficient numbers of affordable seats to cater for increased demand so as to rebuild business (Durocher 1994). Such cooperation was seen to excellent effect after the 1999 earthquake in Taiwan, when mailings to past guests by international hotels in Taiwan were coordinated with significantly discounted flights from major markets to Taiwan (Huang and Min 2002). Governments as stakeholders may also support initiatives for recovery by introducing measures to stimulate foreign investment or by offering low interest loans to tourism operators to assist in the recovery of the status quo.

Weaknesses highlighted in the Huque and Lee (2000) case studies were the inability of the people concerned to compile and comprehend information relevant to a given crisis and subsequently to disseminate this information due to the lack of appropriate facilities. Lührman (2000) stresses the importance of good communication at the official government level, directly with tour operators and with the public through the media. In an Asian context, this may be compounded by strong reluctance to admit to a crisis because of 'losing face'. It has been suggested that the recent Severe Acute Respiratory Syndrome (SARS) crisis in East Asia might have been avoided had there been no such obstacles to the clear and accurate supply of information about the developing situation (Hawkes 2003).

Lührman (2000) stresses that credibility and transparency of information and strategy are crucial factors in recovery. Writing about the role of public relations after a crisis, Lehrman (1986: 28) observes that

although it cannot prevent terrorism or natural disasters, [travel public relations] can help to put these events in their proper perspective. To do this, practitioners must be willing to confront the bad as well as emphasize the good.

This establishes credibility and a reliable source of information for the media and the public. Information about the damage caused by a crisis can be turned to good effect and through careful marketing it may even be positioned as a future tourist attraction. After the eruption in 1980 of Mount St Helens in Washington, USA, tourists initially visited the locality out of curiosity but subsequently a visitor centre was set up giving full details about the eruption. This not only provided information on the current situation but also *per se* attracted day trippers and educational groups and so turned what was originally an outdoor tourism experience into an educational one (Murphy and Bayley 1989). In addition, as tourism had decreased by 30%, a free telephone line was set up to provide information and brochures were produced with photographs showing tourists in the area.

The provision of full and clear information about a crisis may be of considerable benefit to both suppliers and the consumers, although care must be taken not to exacerbate a critical situation. It has been suggested that the issuing of travel advisories by the governments of generating countries, especially after terrorist attacks, extends the crisis and slows recovery. In addition they are perceived as too general and biased against developing countries which do not have the resources or the global standing to counter them. Following the bombing in Kuta, Bali, in October 2002, people were advised against visiting any Southeast Asian country (Doronila 2002), whereas no travel advisory was issued following the 11 September 2001 terrorist attacks warning against travelling to the United States. It is interesting to observe the furore created by the mayor of Toronto following the World Health Organisation's advice against visiting the city in connection with the SARS outbreak there (McIlroy 2003), the first time such a warning has been directed towards a developed country. Travel advisories may also in fact be creating crises in countries previously unaffected, a rather bizarre example of crisis contagion which is discussed in Chapter 2.2.2. The travel advisory on Trinidad and Tobago issued by the Foreign and Commonwealth Office of the United Kingdom in December 2002, which warned of an increased terrorist threat following the Kuta bombings, resulted in the cancellation of visits by P&O and Princess cruise lines and caused real economic harm to the tourism sector of Trinidad and Tobago (Manning 2003).

Barton (1994) has suggested that effective crisis management and marketing planning can be the first step towards recapturing market share and credibility in the case of, for example, business travellers and convention groups. A year after the hurricane hit Hawaii, Durocher (1994) describes how the state government tripled the tourism marketing budget for the following season to offset the decline in visitors from their major markets, Japan and California. What is not clear is whether there was a plan already prepared when the hurricane struck and if there was indeed such a plan, why it was not put into effect straight away. Similarly, immediately following the Taiwanese earthquake there was an increase in promotional activities by the Tourism Bureau of Taiwan, with the annual Taipei International Travel Fair and the Johnnie Walker Classic golf tournament, which were held two months after the earthquake, supported by CNN advertising and a leaflet and poster campaign. This attracted international visitors, revitalised the domestic market and enhanced the image and position of Taiwan (Huang and Min 2002). However, there are two points worth making here. Firstly, the marketing response to a crisis must be appropriate. It is interesting to note Sharpley and Craven's (2001) observation that during the foot and mouth crisis in Great Britain, it was the international tourist market which received the marketing focus of the British Tourist Authority rather than the domestic market, even though the latter makes up 94% of visitors to the countryside where the impacts of the crisis were felt the most. Secondly, it must be stressed that in order to mobilise a marketing plan, one must exist in the first place; to be effective crisis management must be both proactive and reactive.

Finally, as discussed above, because media coverage may be biased and give a misleading impression of the extent of the damage caused by a crisis, countries may have to spend time and money on rectifying their destination image as well as repairing the physical damage which delays recovery. This was done in Taiwan after the 1999 earthquake, when over 400 representatives of foreign media and major foreign tour wholesalers were invited for familiarisation tours to the area affected by the earthquake. In addition, nationwide inspections of scenic and recreational areas were also performed to allay public fears over safety (Huang and Min 2002). Similarly in Fiji, within ten months of the 2000 coup, more than 1,000 travel agents

and 100 media representatives from 50 organisations had visited the islands (Berno and King 2001).

1.4.4 Post-crisis audits – learning from crises

Of considerable relevance to this research is post-crisis auditing when a careful analysis is carried out after a crisis into why it occurred and whether or not it was managed in a satisfactory manner. In his study of crisis management in the context of nuclear war, Lebow (1987) analyses the 1914 Great War in order to explore the political and military conditions that affect crisis management and has a section on reducing crisis instability which is, in effect, proactive crisis management. A special issue of *Contemporary Crises* (1990) contains a number of papers, each of which analyse a specific crisis and the events which led up to it and then reconstruct the situation given different decisions, so as to see what would have been a better plan of action in order to learn for the future. Two papers from this special issue (Czada 1990; König 1990) are discussed in some detail in the next section.

Rosenthal and Pijnenburg (1990) describe reconstructive logic as an attempt to look at crises with a ‘what if’ perspective, asking how things could have been done differently and better. They suggest that there are three considerations: i. why and how a specific decision was made; ii. whether different decisions would have resulted in more satisfactory options; iii. how these options would have affected the final outcome. Although the benefit of hindsight will affect the exercise, a fuller understanding of the consequences of specific actions, both in the long and short term, can be obtained this way. Post-crisis audits have been taken even further by Mitroff *et al* (1996) who have developed a software package which allows the user to evaluate the strengths and weaknesses of an organisation’s crisis management plan. Whilst such software may be of considerable value at an organisational level, its usefulness at sectoral level, especially in the case of a tourism sector, is questionable. Each of the many constituent enterprises, systems and stakeholders will be affected by any one crisis in a different way and to a greater or lesser degree. To apply reconstructive logic to a situation where there is an uncountable number of interrelated and interacting variables becomes too complex to be of any great benefit.

Nevertheless, through an examination of the progress of a crisis from the perspective of different stakeholders, insight can be gained into the success of measures employed in response to the crisis and possible strategies which may be of value in the future can be identified.

Post-crisis audits look at the specific response to a crisis and identify lessons to be learnt. Mitroff *et al* (1996: 59) observe:

After every crisis or near crisis, a post-incident audit should be conducted. The purpose of such audits is to help an organization review what it did well and learn what it needs to improve on so that it will be better prepared to face its next crises.

Fink (1986) stresses the importance of especially the former as a means of profiting from the crises that others suffer; as discussed earlier in this chapter, crises and disasters can cause an enormous amount of damage to the tourism sector with substantial financial as well as psychological costs, as was seen after September 11, 2001. If crisis managers can learn from the experience of others, there is a chance that the impact of future crises can be reduced. As a result of concern about the information provided to locals in the area around Chernobyl after the accident in 1986, a European Union directive required the improvement of information supplied to the public and the revision of booklets and leaflets (Willby and Potter 1995).

1.4.5 Level of response

Macro level crisis management may in theory seem like a good idea but there are some problems associated with it. A national strategy requires effective coordination and implementation and this may pose some problems in a country with a large bureaucracy. In developing countries, these problems may be compounded by the lack of resources, expertise and funding, all of which may restrict action. Shultz (1980) writing about counter-terrorism programmes in the United States recommends the development of federal, state and local cooperation, based on interagency planning and management with clear lines of responsibility and authority. Although terrorism proliferated during the 1970s, no effective system was developed to deal with it for 30 years, largely because authority was dispersed through different

government departments and jurisdictions and there was too much bureaucracy. However, following the terrorist attacks on the United States on 11 September 2001, the United States Department of Homeland Security was formed from the amalgamation of 22 domestic agencies. Its remit is to protect the nation against threats to the homeland from international terrorists, natural disasters or other large scale emergencies, by assessing vulnerabilities and coordinating entities at federal, state, local and individual levels so as to ensure an effective response (Website 1.5).

To overcome these problems, there is some argument for having a national strategy but implemented at various levels. Using reconstructive logic, research by Czada (1990), commented on by König (1990), into the West German response to the radioactive fallout after the 1986 accident in the Chernobyl nuclear reactor throws some light on the potential for this. At the time of the accident, disaster management for all but war and coastal issues in the Federal Republic of Germany was highly decentralised and then many of the responsibilities of the states (or Länder) delegated to local levels (König 1990). Czada (1990) analyses the administrative reactions of the West German authorities at the local, regional and national levels, by taking each decision made by them and considering the outcome of possible alternatives. He concludes that the considerable confusion seen at the local community level arose largely because the roles and responsibilities of the different authorities were not clearly delineated and this led to confrontation with the authorities at the higher regional and federal levels. He recommends that there should be a central, specialised coordinating agency, perhaps a federal department, with central and local competences adjusted and balanced.

In his comment on Czada's (1990) paper, König (1990: 319) observes that

the Chernobyl disaster may be called a man-made crisis. But it was certainly also a crisis of institutions which were not prepared for such a contingency.

He considers that this was due firstly to poor communication of information and secondly, to problems in coordination and cooperation both horizontally at each level and vertically between them. Measures introduced at the time to improve the

situation included an international agreement over the exchange of information and domestic reforms to coordinate the collection of information, to restructure the channels of communication and to establish a central data bank. Twelve years later, this was again one of the recommendations called for by the Cabinet Office.

In the case of the problems with coordination and cooperation, a coordinating body was appointed at each level to offset horizontal difficulties but coordination between public authorities at different levels remained difficult throughout the crisis. The Länder took a lot of initiatives that were not coordinated with the federal government which at times led to confusion and this was exacerbated by delays and misunderstandings caused by information and assessment problems that could have been avoided given better preparation. As a result of this research, König recommends that proactive crisis management - ensuring that organisations are prepared, strategic and tactical planning and the appointment of appropriate personnel - should be an area for federal involvement, while information gathering and control should remain the responsibility of the states, but integrated into a centralised procedure so as to reduce the risks of ambiguities and confusion and ensure that data are precise and reliable.

More recently Rosenthal, Bezuyen, van Duin and 't Hart (1998) looking at the response of four European countries to the widespread flooding of 1993 and 1995, found a very similar situation. There were problems with communication of the weather forecasts to the authorities and rescue services and discrepancy between the weather forecast and the actual situation confronting the response units. In addition there were serious delays and communication problems between countries. In terms of implementation, they found that there were limitations to the premise that crisis management should be concentrated at the higher level and felt that strategic decisions made at lower levels were more immediate and therefore more effective.

1.4.6 International cooperation

International cooperation may play an important part in recovery after a crisis, both in cases where the crisis is restricted to a single country or when its impact is spread

through a region. Mansfeld (1999) suggests that neighbouring countries can share expertise and knowledge as to the effectiveness of recovery strategies and can assist each other in areas such as marketing, the collection of data for monitoring the situation, and the planning and development of tourist facilities. Rosenthal *et al* (1998: 199) observe that

contrary to the gist of some of the elevated political and administrative thinking on transnational cooperation, well-defined and pointed arrangements among adjacent border areas, ... worked much more smoothly and effectively than large-scale over-all agreements between national governments of the countries involved.

This has some relevance in the context of cross-border tourism developments which are becoming more common in regions such as Europe and Southeast Asia and will be discussed in Chapter 2.1.3.

The importance of international cooperation was seen in early 2003 during the outbreak of SARS in East Asia and its subsequent spread worldwide. The World Health Organisation (WHO) implemented an untested plan which had been drawn up to deal with a global flu pandemic. For the first time the international medical research community cooperated rather than competed over the identification of the contagious agent and the development of an appropriate treatment for the disease. In addition, governments worldwide enforced the WHO's recommendations and quarantine which contributed to the relative success in containing the spread of the virus (*BBC2 Horizon*, 29 May 2003).

Whilst this international collaboration is commendable, it is interesting to conjecture as to the extent that countries would have cooperated with each other had the threat to their own economies not been so immediate and so severe. Although no other country was targeted at the time, the international response to the terrorist attacks in the United States on 11 September 2001 was in the most part united, at least to begin with, and international cooperation has since been sustained by the subsequent bombings in countries which were not obvious targets themselves. In contrast, the ragged response to the call by the United States for international action against the

alleged threat from Iraqi weapons of mass destruction in early 2003, an instance of attempted proactive rather than reactive crisis management, illustrates the extent to which current national interests and ideologies may influence a country's willingness to participate in a proactive initiative even though there is clearly a risk that the country may itself be a target one day.

1.5 MACRO-LEVEL CONSIDERATIONS

There are a number of issues that have to be taken into account when considering macro level crisis management. These are: i. the political ideology of the government and the state of the economy of the country concerned; ii. the part played by the government and the private sector in the recovery of the tourism sector and the extent of their cooperation; iii. the institutional structure of the tourism sector by means of which any crisis management plan may be implemented; and iv. the dominant culture of the country and its people.

1.5.1 The political and economic climate

The importance of political stability to tourism development cannot be overstressed. In view of the current troubles in the Middle East, there is a particular poignancy to Mansfeld's (1999) analysis of the recovery of Israeli tourism following six periods of conflict since 1967 and his recommendations for long term strategies for its rebuilding and for future crisis management. Richter (1999) makes the point that tourism projects should not be too closely associated with a particular regime or, as a means of undermining international confidence, tourism investments or tourists themselves may become a target of future political unrest as was seen in the Philippines during the time of Marcos when luxury hotels owned by the dictator were burnt down. There is a somewhat symbiotic relationship between government and tourism where there are reciprocal benefits for each. Sharpley and Craven (2001) suggest that government policy for crisis management will inevitably vary depending on the geographical distribution and political views of those affected by a given crisis. The government's response to a crisis will be weakened where its impact is

widespread rather than concentrated as there is less of an electoral threat, or if the majority of the 'victims' of the crisis support the political opposition.

The tourism sector should be viewed in the context of the whole economy as well as the existing geopolitical situation (Richter 1999). Jenkins (1997) stresses the importance of evaluating the comparative advantage of the tourism sector *vis à vis* other sectors, which is well illustrated by Sharpley and Craven's (2001) research. They describe how the UK government's policies to deal with the foot and mouth crisis, i.e. the slaughter rather than the vaccination of animals and the closure of the countryside to visitors, favoured the agricultural sector rather than the tourism sector and cost the taxpayer substantially more than it need have done. This was despite the fact that revenue per annum from tourism is estimated at £64 billion, four times that from agriculture, tourism's contribution to GDP is 4% as opposed to agriculture's 1% and it employs 7% of the workforce where agriculture accounts for only 1.5%.

1.5.2 The role of the government and the private sector

The means selected to assist tourism recovery after a crisis will vary with the country affected and there are too many options to discuss in any detail here. Henderson (1999a) reviews the measures employed by the Indonesian and Thai governments and private sectors but it was too early to evaluate their success. There is a potential role for both government and the private sector, either independent of each other or in cooperation. Government measures may include tax incentives or special import provision to stimulate foreign investment; tax relief and extended credit to tourism businesses; increased funding to National Tourism Organisations (NTOs); and the stimulation of domestic tourism in the absence of international visitors. There is in turn considerable scope for private sector initiatives to boost tourism. Special packages can combine, for example, flights and accommodation, and new products developed which aim not only to increase length of stay and tourist spend but also to attract new market segments by combining different types of holiday or destination.

Consistent with the 'user pays' principle, there is considerable potential for public-private sector cooperation, the benefits of which are outlined by Poetschke (1995).

Areas particularly suitable for such ventures have been found by the WTO (2000) to be the improvement of destination appeal, marketing efficiency, productivity and the overall management of the tourism system. Of particular importance to crisis management, the private sector can regularly supply to government the data which give an accurate and immediate picture of how recovery is progressing. The joint funding of marketing initiatives, for example, has been very effective in Thailand's *Amazing Thailand* promotion (WTO 2000) and in the post-coup recovery of Fijian tourism (Berno and King 2001). Lührman (2000) recommends that the focus of the marketing should not only be on the principal existing markets but also on expanding lesser or newer markets, especially those beyond the range of the crisis. This may be especially important in the case of a widespread crisis such as the Asian financial crisis when the substantial regional generating markets all but collapsed.

1.5.3 The institutional structure of the tourism sector

As discussed at the beginning of this chapter, there has not been a great deal of research done into macro-level crisis management and of this, most either discusses the principles of crisis management as applied to tourism or describes the response to a particular crisis or aspect of it. Seldom is there any reference to the implementation of a national crisis management policy and the institutional structures which might act as a framework for its application, a summary of which is provided by Hall and Jenkins (1995). One of the major differences between crisis management at the macro and micro levels is that at organisational level there is a well defined setting within which decisions made may be operationalised. In contrast, the tourism sector of a given country will be a collection of unlinked enterprises, each with different needs and priorities and it therefore offers a challenge in this respect. Rosenthal *et al* (1998: 193) observe that the responses of four countries to flooding "were shaped significantly by the existing institutional structures of disaster management" which differed considerably between each.

1.5.4 Cultural issues

Crisis management is associated largely with the United States where the term was coined and much of the research has been carried out. Crisis as a concept must surely

be international but the extent to which crisis management is an appropriate behaviour in other cultural environments is open to question. As mentioned earlier, in many Asian cultures 'loss of face' is taken very seriously and participation in crisis management may be perceived as a tacit acknowledgement of the existence of a crisis which at government level may imply incompetence or mishandling of a situation and failure to govern adequately. Whilst Bhopal and Hitchcock (2001) explore the cultural aspects of Asian business management within the context of the Asian financial crisis, they do not consider the varying approach to management of the crisis itself. This aspect of crisis management, the cultural perspective, has been little researched and would merit further investigation.

1.6 GOOD FROM THE CRISIS

As suggested in Section 1.2.4, there may be benefits from a crisis. Meyers and Holusha (1986) list some of the potential advantages to emerge from a business crisis as: change is accelerated; latent problems are faced; personnel can be changed; new strategies evolve; early warning systems develop; and new competitive edges appear. Although their research is at an organisational level, many of these points can be seen in the case of Malaysia and will be discussed in greater detail in later chapters.

Sönmez *et al* (1994: vi) consider that

a crisis can be regarded as an ideal opportunity to distinguish a tourist destination; create awareness among the travelling public; and improve constituents' perceptions.

The value to the public of natural environments of great beauty or interest increases after a disaster and their immediate response is to wish to see the consequences. As a result of this curiosity, visitation levels increase, an effect that was seen after the eruption of Mount St Helens, Washington and after the Exxon oil spill near Valdez (Snepenger and Karahan 1991). The improvement in how tourism itself is viewed may be a very real benefit. Durocher (1994) describes how during the 1980s rampant tourism development in Kauai had soured local public opinion, although imperceptibly the island residents had grown increasingly dependent on tourism and

the hurricane brought them to realise that tourism is an essential component of their way of life, so improving the status of tourism on the island.

Crises may offer opportunities for entrepreneurial activities, especially important in tourism development. Faulkner and Russell (2001) suggest a link between crises and entrepreneurs not only because of their sensitivity to new opportunities but also because they may themselves act as agents of change. Whilst of real interest, their research focuses primarily at destination level and is therefore beyond the parameters of this study; it would, however, be a good subject for further research.

1.7 EMERGING ISSUES

From this overview of crisis management and analysis of the literature on the subject, a number of areas for research are suggested. Firstly, the proportion of research into crisis management that is focused at macro-level rather than organisational level is comparatively small and of that very little is concerned with a particular sector. It was therefore decided to investigate the response of the Malaysian government to the Asian financial crisis with specific reference to the tourism sector. Secondly, as Mitroff *et al* (1996) stress the importance of post-crisis audits, it was felt that there should first be an examination of what actually happened during the crisis, what the reaction to it was and how effective this appears to have been. Apart from a consideration of the crisis itself and the reactive strategies employed by the government, a number of topics stand out as requiring a more detailed treatment. These include the role of the media; the restoration of confidence; marketing and promotion; and the extent of international cooperation, especially within the region, during the period of the crisis.

However, while reactive crisis management is important, it is clear that being proactive to a crisis is even more valuable. As discussed in Section 1.4.4, post-crisis audits are a means of evaluating performance during the whole crisis period so that changes can be made in order to be better prepared for the future. The latter part of this research focuses on the potential for establishing a crisis management policy for

the tourism sector and in order to draw conclusions as to whether or not this is at all feasible, considers aspects such as indicators; public-private sector cooperation; and based on the research of Czada (1990), König (1990) and Rosenthal *et al* (1998), the level at which a response to crisis may be effected.

This chapter has examined the history and main aspects of crisis management in general as well as in the context of tourism and the literature on the subject. The next chapter provides the context for this study. First it looks in greater detail at Southeast Asia before, during and since the Asian financial crisis in 1997 and summarises the reasons for and progress of the crisis itself. The specific case of Malaysia is then examined. First there is a general description of the country to provide the context for the research, followed by a detailed treatment of the impact of the crisis, the government's reaction to it and the extent to which tourism was affected. Finally, the post-crisis recovery is touched on.

Chapter 2: Crisis and Tourism in Southeast Asia

This chapter examines the Asian financial crisis starting in 1997. It begins by looking at Southeast Asia as a region with a focus on tourism in the area. Next, there is a summary of the progress and impacts of the financial crisis itself, how Southeast Asian tourism was affected and the subsequent recovery of the region. The rest of the chapter examines the case of Malaysia. First, a profile of the country is drawn and the development of Malaysian tourism is described. The effect of the crisis on the economy is then outlined and the actions of the government to overcome the impacts and to restore the status quo. This is followed by a more detailed examination of the extent to which the tourism sector was affected and how the government responded. Finally the post-crisis recovery is discussed.

2.1 THE REGION OF SOUTHEAST ASIA

2.1.1 The background to the region

The East Asia Pacific (EAP) region, as defined by the WTO, has shown unprecedented economic growth over the last three decades. There is, however, considerable variation across the region, as might be expected in so large an area. Japan, one of the world's eight leading industrialised countries, has been suffering an economic slowdown since the early 1990s. The GDP per capita of Cambodia and Myanmar is less than US\$1,500, while China is an emerging giant with enormous market potential whose economy dwarfs those of the other countries, although it is still classified by the World Bank as a developing country with a lower-middle-income economy (World Bank 2003). Because of this lack of homogeneity, the focus of this chapter will be the WTO sub-region of Southeast Asia which is composed of Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam.

Southeast Asia is a region of great contrasts, with a rich and varied history and considerable cultural and geographical diversity. Leinbach and Ulack (2000) provide a very comprehensive overview of the countries in this region and the issues and challenges that they face. The combined population is 525 million (Citrinot 2003)

and despite the range of religious and political ideologies to be found in each country, there is relative political stability. With the exception of Vietnam, Laos, Cambodia and Myanmar, the countries have shown spectacular economic performance over the last 30 years, largely on account of strong manufacturing-based economies. For example, between 1987 and 1992, the average economic growth rate for Malaysia, Indonesia, Thailand, Singapore and the Philippines was 7.3% as compared with North America (2.5%) and the world (2.2%) and this has been accompanied by better distribution of wealth and a reduction in poverty levels (Tongzon 2002).

The strengthening economies of many countries in the East Asia Pacific region, as designated by the WTO, has seen the growth of both leisure and business travel. Increasingly, the middle classes have had more leisure time and disposable income and consequently a greater propensity for tourism. Many of those living in the region have strong ethnic ties with other countries and welcome the chance to travel, while promotions and the development of new packages offer them the means to do so. International trade and strong regional markets require substantial business travel into and within the whole EAP region. As the distances are great and many of the countries consist of islands, air travel has emerged as the preferred and often the only realistic mode of transport. Between 1989 and 1997 the Southeast Asian travel account balance (tourism receipts less expenditure) almost doubled from US\$6,746 million to US\$13,219 million. Tourist arrivals in Southeast Asia increased during this period from 14.749 million to 30.538 million, an average annual rate of 9.52%. Arrivals from the EAP region increased from 9.362 million to 20.666 million and from within Southeast Asia from 5.481 million to 10.770 million (WTO 1999b).

All the Southeast Asian countries have excellent natural tourism assets – a tropical climate, beautiful scenery, sandy beaches, clear seas with coral reefs and diverse flora and fauna. A number of countries in the region have established tourism sectors and their governments are anxious to develop tourism further as a means of attracting foreign currency and increasing employment opportunities. In the low income countries such as Laos and Cambodia with at present comparatively little in

the way of tourism, it is also viewed as a means of diversifying a narrow resource-based economy. There is a considerable literature in this area. In his analysis of tourism in Pacific rim countries, Hall (1997) examines tourism in the seven more developed countries and gives special consideration to the emerging economies of Vietnam, Laos, Cambodia and Myanmar. In addition there are a number of studies of tourism in the region as a whole (Citrinot 2003; Ulack and Del Casino 2001; WTO 2002) as well as collections of tourism research, each with a particular focus (Chon 2000; Go and Jenkins 1997; Hall and Page 2000; Hitchcock, King and Parnwell 1993; Teo, Chang and Ho 2001).

Tourism in this region has traditionally focused on beach and cultural tourism. Beach resort destinations such as Bali, Phuket and Penang have gained world recognition while there are many others less well known. Cultural and historical assets include ancient religious monuments such as the great temples of Borobodur and Ankor Wat, cities associated either with the colonial past such as Melaka and Hanoi, or traditional culture such as the royal city of Luang Prabang, Laos or the batik centre of Yogyakarta in Java; and sites such as the Death Railway in Thailand. Increasingly popular is the cruising sector for both leisure and business purposes, as is leisure tourism with an environmental theme: visits to the orang-utan sanctuaries in Borneo; the terraced rice fields of north Luzon; the turtle breeding beaches in Sabah; or trekking to visit the hill tribes in northern Thailand. More recently the region's capital cities have emerged as destinations in their own right, offering the leisure tourist varied shopping opportunities, excellent cuisine, cultural experiences and sightseeing. International hotels offer the business traveller well-equipped facilities and first rate conference venues. Since the Asian financial crisis in 1997, efforts have been made to diversify the leisure tourism products into niche markets and as a result heritage trails, health spas, international sporting events and ecotourism opportunities have become major attractions in some of the countries. These developments have been remarkably successful; tourism arrivals to the Southeast Asian countries reached 40.1 million in 2001, with receipts of US\$25.6 billion in 2002 (Citrinot 2003).

2.1.2 The Association of Southeast Asian Nations

Many of the Southeast Asian countries are members of many international organisations such as the Asia Pacific Economic Cooperation (APEC) and the Organisation of Petroleum Exporting Countries but the one that is of most relevance to this research is the Association of Southeast Asian Nations (ASEAN). ASEAN was founded in 1967 with the aims of encouraging economic growth and socio-cultural development and promoting political harmony in the region. A full treatment of the structure and development of the association is beyond the scope of this study but can be found in Tongzon (2002). In a number of treaties and agreements over the years that followed, economic cooperation and mutual assistance were strengthened and intraregional trade facilitated; since 1992 the trend has been towards an ASEAN Free Trade Area. Closer economic integration was called for in the 1997 ASEAN Vision 2020 (ASEAN 1997) and a year later the Hanoi Plan of Action was adopted as the first of a series to realise this vision (ASEAN 1998). Since 1994 there has been an ASEAN Regional Forum with participants from all western Pacific rim countries, together with North American countries and members of the European Union (Website 2.1).

Between 1999 when Cambodia joined the association and 2002, all ten countries in Southeast Asia were members of ASEAN. This changed in 2002 when Timor-Leste¹ gained independence from Indonesia and became the eleventh country in Southeast Asia; its government too has expressed interest in full membership of ASEAN once the economy is stronger and the country's institutions are more established (Ramos-Horta 2003). The year that each country joined ASEAN, its GDP per capita in 2000 and its level of development as classified by the World Bank are shown in Table 2.1. From the table it is clear that there is considerable disparity between the ten countries which some consider to be the root of many of ASEAN's problems.

¹ Timor Leste was formerly East Timor.

Table 2.1: A comparison of the ASEAN member countries

Country	Date of joining	GDP per capita in 2000 (US\$)	World Bank classification
Indonesia	1967	3,043	Lower Middle Income
Malaysia	1967	9,068	Upper Middle Income
Philippines	1967	3,971	Lower Middle Income
Singapore	1967	23,356	High Income
Thailand	1967	6,402	Lower Middle Income
Brunei Darussalam	1984	16,779	High Income
Vietnam	1995	1,996	Low Income
Laos	1997	1,575	Low Income
Myanmar	1997	1,027	Low Income
Cambodia	1999	1,446	Low Income

Source: World Bank (2003); UNDP (2002)

Other than trade, the main areas of ASEAN activity now include transport, information and communication technology (ICT), and the environment. The latter has become of considerable importance, as over the last 15 years the more southerly countries have been affected sporadically to a greater or lesser extent by the environmental haze resulting from industrial clearance and unregulated slash and burn practices in the forests of Sumatra and Kalimantan, Indonesia, which in 1997 were compounded by the unusual climatic conditions brought about by the El Niño phenomenon. This has caused considerable economic damage to the affected countries, not helped by adverse media coverage. Following the haze in 1997/8 which resulted in losses of US\$9 billion (ASEAN 2001), the Regional Haze Action Plan was adopted, which addresses the issue of environmental quality (Website 2.2).

There has been comparatively little research into ASEAN itself as an association and its role in the region. The acronym ASEAN is often used as a convenient umbrella term for the countries in Southeast Asia, as in Hall's (1997) chapter on ASEAN. This may be because the countries are so loosely associated or because ASEAN is not perceived as an organisation with any standing or authority and so not worthy of investigation for reasons discussed in more detail below. Much of the research that has examined the activities of ASEAN has an economics perspective (Dent 1998; Soesastro 1999; Tongzon 2002), which is not surprising given that the association

was established for economic reasons. There has been very little published, however, on the part played by ASEAN in tourism development.

* Tourism is or has the potential to be an important source of foreign exchange for all ASEAN countries, as well as creating jobs and developing infrastructure in regions unsuitable for other industrial development. The role of ASEAN in regional tourism has focused in the past primarily on marketing and promotion rather than other activities. In 1976 the ASEAN Subcommittee on Tourism was established to handle promotion and marketing both within the region and worldwide and with the continued growth in regional tourism, its remit was extended to include the supply of information on ASEAN; the monitoring of tourism trends; and the encouragement of intraregional travel and inbound tourism. In the mid-1990s as a result of greater emphasis on the involvement of the private sector in tourism initiatives, the ASEAN Tourism Association was established. This organisation has members from both the public and private sectors and it focuses mostly on marketing and promotion but it is also involved in human resource development and tourism research (Website 2.3).

* Since 1981 the ASEAN national tourism organisations have organised and funded the ASEAN Tourism Forum, a major regional travel fair which is held in a different member country each year and provides an opportunity for ASEAN tourism suppliers to meet the international travel trade and journalists. In 1992 the first Visit ASEAN Year was organised to mark the 25th anniversary of ASEAN. It was considered a success even though it failed to reach its target of 22 million arrivals, an underachievement attributed to reduced visitor numbers following the Gulf crisis (Timothy 2000). The event helped to reinforce the identity of Southeast Asia as a global tourist destination and was an opportunity for cooperation between the public and private sectors. There is, however, still some doubt as to whether the ASEAN brand is recognised outside Asia (Website 2.4).

Whilst outside the East Asia Pacific region ASEAN suffers from having no clear identity or brand, within the region it is held in low esteem. ASEAN offered a platform for crucial regional cooperation over the various crises of the 1990s but this potential was never realised. The association was ineffective when attempting to

tackle the haze problems and although the Southeast Asian public expected ASEAN to be a major force in the response to the financial crisis as part of its *raison d'être* is to promote regional cooperation and economic growth, it failed to take a lead. As a result, the organisation is viewed as helpless, indecisive and weighed down in bureaucracy, “an ASEAN that fails to respond to real, current problems and challenges”; the same can be said of the governments of member countries who do not see the organisation as a serious force, largely because it has always upheld a policy of non-intervention (Soesastro 1999; 158). This may be starting to change however. ASEAN recently issued a rebuke to Myanmar over the treatment of the pro-democracy leader Aung San Suu Kyi which, although described as “an extraordinarily feeble protest”, is the first time it has interfered in a member country’s domestic affairs (*The Economist*, 21 June 2003: 62).

2.1.3 Growth triangles

Since the late 1980s there have been a number of initiatives to stimulate regional growth in East Asia in the form of growth triangles, which Cartier (2000: 265) describes as

a major way that ... countries with different levels of economic development cooperate rather than compete across national boundaries.

The objective of growth triangles is to foster the development, expansion and integration mainly of trade and investment but there may be involvement to a greater or lesser extent in tourism, transport, shipping, communication, agriculture and forestry, and industrial infrastructure development. They are generally private sector initiatives, supported by the participating governments. There are growth triangles as far north as Japan but three are located in Southeast Asia. These are the Indonesia-Malaysia-Singapore growth triangle (IMS-GT) which incorporates the Riau islands in Indonesia, the Malaysian state of Johor, and Singapore; the Indonesia-Malaysia-Thailand growth triangle (IMT-GT) which links Sumatra, Penang and Southern Thailand; and the East ASEAN Growth Area (EAGA) comprising Brunei, Kalimantan and Sulawesi in Indonesia, Mindanao in the Philippines, and East Malaysia. Because these initiatives are still relatively new, there is not a great deal in the literature on the subject other than passing references. Of most relevance to this

study is the research by Tongzon (2002) who considers growth triangles in general terms within the context of ASEAN economic development and both Henderson (2001) and Grundy-Warr and Perry (2001) who focus on the IMS-GT from a tourism perspective and the lessons to be learnt from it so far.

Growth triangles have a number of advantages over more formal trading blocs. Firstly, there can be cooperation between partners without any major institutional or legislative changes. Secondly, although there is greater economic interaction, national boundaries are preserved which minimises potential political tensions. Thirdly, although it is still too early for full evaluation, they may be considered to be “more flexible, less bureaucratic, more activity- and project-specific, and more cost-effective” Tongzon (2002: 84). The Southeast Asian triangles have been established in economically depressed or peripheral areas that stand to benefit substantially from focused initiatives to boost economic growth. Particularly in the IMS-GT and the EAGA, the considerable difference between the development levels of the participating countries may be very attractive to investors. The growth triangle concept originated in Singapore when demand for new sites and cheaper labour for manufacturing production led to the establishment in 1989 of the IMS-GT, and allowed the combining of Singaporean technology and infrastructure with the cheap land and labour of the other two partners (Grundy-Warr and Perry 2001).

None of the Southeast Asian growth triangles yet has a significant tourism dimension, although it may only be a matter of time before this is achieved, as there are already bilateral agreements in place between participating countries. IMT-GT promotional packages are reported to have increased the number of Thai tourists to Penang from 400,000 in 1999 to 900,000 in 2000 (*Malaysia General News*, 14 May 2001). Where the tourism assets of neighbouring countries complement each other, there is the potential for small-scale cross-border cooperation to develop integrated tourism products. One such project, the bilateral Singapore-Indonesia venture to develop the Bintan Beach International Resort and tourism in Batam, has been studied within an analysis of the IMS-GT by Grundy-Warr and Perry (2001). Although this venture has had some success, there have also been quite severe negative impacts on the island of Batam in particular, where levels of crime and

prostitution are high. The authors conclude that although nominally an international cooperation, in reality there are no actual transboundary institutions to facilitate the initiatives nor have there been any significant changes in national laws in the area, apart from the provision of Smart Card facilities to speed immigration procedures for commuting executives.

More time is needed before it can be seen how effective these initiatives are in practice and how successful a tool for regional development they may prove to be. Tongzon (2002) summarises the benefits to both the capital-rich and the capital-poor partners as well as the costs and potential problems associated with them and considers on balance that growth triangles are a means of improving economic and political cooperation within the region. Further discussion of this issue is beyond the scope of this research but it is worth bearing in mind the importance of regional cooperation in proactive crisis management, discussed in Chapter 1.3.5 and 1.4.6.

2.2 THE ASIAN FINANCIAL CRISIS

The 1997 Asian crisis started as a financial crisis in Thailand but spread through most of Southeast Asia and developed into an economic crisis of serious proportions. As a market driven crisis, it can be considered a continuous crisis with a long, slow build-up or pre-crisis period, as described in Chapter 1.2.3. There exists a wealth of information about the crisis and its causes and progress have been analysed in detail. An excellent source is the website of Nouriel Roubini (Website 2.5) but there are also many texts written about the crisis. Bhopal and Hitchcock (2001) provide the context for the crisis; Chote (1998) offers an economic perspective; Tongzon (2002) writes from the point of view of ASEAN; Prideaux (1999) summaries the causes of the crisis and offers an interpretation of the crisis itself; others include Prideaux and Witt (2000) and Jomo (1998). There has been an international debate as to why the crisis happened, reviewed by Booth (2001), and what could have been done both before and afterwards that was not done but a detailed treatment of this is outside the parameters of this research and only the main steps will be presented in this section.

2.2.1 Why the crisis happened

Even today, six years later, there is still no agreement over the causes of the crisis. Large scale currency movements out of domestic financial markets together with the 40% devaluation of the baht are considered by the World Bank (1998) to have been the catalyst which started the crisis. Krugman (1998: 74) comments:

The unique aspect of Asia's comeuppance is not the awfulness of the crime but the severity of the punishment. What turned a bad financial situation into a catastrophe was the way a loss of confidence turned into self-reinforcing panic. In 1996 capital was flowing into emerging Asia at the rate of about \$100 billion a year; by the second half of 1997 it was flowing out at about the same rate. Inevitably, with that kind of reversal Asia's asset markets plunged, its economies went into recession, and it only got worse from there.

Although many of the countries in Asia were affected to some extent by the financial crisis, the countries with the soundest economic policies and a diversified resource base saw the least change in the value of their stock markets and currencies. The greatest impact was on the 'tiger' economies of Thailand, South Korea, Malaysia, the Philippines and Indonesia where the movement of private capital changed from a net inflow of US\$93 billion in 1996 to a US\$12 billion outflow in 1997. As a result, international confidence in the economies plummeted, regional organisations such as APEC and ASEAN were regarded with suspicion, businesses collapsed and ethnic disharmony became an issue in some countries (Hill 1999). Many of the people in the region who had risen above the poverty line as a result of successful development prior to the crisis once again fell below it.

Stiglitz (1998) suggests that the sudden change from rapid economic growth to crisis can best be accounted for by changes in global and national policies. Firstly, increasingly integrated capital markets, together with increased flow of capital across these markets, has put considerable strain on some economies, particularly those of developing countries. Secondly, at a national level, increased financial liberalisation to cope with the global market demands has not been matched by a comparable increase in regulation and supervision of the financial institutions concerned. Zuang

and Dowling (2002) on the other hand conclude from their analysis of the leading indicators during the period 1970-1997 that weaknesses in economic and financial fundamentals in the worst hit countries triggered the crisis apart from in Singapore where regional contagion, market overreaction and investor panic caused the currency depreciation. In contrast, Booth (2001: 42) considers that in the countries most affected by the crisis, domestic investors had become increasingly intolerant of corrupt government practices, so that

confidence in the ability of governments to handle the economic crisis collapsed very rapidly ... among the great majority of the urban middle classes, who controlled most of the wealth, precisely because they had become convinced that their governments were controlled by corrupt and self-serving people whose only motivation was to increase their own personal wealth and that of their families and cronies. ... Many citizens decided that they too would act to preserve their own wealth regardless of the effect on others. The result was massive capital flight, collapsing currencies, bank failures and corporate bankruptcies.

Zhang (2000) considers that the reason that the crisis shocked the world was because it followed 20 years of strong economic performance, which was due firstly to fiscal and monetary policies aimed at high growth with low inflation; secondly to a high rate of savings in both private and public sectors providing capital for investment in the economies; and thirdly to liberalised trade and investment policies more open than in most developing countries, which resulted in Asia's attracting almost half of the total capital investment in developing countries. Prior to the crisis there had been such confidence in the Southeast Asian economies that bad banking practices had become commonplace. The banks took for granted the stable exchange rates and borrowed in dollars to buy local currency assets, so that when the currencies devalued their debts increased substantially. In addition, with no real consideration of the financial risks they were undertaking, they lent on property demand for business and private accommodation without foreseeing the overcapacity that caused prices to fall, as well as on projects for corrupt or shady politicians (*The Economist*, 15 November 1997). Excessive capital was invested in inadequately scrutinised

'crony' projects, which yielded low returns and were unable to pay investors (Tornell 1999). Banks in the pocket of the government countenanced investments for political expediency instead of giving serious consideration to their intrinsic risk. Krugman (1998: 74) sums this up:

There was a dark underside to 'Asian values', that the success of too many Asian businessmen depended less on what they knew than on whom they knew. Crony capitalism meant ... that dubious investments ... were cheerfully funded by local banks, as long as the borrower had the right government connections.

The result of this was that Asian banks lost 10-20% of their loans, estimated at US\$73 billion which is 13% of Southeast Asian GDP (*The Economist*, 15 November 1997).

2.2.2 The progress of the crisis

The onset of the crisis is generally considered to be the collapse of the Thai baht on 02 July 1997 when its value fell 60% overnight. Although this might be considered the trigger of the crisis, the economy of Thailand was by that time already in a critical state. The baht had been fixed to the US dollar which was appreciating during the pre-crisis period and short term foreign debts had been allowed to mount up. In addition, Hill (1999) suggests that there had been premature financial liberalisation in order to establish the Bangkok International Banking Facility in 1993, as the government was keen to promote Bangkok as a regional finance centre in competition with Hong Kong and Singapore and this had entailed the removal of many of the regulatory restrictions and barriers to entry into the financial sector. As a result, there was rapid expansion and very quickly some of the major firms, such as the Bangkok Bank of Commerce, found themselves in trouble. The IMF had been concerned for some time about the lack of control over the financial sector in Thailand and had made representations to the Thai government but these had been ignored. Overseas creditors started to panic as they saw their investments lose value and began to call in the loans they had made to Thai banks and businesses. From 1996 attempts were made to regulate the sector once again, but these were unsuccessful. At this time the baht was pegged to the dollar but the currency demand

forced the government to free the Thai baht from the US dollar and subsequently to devalue the baht on 02 July 1997.

This series of events led to the loss of economic confidence across the region and the ensuing crisis has been blamed on speculators in the currency markets. Brown, Goetzmann and Park (1998), however, studying hedge funds and Asian currencies during the crisis found no evidence of this and Stiglitz (1998) concludes that in many countries it was in fact the domestic investors who withdrew their money *before* the international investors did. He observes that even the announcement of an international rescue package estimated at over US\$100 billion failed to halt the spread of the troubles from Thailand to other countries. In particular the economies of Malaysia, South Korea and Indonesia were affected but the crisis spread also to Japan, less so to China and to Russia and briefly to Brazil (Prideaux 1999). Malaysia and the Philippines were forced to devalue their currencies (*The Economist*, 26 July 1997). Between 01 July 1997 and 30 January 1998 exchange rates fell by approximately 40% in Korea, Malaysia and the Philippines, more than 50% in Thailand and 80% in Indonesia (Stiglitz 1998).

The spread of a crisis from one country to another is known as contagion and there are a number of views as to its causes. Firstly, Glick and Rose (1998, cited by Tornell 1999) suggest that contagion will affect countries with strong trade links, especially if they have relatively similar, narrow-based economies because if one market fails, the others are unable to buy from or sell to it. This was certainly the case in Southeast Asia where many of the countries produce microelectronic components. There are considerable implications for tourism here. In a region such as Southeast Asia, not only are many of the products are very similar and in direct competition with each other but also intraregional tourism demand is substantial. Secondly, the devaluation of a currency in one country will effectively reduce the competitiveness of a neighbouring currency, with the result that there may be an adjustment of its exchange rate (Wyplosz 1998). In addition, its exports will be cheaper on the international markets, which may lead to a fall in industry prices worldwide (Forbes 2000). Thirdly, a weakness exposed in one country may send a signal to the financial markets that other countries with similar fundamentals may

well share the weakness, which leads to a fall in confidence. Prior to 1997 the emerging Asian countries were borrowing increasingly from Japanese and European banks, so when the Thai economy collapsed the banks started pulling out of the other countries (Reinhart 2001). Wyplosz (1998) suggests that only in Thailand did poor economic fundamentals lead to the crisis whilst in the other Southeast Asian countries it was the result of contagion and arose because the market lost confidence.

The major effects of the crisis on the countries of Southeast Asia were reduced growth in GDP, widespread unemployment and an increase in inflation (Prideaux and Witt 2000). People not only lost their jobs but also their investments and as a result there was considerable loss of confidence in the government. In some countries, such as Indonesia, there were outbreaks of social unrest. The crisis cannot but have had a psychological impact on the Southeast Asians. Only one year after the collapse of the baht, Krugman (1998) questions the extent of the humiliation of the population by having to move from being one of the world's economies of the future to having to implement emergency measures in order to keep the economy afloat and the long-term effect of this. Rather than just a financial crisis, for some countries it also became a political and social crisis.

2.2.3 The response to the crisis

In order to restore financial stability, Thailand, Indonesia and the Philippines requested help from the IMF which was granted but conditional upon the implementation of strict monetary policies (Lew and Hall 1999). These loan conditions together with the devaluation and debt resulted in the contraction of the national as well as the regional economies. As well as for being most severe on the poorest in the country concerned, IMF bailouts are also criticised by some for creating moral hazard; by coming to the rescue of investors and borrowers when they are in trouble, the disincentive for behaving irresponsibly or recklessly is removed and consequently the risk of future crises remains or even increases. However, because there are stringent conditions attached to the IMF loans, there is little moral hazard for governments, whereas for investors it remains a possibility even though they stand to lose considerable sums of money if there is no rescue (Beddoes 1999). Malaysia alone refused help from the IMF but instead obtained a direct loan of

US\$1.35 billion at a very low interest rate from a consortium of 12 international banks already operating in the country. In view of the economic and political uncertainties at the time this was surprising but might be construed as the price the banks were prepared to pay in order to remain on good terms with the government rather than because of the country's strong credit rating as claimed by the Malaysian government (*The Economist*, 16 January 1999). In addition Malaysia made the unexpected move of introducing capital controls in September 1998, a strategy which is discussed in detail in Section 2.4.4.

The part played by ASEAN during and after the crisis was disappointing, even though it could have orchestrated a regional response in the areas suggested by Mansfeld (1999) and outlined in Chapter 1.4.6. It did respond, however, in some part to the crisis. At the national level ASEAN supported financial reforms in the affected countries which included the supervision of banks, the fostering of greater transparency and the promotion of greater and fairer competition. At the bilateral level, the less affected ASEAN countries offered assistance to those worse affected, in terms of, for example, food, medicines and credit where necessary. At an international level, ASEAN members appealed to the advanced industrialised countries to continue trading and to make allowances where necessary for the shortcomings of the ASEAN member countries (Soesastro 1999).

2.2.4 The impact on tourism in the region

The Asian financial crisis had a considerable effect on tourism in the region and the impacts varied from country to country and included bankruptcies, falling profits and increased job losses (Prideaux and Witt 2000). There have been a number of studies into the subject, such as a comprehensive overview of the impact on regional tourism by Muqbil (1998); WTO (1999a); Prideaux (1999) whose main focus is Korea, Thailand and Australia; Hitchcock (2001) who analyses the case of Bali within the Indonesian crisis; and Lew (1999) and Henderson (1999b) who both offer a Singaporean perspective.

In 1996 the WTO forecast that there would be 122 million international arrivals in the East Asia Pacific region in 2000 and this figure would increase to 229 million in

2010 (22.5% of the world total), representing an annual growth rate between 1990-2010 of 7.6% (Lew and Hall 1999). What did in fact happen was that after a strong showing in 1996, the growth rate of arrivals in East Asia and the Pacific region fell from 9.6% to a mere 1.1% in 1997, with tourism receipts in this area in 1997 the worst since 1991 (WTO 1998). The level of funding for many NTOs fell as the currencies lost value as there was less money for international promotion (Prideaux 1999). As a result of the crisis, the WTO's forecast of 1,600 million arrivals to the region by the year 2020 had to be reduced by 50 million (WTO 1999a).

Intraregional travel, which accounted for 78% of arrivals in 1997 (WTO 1998), was severely affected by the economic crisis as the disposable income of those living in the region was reduced. Expectations of annual growth of 9% over the period 1995-2000 had to be reduced by a staggering 83% to 1.5% annually (WTO 1999a). Overseas travel was one area where savings could be made by both the business and the leisure markets and consequently demand decreased in volume as did yields measured in terms of average length of stay and expenditure (WTO 1999a). The decline in the markets was not uniform across the region. For example, the overall number of East Asian visitors to Thailand fell by 4%, with the total from South Korea falling 62% and from Indonesia by 44%, whereas numbers from countries least affected by the economic crisis (China, Singapore, Laos and Vietnam) all rose (Tasker 1998). Similarly, within each country the extent to which intraregional arrivals were affected by the crisis varied considerably; despite the economic turmoil in Indonesia, arrivals to Bali remained relatively stable as compared to islands such as Java because of its image as a 'safe' destination (Hitchcock 2001) whilst in Malaysia, the southern state of Johor was less affected by the decrease in intraregional arrivals than the central Klang valley, for reasons which will be discussed in detail below.

It was suggested by some that the reduction in Japanese and South Korean travel had the most effect on tourism performance in the region (Muqbil 1998). The Japanese had for some years been high profile tourists in the region, not only as they are often the largest national group of visitors to a country, accounting for 63.8% of arrivals in South Korea, 21.6% in Singapore and 36.7% in China (WTO 1998), but also as they

are generally high spenders (Mackie 1992). The weak yen reduced revenue from Japanese tourists; in June 1998, Japanese spending in Hong Kong dropped by 50% compared with June 1997 (*The Economist*, 20 June 1998). Comparative economic stability, however, does not preclude falling visitor numbers; Hong Kong's currency kept its value which meant that it was no longer such an attractive shopping destination for Asian tourists (nor for international ones) and as a result Hong Kong experienced an 11% fall in regional tourist arrivals.

In terms of international tourist flows, the low value of Southeast Asian currencies against the stronger and more stable Western currencies meant that the region as a long-haul destination became more attractive. Once international visitors arrived, they found that clothes, souvenirs, food and entertainment, which were all priced in local currency, were very cheap so per capita spending was high. In spite of (or perhaps because of) the catastrophic performance of the baht, the Tourism Authority of Thailand reported that tourist arrivals increased by 5.6% to just over five million in the first eight months of 1998, encouraged by their two year *Amazing Thailand* promotion. European visitor numbers to Thailand increased overall by 22% (Britain 39%, France 19% and Germany 13%) and from the Americas by 14%, aided by the low value of the baht and the comparative political and social stability in the country (Tasker 1998). Similarly, a luxury resort in Langkawi, Malaysia, reported that business out of Europe was 15% higher in 1998 than in 1997, while an exotic restaurant on the same island catering to the Japanese (50%) and Western (30%) markets considered business to have increased by at least 10% (Hiebert 1998). In contrast, international tourism receipts in Indonesia fell by 24% in the first half of 1998 (Muqbil 1998), as tourists were put off by the political unrest in the country. It has been suggested that international tourist arrivals in Indonesia and Malaysia would have been substantially higher overall had there been no political and social unrest in the countries.

The aviation sector was the most visibly affected by the crisis, for two reasons. Firstly, there was a significant fall in demand resulting not only from the economic crisis but also from undesirable environmental conditions such as the haze and the Hong Kong chicken flu. In February 1998 the Association of Asia-Pacific Airlines

reported a drop in passengers of 9% compared to February 1997 (Jayasankaran 1998). Cathay Pacific Airways recorded its first loss in 22 years as a public company with a loss of HK\$175 million (US\$22.6 million) in the first half of 1998, compared to a net profit of HK\$1 billion in the first half of 1997 (*Far Eastern Economic Review*, 20 August 1998), which was largely due to a 65% decrease in passenger traffic between Japan and Hong Kong (*The Economist*, 17 January 1998). In response to the fall in demand and earnings, the airlines rationalised their routes and implemented privatisation and restructuring plans. In addition, there were staff redundancies or pay cuts which resulted in strikes in some countries.

Secondly, the fall in the value of Asian currencies increased airline costs such as fuel, aircraft and maintenance, which are all in dollars. Many of the Asian airlines already had substantial international debts as a result of investing in new aircraft in anticipation of continued growth in regional travel. In addition, local governments had invested in new localised airlines so as to facilitate visitor access to their provincial regions (Muqbil 1998). Currency depreciation meant that Philippine Airlines' foreign debt of US\$1.2 billion increased by 45% (*Far Eastern Economic Review*, 15 October 1998). In January 1998 it was estimated that Korean Air was worth less than three of its fleet of 45 Boeing 747s; it had already sold five jets in December 1997 merely to pay the interest on its debt (*The Economist*, 17 January 1998). Orders for new aircraft were cancelled and senior executives who were paid in foreign currency were made redundant.

The fall in demand for both inbound and outbound travel had a serious impact on the travel trade. Tour operators, travel agencies and tour wholesalers all suffered. Out of just under 3,000 registered travel agencies and tour operators in Thailand, 120 agencies closed in 1997/98 with another 648 agencies failing to lodge a bond with the registrar. In Indonesia even the largest travel agencies closed down branch offices and made staff redundant after a substantial drop in business. The reduction in the frequency of flights and routes by the airlines had caused some of the travel agencies' problems but these were compounded by the airlines then tightening up the payment conditions which put more out of business. In addition, fares in some cases were so low that the commission earned on sales was insufficient to maintain cash

flows. The small businesses were the most affected by these moves as they did not have the reserves necessary to keep them solvent while they developed new marketing strategies (Muqbil 1998).

The hospitality sector was also badly affected by the crisis not only because of the decline in leisure and business travel but also because there was a reduction in local demand for food and beverages. The market was very volatile with yields in US dollars falling in many of the major Asian cities, with the situation made worse by overcapacity in many instances. In 1997, Indonesia, Malaysia, Thailand and Vietnam each had more than 100,000 bed-places (WTO 1999b). Figures for the change in yields from 1997 to 1998 for selected cities are shown in Table 2.2. It is clear that the situation was particularly serious in Malaysia and Indonesia; in contrast Bangkok was showing signs of recovery. In the first three months of 1999 Bangkok, Tokyo and Seoul showed positive growth in yield after two years of decline (Flaig 1999).

Table 2.2: Change in accommodation yields in selected Asian locations 1997-8

Jakarta	Bali	Kuala Lumpur	Bangkok	Tokyo	Taipei
-54%	-40%	-50%	-3%	-7%	-10%

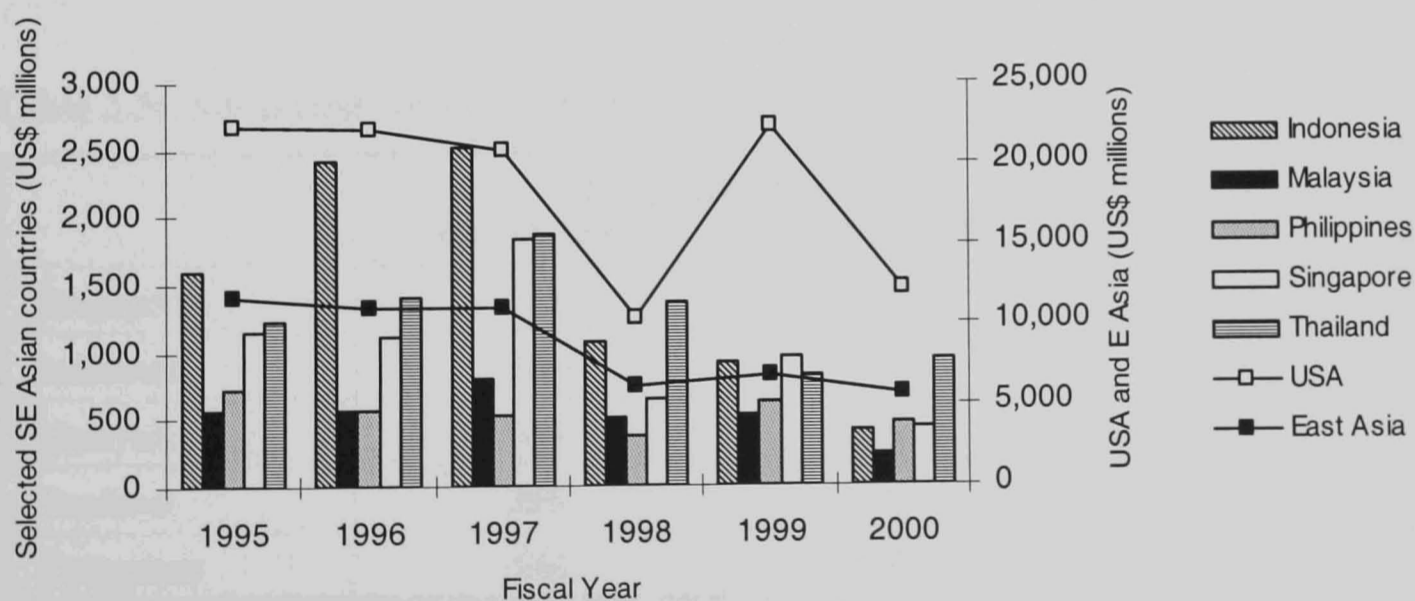
Source: Flaig 1999

In terms of international tourism, although the practice in many countries of pricing hotel rooms in US dollars meant that the competitive advantage conferred by the currency devaluations was lost, cheap discounts could still be negotiated by tour operators. Ironically, the Cebu Shangri-La started to quote in pesos rather than US dollars in the hope of maintaining its Japanese and regional markets (80% of its business) but this was offset by the airlines increasing fares to the destination, a good example of the absence of cooperation between stakeholders, considered so important by Durocher (1994) and discussed in Chapter 1.4.3. As might be expected, those hotels with a good mix of business and leisure clientele were least affected, especially if they had the resources to capitalise on the international conference sector. By way of solving their problems, hotels sought a cash injection or foreign

partnerships, with hotel owners looking to renegotiate management contracts, licensing and franchise fees (Muqbil 1998).

Private sector investment in tourism enterprises is essential for sustained tourism development. Prior to the collapse of the yen, one of the major sources of investment in tourism enterprises in the region had been the Japanese who had increasingly been investing overseas in hotels and resorts rather than in manufacturing. During the 1980s and early 1990s, because of the strength of the yen, Japan invested in other East Asian economies in order to take advantage of their relatively cheap labour; the share of Japanese foreign direct investment (FDI) in East Asia increased from 10% in 1991 to 50% in 1997. Figure 2.1 illustrates the extent to which FDI from Japan was affected by the financial crisis when, having increased in the years leading up to and including 1997, it fell substantially in 1998 in most of the selected Southeast Asian countries and thereafter remained at a substantially lower level. Outstanding loans by Japanese banks at the end of October 1998 totalled US\$4.1 trillion (*Far Eastern Economic Review*, 26 November 1998). In addition, Japan was one of the largest donors of official regional development assistance, much of it directed towards tourism-related projects (Mackie 1992).

Figure 2.1: Destination of FDI from Japan, 1995-2000



Source: Adapted from "Innovative East Asia: The Future of Growth", 16 January 2003

2.2.5 Recovery from the crisis

Recovery from the crisis was initially much slower than anticipated. The reason for this, Stiglitz (1998) suggests, was that although imports fell due to depreciation and the general economic malaise, exports increased only to a limited extent because of the weak economies of their major trading partners and the lack of credit. However, with developments in the domestic economies together with increased stability in the external markets, after an initial period of slow growth the economies started to strengthen, aided in no small part by the economic boom in the United States in the late 1990s (*The Economist*, 07 July 2001). Many countries in the region saw a reduction in inflation, largely as a result of corporate and labour restructuring, strong currencies and excess industrial capacity. This in turn allowed the authorities to reduce interest rates which encouraged consumer and corporate spending as well as bank lending (*Barclays Economic Review*, First Quarter 2000). Investor confidence started to return shortly after the worst of the crisis was over in 1999 with many of the region's stock markets showing significant gains. Table 2.3 shows the performance of Southeast Asian stock markets. As a result of severe restrictions on imports, the overall Asian current account was transformed from a deficit of US\$34 billion in 1996 to a surplus of US\$199 billion in 1999. The Southeast Asian countries with the largest current account surpluses in 1999 were Singapore (US\$17 billion) and Malaysia (US\$12 billion).

Table 2.3: Southeast Asian stock market performance

	Composite Index		% Change
	End of 1998	End of 1999	
Singapore	383	669	74.8
Indonesia	398	677	70.1
Malaysia	586	812	38.6
Thailand	356	482	35.4
Philippines	1969	2143	8.8

Source: Barclays Economic Review (2000)

Overall, Southeast Asia has recovered more quickly than anyone predicted and this is supported by regional GDP figures, shown in Table 2.4. Delong (2000) suggests

three reasons for this. Firstly, these countries have been able to compete successfully on the international market because wage levels are significantly lower than in developed countries and there is good infrastructure, low taxes, and a well-educated labour force, which together offer considerable potential for growth and development. Secondly, market economies are not given enough credit for resilience and flexibility and instead of stagnating, as was the case in the Great Depression of 1929, will usually bounce back from a recession provided the banking system can still function and investment in business can continue. Thirdly, the global financial institutions, although criticised by some for their performance, contributed to the restoration of investor confidence not only by lending US\$60 billion to sound organisations in need of financial assistance, but also by closing down dubious financial outfits. The World Bank pledged US\$16 billion above its regular lending programme to underpin programmes of structural reform and technical assistance for countries in the region (World Bank 1998). As a result, economic growth resumed within a couple of years.

Table 2.4: Growth of GDP (%) in selected Southeast Asian countries

Country	1996	1997	1998	1999	2000	2001
Brunei	1.01	3.60	-3.99	2.56	2.83	1.47
Indonesia	7.82	4.71	-13.13	0.79	4.90	3.32
Malaysia	10.00	7.32	-7.36	6.14	8.33	0.45
Philippines	5.85	5.19	-0.59	3.41	4.01	3.40
Singapore	7.71	8.54	-0.09	6.93	10.25	-2.04
Thailand	5.90	-1.38	-10.57	4.50	4.67	1.73

Source: Adapted from ASEAN Statistics (Website 2.6)

According to Sugisaki (2000) the situation is now much healthier than it was in 1997. The Southeast Asian countries have substantial current account surpluses, foreign exchange reserves have been increased, short-term debt is under control and there is more flexibility in the management of exchange rates, all of which reduce the risk of instability. It is thought that the economies will be able to weather adverse changes external to the region, provided that the corporate restructuring and financial reforms continue. It is estimated that this will cost the countries dear in terms of time as well

as money: public sector costs are estimated at 15-45% of GDP spread over several years. Threats were anticipated from the slowdown in the US economy because of the heavy dependence of the Southeast Asian economies on trade with the United States, particularly in the information technology sector which was particularly badly affected by the global slowdown (Reinhart 2001) and from Japan, one of their biggest export markets, as the Japanese economy has been in recession for some years (*The Economist*, 07 July 2001).

Sugisaki (2000) also stresses that lessons can be learnt from the Asian financial crisis by the international community which has initiated a number of moves to prevent the same thing happening again. These include the strengthening of financial systems and the highlighting of potential weaknesses; the promotion of openness and accountability; the development of international standards so that there can be more consistent regulation in countries with different economic systems; and improved assessment by international bodies of a country's vulnerability to external shocks. In addition, Reinhart (2001) also stresses the importance of monitoring financial data at the corporate level as well as the traditional macro-economic variables in order to assess vulnerability. Since the crisis some have argued that there is now more evidence that the yen should be used as an international currency for countries in the East Asian region, as the policy of pegging to the dollar has limitations compounded now by the challenge by the euro to the position of the dollar as the key global currency. Although more limited geographically, it would involve closer policy coordination and economic ties among member countries (Kwan 2000).

The rapid recovery of the tourism sector has been cited as giving a much needed boost to the region's growth and post-crisis recovery (*Barclays Economic Review*, First Quarter 2000). The response to the crisis by the Southeast Asian countries varied and is discussed by Prideaux (1999); individual country responses have been researched by Henderson (1999a) who compares the reaction to the crisis of Indonesia and Thailand, and by Lew (1999) who considers the case of Singapore. However, these studies were done relatively early in the post-crisis period and there has been no evaluation of the long-term success or otherwise of the measures

introduced. Whilst recognising this, Henderson (1999a) comments that her study highlights the vulnerability of tourism and the need for a crisis management plan to give direction to the response, as discussed in Chapter 1.3.4. Measures viewed by Prideaux (1999) as particularly successful in the recovery were the targeting of unaffected markets to boost arrivals and the development of a partnership between the government and the private sector as was seen in Thailand, and he stresses the importance of both political stability and improved forecasting. However, it is recommended by Prideaux and Witt (2000) that firstly, the travel trade bring pressure to bear on governments to increase new investment and both financial and legislative assistance as an expression of confidence, and secondly, the quality of service offered to tourists be improved and products adjusted so as to respond to changing consumer demand.

The 1997 Asian financial crisis reaffirmed to ASEAN governments the importance of tourism to their economies. The 1998 Plan of Action on ASEAN Cooperation in Tourism (Website 2.3) which constitutes the basis for ASEAN tourism development, stressed the importance of continuing the promotion of ASEAN as a single destination, developing tourism manpower, intensifying public-private sector collaboration and encouraging and harmonising intraregional travel. The same year, the private sector introduced the ASEAN Air Pass, which offered flexible and competitively priced regional flights to international visitors. The Visit ASEAN Millennium Year 2002 was to be the catalytic focus for the promotion of ASEAN tourism but it was abandoned because the cost of a single event lasting a year was too high for the new member countries. It was replaced by the Visit ASEAN Campaign in order to develop an improved identity and brand as there is some doubt as to whether the ASEAN brand is recognised outside Asia. Funding was spent in the initial phase mostly on global campaigns to build awareness of the ASEAN brand and in the second phase on marketing within the region (90%) and in long haul markets (10%) (Muqbil 2002). To support the campaign the private sector expanded the ASEAN Air Pass to include hotel accommodation; the ASEAN Air and Hotel Pass will be valid until the end of December 2003 (Website 2.7).

There have been some benefits to emerge from the crisis. The WTO (1999a) suggests that the response to the crisis of the tourism sector compared to that of other sectors demonstrated its flexibility and resilience which should improve its investment potential. Another positive outcome has been the emergence of e-business from the retrenchment of many manufacturing companies, which although initially slow to catch on, has been widely adopted by regional businesses. Revenue from e-commerce in 1999 was estimated at US\$9.2 billion and it is estimated that this will rise by a staggering 155% per year to US\$1 trillion in 2004, when the Asia Pacific region is expected to account for 13.6% of the projected US\$7.3 trillion world market (*Asian Business*, April 2000). This cannot but benefit regional tourism businesses and facilitate international tourism communication.

The impact of the Asian financial crisis was not restricted to the region alone. World growth fell in 1998 to 2.8%, a significant low compared to figures of 4.8% in 2000 and 3.2% in 2001 (*The Economist*, 28 April 2001). Zhang (2000) observes that where countries are well integrated with international markets, even if they have sound economic fundamentals themselves they will be vulnerable to turbulence in other markets. He recommends vigilance and good national governance as defence against contagion effects from other national or regional crises.

2.3 THE CASE OF MALAYSIA

2.3.1 General background

Malaya (now Peninsular Malaysia) gained independence from Great Britain on 31 August 1957 and in 1963 the Federation of Malaysia with Singapore, Sabah and Sarawak was formed. In 1965 Singapore left the Federation and since then Malaysia has consisted of 13 states: eleven on the Peninsular Malaysia, plus Sabah and Sarawak, the two semi-autonomous states which make up most of the northern third of the island of Borneo. There are land borders on the peninsular with Thailand in the north and Singapore to the south and on Borneo with Brunei Darussalam and Indonesia. Malaysia is a democracy with a constitutional monarchy and there are hereditary rulers in all the Peninsular Malaysia states but Melaka and Penang, where instead a governor is appointed by the Malaysian government. There is a federal

constitution but Sabah and Sarawak are self-governing to a certain extent. Since independence there has been a ruling coalition dominated by the United Malays National Organization (UMNO), headed by the current Prime Minister, Dr Mahathir bin Mohamad, who has been in power for 22 years. Early in his career he adopted a pro-western position but in time came to be seen as the “outspoken champion of the developing world” and something of a political maverick (Thornhill 2002: 2). Dr Mahathir is to retire in October 2003 and has named as his successor his current deputy, Mr Abdullah Ahmad Badawi. Malaysia is a member of many international organisations amongst which are ASEAN, APEC, the Organisation of Islamic Conference and the Commonwealth.

Malaysia is playing an increasingly active role in the Southeast Asian region. It has cooperated with the ASEAN Regional Forum to defuse a complex dispute with China, the Philippines, Taiwan, Vietnam and Brunei over the Spratly Islands (Thornhill 2002). In the early 1990s Dr Mahathir proposed the creation of the East Asian Economic Caucus (EAEC) as an Asian counterbalance to the multinational organisations, such as the North Atlantic Free Trade Association and the World Trade Organisation, where Dr Mahathir perceives there to be considerable American influence. The EAEC was to have consisted of the ASEAN countries together with China, Hong Kong, South Korea and Taiwan but as Japan, the main economic power in the region, refused to join for fear of offending the United States, it was never implemented (Jonkers 1999). Since then Dr Mahathir has supported moves towards regional economic integration by way of reinforcing financial and trade ties between the ‘ASEAN + 3’ group, which includes the 10 members of ASEAN plus South Korea, Japan and China (Thornhill 2002).

Malaysia is rich in natural resources which include tin, oil, timber, copper, iron ore, natural gas and bauxite. Five percent of the land is arable while 18% has permanent crops; agricultural products include rubber, palm oil, cocoa, rice, timber, coconuts and pepper. Much of the remaining 77% of the land is covered by rainforest. The main industries are petroleum production and refining, rubber and palm oil processing and manufacturing, light manufacturing, tin mining and smelting, and

timber logging and processing. Especially successful has been the electronics industry (Malaysia is the world's largest producer of disk drives) and since 1985 the manufacture of Proton cars. Major trading partners are the other East Asian countries and the United States. Table 2.5 shows major foreign exchange earnings. In view of the rate of growth of the economy discussed below, it is not surprising that there is considerable concern about industrial air and water pollution, deforestation, and, of relevance to this research, the haze resulting from Indonesian forest fires (Website 2.8).

Table 2.5: Major foreign exchange earnings

Manufacturing	RM285.3 billion
Tourism	RM25.8 billion
Natural gas	RM11.3 billion
Crude oil	RM11.1 billion
Palm oil	RM9.9 billion
Sawn timber and sawn logs	RM4.0 billion
Rubber	RM2.0 billion
Tin	RM0.5 billion

Source: Bank Negara Malaysia report (undated), cited in Tourism Malaysia (2002)

The population of Malaysia is 22.7 million (estimated July 2002) with 34.1% under the age of 15 years, and there is a 83.5% literacy rate. The ethnic composition is Malay and other indigenous groups 58%, Chinese 24%, Indian 8%, others 10% (2000). The official language is Bahasa Melayu, commonly referred to as Bahasa Malaysia, but many Malaysians speak good English. The labour force is estimated at 9.9 million, which breaks down into local trade and tourism 28%, manufacturing 27%, agriculture, forestry, and fisheries 16%, services 10%, government 10%, construction 9% (2000 est.), with 3.7 unemployed in 2001. There is a significant inflow of an unknown number of illegal immigrants from other countries in the region looking for work (Website 2.8).

There is one issue in Malaysia that cannot be overlooked in any economic, political or social study and that is the Bumiputera affirmative action policy. In 1970, a year

after serious racial rioting which had been triggered by Malay resentment over the economic dominance of the minority Chinese community, the government introduced a constructive protection policy towards indigenous ethnic Malays, the largest and poorest group in the country. This was called 'Bumiputera' which translates to 'sons of the soil' and it favours Malays, so that, for example, they are given priority for the majority of places at the free public universities. Similarly, when any company is established it must have a 30% ownership by Bumiputeras and this quota system also applies to the employment of workers in every company. As a result of the policy, improvements have been made to rural areas and a growing Malay middle class has emerged, both of which have contributed to political stability. One of the stated goals, that ethnic Malays should acquire 30% control of the economy, has not been achieved, although in 1998 Bumiputera ownership in listed companies did reach the 30% target. This figure is approximately 20% of total corporate ownership when private companies are taken into account, but is an advance nevertheless on the 1970 figures for ownership of the corporate wealth that showed Malays as 2.4%, non-Malays 34.3% and foreigners 63.3% (Burton 2002).

Burton (2002) considers that the Bumiputera policy has a number of implications at the macro level. Accusations of crony capitalism have arisen as state patronage in the form of asset sales, loans and massive infrastructure contracts are awarded to businessmen whose only qualifications appear to be that they are ethnic Malays. As a result of a privatisation programme in the 1990s, companies such as the car manufacturer Proton, Malaysia Airlines and the engineering giant Renong were taken over by Bumiputeras, only to be renationalised when shortcomings in management almost caused the companies to collapse during the Asian financial crisis. In addition, it has been suggested that this affirmative action policy hinders Malaysia's competitiveness on the international stage when competing for FDI against countries such as China. Although Bumiputera requirements have been lifted in special export manufacturing zones which as a result now attract substantial FDI, it still applies to foreign companies competing in the domestic market and could have a negative effect on the development of services such as tourism and logistics which the government hopes will to some extent replace the waning manufacturing industry.

One of the more disquieting effects of the policy has been on education, which until 1970 was carried out in English and since then in Bahasa Malaysia. Far from the hoped for integration of the three major ethnic groups in the Malay-speaking classroom, it has led to greater segregation as ethnic Indian and Chinese children are sent to private schools to be taught in their mother tongues. In addition, the proportion of the population that now speaks good English has fallen substantially against rising English standards in other countries in the region which has made the country less attractive to foreign investors. Finally, because of the positive discrimination shown to Malays, there are fewer job opportunities for non-Bumiputera Malaysians which causes what is in effect a 'brain drain'.

For these reasons, the success of this policy has been questioned even by Dr Mahathir. There have been discrete attempts by the government to reverse the quota or language policies in some areas but any suggestion for change provokes a storm of protest from the Bumiputeras. Fear of losing the support of the Malay voters to the fundamentalist Islamic groups which are becoming a significant faction particularly in the poorer, rural states is very real; in the 1999 elections the Islamic party PAS won control of two states, although their challenge has been weakened since Al Qaeda rose to greater prominence. Although it is widely accepted that there should be a reversal of the policy, it is doubted whether Mr Abdullah has the political support to do so; Dr Mahathir who is held in considerable esteem could perhaps, but he is to retire shortly (Burton 2002). It is worth noting, however, that since the policy was introduced the number of Malays classified as poor has fallen from 50% to 8%, which would suggest that in spite of the disadvantages, affirmative action can be a means of selectively improving the education and opportunities and thus the living standards of the poor or disadvantaged in emerging economies.

2.3.2 Tourism development in Malaysia

Malaysia has a good range of excellent tourism assets. The climate is tropical and the topography varied to include mountains, with Sabah's Mt Kinabalu at 4,100 m the highest in Southeast Asia, tea-growing hill resorts, such as the Cameron Highlands, and beaches along clear seas with coral reefs. Environmental assets include two national parks which in 2000 were designated UNESCO world heritage

sites (Website 2.9), the world's oldest rainforest which is home to the endangered orang-utans and proboscis monkeys, the rare Rajah Brooke butterfly and *Rafflesia*, the plant with the largest flower in the world. As mentioned earlier, the population is composed of a mixture of ethnic groups, including the *orang asli*, the ancient tribal peoples still living in small numbers in the forests; the resulting diversity of cultures and religions is reflected in a wide range of architecture, expressive arts and crafts, and excellent cuisine. Despite its rich history and cultural diversity, there are as yet few internationally acclaimed ancient religious or historical monuments; at present the sites which have the most potential for heritage tourism are those relating to the early Chinese and Indian settlers or date back to the colonial period, for example, in Melaka or Georgetown on the island of Penang. The capital, Kuala Lumpur, is a vibrant and cosmopolitan city noted for its contemporary architecture, with a variety of attractions and very good shopping.

A comprehensive summary of the growth and diversity of the Malaysian tourism sector is provided by Khalifah and Tahir (1997) and McVey (2001), whilst more specific issues are addressed by Din (1989; 1992) and Bird (1989). The government played a central role in the initial stages of tourism development in the early 1970s, providing the necessary tourism infrastructure and encouraging foreign and domestic private sector investment by offering tax and other incentives. The 1975 Malaysian Tourism Development Plan was formulated as a means of earning foreign exchange and providing employment for an expanding labour market. It aimed to develop tourist facilities away from urban areas so as to help diversify the resource base and redistribute wealth. Tourism was promoted seriously during the recession of the 1980s; it was recognised as an important economic activity and was given full support by the government, who hoped that it would foster a better understanding of the culture and lifestyles of the multi-ethnic population and lead to better integration and a national sense of unity. The sector was elevated to cabinet status in 1987 when the Ministry of Culture and Tourism was established (Khalifah and Tahir 1997).

Expanded to include the arts in 1990, the Ministry of Culture, Arts and Tourism (MOCAT) has had responsibility for tourism strategy under the umbrella of the Economic Planning Unit (EPU); its objectives have been to develop and introduce

Malaysian national culture as well as to promote tourism as one of the main sectors. In 1992 the Tourist Development Corporation of Malaysia, one of MOCAT's five agencies, became the Malaysian Tourism Promotion Board (MTPB), now repackaged as Tourism Malaysia. It is funded by the government and quasi-autonomous, with a board of directors drawn from both the private and public sectors. The MTPB acts as a facilitator of tourism development in Malaysia and promotions are pursued jointly with tour operators, airlines and national tourist offices. Tourism policy is implemented through the State Economic Development Corporations. Also responsible for state industrial policy, these vary in size and may have from a single person working on tourism issues to a whole tourism section.

In the Sixth Malaysia Plan (1991-1995) the main thrust for tourism development was towards the diversification of tourism to achieve balanced development and sustained growth and to channel investment into selected regions and activities that had the potential to increase employment and income. In 1991 RM533.9 million were allocated to tourism; a mid-term review in 1993 revised this to RM719.1 million. During this period the first two Visit Malaysia Years took place, in 1990 and 1994. Both were considered to have been very successful in increasing tourist arrivals and receipts and although some attributed some of this success to generous government grants and aggressive marketing overseas, it was agreed that the profile of Malaysia as a tourist destination had been raised internationally (Khalifah and Tahir 1997). The Tourism Industry Act in 1992 gave MOCAT more power to monitor and enforce tourism regulations through compulsory licensing, which it was felt would enhance the professionalism of Malaysian tourism and protect visitors from unscrupulous operators and guides. Only tour operators and travel agencies that were private limited companies, with capital, offices and a detailed breakdown of shareholders were licensed. Tourist guides were obliged to undergo MOCAT-approved training and pass proficiency tests in order to obtain a licence and employment of non-licensed guides could result in fines of up to RM25,000 or two years in jail. Tourism training institutions also needed to be licensed although because of demand, private organisations were permitted to run guide courses but required approval by MOCAT (Amat 1997).

In the latter half of the 1990s, the Seventh Malaysia Plan (1995-2000) included: the diversification into new products and services to cater for varying demands and interests of international and domestic tourists; more effective promotions and marketing for foreign and local markets; the encouragement of private sector investment and participation in innovative tourism products, projects and events; increased involvement of the local population and small entrepreneurs in the development of distinct and localised tourism products and services; the improvement and facilitation of access into the country; the provision of the infrastructure and amenities required at tourist sites; and a focus on skills training to meet the manpower demand. The Eighth Malaysia Plan (2000-2005) focuses on very much the same areas but with a stronger emphasis on sustainable tourism development, safety and security provision and the forging of strategic alliances and international cooperation. Product development is to be more customer-focused and a year-round carnival atmosphere created (Economic Planning Unit 2001).

2.4 MALAYSIA'S RESPONSE TO THE CRISIS

2.4.1 The crisis in Malaysia

Prior to 1997 Malaysia had been considered one of the fastest and most successful emerging economies in Southeast Asia. Over the decade leading up to the crisis, the economy grew at an average annual rate of 8.8% and per capita income increased from US\$1,850 to US\$4,425. There had been almost full employment for six years and inflation was 4.5%; there was political stability, rising living standards and racial harmony (Athukorala 1999). The country had a very high rate of saving (approximately 38%). In 1996 Dr Mahathir launched the 'Vision 2020' programme that detailed the path to be followed to achieve Malaysia's aim of becoming fully industrialised by the year 2020, a plan that has had to be redrafted on account of the crisis. All this changed in July 1997 when the Thai baht collapsed.

The turmoil in the financial markets affected the Malaysian economy in a number of ways. GDP contracted by 6.7% in 1998 (Sadi 1999). There was a sharp depreciation of the ringgit which fell 40% against the US dollar and the stock market collapsed as did private sector investment. Although there was an increase in inflation, there was

no hyperinflation or widespread unemployment. There was a shortage of credit and loans cost more as interest rates rose. On the positive side, exports became more competitive and consequently the trade account improved (Musahet 2001). The impact of the crisis was compounded by the fact that a number of major construction projects were underway, such as the Kuala Lumpur City Centre (KLCC) with its twin towers, the Kuala Lumpur International Airport (KLIA) at Subang and the new government administrative centre at Putrajaya, all of which involved high investment and possibly foreign loans.

After Singapore, Malaysia was considered to have one of the safest and soundest banking systems in Asia, with relatively few non-performing loans and above average supervision, in contrast to Thailand, Indonesia and the Philippines which had to go to the IMF for help when the crisis hit (Jonkers 1999). Malaysia's total foreign-bank debt was US\$27 billion, which as a share of GDP was less than half that of Thailand, although in contrast Malaysia's domestic debt as a share of GDP was the worst in the region and it was estimated that it would reach 140% by the end of 1997. Not only was an estimated 50% of this debt incurred from the funding of extravagant building projects, such as those mentioned above, but credit was extended to cover speculative investments rather than safe investment in, for example, manufacturing which only received approximately 16% of the funds (Rohwer 1997). Jonkers (1999) considers that one of the mistakes of Malaysian monetary policy was that it took second place to the achievement of the fast economic growth necessary to reach developed nation status by 2020. The Malaysian Prime Minister, Dr Mahathir, held George Soros responsible for leading the attack on the ringgit but Brown *et al* (1998) find no evidence to support this accusation.

2.4.2 The crisis committee and plan

Although Malaysia refused IMF financial support, the initial response to the crisis by the government was to introduce an IMF-type package of measures, which included a 20% reduction in government spending; a moratorium on Malaysian investment abroad and on expensive domestic infrastructure projects; and a salary cut for

government ministers (Leinbach 2000). The call for retrenchment and a reduction in spending did little to diminish the effects of the crisis and did not generate the intended recovery but instead resulted in further contraction of the economy. This led the Malaysian government to reject the IMF formula and to follow a different course of action.

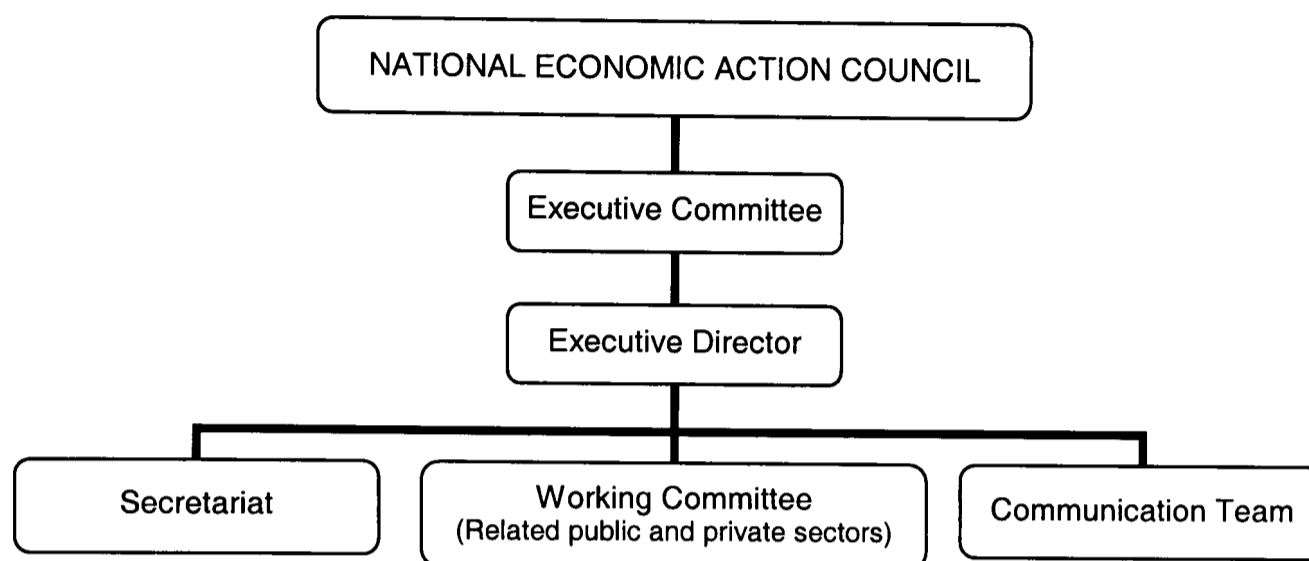
The lowest point for Malaysia is generally considered to have been January 1998 when the National Economic Action Council² (NEAC) was set up as a consultative body to the Malaysian cabinet to deal with the crisis. As mentioned briefly in Chapter 1.3.4, the NEAC can be considered to be Malaysia's crisis committee. The objectives of the NEAC were firstly, to prevent Malaysia from entering an economic recession as a result of the fall in the value of the ringgit and the collapse of the share market; secondly, to restore public and investor confidence, particularly that of foreign investors; thirdly, to revive the national economy and make it competitive globally; and fourthly, to strengthen the economic base of the country with the aim of achieving developed nation status through rapid and sustainable economic growth (Website 2.10). The council is composed of representatives from the government, the private sector and selected organisations; a list of the members can be found in Appendix 2.1.

The organisational structure of the NEAC is shown in Figure 2.2. In order to facilitate decision making and speed up implementation, the council is assisted by an executive committee of six, which meets more frequently and is led by an executive director. In turn the executive committee is assisted by a working committee on aspects which are critical to restoring the economy and include FDI; banking and finance; the capital market; currency and the current account deficit; the development of key economic sectors; and social issues caused by the crisis. The secretariat is composed of professionals from a variety of fields and it both undertakes analysis and reports on relevant, critical issues. The function of the communications team is to disseminate information to local and foreign media on the existing situation and the recovery progress. Finally, an operations room managed by the Economic

² Also referred to as MTEN, the Malaysian acronym for Majlis Tindakan Ekonomi Negara.

Planning Unit gathers information and monitors global data online, including financial information, business news and data from the media networks, important information on macro-economic indicators together with wage levels and the labour market, and the supply and prices of essential items.

Figure 2.2: Organisational structure of NEAC



Source: NEAC (www.neac.gov.my)

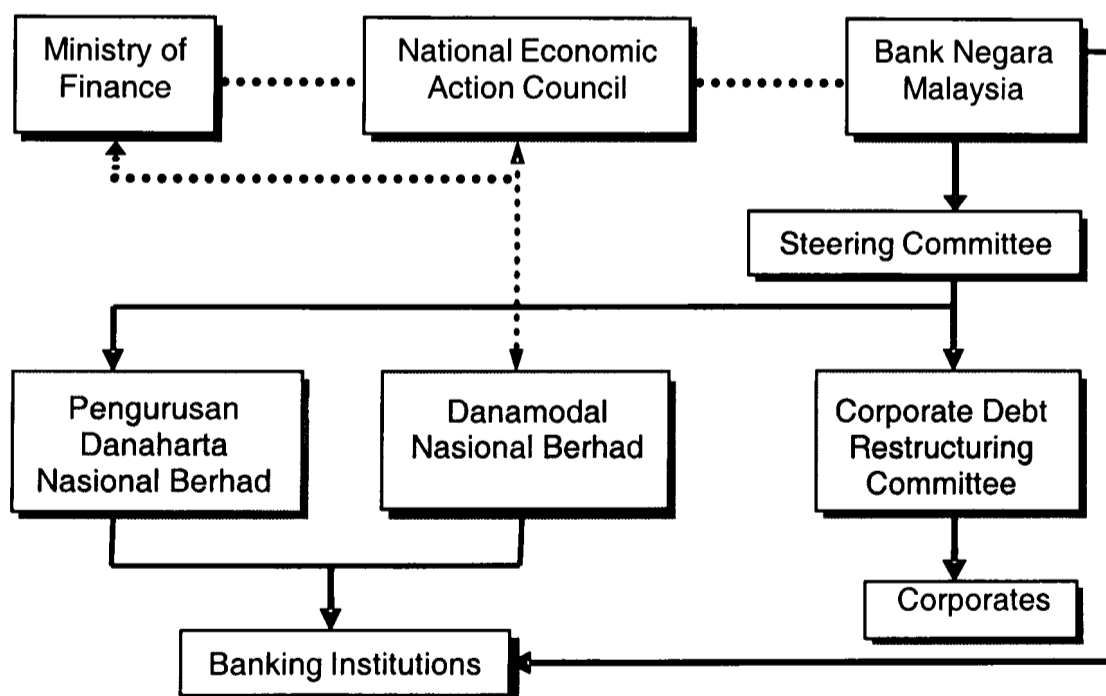
The NEAC launched the National Economic Recovery Plan (NERP) on 23 July 1998. In order to return as rapidly as possible to sustainable economic growth, the objectives of the NERP were to restore stability to the currency and confidence to the capital markets; to strengthen the financial markets and the economic fundamentals; to revive the sectors that were adversely affected by the crisis; and to continue the equity and socio-economic agenda. Full details of this plan can be found on the NEAC website (Website 2.10); the NERP Agenda for Action for Tourism is summarised in Section 2.5.2.

2.4.3 The establishment of financial institutions

As a result of recommendations in the NERP, the government adopted a three-pronged approach to restructuring and consolidating the financial system, without which economic recovery would not be possible. Firstly, in June 1998 Pengurusan Danaharta Nasional Berhad (Danaharta) (www.danaharta.com.my) was set up as the national asset management company to safeguard the stability of the financial market. It had two objectives: to acquire at fair market value non-performing loans

(NPL) from financial institutions and manage them so as to allow the institutions to concentrate on their core business activity; and to maximise the recovery value of acquired assets. Secondly, in August 1998 Danamodal Nasional Berhad (Danamodal) (www.bnm.gov.my/danamodal/) was established to revitalise the Malaysian banking sector, serving as a means of funding banking institutions which were unable to raise funds directly and restructuring them so as to make them stronger financial institutions and able to raise equity on their own. Danamodal was a pre-emptive measure by the government to prevent delays in addressing recapitalisation and NPL issues which would slow other efforts towards economic recovery. It was considered undesirable for the government to invest directly in the banking institutions as it might lead to future conflicts of interests and accusations of corruption. Thirdly, also in August 1998, a joint public and private sector Corporate Debt Restructuring Committee (CDRC) was set up in order to allow debtors and creditors to work out voluntary debt agreements (Jonkers 1999). The relative position of all three institutions in relation to other corporate bodies is shown in Figure 2.3.

Figure 2.3: The relationships and governance of the restructuring institutions



Source: Danamodal (Website 2.11)

The three institutions are complementary. Danaharta and Danamodal deal with credit supply while CDRC deals with the demand side, ensuring that viable corporations can service and repay their debts so that unnecessary NPLs and bankruptcies are avoided. Whilst there were reservations about them, Danaharta and Danamodal have cost less than expected, RM15 billion and RM16 billion respectively, and have achieved rapid results. By the end of March 1999, Danaharta had acquired or managed a total of RM23.1 billion of NPLs in the banking system (about 28%), Danamodal had injected a total of RM6.4 billion into ten banking institutions and the CDRC had received 48 applications for assistance with debts involving RM25.2 billion (Jonkers 1999).

2.4.4 The introduction of capital controls

Selective capital controls were introduced on 01 September 1998 so as to shield the country from instability in regional financial markets. The controls focused on both currency exchange and stock exchange; it was hoped that by stopping the movement of capital out of Malaysia, a stable exchange rate would follow; the economy would be regenerated from within and investment would once again be attracted (Sadi 1999). Since April 1998 there had been an acceleration of currency outflow to offshore centres such as Singapore and Hong Kong where interest rates were 20-40% as compared to the Malaysian offshore rate of 11% which had led to a feeling of vulnerability (Jonkers 1999).

Strict exchange controls were introduced on 02 September 1998, with the ringgit being pegged to the US dollar at a rate of RM3.80: US\$1.0 (Beddoes 1999). The controls included a number of other measures. Off-shore trading of ringgit was no longer permitted. The conversion of Malaysian currency in external accounts or the bank accounts of non-residents became subject to the approval of the central bank of Malaysia, Bank Negara. In addition, after 30 September 1998, approval was also required for the transfer of funds between external accounts, as well as for the withdrawal of ringgits from such accounts unless intended for the purchase of ringgit assets. Purchases and sales of ringgit financial assets could only be made through authorised institutions. Banks and money changers had to keep their proceeds in ringgits for a year if they had owned the securities for less time than this (Sadi 1999).

Both Malaysian and foreign residents with overseas ringgit accounts had to repatriate them within a month; estimates suggest that the ringgit equivalent of US\$26.30 million in cash was held overseas and US\$6.58 billion in offshore accounts. From 01 October 1998, restrictions were imposed on the import and export of currency by Malaysian travellers; no more than RM1,000 (US\$263.16) per person could be taken into or out of the country although there were no restrictions on the import of foreign currencies. Malaysians residents could take up to RM10,000 (US\$2,631.58) in foreign currency out of the country but non-residents were permitted to export currency only up to the value of foreign exchange they had brought into the country. Foreign tourists were not allowed to leave with more foreign currency that they had arrived with. In order to make the smuggling of large sums of money out of the country more difficult, the RM500 and RM1,000 denomination currency notes were taken out of circulation (Sadi 1999).

The aim of capital controls was to protect the economy from global turbulence, in effect by isolating it so that it became impossible for international speculators to have access to funds, and to create a stable currency exchange rate. By declaring the ringgit non-convertible outside Malaysia and requiring that all funds held offshore in ringgit denomination be repatriated in order to redeem their legal value, the Malaysian government in effect created a situation in which nearly all trade in ringgit was conducted solely in Malaysia. The intention was not to provide obstacles to business or FDI. The companies that were most affected by these controls were those involved in import and export payments which had to be made in foreign currencies, exchanged at the prescribed rates (Sadi 1999).

2.4.5 Evaluation of Malaysia's response

The responses to the financial crisis of the IMF and the Malaysian government are summarised in Table 2.6 and it is clear that the approaches are in direct opposition to each other. The IMF recommended measures which would result in the contraction and consolidation of the domestic economy. These included increasing interest rates and restricting bank credit so as to reduce borrowing, closing any companies or banks which were not financially viable, and reducing government spending and

subsidies. In contrast, the Malaysian government attempted to boost the economy by reducing interest rates and encouraging banks to lend money in order to encourage domestic consumption. In addition, government spending was increased and as outlined in Section 2.4.3, assistance was given to institutions which were in difficulties. While the IMF suggested that the market be opened up to foreign traders, the Malaysian government introduced capital controls which effectively isolated the ringgit from international trading and currency speculation.

Table 2.6: The IMF and Malaysian responses to the financial crisis

IMF approach	Malaysian approach
▪ Increase interest rates	▪ Lower the interest rates
▪ Lower bank credit expansion	▪ Encourage banks to lend
▪ Tighten government spending	▪ Increase government spending
▪ Close down ailing firms and banks	▪ Help ailing banks and companies
▪ Remove subsidies	▪ Increase domestic consumption
▪ Liberalise trade and capital account	▪ Introduce capital controls

Source: Musahet (2001)

There is a substantial literature analysing and evaluating Malaysia's financial response to the crisis (Sadi 1999; Athukorala 1999) but more than a summary is beyond the scope of this research. The exchange controls stabilised the ringgit and allowed the lowering of interest rates. In addition they facilitated the overdue reform of the financial sector and went some way to restoring domestic and foreign investor confidence (Musahet 2001). The controls were effective straight away. In the six months after the pegging, the ringgit gained competitiveness against most of the regional currencies which helped Malaysian exports to recover. Funds worth RM4 billion and RM1.5 billion flowed back to Malaysia in September and October 1998 respectively. The Bank Negara Malaysia's external reserves rose from US\$8.4 billion in August 1998 to US\$29.7 billion nine months later (Jonkers 1999). Musahet (2001) suggests that Malaysia was able to manage its own economy for a number of reasons. The country had had budget surpluses in the past and consequently there were adequate foreign reserves. The number of NPLs was low and there was a high rate of savings. In addition, Malaysia is relatively open to

foreign trade. Jonkers (1999) finds no evidence that the controls discouraged FDI and reports that on the whole the private sector welcomed the stability of the fixed exchange rate.

There were predictions that the pegging of the ringgit would end in disaster but although GDP fell in 1998 by 7.5%, it then grew by approximately 5% the following year (*The Economist*, 04 December 1999). It has been suggested by Sachs, Tornell and Velasco (1996) that not only the fragility of exchange rate pegs but also the damage caused by their collapse has been underestimated; a country with a pegged exchange rate may be extremely vulnerable, even if there are sound financial policies in place. Although pegging may be of considerable importance early on in a stabilisation programme, they warn that it is essential for the country to relinquish the fixed exchange rate system as early as possible. It is now five years since the ringgit was pegged and there is no sign of any imminent change in the situation. The pegging indeed stabilised the ringgit but made it vulnerable to fluctuations in the value of the dollar, considered at the time the lesser of two evils.

In the current liberal economic climate, capital controls are unfashionable, although some economists favour them. Crotty and Epstein (1999: 432) claim that they are necessary to both developed and developing economies in order to prevent speculative financial cycles and severe exchange rate instability, as was seen in the 1997 financial crisis in Southeast Asia. They suggest that capital controls create an economic and political environment which not only constrains the freedom of the multinationals to “roam the world in search of economic profit and political dominance” but also fosters long-term growth, high employment and stability. They support this contention with the observation that those Asian countries which impose the greatest control over capital flows, China, Taiwan and India, were the least affected by the crisis. Woo (2000) observes that capital controls contributed to the fact that the collapse of the Malaysian economy in 1998 was less severe than that in neighbouring countries Thailand and the Philippines, and its subsequent recovery was faster; the main cost to Malaysia of not following the IMF formula was that the country missed out on the international capital returning to the region in the latter part of 1998.

2.5 THE TOURISM PERSPECTIVE

2.5.1 The different crises

As discussed in Chapter 1, crises seldom happen in isolation but often several occur at the same time which compounds their impact. This was the case in Malaysia in 1997 when the country suffered a number of crises apart from the financial crisis, each of which affected the tourism sector to a greater or lesser extent even though none started specifically as a tourism crisis. Firstly, there were outbreaks of Japanese encephalitis and Coxsackie virus, both potentially fatal to humans. The former occurred in a pig farm in the state of Selangor and it was localised and short-lived. The latter was more serious as the outbreak in Sarawak resulted in the deaths of 20-30 small babies. Neither, however, had a serious impact on tourist arrivals.

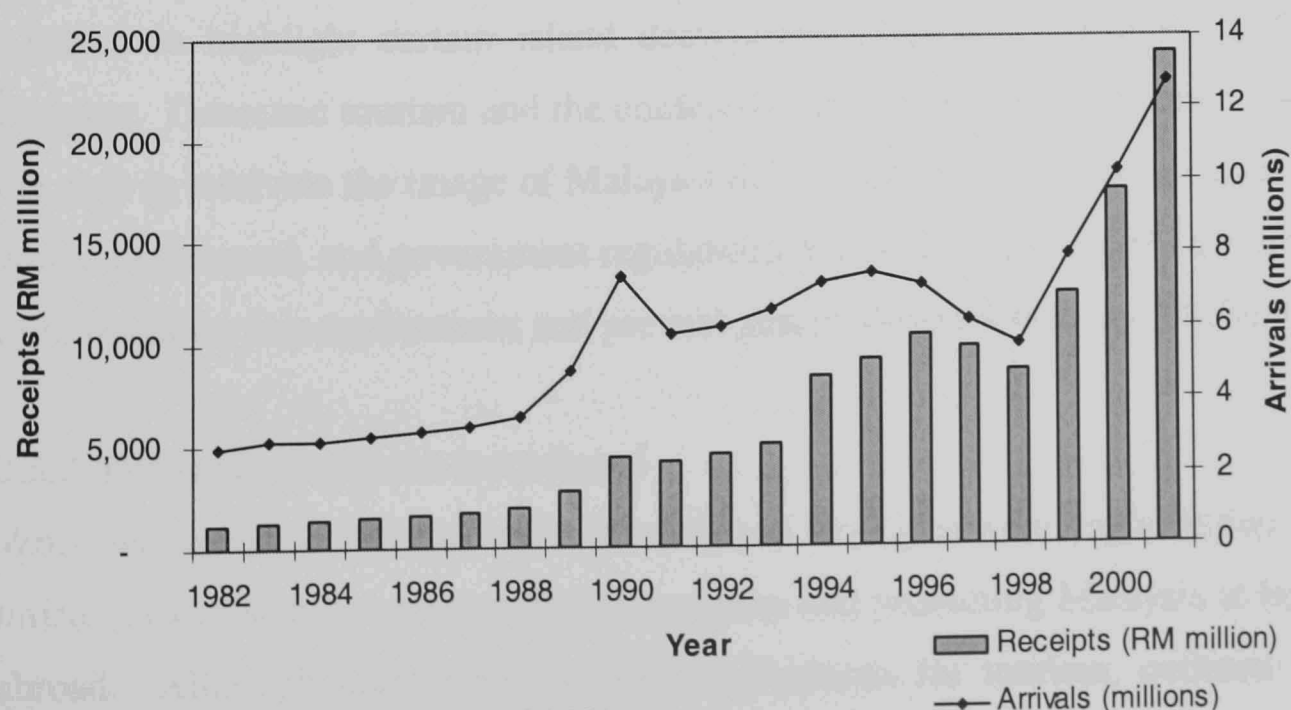
Secondly, there was some political unrest in response to the sacking and subsequent trial and imprisonment of the Deputy Prime Minister, Mr Anwar Ibrahim, on charges of corruption and sodomy. This took the form of a number of demonstrations and some rioting and was restricted to particular areas of Kuala Lumpur. It was, however, unusual for Malaysia and so attracted considerable media attention. The trial resulted in international condemnation on the grounds of human rights violations and this was followed by public criticism of Malaysia's human rights record by visiting US Vice President Al Gore (Thornhill 2002). As discussed in Chapter 1.4.2, the internet is becoming a weapon in the hands of activists. Holmes and Grieco (2001) describe how emails from Mr Anwar's prison cell were published on the internet which allowed mass access to his writing and provided immediacy to his trial and imprisonment. The authors observe that this effectively prevented the government from isolating Mr Anwar from his supporters as the internet sites were mirrored in several different geographical locations and so could not be closed down.

Thirdly, there was the incidence of haze from the Indonesian forest fires in Sumatra and Borneo. The Southeast Asian haze is considered by some to have had the greatest effect on tourist arrivals during the period 1997-1998. It was first observed on 11 July 1997 in Kedah, Penang and the Klang valley but then spread east across the peninsular to Borneo and the situation continued to worsen until the last fortnight in September which was the low point. It started to ease first in Sabah in early

October and by the end of the month the rest of the country was clear (Hassan *et al* 2001). It has been estimated that the haze resulted in 30-40% cancellations by foreign tourists (Tourism Malaysia 1998a). Hassan *et al* (2001) suggest that if tourist arrivals from countries outside the region in August to October 1997 are compared with those for the same period in 1996, the fall can be attributed to the haze; excluding intraregional arrivals controls for the effects of the Asian financial crisis which affected travel propensity in the East Asia Pacific region. Additional costs of the haze were incurred by airport closures due to poor visibility and the resulting loss of ticket sales together with lost profits from airport operations.

The financial crisis had a major impact on the Malaysian economy and the tourism sector did not escape undamaged. The causes of the crisis are analysed and interpreted by Prideaux (1999) in a tourism context while the effects of the crisis are covered in some detail by Musa (2000), and the WTO (1999a). Tourism had been growing rapidly in Malaysia in the 30 years prior to the crisis and had become the third largest foreign exchange earner for the economy, after the oil industry and manufacturing, and a major source of employment (Hiebert 1998). Revenue from tourism fell in 1997 by RM1 billion (US\$342 million), a 14% drop from 1996 (Sadi 1999). Earnings fell from RM9.3 billion (US\$2.44 billion) in 1996 to RM6.2 billion (US\$1.63 billion) in 1997 (Tourism Malaysia 1998b). Figure 2.4 shows the growth in tourist arrivals and receipts 1982-2001.

Figure 2.4: Tourist arrivals and receipts in Malaysia 1982-2001



Source: Tourism Malaysia (1998b)

In addition, investment in Malaysian hotel and tourism projects which had shown a 61.2% increase in 1996 over 1995 fell by 39.5% in 1997 and a further 67.9% in 1998 (Tourism Malaysia 1998b). The crisis also had a serious impact on employment throughout Malaysia but it was keenly felt in the tourism sector. Table 2.7 summarises the changes from 1994-1998. Overall employment fell by 24% in 1997 and the areas that were most affected were tourism attractions and the travel trade.

Table 2.7: Changes in human resources in the tourism sector 1994-1998

(Percentage change over previous year shown in italics)

	1994	1995	1996	1997	1998
Hotels	60,103	67,214 <i>12%</i>	73,749 <i>10%</i>	65,377 <i>-11%</i>	73,127 <i>12%</i>
Tour and travel agencies	21,416	22,731 <i>6%</i>	25,068 <i>10%</i>	12,839 <i>-49%</i>	11,788 <i>-8%</i>
Airlines	19,982	21,049 <i>5%</i>	19,791 <i>-6%</i>	16,482 <i>-17%</i>	23,174 <i>41%</i>
Managed tourist attractions	3,488	12,309 <i>253%</i>	15,584 <i>27%</i>	6,777 <i>-57%</i>	4,653 <i>-31%</i>
Tourism educational institutions	-	352 -	798 <i>127%</i>	1,358 <i>70%</i>	1,077 <i>-21%</i>
Total	104,989	123,655 <i>18%</i>	134,990 <i>9%</i>	102,833 <i>-24%</i>	113,819 <i>11%</i>

Source: Tourism Malaysia (1998b)

The NERP Agenda for Action for Tourism proposed measures to boost inbound tourism and to reduce travel abroad by Malaysians. It was planned to promote Malaysia as a destination in selected strategic long haul and regional markets, with additional joint promotions between various states, the Tourist Board and Malaysia Airlines to highlight certain island destinations such as Langkawi, Tioman and Pangkor. Domestic tourism and the conference sector were also targeted. As part of the plan to cultivate the image of Malaysia as a shopping haven, tax on luxury goods would be lowered, and government regulations and procedures would be reviewed so as to facilitate visa applications and prevent glut in the hotel industry (Website 2.10).

2.5.2 The early measures introduced

When the financial crisis occurred, a number of strategies were implemented with the broad aims of stabilising the national economy and promoting Malaysia at home and abroad. Although these measures had implications for tourism, outlined by Sadi

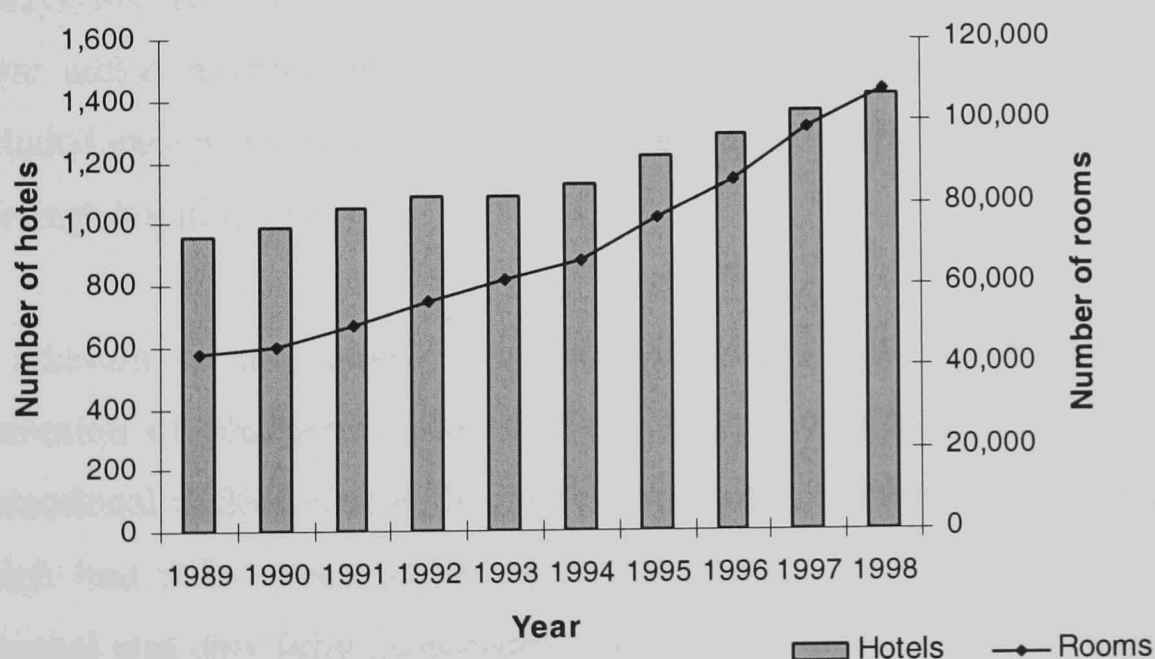
(1999), they were not strategies for tourism itself. The NEAC, whilst not focusing on the tourism sector, received input from a tourism subcommittee representing both the private and public sectors. The capital controls discussed in Section 2.1.2 covered the import and export of ringgit by travellers who were not allowed to take more than RM1,000 out of the country. This effectively made travelling abroad expensive and encouraged Malaysians to stay in the country. The pegging of the ringgit to the US dollar placed Malaysia somewhat at a disadvantage as a destination compared to competing Southeast Asian countries with free floating currencies, as these became better value for international visitors. However, the relative stability of the ringgit was of considerable benefit to the Malaysian travel trade, especially those involved in dollar transactions.

As discussed in Section 2.1.2, the initial call for retrenchment had not been successful; one action of the government had been to cut the budget for Tourism Malaysia, another had been the directive from the Ministry of Finance to government departments instructing them not to hold courses or seminars at hotels and resorts which caused considerable hardship to the hospitality sector. After the initial shock of the crisis was over, the government next considered the services sector as a means of strengthening the economy. After a critical appraisal of MOCAT and Tourism Malaysia it was decided that a major initiative was required to turn the figures for tourism arrivals around.

In 1999, responding to the advice of the NEAC tourism subcommittee, a special promotional budget for Tourism Malaysia of RM150 million (approximately US\$39.5 million) was approved by the NEAC, a fourfold increase on previous funding (Economic Planning Unit 2001). With this additional funding the tourism sector was revived, with arrivals increasing from 5.5 million in 1998 to 7.9 million in 1999 and then 10.22 million in 2000. Following the funding changes, in 1999 there was a reorganisation of key personnel, when the Minister and his deputy, the Secretary General of MOCAT and the Director General of Tourism Malaysia all retired or left for health reasons. This is a fine example of the radical changes which take place in the post-crisis period, discussed in Chapter 1.2.2 (Meyers and Holusha 1986; Fink 1986).

Throughout the 1990s there had been a steady increase in the supply of hotels in Malaysia, shown in Figure 2.5. Between 1997 and 1998 hotel yields in Kuala Lumpur declined by 50% which Flaig (1999) attributes to the significant increase in hotel supply, much of which had been built to accommodate visitors to the Commonwealth Games in 1998. The overcapacity was not restricted to Kuala Lumpur; in the northern island of Langkawi, 40 new hotels were built between 1990 and 1998 and the problem was made worse by the fact that 70% of the island's visitors were Malaysians who cut back on their travelling because of the crisis (Hiebert 1998). The private sector initially responded to the decrease in occupancy levels (which in some cases had fallen to as low as 45-50%) by cutting their rates in an attempt to attract more guests but this was found to be an unsuccessful strategy and merely reduced yields. In 1999, in response to the fall in regional business traffic, the government imposed a moratorium on the building of 4- and 5-star hotels in Kuala Lumpur and the Klang valley in the hope of stabilising the situation.

Figure 2.5: Supply of hotels and rooms in Malaysia 1989-1998



Source: *Tourism Malaysia (1998b)*

2.5.3 The promotion of tourism

Once the worst of the crisis was over, the government started to promote domestic tourism as a means of supporting the hotel sector which was suffering badly from the fall in intraregional arrivals. To encourage Malaysians to take short breaks in their

own country the government announced in January 1999 that the first Saturday of each month would be a holiday for public sector employees and this was increased in February 2000 to include the third Saturday in the month; the banks and private sector were called upon to follow suit. The campaign to increase domestic tourism, *Cuti Cuti Malaysia*³, was launched in September 1999 with the two aims of developing a holiday culture and informing Malaysians of the attractions of their own country (Website 2.12). This initiative was reinforced by television exposure every evening at peak viewing time, bringing events to the notice of the public and promoting different destinations. In addition, awareness was created in the travelling public especially close to or during seasonal and school holidays by means of articles and competitions in newspaper supplements, documentary television programmes about destinations and coverage on the radio.

The government encouraged the hotel sector to take advantage of this domestic tourism initiative as it allowed hotels and food and beverage outlets to be kept open and their employees in work. The city hotels in particular made efforts to attract Malaysians from the provinces for weekend breaks by way of special offers and value added programmes, and by developing a variety of short packages which included excursions to local attractions and visits to theme parks rather than merely offering shopping vouchers.

In addition to the domestic tourism campaign, the government increased the promotion of Malaysia abroad by way of a two-pronged campaign. Part of the promotional budget of RM150 million was spent in the traditional regional markets which had rather been taken for granted before the crisis and whose untapped potential was only fully appreciated when efforts were made to develop them further and arrivals increased from 1998 to 1999 by 62.9% from Singapore, 9.6% from Thailand and 95.3% from Indonesia (McVey 2001). The rest of the budget was spent on emerging markets such as India, China and the Middle East, all of which have an increasingly large middle class, traditional ethnic links with Malaysia and relatively stable currencies and consequently very great potential. Arrivals from the

³ *Cuti Cuti Malaysia* = Holidays in Malaysia

Middle East in 2000 were almost double the 1999 figures and in order to coordinate marketing and promotional activities in the Arab states, Tourism Malaysia opened a regional office in Dubai in 2000 to complement the existing office in Jeddah, Saudi Arabia (*TTG Asia*, 01-07 December 2000).

The promotion in the newer markets was also very successful and resulted in the fastest growth rates in tourist arrivals, with an average annual rate of 34.6% from India and 32.4% from China (Economic Planning Unit 2001). Indian arrivals in Malaysia increased by 184.1% from 33,800 in 1998 to 132,100 in 2000 (Travel Research International 2001). Concurrent with the increased promotion and in order to facilitate the anticipated increase in numbers of tourists from these new markets resulting from the increased attention, the immigration department empowered Tourism Malaysia, Malaysia Airlines offices and certain leading Indian and Chinese travel agents to issue Malaysian tourist visas at the request of MOCAT. This move was welcomed by the travel trade who anticipated an increase in arrivals of 500% as a result (Nithiyananthan 2000).

In order to boost both international and domestic tourism, there were other measures taken. One of the main promotional drives was towards developing the image of Malaysia as a shopping paradise, to compete with other Asian destinations such as Singapore and Hong Kong or those further afield such as London or Dubai. One of the shopping initiatives was the thrice-yearly Mega Sale Carnival which involved the retail sector agreeing on three periods of price reductions carefully chosen so as to coincide with school or religious holiday periods but not to compete with Singapore. In addition, Malaysia made greater efforts to host major international events. These included international military events such as the annual Langkawi International Maritime and Aerospace exhibition; sports contests such as the 2001 SEA⁴ Games, golf tournaments and Formula One races; and more light hearted competitions such as the International Towerathon held in July when competitors have to race up and down the twin towers of the KLCC.

⁴ Southeast Asian Games

Malaysian marketing became much more culture-based than before the crisis and a larger budget was allocated to developing links and communicating the image of Malaysia through visits to overseas events, rather than through buying expensive air time for advertising. Running concurrently with the advertising was a public relations initiative, the Mega Fam campaign, where familiarisation trips to Malaysia were offered to 500 foreign tour operators and media representatives each month to allow them to see the country for themselves, attend festivals and witness special events and so assess the true situation from the point of view of international tourists. As recommended by Durocher (1994) and discussed in Chapter 1.4.3, it was hoped that this would offset some of the negative publicity generated by the foreign media.

2.5.4 Impact on the travel trade and transportation

In tandem with the government's focus on overseas promotion there was a shift by the Malaysian travel trade in favour of inbound tourism, which was encouraged by the government as a means of keeping the currency at home and, more importantly, attracting foreign exchange. Inbound agents which depended on the regional markets had been badly affected as visitor arrivals from ASEAN countries (82% of total arrivals) fell by 14.6% and from East Asia by 28% between 1997 and 1998 (Tourism Malaysia 1998b). Early in the crisis, the instability of the ringgit had resulted in currency fluctuations which meant that a number of smaller travel agents, much of whose work involved ticketing, had been unable to pay the airlines on time so were delisted as agents and as a result had gone out of business. These were mostly the smaller companies with limited cash flow and a few medium sized ones; many outbound specialists were in the habit of giving credit to customers and as a result got into cash flow difficulties. In addition, because of the weakness of the ringgit and government imposed currency restrictions for Malaysians leaving the country, there was a decrease in outbound tourism.

In contrast, tour operators and travel agencies dealing with Europe or North America and those involved with domestic tourism did comparatively well. The net result was fewer players. The number of registered tour and travel agencies in Malaysia fell from 2,562 in 1997 to 2,050 in 1998, a drop of just over 20% (Tourism Malaysia

1998b). The extent of the impact of the crisis varied across Malaysia and is summarised in Table 2.8. As a result of these difficulties, the number of jobs in the tours and travel agency sector fell in 1997 by 49% and by a further 8% in the following year, as shown in Table 2.7.

Table 2.8: Distribution of registered tour and travel agencies in selected states

	1995	1996	1997	1998	% change 1997 to 1998
Kedah	156	185	226	198	-12.4
Penang	235	253	260	187	-28.1
Kuala Lumpur	745	770	776	581	-25.1
Johor	204	226	239	185	-22.6
Sabah	150	166	173	169	-2.3
Sarawak	175	194	202	169	-16.3
Malaysia total	2,212	2,418	2,562	2,050	-20.4

Source: Tourism Malaysia (1998b)

The fall in the value of the ringgit meant that travelling outside Malaysia became much more expensive. The transportation sector worst affected was aviation, with demand for outbound travel alone falling by 30% (Tourism Malaysia 1998b). The drop in demand together with the 40% fall in value of the ringgit against the US dollar meant that the airline's debt increased in 1997 to RM12 billion, as 85% of its loans were in US dollars (Jayasankaran 1998). To compound the problem, Malaysia Airlines had ordered 19 aircraft for delivery by 2001 which subsequently had to be cancelled or deferred (Muqbil 1998).

2.6 MALAYSIAN RECOVERY

Over the last 30 years, Malaysia has emerged as a multi-sector economy. Prior to the Asian financial crisis, average GDP growth was around 8% per annum; in contrast in 2001 it was estimated at 0.3%, with GDP per capita US\$9,000 (Website 2.8). More details are given in Tables 2.5 and 2.9. Since 1997 the growth of the economy has been largely due to exports, in particular electronics, which explains why Malaysia

has been badly affected by the global economic downturn and the contraction of the electronics demand particularly from the United States. GDP in 2001 grew only 0.3% due to an estimated 11% contraction in exports, but the economy is expected to grow by 2% to 3% in 2002 as the world economy rebounds. Athukorala (1999: 29) suggests that in Malaysia there was no clear policy anchor and so

indecisiveness has adversely affected Malaysia's recovery process. By mid-1998, the economy was in recession and there were no signs of achieving currency and share price stability. The stage was set for a dramatic policy turnaround in favour of an unorthodox (and risky) policy posture whose key elements were capital controls and expansionary macroeconomic policy.

Table 2.9: GDP by sector as a percentage and at constant 1987 prices

Sector	1995	2001	2002*
Agriculture	14%	12%	RM 18.32 bn
Industry	45%	40%	RM 91.26 bn
Services	41%	48%	RM 121.66 bn

Source: *The World Factbook 1996 + 2002 (Websites 2.8 + 2.13)*; *NEAC (Website 2.10)

How much of the recovery can be attributed to tourism is uncertain. It is difficult, for example, to assess how successful *Cuti Cuti Malaysia* has been. The government claims that domestic tourism trips increased from 8.32 million trips between August 1997 and July 1998 to 15.8 million trips in 1999, an increase of 89.9%. Similarly, figures for domestic hotel guests increased by 46% from 698,000 in March 1998 to 1.02 million in March 2000 (Economic Planning Unit 2001).

Dr Mahathir recognises that FDI will be affected by the emergence of China as a competitive economic threat to Malaysia. The primary objective of attracting FDI into the country was full employment which has been achieved together with improved skills and technology, so it is felt that domestic investment will suffice should FDI fall away (*Financial Times*, 07 October 2002). This is a real threat. Malaysia is no longer one of the top 25 global destinations for FDI; figures for FDI

fell from RM18.8 billion for 2001 (US\$4.9 billion) to RM2.2 billion in the first six months of 2002 (Burton 2002).

As regards international investment, Table 2.10 shows the results of a September 2001 survey by the Hong Kong-based Political and Economic Risk Consultancy (PERC) of 1,000 expatriate executives in 12 Asian economies who rated their places of residence in terms of hospitality to foreign direct investments on a scale of 1-10, 1 being the most hospitable. The criteria used were the ease of establishing a company, levelness of the playing field, transparency of the licensing process, immigration policies and government responsiveness to investor concerns. PERC considers that Southeast Asia offers certain advantages over China and should not be discounted in the race for investment (*Asiafeatures.com*, 23 December 2001).

Table 2.10: Rating of Asian economies in PERC survey

ASEAN	Rating	Non-ASEAN	Rating
Singapore	2.29	Hong Kong	2.27
Malaysia	4.21	Taiwan	4.16
Thailand	5.62	Japan	5.00
Indonesia	7.00	South Korea	5.21
Vietnam	7.75	Philippines	5.76
		China	6.31
		India	6.40

Source: Asiafeatures.com, 23 December 2001

Similarly, a joint Arthur Andersen and Jones Lang LaSalle survey of 290 international delegates at the Annual Hotel Investment conference in March 2001 found that 36.6% considered it top priority to invest in Southeast Asia over the following 12 months, as compared to North Asia 43.1%, Australia 18.1% and India 2.3% (*Travel Impact Newswire*, 28 June 2001). Both of these surveys would suggest that Southeast Asia is recovering its appeal to international investors and Malaysia itself is considered in a very favourable light.

This chapter has provided a context for the research, first describing the region of Southeast Asia and the progress of the financial crisis and then looking in some detail at Malaysia in general terms and then specifically at the response to the crisis and the impact this had on tourism. The next chapter looks at the methodology for this research, first considering the philosophical justification for the method selected and then a description of what was done. How the data was treated is described and then follows an evaluation of the methodology.

Chapter 3: Methodology

This chapter begins with a discussion of the different philosophical approaches to research and considers the choice of methodologies open to the researcher. Next, it considers the design of the case study: the conceptual framework, the research questions, the sampling strategy and the data collection and analysis. Finally the methodology is evaluated.

3.1 PHILOSOPHICAL BACKGROUND TO THE RESEARCH

There are two main research paradigms, or frameworks: the positivist approach and the interpretative, or phenomenological, approach. Each has three components: ontology, epistemology and methodology. The approach to research adopted by a researcher depends very much on his ontological position or what he believes to be the nature of reality. This may be seen as either an unalterable fact or truth awaiting discovery or as an amorphous product of the human mind which does not remain static or fixed. Ontology influences epistemology, which is the theory of knowledge and is concerned with its nature, origins and limits (Slife and Williams 1995). This may either be viewed as allowing objective measurement of something already there, or as requiring interaction between the researcher and the observed so as to generate some issue which may then be subject to interpretation by the researcher. Epistemology in turn influences the selection of an appropriate methodology, the means by which knowledge of the world may be gained (Taylor and Edgar 1999).

The positivist approach holds that

the social world exists externally, and that its properties should be measured through objective methods, rather than being inferred subjectively through sensation, reflection or intuition (Easterby-Smith, Thorpe and Lowe 1991: 22).

It may be termed a 'scientific' approach and Burns (2000: 4) describes it as incorporating the "methods and principles of natural science for the study of human behaviour". Positivism assumes a 'dualism' or separation between the researcher and the observed which means that any knowledge gained will not be contaminated

by the process of observation (Taylor and Edgar 1999). The mainstay of this approach is the hypothetico-deductive research method. The researcher starts with a theory or observed phenomenon, from which he advances a hypothesis, defined by Robson (1993: 19) as a “testable proposition about the relationship between two or more events or concepts”. This hypothesis is then tested either by experimentation or through some other means of collecting data; the data is then often quantified and for this reason the approach may be termed quantitative. The results either support, or verify, the hypothesis in which case it is accepted, or they falsify it, when the hypothesis is rejected. Depending on the findings, the initial theory is adjusted to incorporate the new knowledge obtained through this sequence which is known as deduction (Clark, Riley, Wilkie and Wood 1998).

In contrast the interpretative approach considers that “the world and ‘reality’ are not objective and exterior, but that they are socially constructed and given meaning by people” (Husserl, 1946, cited in Easterby-Smith *et al* 1991: 24). This paradigm is still evolving and there are a number of variants but in general terms it can be described as a form of investigation which recognises the importance of the subjective experience of the world where perceptions and interpretations of reality result in a form which can be understood and analysed at different levels, rather than fixed and stable (Burns 2000). Interpretivists believe that reality is not a product of external influences but is the result of the constructions and meanings that people derive from their experiences. Taylor and Edgar (1999: 29) state that

the interpretive approach asserts that ... human action is the result of subjective interpretations of the external world. Thus the *raison d'être* of interpretivists is to understand ... how people make sense of the outside world.

The researcher should therefore try to understand and explain human actions as these result from the sense that people make from their situation rather than as a direct response to external stimuli (Easterby-Smith *et al* 1991). The process of acquiring knowledge through observation, by way of collecting original ideas, identifying patterns or trends, suggesting explanations based on the observations and opinions collected, is known as induction. Because this approach involves the in-depth

treatment of data and its quality, rather than numerical measurements, it is termed qualitative.

A quantitative approach may be particularly appropriate where the researcher is interested in how two or more variables interact. It is the specific context rather than any other dimension or aspect of the relationship that is under investigation and extraneous variables may mostly be considered irrelevant. The aim of the researcher is to obtain results that can be repeated, where trends can be identified, and which can form a basis for comparison with other studies. Easterby-Smith *et al* (1991: 32) consider the strengths of quantitative research to be that it can cover a range of situations, it is fast and economical, and where there is statistical analysis of large samples, it may provide a useful basis for policy decision-making. However, they comment that the weaknesses of this approach are that these methods

tend to be rather inflexible and artificial; they are not very effective in understanding processes or the significance that people attach to actions; they are not very helpful in generating theories; and because they focus on what is, or what has been recently, they make it hard for the policy-maker to infer what changes and actions should take place in the *future*.

Quantitative research is often found where a number of studies have already been done in the field and the researcher is focusing on a particular aspect of a given interaction, rather than on the whole complex situation.

In contrast, Burns (2000: 11) suggests the role of the qualitative methodologist is:

to capture what people say and do as a product of how they interpret the complexity of their world, to understand events from the viewpoints of the participants. ... 'Truth' within this context is bound to humanistic caprices.

Qualitative research is particularly appropriate in those fields where there has been little or no prior investigation and there are very limited expectations of what data will emerge. The researcher may have a number of open-ended research questions to develop and explore, rather than a clearly defined hypothesis to test. The strengths

of an interpretative approach are that change processes over time can be examined, people's meanings understood, there can be adjustment to new issues and ideas as they emerge and contributions can be made to the evolution of new theories. This approach also provides a way of gathering data that is seen as natural rather than artificial, although this data collection may be time consuming and costly in resources and, in addition, the analysis and interpretation of data may be very difficult (Easterby-Smith *et al* 1991).

In the field of tourism research both approaches have their value, although in the last 50 years quantitative methods have predominated. It might be suggested that as tourism became more important economically, there was a demand for more concrete data with which to analyse past trends and on which to base forecasts for planning and development purposes. Such data could be supplied by way of the rigorous quantitative research favoured by the positivists. However, Walle (1997: 525) points out that one of the problems associated with the positivist approach is that it prevents the researcher from using

insight, intuition, and other non-rigorous knowledge ... [They] often need to utilise diverse forms of evidence and information when the feelings of people are being studied and researched.

In addition, because tourism is so influenced by political and economic factors, there is a need for interpretation of the data so as to take such factors into account. It could therefore be argued that there is a case for both approaches to be used in tourism research so as to complement each other. Walle (1997: 534) observes that positivism alone

limits the areas of inquiry to those for which ample 'facts' can be gathered and leads to the possibility of oversimplifying reality by only examining phenomena in ways which reflect rigorous data gathering. As a result of employing such strategies, it becomes impossible to examine 'reality' in all its complexity.

Tourism is a service industry and dependent on the perceptions of the consumer. As the human element is of considerable importance qualitative research is necessary.

Ryan (1995: 214) suggests that “research that denies [people] the opportunity ... to speak of their own experiences in their own words – that seeks only reactions to a researcher-determined agenda – is itself limited”. This is especially true in the case of tourism, which involves a particularly personal reaction to places and the experiences that occur in them. In addition, a qualitative approach offers the opportunity for close interaction between the respondents and the researcher which may be important in a cross cultural study where there is a likelihood of misunderstanding between them as a result of cultural or language differences. This is especially relevant to this study and is discussed in more detail in Section 3.3.1.

3.2 THE RESEARCH PURPOSE AND OBJECTIVES

The purpose of this research was to examine crisis management in the context of tourism. As discussed in Chapter 1.1, although crisis management at an organisational level has been fairly widely researched and documented, comparatively little work has been done on macro-level crisis management and there is a scarcity of literature on crisis management at sectoral level. Similarly, most crisis management research has taken place in the engineering or pharmaceutical industries and relatively little in tourism. It was felt therefore that an examination into the benefits that may accrue from crisis management at sectoral level would be of value. It was decided to investigate the 1997 Asian financial crisis, a market driven crisis that had a significant impact on tourism in the Southeast Asian region, and to focus on the Malaysian government’s response to the crisis and the measures taken to protect the tourism sector. A great deal has been published since 1997 on the Asian financial crisis and the response of the Malaysian government in general terms; the salient features are summarised and references to the literature most relevant to this research are provided in Chapter 2. However, neither the effectiveness nor the implications of the government’s past, current or planned measures have been evaluated or considered from a crisis management perspective.

The objectives of this study can be summarised as firstly, to examine the Malaysian government’s management of the impacts of the crisis and the lessons learnt from the

experience and secondly, to explore ways in which the government might be proactive to a future crisis and the potential for public-private sector cooperation in any crisis management strategies formulated. The main reason for this specific focus is that in theory a market driven crisis can be anticipated and therefore there is some chance that evasive action can be taken and the impact of the crisis lessened, given that the appropriate indicators are being monitored. It was hoped that evidence would emerge suggesting that further study is worthwhile or that a national crisis management plan to protect the tourism sector is worth incorporating into national policy. Although the main focus of this research is crisis management in the context of market driven crises, many of the issues and observations arising will apply in the case of other types of crisis, however they may be classified.

3.3 THE CASE STUDY

The research strategy was to develop in-depth knowledge by means of a single case study. Burns (2000) suggests that case studies may be done for a number of different purposes, of which the most appropriate to this research is that it was done for its own sake or, as Robson (1993:5) puts it, "it is sampled in its own right, not as a sample from a population". Robson (1993) suggests that case studies are often the most effective strategy when the purpose of the research is exploratory, rather than descriptive or explanatory, as it was in this instance. The 'case' chosen was Malaysia and the focus was the response of the country to the Asian financial crisis. The field research was carried out in Malaysia and the primary data collection technique was the semi-structured interview, which Bryman (2001) describes as when the researcher has a planned series of general questions to put to the participant but is free to vary the sequence of the questions or ask additional ones in order to develop what he feels are significant answers.

Yin (1994) comments that some researchers view the case study strategy unfavourably for three reasons. Firstly, there is a lack of rigour owing to subjective bias. Bryman (2001: 470) observes that it is increasingly recognised that a researcher cannot be totally objective and inevitably his values will influence aspects

of his research such as the research design and the analysis and interpretation of the data. The researcher is therefore an integral part of the research, not

someone who extracts knowledge from observations and conversations with others and then transmits knowledge to an audience. The researcher is viewed as implicated in the construction of knowledge through the stance that he or she assumes in relation to the observed and through the ways in which an account is transmitted in the form of a text. This understanding entails an acknowledgement of the implications and significance of the researcher's choices as both observer and writer.

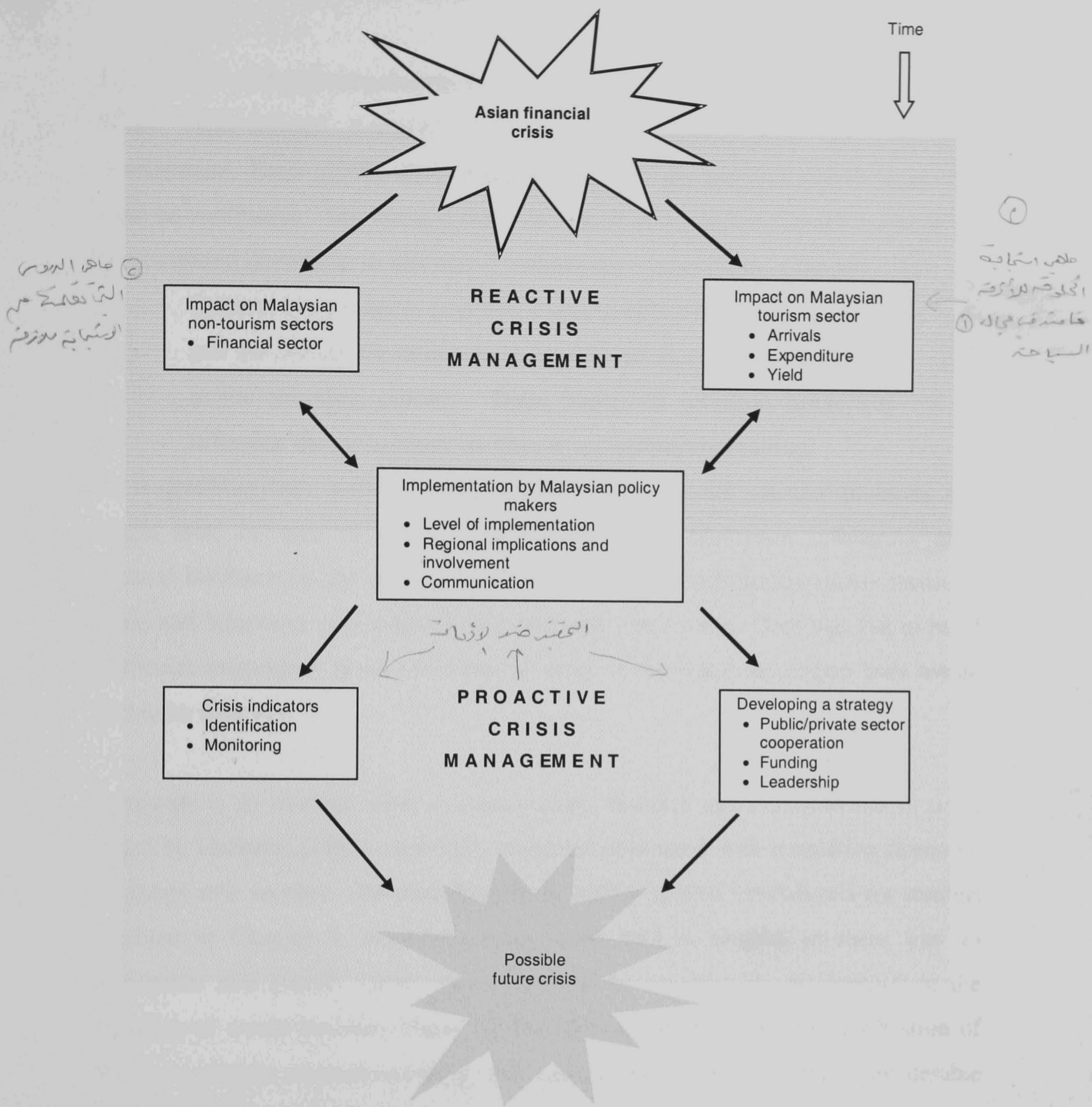
He stresses the need for reflexivity, when researchers think carefully about the implications of their methods, values, biases and decisions for the knowledge of the social world they generate.

Secondly, case studies provide little basis for generalisation. This is true in this research; in no way can Malaysia be considered representative of a population. However, Bryman (2001: 283) observes that it is “the quality of the theoretical inferences that are made out of qualitative data that is crucial to the assessment of generalization”. In this research, it is the observations, ideas and suggestions of the interview participants within the framework of the published literature that is of interest and the extent to which this information can be applied in the wider context. Thirdly, case studies take too long and generate too much information. This was not a major issue in this study as not only was the fieldwork carried out overseas during a relatively short 2-month period but also the participants were important people with little time available for interviews, both of which factors limited the number of interviews done and the amount of information obtained.

3.3.1 The research questions

From the analysis of the crisis management literature, a number of issues emerged which form the basis for this research. Figure 3.1 is a representation of the concept of the stages of crisis management onto which the key issues addressed in the interviews have been applied at the most appropriate point in the sequence.

Figure 3.1: A representation of the research concept



There were four principal research questions. The first two deal with reactive crisis management and are firstly, what was the response of the Malaysian government to the crisis, particularly in the context of the tourism sector, and secondly, what lessons were learnt from this response? The last two focus on preparation against crises in the future, in other words proactive crisis management. These are how can the

government be proactive to a future crisis, and finally to what extent could or should the private sector be involved in this?

3.3.2 Cross-cultural considerations

While cross-cultural research may contribute valuable data for theoretical development, Ryen (2000: 221) suggests that there are methodological issues that must be confronted. She stresses that it is crucial not to underestimate or ignore the cross-cultural dimension as this may invalidate the research and comments:

Cultural knowledge is coded in a very complex system of symbols, and the culture becomes a filter functioning as a frame of reference to the decoding process. These frames of reference guide and influence the perceptions we have in an intercultural setting.

As is described later in this chapter, care was taken to avoid potential problems that might arise because of cultural misunderstandings; Malaysian colleagues gave cultural feedback on the questionnaires and discussed with the researcher issues of dress and behaviour appropriate to the interview participants. This was felt to be of particular importance given the status of many of them and the respect they would feel to be their due.

Language is an obvious issue in cross-cultural research and is considered in some detail by Hofstede (1984), especially problems associated with translation from one language into another. Because English is widely spoken in Malaysia for reasons outlined in Chapter 2, interviews were to be held in English so there was no translation anticipated. There may, however, be considerable discrepancy in the meaning of words between Malaysian and British English. A good illustration of this is a simple misunderstanding that caused the researcher some considerable embarrassment and involved the verb 'to follow', which to a Malaysian has the meaning 'to accompany'. On being told that she would be 'followed' to a location, the researcher departed alone, expecting to be joined later at the destination by the Malaysian speaker, much to his dismay as he was expecting to travel with her. Hofstede (1984: 27) observes that not only may the researcher and participants have different understandings of the meanings of certain words but they:

may hold different normative expectations about the use of language. In some cultures and subcultures, being polite to the other person is more important than supplying objectively correct information: in some, respondents will never use 'no'.

Ryen (2000) agrees with this view and also observes that the actual meanings of words may vary with the situation.

3.3.3 Sampling strategy

Primary data were gathered by means of interviews carried out during a two-month field trip to Malaysia. The focus of the research is Malaysian policy both at a national and at a sectoral level with regard to crisis management and the tourism sector. Input was therefore required from individuals involved in policy formulation; such individuals may be found in positions of power in the public sector, in senior positions in private sector organisations or consultants. Inevitably, by virtue of their senior position, the number of people suitable for the study was limited. Those individuals who satisfied the criteria for selection and agreed to be interviewed will henceforth be referred to as participants and for simplicity referred to as 'he', regardless of whether male or female. A list of participants, their positions and the organisations they represent can be found in Appendix 3.1.

The selection of individuals to be interviewed may be done using either probability or non-probability sampling methods. The former are based on random selection techniques and used in situations where it is possible to specify the probability that an individual will be included in the sample of the population in question (Hemmington 1999). Where this is not the case, non-probability sampling methods are used. These are commonly the practice where there is no intention of making any statistical generalisation beyond the sample, as well as where selection involves the judgement of the researcher (Robson 1993). Two non-probability approaches were used for selection. The first, purposive sampling, is described by Hemmington (1999: 255) as

where elements are selected for their particular expertise, knowledge, experience or perspective.... It is often used in research

where there are a limited number of people who have the available knowledge.

In addition, participants were selected by snowball sampling, where names of people are put forward by participants who feel they might make useful respondents because of the knowledge or experience they have.

The interview participants were selected by non-probability sampling because there was only a finite (and small) number of suitable people to interview and each came from a different area of interest to the researcher: one was in a senior position in the government; another the president of a private sector tourism association; another was one of the section directors in Tourism Malaysia, the national tourism organisation. Participants were selected *because of* their specialisation rather than in spite of it and so there needed to be active targeting of individuals as opposed to random selection. In addition, because the researcher was only in Malaysia for a relatively short period of time and the people of greatest interest were inevitably very busy and had, at best, only limited time at their disposal for interviews, it was sometimes necessary to compromise and interview those available who were not always the ideal or first choice. Snowball sampling was particularly useful in Malaysia where personal introduction is not only more culturally acceptable but also more productive than a direct approach from someone unknown.

As non-probability sampling involves subjective selection of participants by the researcher, Hemmington (1999) warns that any attempt to generalise to the wider population must be treated with caution. In this study the objective of the interviews was not to obtain a set of data that could be used or applied in a wider context but rather to explore the views and ideas of those interviewed with a view to extracting kernels of data that might together suggest a direction for further research. For this reason too, no attempt was made to stratify the participants with regard to their ethnic origin or gender; the breakdown of the participants was ten Malays, two Chinese Malaysians, three Indian Malaysians and one African, and of the total, three were women. It was recognised by the researcher that the ethnic grouping and gender of the participants would inevitably colour their perceptions and opinions, but it was felt

that this variety would enrich the data, rather than detract from it. While it is accepted that generalisations cannot be made, it was hoped that the views of each participant would bring a different perspective and make a valuable contribution to the research.

3.4 METHOD AND INSTRUMENTS OF DATA COLLECTION

3.4.1 The interviews

The majority of the interviews took place in or close to Kuala Lumpur as this is the location of many of the federal organisations and the government and consequently where most of the policy makers are to be found. Face-to-face interviews were chosen as opposed to telephone interviews because the expected number of participants was low and they were all to be found in a relatively small area. In addition, it was considered to be more respectful to visit the participants in person, as they were all high status people. As Clark *et al* (1998) observe, the close interaction between researcher and participant gives the researcher greater flexibility and control and this was felt to be important especially as it allowed immediate clarification of any confusion that might arise because of language or cultural differences.

Odendahl and Shaw (2002) observe that it may not always be possible to plan in advance who the participants in elite interviews will be but it is something that emerges during the course of the fieldwork. This was true in the case of this study. The interviews were arranged usually up to a week in advance, although a few appointments were made at very short notice; all were confirmed by telephone on the day they were to take place. The majority of participants were not approached directly by the researcher but rather an introduction was made through an intermediary who was in most cases already known to the researcher or connected in some way to The Scottish Hotel School or the University of Strathclyde. As mentioned above, personal introduction is customary in Southeast Asia and is more effective in achieving a meeting than approaching the prospective participant by letter, email or telephone.

Interviews lasted between 30 minutes and one hour and were held in either the participant's office or a meeting room. The participants were at times accompanied by one or two colleagues. All the interviews were recorded with the permission of the participants, which in most cases was freely given; the few who showed an initial reluctance to be taped were more concerned about the standard of their English rather than the sensitivity of the information they were about to impart. At the start of each interview the researcher provided the participant with a brief verbal summary of herself and her topic and assured him that his identity would not be divulged and with regard to the taped interview material, that confidentiality would be protected.

Some interviews were held in the northern state of Kedah, more specifically on the island of Langkawi, and in Johor Bahru in the southern gateway state of Johor. The reason for selecting participants from the regions was to explore the potential for regional rather than national crisis management, an issue that had emerged from the literature. Tourism is important in both states. Kedah is the location of Langkawi, an attractive island with duty-free status which has been developed over the past 10-15 years as the flagship of Malaysian tourism, and offers conference facilities, a deep water port suitable for cruise ships, and a good range of accommodation which caters for both the domestic and international markets. In contrast Johor is a very popular tourist destination especially for Singaporeans. Johor Bahru is located at the Malaysian end of the causeway to Singapore and attracts tourists with good shopping, a range of accommodation, and excellent restaurants, all at comparatively low prices; there are also beaches, scenic fishing villages, waterfalls and a national park relatively close. It was hoped that the views of these 'regional' participants might not only provide a contrast to those from Kuala Lumpur but would also offer a basis for comparison with the earlier research by Czada (1990) and König (1990) that is discussed in Chapter 1.4.5.

3.4.2 The questionnaires

The research tool in both quantitative and qualitative research may be the questionnaire. Questions may either be closed, where the respondent selects one of several set answers, or open when he can answer however he wants (Bryman 2001).

In the case of quantitative research the questionnaire may be used for the sampling of a relatively large number of individuals; the data collected are then quantified and analysed statistically. The questions are usually closed, although a measure of flexibility in the responses may be allowed. As the concerns of the researcher are the focus of the research, although a small number of open questions may be included in the questionnaire, little attempt is otherwise made to explore the research problem in greater depth should the respondent make any unexpected or unsolicited observations. As the data are collected in as objective a way as possible, there needs to be no interaction between the researcher and the respondents – the dualism mentioned earlier – thus freeing the results from the inevitable bias which arises as a result of interpretation of the data by the researcher. In contrast, as discussed earlier in this chapter, in qualitative research the focus is on the views and experiences of the respondent. The questionnaire therefore contains predominantly open questions and as the responses to these may each take some time, it is usually much shorter.

In this study, qualitative data were collected by way of semi-structured interviews. As the purpose of these was to explore issues rather than measure and compare responses, it was anticipated that issues would emerge that would require further elucidation or merit further development. For this reason, open rather than closed questions were considered more appropriate so that the participants could elaborate where they wished. The input of the researcher was kept to a minimum. Participants were encouraged to talk freely while the researcher gently explored their views, prompting the expansion of some of their ideas. Two questionnaires were compiled to provide the basis for the semi-structured interviews. The first was for use in the interviews with representatives from the public sector, the second with those from the private sector. The difference between them was more a question of perspective rather than subject matter; the questions did not vary substantially from one questionnaire to the other.

The first step in the formulation of the questionnaires was to collect together all the researcher's questions stemming from the literature search that the participants might reasonably be expected to be able to answer; there were approximately 65 of them.

These questions were then grouped into the categories that corresponded to the areas of interest identified during the literature search. The categories were: background information; general aspects of the Asian financial crisis; reactive crisis management strategies such as exchange rate controls and domestic tourism; indicators; public/private sector involvement; the issue of confidence; marketing and promotion; and the future. There were up to 12 questions under each heading. Once grouped, it was possible to identify questions that either overlapped or were biased and a number of them were rewritten or eliminated altogether which reduced the overall total to approximately 50. As this number was impractical for an hour-long interview, the questions were then prioritised and those with high priority were typed in bold. This meant that in the stress of the interview, the high priority questions could be identified at a glance and should time run out or the participant be called away, at least the most pertinent information would have been obtained. An attempt was then made to put the questions in each category into a logical sequence so that they went from the general to the more specific. Several times the same information was sought from two different questions asked at different points in the interview as a way of checking the reliability of the participants' answers.

The first two questionnaire prototypes can be found in Appendix 3.2. However, because the subjects had been chosen so as to provide a wide range of views and perspectives on the topic, it was inevitable that some participants would know more about some areas of interest than others. Some, for example the representative from the Institute of Strategic and International Studies (ISIS) had very little knowledge of tourism *per se*, while others, such as the representative of Tourism Malaysia, were unfamiliar with issues of investor confidence. For this reason, before each interview the prospective participant was considered carefully in the light of the information he would hopefully be able to impart, and the questions reprioritised so that again, the most important areas would be tackled first. Because the interviews were semi-structured and inductive in nature, the researcher did not know what information would be forthcoming and how each interview would progress. Each participant was therefore encouraged to expand where relevant and only guided in a general direction by the researcher.

Goodwin (1996) stresses the importance of piloting research questions in cross-cultural studies and considers it crucial that this should be done with subjects from the same culture as the future participants. To this end, four Malaysian colleagues in the UK were interviewed individually. Because the purpose of these pilot interviews was to consider the questions rather than the opinions of those interviewed, every question was asked even though the answers of some of the respondents were very inadequate owing to incomplete knowledge of the subject matter. There were two benefits derived from this procedure. Firstly, a substantial amount of background information was obtained which was very useful to the researcher. Secondly, some of the questions were also seen to be naïve, repetitive or unclear. These pilot participants were also invited to comment on the questionnaires from a Malaysian cultural point of view, so that an attempt could be made to reformulate or eliminate any offensive or inappropriate questions.

3.4.3 Secondary data collection

Secondary data is that which results from other people's research and sources may be academic or non-academic and include articles in journals, the popular press or other media, books, speeches, government publications and so on (Clark *et al* 1998). A number of the participants made reference to or suggested sources of information in the course of their interviews. Afterwards, these sources were followed up wherever possible. However, in some cases the reference was vague and not enough information was provided for the source to be traced; in others, access to the information was denied to the public.

In order to support or elaborate on the primary data obtained by way of the interviews, secondary data were collected in two ways. Firstly, during the whole period that the research was carried out, the press and internet were monitored for relevant and contemporary news articles. The major publications read included the economic and the Southeast Asian press, in particular the *Economist*, the *Financial Times* and the *Far Eastern Economic Review*. Other titles less often accessed included the *Straits Times*, the *New Straits Times*, the *South China Morning Post*, *Travel Trade Gazette Asia* and *Asiaweek*. The world press was monitored via two email websites, www.asiatraveltips.com and www.travelmole.com. In addition, the

websites of regional organisations such as the Institute of South East Asian Studies, the Association of South East Asian Nations, the Pacific Asia Travel Association and the Asia Pacific Tourism Association were also visited regularly for updates.

Secondly, Malaysian government statistics were collected via the internet as well as in Kuala Lumpur itself. The websites of the National Economic Action Council (www.neac.gov.my) and the Economic Planning Unit (www.epu.gov.my) were more useful sources than Tourism Malaysia (www.tourism.gov.my), which displayed only limited tourism statistics. It proved extremely difficult to obtain statistics in Malaysia that were both detailed and up-to-date. The library of Tourism Malaysia does not allow photocopying of any of the documents it contains (although they mostly dated from before or just after the crisis) so any statistical tables required had to be copied out by hand. With constraints of time this proved impractical. Prior to 1998 most tourism statistics were published on Tourism Malaysia's website but since 1998 the publication of statistics has been by way of a booklet which can be bought from their head office. The range of statistics found in the booklet is considerable but this in itself means that the booklet takes time to produce and is currently running three years behind schedule.

3.5 THE TREATMENT OF THE DATA

3.5.1 Transcription of the interview tapes

Once back in the UK the interview tapes were transcribed. The researcher's words were typed in bold and those of the participant in regular text. Where there was more than one person present, each speaker's words were typed in a different font so that they could be identified separately. The transcriptions were not verbatim for two reasons. Firstly, because the participants were not native English speakers, their grammar and pronunciation were such that even though their meaning was clear from the recording, an accurate transcript would be very difficult to understand. Obvious mistakes in verb tenses or vocabulary were therefore corrected to standard British English although only to the extent that the sense of what was being said was clear. Secondly, the environment in which the interviews were carried out in some cases left a great deal to be desired. Frequent interruptions, jocular exchanges in

Bahasa Malaysia, rumbling air conditioning and background traffic noise, all of which the researcher had felt powerless to overcome, made some passages of some of the interviews very hard to hear. Although unfortunate, this was not felt to be a serious inadequacy as no detailed analysis of word frequency or textual relationships had ever been intended. Such 'tidying up' of the transcript for the benefit of the reader is considered acceptable by Poland (2002: 634) who observes that

the impact of quotes from respondents can often be greater if the researcher subjects them to a little skilful editing, without substantially altering the gist of what was said.

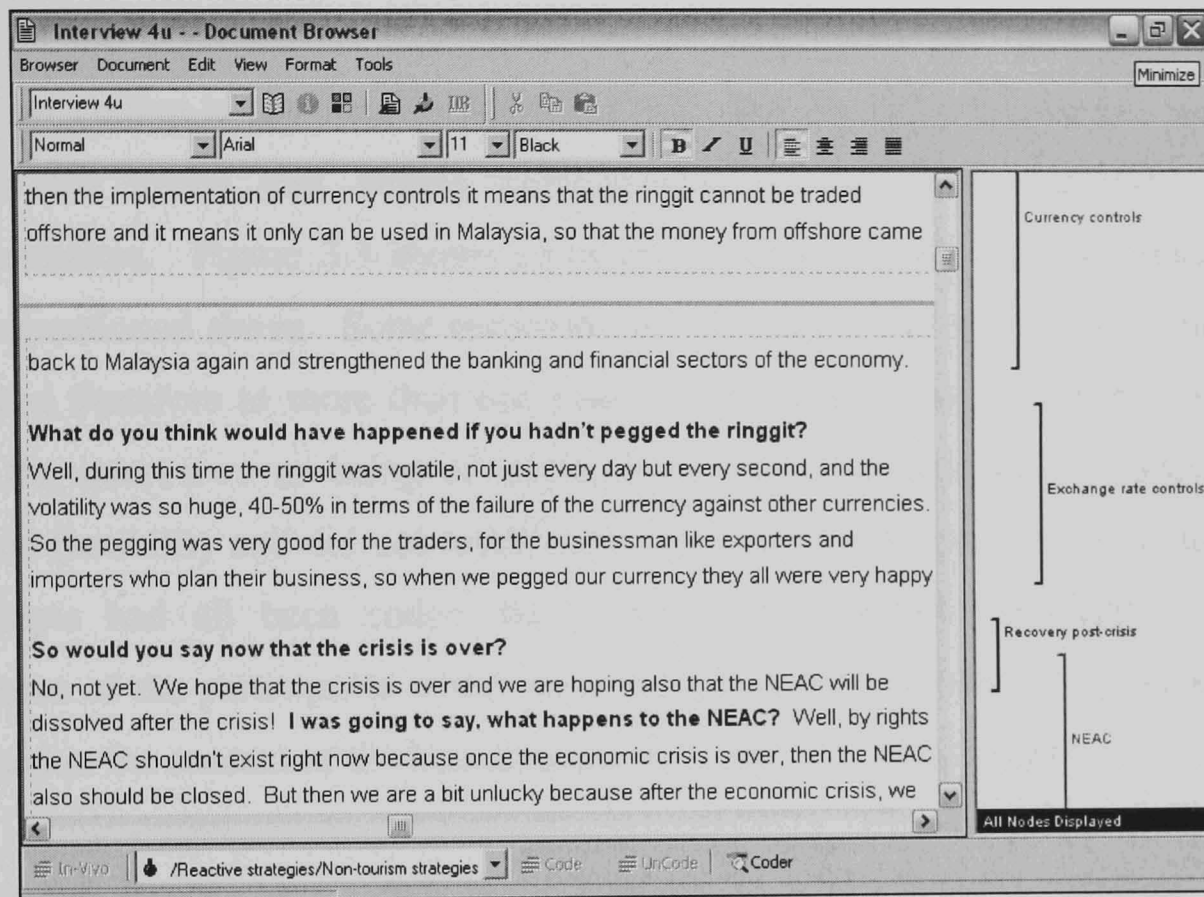
3.5.2 Analysis of the transcripts

The QSR International's computer software, NVivo, grew out of NUD*IST (Non-numerical Unstructured Data Indexing Searching and Theory-building), and is one of several computer-assisted qualitative data analysis software (CAQDAS) packages available to the researcher. Silverman (2000) lists the main advantages of CAQDAS as: they are fast; they improve rigour especially where counting and searching for obscure items is concerned; they facilitate team research; and they may assist in aspects of sampling. The disadvantages he considers as being that they do no more than what a relatively good word processor can do; they may restrict the approach to analysis somewhat; and they are little use in examining small data extracts. The most common CAQDAS are NVivo, NUD*IST, ETHNOGRAPH and ATLAS.

NVivo was selected for a variety of reasons. Firstly, it acts as a sophisticated search engine, which was felt would be the most useful aspect of the software, and it stores the results of searches as documents that in turn can be searched. Secondly, standard Word documents can be imported directly into NVivo in rich text format, which meant that the interview transcripts needed no changing once they had been typed. Thirdly, the text can be coded on screen using the mouse. The codes, representing a hierarchical structure of nodes, can be changed or updated with ease as the scheme develops. Figure 3.2 shows a sample of the coding. Fourthly, not only was the software available in the university but also it was possible to attend a seminar to learn how to use it. ATLAS was discounted as it is considered to be relatively hard

to learn and there was no need to analyse graphics or build theories, as was ETHNOGRAPH, for as Silverman (2000) suggests, while it is easier to learn than NUD*IST as it is less sophisticated, it has less potential. As a more elaborate and ambitious treatment of the data was originally envisaged, it was at the time felt better to use the software with the greatest scope.

Figure 3.2: Screen image showing the coding for part of an interview transcript



Seale (2002: 652) observes that

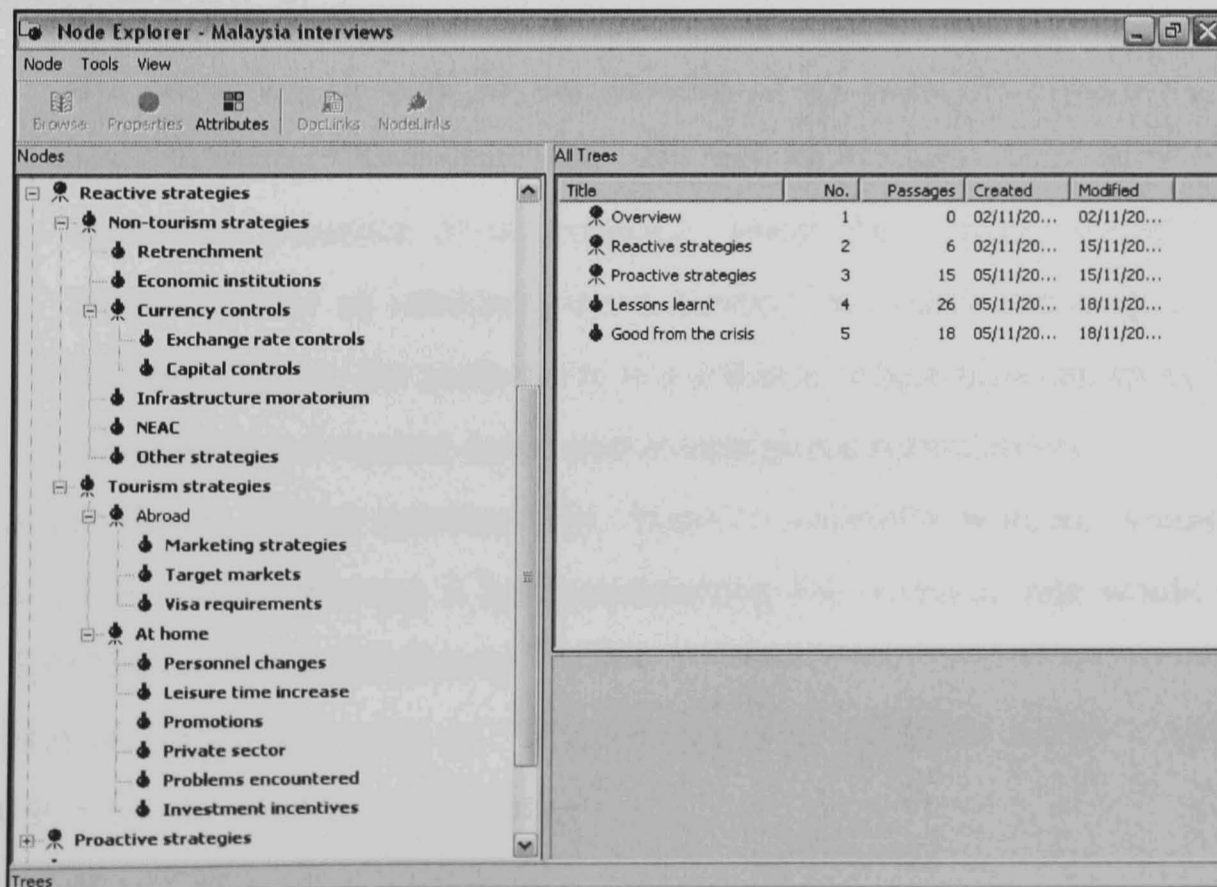
the chief contribution of CAQDAS is automation of the retrieval of text segments (for instance, sections of an interview) that has been categorized as examples of some analytic concept

and it was as a tool to facilitate analysis of the data that NVivo was used in this research. It was not considered appropriate to use the NVivo capacity to build up relationships between the data as although the interviews were all on the same broad topic, there were too many differences between participants in terms of status, occupation and field of operation, to make any comparison or generalisation at all valid. The purpose of the fieldwork was to explore the practice of crisis management in the context of Malaysia and the Asian economic crisis and its future potential, to gather a range of views and ideas from a variety of people, rather than to look at how

each participant relates to the others. To ensure good cross-referencing between the interviews and to check that no important observations had been omitted through the use of the NVivo software, the interview transcripts were read again after the data was analysed using NVivo to detect any inconsistencies between the two methods.

To maintain confidentiality the interviews were each given a number (P1-P16), which is used throughout for reference purposes rather than the participant's name. A list of the organisations represented by the participants and their positions and interview coding is provided in Appendix 3.1. The interview transcripts were first coded into nodes that largely corresponded to the areas addressed in the questionnaires. Figure 3.3 shows some of the nodes at the different hierarchical levels mentioned above. Some responses fell into more than one category and were allocated therefore to more than one node. Additional issues, which had emerged from the interviews as being of importance, were also ascribed to nodes. This allowed flexibility and did not restrict the process of induction. Once the interview transcripts had all been coded, the nodes were browsed individually and the responses of the participants within each topic area were considered, compared and analysed in the context of the literature and the objectives of this study.

Figure 3.3: Screen image showing part of the node hierarchy for coding



3.6 EVALUATION OF THE METHODOLOGY

3.6.1 Justification for the method

The collection of qualitative data by means of semi-structured interviews was chosen because it was not considered appropriate to try to collect quantitative data, not only because the sample size was so small but also because the frequency of certain responses or the actual number of participants who were in agreement or not over a given issue were not the primary concern in this study. Furthermore, as the participants differed so much in terms of their status and field of operation, there was little common ground for comparison. Rather than conducting a relatively high number of interviews superficially, the aim was to conduct fewer in-depth interviews, which although time consuming would generate good quality information and a range of ideas and suggestions. Had a quantitative approach been adopted, the amount of information obtained and fully understood by the researcher would have been reduced; for a single questionnaire to be relevant to each of such a wide variety of participants, the questions would have to be so general as to be of no real value.

Interviews were preferred over postal questionnaires because, as discussed in Chapter 1, the issue of crises in general and crisis management in particular is a sensitive one, for both political and cultural reasons, and interviewing senior public and private sector figures requires care and tact. Although Gubrium and Holstein (1997: 166) consider that

the proximity as well as the identity of an audience conditions interpretation. One may see and say things one way in the immediate presence of an audience, where the audience directly witnesses how an interpretation is formed, but frame things quite differently when the audience is at a distance, where time and space allow for more interest-laden and contemplated formulations

it was felt that a mailed questionnaire, however carefully worded, would not be welcomed by those receiving it and consequently the response rate would be very low. In addition, it was felt that the quality of data obtained would be compromised. As Gillham (2000: 16) puts it, “sensitive material is often subtle. And subtle material is not the stuff of questionnaires”.

3.6.2 Reliability and validity

There are three important criteria for evaluating research: reliability, replication and validity. Reliability is a measure of the consistency of treatment of the data and requires that this treatment be stable so that similar results will be achieved if it is repeated (Bryman 2001). Where recorded interviews have taken place, Silverman (2000) suggests that tapes and transcripts should be made available so that it can be seen that the coding and inferences were reliable and constant rather than varying at the whim of the researcher. Replication is similar to reliability but considers the wider context. One of the tenets of the positivist approach is that an experiment or investigation, if repeated by someone else under identical conditions, should yield the same results. This is desirable too where the approach is phenomenological but much more difficult to achieve because the researcher is an integral part of the process of collecting and interpreting the data. Bryman (2001:30) describes validity as being “concerned with the integrity of the conclusions that are generated from a piece of research”, or as Silverman (2000) puts it, how close the conclusions are to the truth or true situation. As discussed in Section 3.1, there is considerable debate as to what the nature of truth or knowledge may be, particularly when viewed as a social construct. The idea of validity may apply to different aspects of research, such as the data measurement or how far the results can be generalised to other situations. There is some debate over whether or not these criteria are relevant to qualitative research; some would argue that there are other criteria which are equivalent but more appropriate to an interpretative approach, namely credibility, transferability, dependability and confirmability (Bryman 2001). A full discussion of this is, however, beyond the scope of this research.

Case studies are multi-method and involve observation or interviewing plus analysis of documents and records (Robson 1993). This allows triangulation, defined by Silverman (2000: 177) as “the attempt to get a ‘true’ fix on a situation by combining different ways of looking at it or different findings”, which is an important research technique as it is a way of testing one source of information against others. If two sources give the same data they cross-validate each other. To counter challenges to the validity and reliability of this research, the interview data was supported by

secondary data from a variety of sources that are summarised in Section 3.4.3. In addition, the researcher attempted to obtain similar information from a number of different perspectives by interviewing widely differing subjects, as well as stratifying participants wherever possible on the basis of background variables such as whether they were from the public or private sector or their geographical location. Great effort has been made to provide sufficient information so as to be transparent with regard to the method used and consistent and thorough in the treatment of the data, with the tapes and transcripts available so that the findings can be validated. Although it is highly unlikely that identical results could be obtained should this study be repeated, Clark *et al* (1998: 22) have suggested that as long as “other researchers using similar methods in the same or similar context will produce the same or similar results”, which while not true replication, may be considered to be equivalent.

3.6.3 Limitations of the methodology

There were a number of limitations to this research. Firstly in terms of logistics, constraints of time and money restricted the number and range of interviews that could be done. It would have been very interesting to interview people living in the semi-autonomous Borneo states of Sabah and Sarawak, especially in view of some of the comments from participants about the handling by their private sector of earlier crises such as the haze and Cocksackie outbreak, but the budget could not be stretched this far. In addition, the researcher discovered that Malaysians do not use emails very much but prefer to chat together on the Internet or to use mobile phones. For financial reasons the researcher was staying in a hostel with access only to a public telephone in the street outside. Whilst she could contact people via email in Internet cafes, sometimes she had to wait a substantial period before receiving a reply. Because the prospective participants were important, it was seldom possible to telephone them at work which made arranging interviews very difficult; the high frequency of non-functioning telephones in the streets of Kuala Lumpur, the burning sun, the exhaust fumes and the noise of motorbikes roaring past made telephoning extremely unpleasant, although this proved to be a strong incentive to arranging the interviews as quickly and efficiently as possible.

A second limitation concerns the participants. Because of the Malaysian custom of personal introduction described above, the fieldwork period did not allow much time for the researcher to meet the initial contacts who would set up the introductions and interviews. Given the importance of many of the participants and the pressures and commitments of the jobs, it is largely thanks to the great efforts of the Malaysian contacts that so many high-ranking figures were approached and this was very much appreciated by the researcher. In addition, the choice of prospective participants was limited to those who spoke English, although this was not felt to be particularly significant as most Malaysians in a position to influence policy can speak good English. As stated earlier, it was not felt to be feasible or desirable to select participants so as to stratify for factors such as gender, religious belief or ethnic origin, even though it was accepted that these would influence their views. As the participants were anyway chosen because of their different perspectives and positions, it was not considered to be appropriate to identify or justify why they held the views they did. While the researcher bore in mind these differences between participants, she did not feel that there was justification in drawing conclusions based on these factors. This would, however, be an interesting area for further study.

A third limitation concerns the interviews. It must first be questioned whether the fact that the researcher is female and neither Malaysian nor a Muslim would have had any effect on the responses of the participants. Being mature and having some experience of Southeast Asia and Islamic ways, she tried to dress and behave in as seemly a way as possible and not to alienate the participants by being, for example, confrontational. It might be that were a male researcher to hold the interviews, he would get very different responses but how far these might be attributed to his being male is open to question. The researcher conducted all the interviews herself, so any bias caused by her gender would have been common to all the interviews. In addition, being British and from a university well known in Malaysia may in fact have assisted the researcher, especially in gaining access to some of the more senior figures. Ryan (2000: 222) observes that

individuals belonging to the White, wealthy, Western cultures may
in spite of cultural unawareness have a higher probability of

success due to the resources attributed to them as part of that culture.

Participants may have felt flattered to be approached for an interview and may have even achieved a certain status by being consulted by a researcher from the University of Strathclyde, which has a very good reputation in the country.

The quality of the information obtained from the interviews may be open to criticism. Firstly, it might be said that as English was not the first language of the participants some of the nuances of meaning were lost. This may have been true but was unavoidable. The piloting of the questionnaire using the researcher's Malaysian colleagues was an attempt to minimise some of the misunderstandings discussed in the early part of this chapter; Ryen (2000) recommends pilot collaboration with people of the other culture as a useful means of bridging the cultural knowledge gap between researcher and participants. Had a quantitative methodology been adopted, perhaps with data collected by means of a postal questionnaire, any inconsistency in the meaning of English words might have posed a greater problem than it was felt to have done in the interviews. Great care was taken when transcribing the interviews and only when the intended meaning was clear and the words used obviously wrong were corrections made. Secondly, the participants may have felt inhibited by being taped, as they would not have felt comfortable or felt able to be frank when speaking of sensitive issues, as when asked to appraise the performance of the government during and after the crisis. This would also have been true in the few interviews where colleagues were present. Finally, in two interviews where colleagues were present, the participant was from time to time quite obviously showing off or 'playing to the gallery'. This inevitably reduced the value of what was said.

This chapter has considered the philosophy behind the methodology and the justification for selecting this approach to the research question. It has described the participants and the research instrument used, the semi-structured interview, and then summarised how the data were obtained and the process of analysis. The following two chapters present the data collected and analyses them in the context of the literature reviewed and the objectives of this research.

Chapter 4: Analysis of the Response to the Crisis

This chapter is the first of two which analyse the primary data that were collected during the interviews held in Malaysia. Here the focus is on the response of the country to the Asian financial crisis. The reaction of the Malaysian government to the crisis is examined initially, firstly in terms of the economy in general and secondly in the context of tourism. Next the issue of loss of confidence is addressed and the measures that were introduced to hasten its recovery are commented on. This is followed by an exploration of the role during this period of ASEAN as an organisation and regional initiatives such as the growth triangles. Finally the performance of the media, both foreign and domestic, is considered.

It is important to bear in mind that, as described in Chapter 2.5, a number of crises occurred in Malaysia at about the same time and included the Southeast Asian haze, outbreaks of Japanese encephalitis and cholera, a Cocksackie epidemic in Sarawak and social unrest following the arrest of Mr Anwar, and one participant observed:

Talking about crisis management, ... at the height of the economic crisis we also had other things affecting the [tourism] industry. So we had quite a few fires to put out in more ways than one! (P8)

Although the impact of these crises was not consistent across the whole country, there was a consensus among the participants that they would each have had some effect on tourism. The haze in particular probably had a sharp effect on tourism arrivals in the short term but it lasted only a few months and was relatively localised. While participant P8 considered the demonstrations against the trial of Mr Anwar to be so localised that few would come across them unless they were actually in front of the court, another participant considered that any political crisis or demonstration was potentially serious and steps should be taken to minimise its effect:

Maybe the crisis manager would think of how to avoid political crises - with tourism I think the biggest problem is political instability in the country. (P10)

As observed in Chapter 1.2.4, it is not easy to separate the effect of several concurrent crises. However, the impacts of the Malaysian crises must be kept in

proportion to that of the financial crisis which was extensive and comprehensive throughout the region.

4.1 NON-TOURISM REACTIVE STRATEGIES

There was considerable confusion after the crisis struck. When asked about the measures introduced initially, one participant pointed out that there had been no planned response:

Basically I would say there were no strategies because at that time they were frantically trying to resolve issues and they were doing everything at one time and there was no foresight in that. It was a drastic thing just to keep going. (P9)

The government's initial strategy of retrenchment, one of the IMF-type measures outlined in Chapter 2.4.2, was viewed very dimly by the participants:

The immediate step of tightening your belts had the effect of cutting off the flow of cash or money through the system because the first thing that happened was when you say tighten your belts and the Malaysians were quite obedient I suppose, people actually stopped shopping to a great extent. The department stores, restaurants, supermarkets felt it quite immediately. People stopped travelling out of the country to a very large extent and ... out of their houses - there was less consumption of petrol. So that call to tighten your belts was heeded very quickly but it had the wrong effect on our economy, it just grinded to a halt. (P8)

The NEAC participant summarised the views of most of the participants with the comment:

At first we followed the IMF suggestions of how to manage the crisis, to increase the interest rates, to tighten the government spending, to lower bank credit expansion, to close down ailing firms and banks, to remove subsidies and also to liberalise trade and capital accounts.

Then when we implemented it over six months, all the IMF recommendations, the economy was getting worse. (P4)

One reason given by the same participant for the rejection of the IMF formula was that it was not appropriate to Malaysia:

Some of the IMF requirements is that you got to open your economy 100%, and then people can come from many parts of the world and just invest here 100% but we cannot follow that way because we have our own specific policies, such as the Bumiputera interest. And also the local people should own at least a 51% with 49% now for foreigners. So we have some policies already there, so we cannot follow the IMF. In terms of the money that we have spent to overcome the crisis, we spent much lower than other countries like Indonesia, South Korea and Japan. (P4)

He was of course referring to the affirmative action policy discussed in Chapter 2.3.1.

4.1.1 The establishment of the National Economic Action Council

The Malaysian government set up the National Economic Action Council (NEAC) in 1998, discussed in Chapter 2.4.2. The participant from the NEAC said that it had been hoped that the NEAC would be dissolved right after the crisis:

By rights the NEAC shouldn't exist right now because once the economic crisis is over. But then we are a bit unlucky because after the economic crisis, we are facing now another crisis and it is the impact of the US economic slowdown on the Malaysian economy. It's not really a crisis though yet.... Well, it's a crisis but a different one from the previous one. (P4)

This was supported by the representative from ISIS who stressed that the NEAC was intended as a temporary rather than a permanent committee but as long as there was a crisis of any description or while the economy was faltering it would remain (P14). As regards its composition, which can be found in Appendix 2.1, she observed that the NEAC is a consultative group, composed of representatives from both the private and public sectors.

However, this aspect of the NEAC is of considerable interest. Given the importance of tourism to the Malaysian economy, as illustrated by Table 2.5, it seems very surprising that there is no representative on the council from either MOCAT or the tourism sector itself. When this was put to the participants, mostly they were unaware of the fact, some even protesting:

But they do have, I think, because all of the Ministries are involved.

(P14)

One of the participants from Tourism Malaysia was astonished, even exasperated:

Nobody is there? So they think in tourism nobody can think as well!

They are all just telling jokes, travelling and showing cultural shows and giving away souvenirs and mementos - somehow tourism is not seen seriously here. It's seen as a fun job - the travel, you stay in good hotels, you go for big parties, make speeches and show videos. And that's it. (P3)

However, this omission was not news to one participant who commented that he did not think that the Minister of Tourism is a cabinet member either, as he is not "one of the heavyweight Ministers", in spite of tourism being the second largest source of foreign revenue (P15).

The explanation for the absence of a tourism representative was given by the participant from the NEAC.

I'm very interested to see that tourism is considered by Malaysia as being extremely important as a foreign exchange earner and yet there is no-one representing tourism on the main NEAC Council.

Why is this?

Well, we chose the economic Ministers to represent the NEAC because during that time the sector most severely affected was the economic sector, banking and so on. And besides that, we also called the representatives from other sectors, private sector, etc. And also we called the Chief Ministers for every state to come to a meeting. Even though we don't have the specific representative from the tourism

sector but our set up is when we produce the recommendations and so on we get views from these certain Ministries, when the policy is about the tourism sector we'll call the Ministry to discuss it and to propose their recommendations and so on. And sometimes we ask them to write stuff for these papers on specific issues or sectors. So even though they don't sit in the Council their views are heard. (P4)

This was supported by the participant from ISIS:

The tourism Ministry has got its own agenda, it doesn't mean that NEAC didn't look at issues and the tourism industry also did. (P14)

And as regards input into the NEAC, the senior Tourism Malaysia participant commented:

They are the policy decision makers, you don't expect me to dictate terms to them. Of course, I have always influenced the Minister - I don't deny it. ... The cabinet is willing now to hear our side of the story and asking the Ministry to come out with a paper. X is supposed to talk to me, to get my input also and talk to the entire industry. ... What is it that we really want? Be clear with our policy direction! (P2)

But having views heard is not the same as having representation on the council itself and thus having the potential to influence policy that may not be seen directly as affecting tourism.

The remit of the NEAC is to advise the government on economic issues. While all the sectors of the economy are covered, the financial sector is given greater attention because, as mentioned by P4 above, it was the banking and financial sectors which were most affected by the crisis when the NEAC was set up in 1998.

So for other sectors like tourism, we have some measures and some recommendations but we leave it to the Ministries and the people concerned to form the policy or whatever. (P4)

One point made, however, was that the council were looking for ways in which the services sector could strengthen the economy (P3). This was echoed by another:

Right from the very beginning we identified that the tourism sector would be one of the sectors that can help Malaysia overcome the crisis. We identified two sectors: one the export sector, in other words we had to export out way out of the crisis; the other thing is to step up our tourism industry. (P7)

This has involved interaction between the NEAC and MOCAT resulting in policy formulation and implementation:

So among the things they talk about is tourism, so they discuss what we should do, they give us guidelines, give us plans of action, what we should do and we have to report to them on a weekly basis or fortnightly basis. **Who's 'we'?** The Ministry, MOCAT, the Ministry had to brief them and their plan of action, the implementation part of it. (P1)

During the crisis the NEAC met weekly (P7) and was involved in gathering feedback from the private sector and in listening to the opinions of Malaysians, which was well received by the public:

They do all the kind of monetary monitoring, and they have a working group who listen to the fund managers, the retailers, they had a series of discussions with people on the street and then feedback to the government and they recommended to the government what steps to be taken. These then became policy within a span of a few months. So we had a result very quickly and of course we got the support from the public. There were of course complaints here and there but I think overall it was a net gain for the government. (P5)

This is very much the communication recommended by McKercher and Young (1999) and again, not only does the NEAC gather the views and feedback from the public, it also seeks to inform them:

We are certainly always getting information to the public, the real economic situation in Malaysia. We also have our special website, so you can access it and people can always do that. And from time to time we call all the agencies and ministries who are responsible for

certain areas, who provide us with information, we publish it in the media, on the website, and also we give briefings. (P4)

The MOCAT participant summarised the role of the NEAC in a somewhat whimsical analogy:

So basically these are our troopers forming through feedback from the private sector what we should do with the whole thing. We really practise Malaysia Inc, because we believe in close cooperation between the private and the public sector. So that is MTEN¹. Of course at official level we have to get cracking here, we have to look at our systems and also our constraints. (P1)

Two other tourism bodies were mentioned by some of the participants, the Malaysian Tourism Action Council (MTAC) and the NEAC tourism subcommittee. There were conflicting comments about MTAC. Interestingly, participants P1 and P3, both working within MOCAT, commented that it was a subdivision of the NEAC, also based in the new government centre at Putrajaya.

This also is the fire-fighting kind of committee, to address the issues that were at hand at the time, together with what NEAC says we translate it so the MTAC also acts on it. It's very much the implementation, the NEAC only gave us the broad deadline but how to operationalise it, the MTAC is the one who does it. I don't call it the crisis management committee *per se*, but if you have to link NEAC and MTAC that is what they are. (P1)

This was strongly denied by the representative from the NEAC who said MTAC had nothing to do with the NEAC. In spite of spending time and effort searching, the researcher could discover nothing more about MTAC; they have no website and neither is anything written about MTAC on the NEAC or any other Malaysian website. In addition, none of her Malaysian research colleagues, all tourism academics, knew anything about the organisation. However, since 1999 there has been an NEAC tourism subcommittee which is perhaps where the confusion arose.

¹ The Malaysian acronym for the NEAC.

Instead of a representative from the tourism sector on the NEAC council, this subcommittee liaises with the tourism private sector and reports to the NEAC council.

The MTEN tourism committee is made up of several advisors but there's one committee that specifically looks at tourism. They are from the Council, a subcommittee of the Council, made up of the people in the Council. And from time to time they have called us into their meetings to give them feedback, especially in '98/'99, we did that. I must say, I believe we did get a fair hearing because we got a fair allocation back out of the government. (P8)

However, at the time of the interviews this tourism subcommittee's remit had been substantially reduced with less frequent meetings.

This is not formally disbanded but the frequency of their meetings and all that has actually reduced drastically. And MTEN now asks for a report every one or two months, we used to submit every week before. I believe to them the situation is normal. (P3)

Having decided to reject the IMF recommendations, the NEAC introduced their own measures.

What we did was we lowered the interest rates and we encouraged banks to lend. We increased government spending and we helped ailing banks and companies. And we also increased domestic consumption. Today it's only the big measures but from time to time we implemented other measures. (P4)

These measures took the form of the National Economic Recovery Plan which was introduced in July 1998 and "consisted of a whole series of measures which the government felt it had to take and it cut across all Ministries and offices" (P5). The aim of the measures was the stimulation of the domestic economy by encouraging expenditure.

Economists in the country were pushing for the lowering of the interest rates so we had to create domestic activity. So we had to start

spending money, so the public sector were asked to spend on lots of projects that were meant for public implementation that had got delayed, the government said ‘push it, implement it quickly’, so that you create economic activity within the country very fast. (P5)

In Langkawi there was the same drive to boost the economy. Development expenditure was initiated by the public sector Langkawi Development Agency which spent money on the development of infrastructure and services because most of the private sector lacked the means to do so (P6).

4.1.2 Danaharta and Danamodal

The ISIS representative observed that Danaharta was set up to deal with non-performing loans because, as the participant from ISIS explained:

Debt went up very high and then they started redefining debt from 6% and 3% and if you look at the official statistics it’s low, but actually it’s much more than what the official statistics tell you. (P14)

Even when the interviews took place, three years after the worst of the crisis, some properties such as flats and hotels were still with Danaharta (P6). The government was considered to be still “pumping money into this, a huge amount of money” (P5).

There are two issues here that participants dwelt on. The first was the reason why the government was bailing out the private sector.

Do you know if the government offered any assistance to the private sector during the crisis to help them overcome the problems they were facing?

It’s not admitted but there’s a belief that shares which people started selling were bought to keep the share prices up and those that eventually couldn’t still survive, they bought them up anyway. So the Ministry of Finance set up a company and bought a lot of loans, which remain unpaid and they are trying to manage it. So they did all that for the private sector and the Prime Minister’s justification was that if we didn’t do it, foreigners would, because they are so cheap because the

values are falling that foreigners would buy it up. So a lot of that money saved the private sector, including the big ones like Renong, that's an oil company. In fact, they are still doing it; I think the last one was Malaysian Airlines where the private interest in it has been bought by the government. I'm personally of the view that whenever banks and financial institutions are owned by people other than the nationals of the country then it becomes more and more difficult for the central bank to play its role. Perhaps you would say your own nationals would be more willing to, let's say, lend more to the extent where it is not profitable than perhaps foreign companies with shareholders who are outside the country. So perhaps that has been the justification. (P15)

The second question was where these large sums of money came from.

The government is continuously stepping in, in fact they were accused of using, which the government denied of course, using the Employee Provident Fund² (EPF) and the resources of Petronas to pay for all these things, because the money has to come from somewhere and those are the two major sources of revenue - I mean liquid cash sitting there which they've been using. (P15)

The participant from NEAC did not refer to the Petronas resources but elaborated on the savings angle.

Malaysia is different from other countries because we financed our crisis mainly by using our local resources. Malaysia has a very high rate of savings, as a percentage of GDP about 38-40% - 38% is very high. The reason was we have things like EPF and *amanah saham*³, the special scheme, we encourage people to save, so in a sense we have many sorts of domestic resources that we can use to finance our recovery. (P4)

² Employee Provident Fund (EPF) is paid into by employees, similar to the UK's national insurance.

³ *amanah*=trust, *saham*=share, a type of government bond, equivalent to British unit trusts or shares.

4.1.3 Capital controls

Prior to the introduction of capital controls in September 1998, the value of the ringgit fell sharply and interest rates soared. This had a severe impact on the construction companies, many of which had invested heavily in the hotel industry.

The most killing part is the interest, you know, when the cost of funds started to double or treble even, up to 15 or 20%. Most of your business models or business types would never factor in such high interest. And then when the government started to cut down on construction which they considered as non-performing. That is the one that puts us in trouble - we are very much a construction and development based business. (P10)

As discussed in Chapter 2.4.4, the government introduced capital controls as a means of protecting the already fragile economy from instability in other regional financial markets. One participant felt that until the economy as a whole was stabilised there was little value in focusing on particular sectors.

It was necessary to maintain the resources of the economy as a whole, because banks had borrowed heavily and needed to continue repaying at that unfavourable level of exchange. In fact lots of them were beginning to be owned by the loan fund sources until the peg came in. So this is why I am of the opinion that the emphasis was on saving the economy in its totality first, in terms of making major macro decisions as to the currency, policy on transfers of currency and things like that, and all the rest have just had to cope with it for the interim. (P15)

Overall, the participants considered that this measure had had several positive outcomes. Firstly, interest rates fell very dramatically which encouraged private sector borrowing as the cost of capital was lower (P14). Secondly, the implementation of currency controls meant that the ringgit could only be used in Malaysia, so offshore funds were repatriated which strengthened the banking and financial sectors of the economy (P4).

The pegging of the ringgit was considered by two participants to have been a very bold move by the government and Dr Mahathir in particular (P10, P5). The friction between the press and the Prime Minister that was alluded to in this instance will be discussed in greater detail in Section 4.5.1.

So I think that was a very big step for the government, it was very radical and of course it went with a lot of criticism from the press. You know Mahathir was really called by all names you can possibly think of because he went out of the natural mode of things, so for him to have done it was really a big risk, taking the whole economy into a very difficult situation if it had backfired but fortunately it didn't. (P5)

~~X~~ The participants were asked what they thought would have happened if the ringgit had not been pegged to the dollar but allowed to float freely. All the participants felt that the value would have continued to fall. One participant elaborated on the wider implications this would have had:

We were all certain that it [the exchange rate] was going to go beyond five ringgit to the US dollar and that was more than half the value of the currency at that time. How much battering can a currency take? And this is not, it's a small economy but reasonably large enough so we are talking of a large amount of resources being halved overnight. (P15)

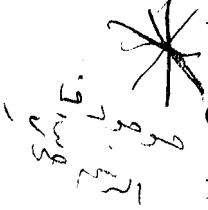
In addition he suggested what this would have meant to individuals:

I think the standard of living of the people of this country would have dropped significantly because it won't be easy to suddenly drop prices of everything else. Values of things will drop but prices of everything else can't drop that fast to maintain the standard of living and that is when many people would have lost all their luxuries. (P15)

Participant P15 observed that as it was, even with the ringgit pegged it cost too much for the more affluent to continue with luxury holidays overseas and their children studying abroad. He summed up how this would have affected corporate Malaysia:

The value of the currency was dropping by the day - in fact it was by the hour, it was just dropping and suddenly all those companies and many of them who had borrowed heavily from outside sources, no longer own their companies. They would have needed bailouts from these same foreign companies in order to survive and that would have been loss of ownership of the various companies. Whether that would have meant better for the economy nobody knows, but definitely there would have been transfer of economic power. That would have happened in the first place and then generally when things settled down everybody will get back to normal, you just report to a different boss at the end of the day. (P15)

Many of the participants identified the main benefit of pegging the ringgit to have been that the currency was stabilised, which was very well received by the business community in particular.

 Well, during this time the ringgit was volatile, not just every day but every second, and the volatility was so huge, 40-50% in terms of the failure of the currency against other currencies. So the pegging was very good for the traders, for the businessman like exporters and importers who plan their business, so when we pegged our currency they all were very happy. (P4)

The private sector welcomed [the pegging] because then they were able to start on the export orders because a stabilised ringgit means they can start to quote for 3-4 months ahead of orders. Previously they were badly affected because the ringgit went haywire. (P5)

In the context of tourism, this stability was also extremely important. One participant observed that the Malaysian tourism product had never been priced in US dollars, unlike in Thailand, Indonesia and the Philippines, but always in ringgits (P1). This meant that domestic tourists were not affected as the cost of hotels remained the

same but international tourists were; not only did they know how far their money would go but because of the devaluation Malaysia was cheaper to visit.

Our selective currency control also helps in the tourism industry. Oh, tremendously. Basically as the manufacturing exports-imports surely they benefit from the fixed exchange rates. Even in tourism, the tourists are happy, the business people are happy because they aren't subject to the fluctuation of the currencies. (P6)

However, one participant admitted that he lost a significant amount of money when the ringgit was pegged. This was because some attractions in Johor are priced in US dollars, so the pegging meant that all the costs of his previously contracted packages increased.

I was one who lost a lot because I quoted in ringgit. What happened was from 2.2 it went to 3.8 there are some like, for example, in Johor the entrance to the Royal Museum has been always in US dollars. It's US\$7 and then you convert to ringgit. It's funny but that's how they work there. And can you imagine how much we lost. (P9)

As participant P6 observed, the stability was of benefit to the domestic and foreign travel trade when it came to negotiating prices and costing packages.

People didn't have to be very speculative about when are the prices going to go up, are they going down, and I want to make a quotation, I'd better take another 10-15% margin, so that if it drops then I won't bring the money in. So people are comfortable. Then the people on the other side who are the buyers from us, they were also very comfortable, they always cover themselves at the present level in case of fluctuation, the money we would recharge again, so they have to take in their quotation as the wholesaler to the retailers or the agents, they have to also safeguard themselves, so when they quote they also increase but 15-20% higher. So when we have that pegged system they have no fears because they can also strongly go into it. So it actually helps the growth of tourism number 1, the confidence in the market number 2 and competitiveness is number 3. (P6)

It was a good thing because it helped to, particularly outbound travel, it managed to fix a rate, stabilise a rate. Travel agents actually pulled back from selling outbound travel because it was just too unstable. So the fixing of the rate was helpful. As well as for inbound we found that the foreigners were happy to deal with us on a fixed rate because they too did not have a problem, even those from the UK would easily be comfortable with dealing in US dollars, but not a ringgit that was fluctuating, it cost them more. (P8)

As regards the hotels, the Sunway representative observed that their hotel had had one of the highest occupancy rates of the 5-star hotels in the Kelang valley. He suggested that this was partly because of the integration of all the various theme components but also because of the stable and favourable exchange rate (P10). Conversely, the MAHO representative felt that the pegging meant that the cost of buying equipment and furnishings for the hotels in US dollars was at least at a fixed rate and not open to currency fluctuation, although he admitted that because of the recession, very few hotels were being equipped or furnished (P11).

All agreed that the pegging made the ringgit more stable and in addition it was cheaper and therefore more attractive to incoming tourists than it had been before the crisis. Against the Singapore dollar the ringgit fell from parity to RM2.2 approximately and immediately “the human traffic increased tremendously” (P7). Once the major markets were made aware of the new appeal of Malaysia, discussed in Chapter 2.5.4, the situation started to improve.

The job that needed to be done at that time was to inform the visitors of the opportunities because everything is half the price. A lot of operators renewed their contracts so they can get it at half the price now. And that actually fired them to push more because their margins are better. And then this sudden revival has a lot to do with better margins. You know, same destination, you get for half the price now. You don't have to reduce so much from your counter, you just have to reduce your costs, so your profits... (P3)

The pegging achieved in tourism what the government required; it encouraged inbound travel and offered a disincentive for outbound travel.

This is very clever because we do not want people to spend money outside so they spend locally and for the foreigners coming in it's cheaper. The pegging would have worked wonders if not for the other problems that we are facing, other than the currency problem. (P9)

The 'other problems' referred to by the participant include the haze and political problems which exacerbated the impact of the financial crisis.

All the participants considered that the pegging had overall been a good thing and had limited the extent of the damage caused to the economy by the crisis. There were mixed views as to what the strategy should be for the future, primarily whether or not the peg should be kept. In contrast to the views of Sachs *et al* (1996) as to the danger of maintaining an exchange rate peg for too long, the two economists interviewed both considered that there was no real need to change the status quo:

We don't plan to peg our currency until forever, we will repeg if it is needed. If the value of the currency is so great, either positive or negative, then we'll consider to repeg our currency. Otherwise now the difference against the other major currencies is not so much - I think it is between 6-9%. (P4)

The US currency has come down a bit and that fact has softened the move to repeg. But you see when you peg the currency your reserves must be strong. OK? And reserves depend on - one of the factors is the inflow of capital, also your trade account. Now if your trade account, if your exports fall and that's going to affect your reserves and if money doesn't come in that's going to affect your reserves. So you need to repeg if the ringgit is overvalued. (P14)

While one participant considered that the ringgit was overvalued, he did not consider this a significant problem:

Now it's overvalued *vis à vis* the other kinds of currencies. It's OK, we are not too worried on that because our economic fundamentals are

different from our other neighbours. The difference now is not that much. So we don't have the volatility of our currency any more. (P1)

The representative from MIDA did not foresee a change in the near future.

There has been some pressure from external sources to repeg the ringgit to - we are talking about 4.50 but Mahathir for the moment has remained firm on pegging it at 3.80 because the private sector wants it that way. Yes, domestic companies are still urging the government to retain it at 3.80. So I think it will continue to be like that because with the US slowdown all the more we have to ensure that the economy is stable because once you repeg the ringgit you will create confusion and instability then and I don't think Mahathir can afford that. If nothing had happened to the US economy perhaps we could have reviewed the ringgit but now we have the slowdown it will affect us a lot more. We have been adjusting downwards our growth figures. (P5)

However, from a tourism point of view one of the MATTA representatives felt that it was time to reconsider the situation; interestingly, he was the only one who did.

It was a good thing then but it can't go on forever. Now with the US dollar actually still considerably strong, it's actually become a disadvantage to us, in that now the Australians say, or the Europeans say, 'our Euro is down, our Aussie dollar is down and you guys are still fixed on the US dollar and it's become expensive to come to Malaysia' at the rate of 3.8 ringgits to the dollar and they say Thailand is now 44 baht to the dollar and Thailand used to be 35, 38 baht to the dollar now it's 44 so they say they get better value for money going to Thailand. Of course Indonesia, if you go to Bali of course, well it's chicken feed, whatever you pay there 'cos the rupiah is so low. So we have some rethinking to do because our costs are in ringgits and the ringgit is fixed to the dollar - there's nothing much we can do about it unless it is unpegged or repegged. (P8)

As regards the possibility of the yen being used as an international currency for the East Asian region, discussed in Chapter 2.2.5, neither of the economists interviewed was enthusiastic as both considered this to be too far into the future for serious consideration at present.

There are some proposals to use the yen rather than the US currency as the main currency to be used in Asia but, well, that is in the future.
(P4)

A regional currency takes time because the yen is not an international currency, the US dollar is. If they want to do that they may have to separate the structures in place and use yen. But Japan is quite reluctant - it depends on them as well. (P14)

Several participants agreed that the imposition of capital controls other than the pegging of the currency had had no effect on the tourism sector (P8, P9, P10). Participant P11 explained that capital controls involved foreign trading and in the case of MAHO, all the hotel owners are Malaysian so it did not affect any of them. In the case of tourism investment, the MIDA representative (P5) thought that although there were some countries, for example Brunei and South Korea, which would unofficially accept ringgits, the rules regarding currency movement were clear. Again, as discussed in Section 4.4.2, most tourism investors are Malaysian and would not have been affected by the controls. In addition, because they were targeted at short-term speculative fund movements, again they would not have applied to long term investment which applies to most tourism projects (P7).

4.1.4 Other measures

There were a number of different measures introduced by the government which were mentioned by the participants. Firstly, several participants suggested that a strategy of major importance was the restructuring of the financial institutions, such as the merging of many of the banks, which it was recognised would not yield instant results but was long overdue (P15). However, not every participant was so positive, as was seen by the ISIS representative's comment:

Because of the political crisis many of the economic problems, the structural problems were not solved immediately although a lot of policies and institutions were set up. But you know, it's not just mainly setting up the institutions but actually undertaking serious reforms. They were slow, there were reforms undertaken but they were very slow. (P14)

Secondly, measures were introduced to help boost the economy by increasing consumer spending. The government relaxed the restrictions on access to the EPF so as to provide people with more spending money.

In order to boost confidence in the economy and to get more people to spend ... they have decided that now you can take the funds in the EPF which at the moment you are not allowed to touch. You can use that to buy PCs. Now this is access to a huge amount of money, every contributing member can spend I think up to about 5,000 ringgit, which is close to a thousand pounds, to buy a PC. And they are saying, every contributory member can do that. And that is something they are doing in order to boost spending in the economy. And they've done that with the stroke of a pen. (P15)

This may also have contributed to the enormous rise in e-business seen across Southeast Asia since the crisis, outlined in Chapter 2.2.5. In addition, import duty on items such as leather and products appealing to tourists was lifted and this was combined with coordinated sales at specific times of the year, the Mega Sale Carnivals described in Chapter 2.5.3. Participant P5 considered that this gave Malaysia the edge over its main competitor in the region, Singapore, in attracting the big spenders.

Thirdly, substantial assistance from the government during and after the crisis was required by small and medium private sector enterprises, according to the ISIS representative, and this had taken a number of forms. There were loans available not only to manage existing businesses during the recession but also to start up new

businesses. This had been very important in Langkawi where the economy is very much based on tourism and agriculture.

The other help was for local Bumiputera businessmen, that a lot of different monies came from the government, especially the small shop owners, restaurateurs, and so on, to give them loans to start up restaurants and so on, both assistance given by the local town and the local government departments, specifically the Ministry of Entrepreneur Development. (P12)

One person described a government funding initiative which had had little impact:

The federal came up with the funding for tourist products where the interest was pegged at 4%. This is called soft loan special interest.

And what effect did that have?

Well to be honest not very much, because in the first place in terms of hotels we are overbuilt. (P7)

In addition, the government opened up the retailing sector to competition from foreign companies, such as Carrefour and IKEA, which indirectly benefited the small Malaysian businesses which supply them.

That has really helped because foreign companies get their products from the locals. And the packaging is local and they are selling very high premium products at these sort of hypermarkets that we are talking about. So that has helped a lot. We have opened up to the likes of IKEA company because they are the ones helping the medium and small scale companies which were really badly hit during the crisis. They have to buy locally made products, part of the conditions. They are allowed to import but there is some kind of a ratio in terms of imported goods. It must be a net gain to the country. What happened for example with IKEA they bring in their designs and then the product is made locally and branded as an IKEA product. So that has really helped the furniture industry which was very much affected by the crisis. We were not able to sustain the furniture industry. (P5)

Whilst in the short run this assistance may benefit to the small Malaysian companies, it must be questioned whether the presence of multinationals will cause problems in the longer term as regards their superior bargaining position and dominance of the market.

Finally, not only was the retail sector opened up but so was the manufacturing sector. The MIDA representative observed that conditions were created that were extremely favourable to investment and described how overseas investors were welcome to invest with very few restrictions on equity or export markets and a special package of incentives were offered to attract existing companies as well as new investors. However, several sectors which consisted of mostly small and medium enterprises and included plastic packaging, injection moulding, electroplating, and printing which were felt to have the domestic capability were protected. In addition, companies were actively targeted by MIDA, with some considerable success.

So we identified the companies and we talked to them, said what we'll need and we look at their terms. They could be applying for a series of expatriate positions, they may want to bring in raw materials, they may want 5-10 year tax holidays, either partial or full tax holidays, and then we look at the benefits that the project brings in, in terms of R&D, in terms of level of technology, in terms of usage of local material. And I think more often than not, based on the cases that we have had so far, we have given them almost what they wanted, because big projects came in and this special package came to about 7 billion ringgit and they were mainly done by existing companies in the manufacturing sector. (P5)

It was observed by the ISIS representative that other sectors were opening up.

I think they are already doing it in terms of education, and so on. In fact if you look at the education market it is actually catering for this region. There are a lot of foreign students coming in. So that is a liberalisation of the education market which is very tightly controlled.

... And that is becoming a foreign exchange earner for the region, in fact, from the region students are coming. Those who want to go to Canada and so on, but that is a niche market for these kinds of institutions. (P14)

Such an expansion of the education market will also have a knock on effect on tourism through the inbound VFR (Visiting Friends and Relatives) market as well as other sectors of the economy.

4.1.5 Evaluation

In general terms, the participants all supported the government's actions to restore the economy. At the grass roots level, according to P3, there was a feeling that "many people still don't know what really happened". Another observed that everybody felt this was a hard time we all had to cope with and things only got better because the shutters were pulled down and managed from within and surprisingly it worked. Many people can't quite figure out how it worked but it seems to have worked. (P15)

There is a hint here of the national ethos of 'all pulling together' that was touched on in Chapter 1.5.4. One participant, however, was quite cynical about the government's attempts to restructure the economy:

I think the policies were all there but whether these were implemented or not is a different matter. There was no political will to undertake this But they were all there. If you look at the National Economic Recovery Plan, the institutions were there, the policies were there but whether they were implemented or not that's a different issue. If you look over the various documents, development plans, Malaysia is one of the countries which is over-policied I think, but implementation is a different story! For everything there is a policy, very clear-cut policy, I can't think of any other country that has got such comprehensive policies or documents but implementation is a different story. (P14)

Given that the crisis was in the financial and banking sectors, participant P4 felt that the measures taken had been appropriate. However, he pointed out that they would

not be effective in response to the crisis threatening the electronics sector as a result of the recession in the global electronics market. The extent to which reactive strategies can be applied to different crises will be discussed in the final chapter.

4.2 TOURISM REACTIVE STRATEGIES

Although there had been haze in previous years, participant P6 observed that it was the first time that it had been seen on that scale in Malaysia. There was no doubt in the participants' minds that the haze had affected tourism in Malaysia. There was a fall in tourist arrivals due to cancellations which affected the airlines and the hotels (P4). The haze in the north was much less severe than in the south of the country. In Kuala Lumpur it was not bad enough to wear masks or anything of that sort but the representative from Sunway admitted that if had he been a tourist, he would have avoided the haze, and he commented that it had definitely affected the number of visitors to the theme park (P10).

4.2.1 The early measures

The participants commented on a number of the early measures summarised in Chapter 2.5.2 which had a significant impact on tourism even though not directed primarily at it. As regards the Ministry of Finance directive to government departments that they should not hold courses or seminars at hotels and resorts, one of the private sector participants from Langkawi observed that:

That affected this business - we shouldn't have had that as a policy directive. We should have encouraged the government sectors to have courses and seminars but at special rates, not by saying 'Don't go to places like Langkawi, Port Dickson or Cameron Highlands'. I would say that if the economy is bad you control this type of thing much more - we should really think how to make money circulate. (P13)

In particular business decreased dramatically for travel agencies dependent on government or corporate travel because the government also gave instructions not to travel overseas unless essential (P9). One participant summarised the situation during the first six months of the crisis:

Remember in that time quite a number of people had pay cuts, extra incomes dried up, resources from the banks in terms of extra borrowings and so on, all that dried up, lots of people lost their jobs, so there wasn't even enough money to go around anyway. (P15)

Outbound travel would also have been affected by the restrictions on taking more than RM1,000 out of the country, which would have compounded the difficulties faced by potential travellers as a result of the fall in value of their disposable income.

The building moratorium imposed by the Selangor state government also affected tourism in the longer term. Permits to build 4- and 5-star hotels in particular were refused because of the overcapacity which one participant suggested had arisen because it was so easy to obtain funding and labour to work on the projects.

Because it was the easiest to actually get funding for and it's like a lot of construction companies have also developed the ability to really manage these construction things very well. And a lot of cheap labour from Indonesia to actually get it done. So constructing a building for a hotel was one of the easiest ways that one could actually see one's funds being applied more and more carefully. (P15)

This observation was supported by the MIDA representative who commented that:

The banking sector was again lending to these property developers, construction companies - easily they're begging us to take the money and with very, very generous terms, very enticing. (P5)

The crisis and the glut of rooms had led to a fall in occupancy and declining yields. From occupancy rates of approximately 80% in 1994, demand had fallen and supply increased so that in 2000 the rate was 40-60%. One participant observed:

So you can see that the serious effect that has been felt by the industry. In a way the owners faced this kind of crisis and they couldn't continue with the hotel plan and then basically the tourism is affected by that. But at the time there was slowdown in the industry and the hotels cut down their rates. (P11)

He compared Malaysia's response to this with that of Singapore, which in the early 1980s had had a similar problem and had banned further building of new hotels. Because of the low occupancy rates in the hotels in Malaysia, genuine investors, he claimed, were suffering because of poor returns on their investments. This created a vicious spiral of declining standards.

How long can you sustain your operation with 40-50% occupancy? So therefore to survive they have to sacrifice a lot of things. Number one, they have to sacrifice on pricing. It becomes therefore a biased market, the bias dictates the rates of the hotels. And then when your return is so low you sacrifice on your services, the number of staff you can afford to employ is being reduced. You sacrifice on all other perks, and all other things that make a hotel room a home away from home. (P2)

The initial strategy of cutting the budget to Tourism Malaysia that was part of the general retrenchment in 1997 was considered by one of its representatives to have accounted to some extent for the slowdown in tourism generally during that time, although even prior to the crisis Tourism Malaysia had been complacent and allowed advertising and promotion to lapse (P2). The decline in tourist arrivals after 1995 can be seen in Figure 2.4. The subsequent restructuring at the top of the tourism sector was unequalled in any other department at that time (P3).

Part of the drastic plan of action that was taken by the Malaysian government was to look inwards towards the set up within the Ministry and within tourism itself. There was a change of Ministers, a change of some of the key personnel within the industry including change of the management of Tourism Malaysia. (P2)

And it was during that time that the Minister of Tourism lost his job. He was found not competent, one of the reasons, to handle even the crisis. (P7)

The new team all had successful track records and "were quite inclined towards tourism - I would classify it as putting the right men on the job" (P3). Supported by

the Prime Minister and cabinet, their aim, as one participant described it, was “to make tourism one of the key foreign exchange earners for the country that I’ve never before seen our Tourism Ministry work so hard to promote” and went a short way to redressing the imbalance between the Malaysian tourism administration and that of neighbouring countries such as Thailand and Singapore (P10).

They put in a lot of work and a lot of money was spent in the right markets, and spent a lot more wisely than before. (P8)

The new Minister was described variously by some of those interviewed as “very aggressive, very gung-ho, in a way visionary, proactive as well” (P8); very hard working and while “spared before the crisis ... he became the saviour after it” (P3); and “quite dynamic” (P5). The participants approved of his aims which were to “revamp the machinery and get the mandate from the cabinet that tourism is a favoured industry” (P10) and once he had done this he consulted the various sectoral players to discover “what’s your need, what should we do to bring in the people?” which was also appreciated (P9). One participant summed him up:

You know, the Minister himself had a lot of interest in tourism and had a very good foreign exposure because he was deputy Minister in Foreign Affairs. So he had the opportunity to look at the country from outside - it makes a lot of difference. Once you have seen it from outside, you tend to get to know it better. (P3)

The Secretary General had experience in the civil service and having previously worked in two major tourist destinations, Melaka and Penang, where he had been personally involved in some hotel and tourism infrastructure, was “very inclined towards tourism and the service industry”. Finally, the position of Director General of Tourism Malaysia was filled by a man who had been retired from the post for 10 years but was called back “into active service” so the Ministry could benefit from his long experience and his knowledge of the whole organisation (P3).

I’m not saying the other guys didn’t do anything very much but what I’m saying is they [the new team] brought in new ideas, new blood to

rejuvenate the industry and I think they really started focusing on it and as you can see the last two or three years how aggressive Malaysia has been in internationally marketing in terms of tourism which we were lacking from, I would say you can use the word sleeping, from 1990 up to ... '97 or '98. (P9)

4.2.2 The promotion of domestic tourism

The first objective of the *Cuti Cuti Malaysia*⁴ campaign was to change Malaysian attitudes to taking holidays so as to develop a holiday culture. Malaysians were encouraged to take holidays in Malaysia as a demonstration of national solidarity, to help out by spending money in the economy (P15). One participant commented:

This actually is why the Minister says whenever there is a holiday 'don't go back to your home town to see your old folks - your parents, your grandmother or in-laws - go somewhere where you can spend your own time or even a resort for vacation and do something different'. (P11)

Tourism was traditionally seen in Malaysia as a long-haul activity with people coming to the country for 10-12 days' holiday on the beach and many properties had been developed to capitalise on this (P3). In addition, "Malaysians had the habit of thinking that a holiday is only when you leave the country and not when you go to, say, Langkawi - they would prefer to go to Phuket" (P7). To reinforce this move, employers were urged to see it as a good business strategy and told to "encourage your people to go on holiday and if they are able to spend some time to get away from the stress of their office you'll be surprised how much productivity you will be able to generate from your own employees" (P2).

The representatives from MOCAT and Tourism Malaysia were enthusiastic about the success of the programme as it became more established, with increasing numbers taking short breaks and visiting resort areas (P1, P3) and this is supported by the figures published by the Economic Planning Unit which can be found in Chapter 2.6.

⁴ *Cuti Cuti Malaysia* = Holidays in Malaysia

However, one of the difficulties of evaluating the success of the campaign lies in the collecting of figures for domestic tourists. Both of the MATTA representatives commented that many domestic tourists travel independently by car and make reservations direct with hotels and so bypass the travel trade who might otherwise be able to supply booking figures. Although required to keep records, many hotels, especially the smaller ones in the budget categories, are slack about collecting the information and it is these hotels that are most likely to be used by domestic tourists (P9, P8). However, both participants observed that it becomes clear that the number of domestic tourists has increased substantially when travel agents attempt to make reservations themselves, as they find that many resorts are almost full and when asked, the hotels state that many of the visitors are Malaysians.

When asked whether the promotion of domestic tourism had been of benefit, a public sector participant from the state observed that in 2000 there were an estimated 15 million domestic tourists in Malaysia and Johor was one of the top three states to be visited (P7). The participant from Sunway, the theme park, was in agreement; as he put it, when the government started to promote domestic tourism “I thought we got a real windfall, being a tourism player” (P10). One of the participants from Langkawi observed that as a result of the government’s encouragement, domestic tourism was evolving as was the attitudes of the domestic tourist “people are getting into more nature based entertainment and loving the trees and loving the jungle and the rivers and loving the beaches”. This was of primary importance to Langkawi where the natural environment is a major tourism asset (P12).

As regards changing the public’s attitude to holidays, while one participant, (P8), felt it had given a boost to travel and tourism over the weekends at least, many of the participants were rather sceptical about the extent of its success. One participant observed that because Malaysians traditionally go back to their hometown or the beach when they have time off, not only may a two-day weekend break be too short a time for the necessary travelling but also few beach resort hotels or city hotels would derive much benefit (P11). Several participants thought people were still reluctant to

spend money on holidays when the economic situation was still so uncertain, summed up by one:

They are encouraging people just to go for the weekend and giving an idea of where you can go which isn't so far that you don't have to spend too much. But I don't think a lot of people are responding to this weekend thing, because I don't hear 'oh this weekend I'm going just there or there or there'. I should think that a lot of people are to a large extent still cautious. (P15)

In addition, because it is the first and third rather than any two weekends per month, there are now the problems of congestion on the roads and at the destinations that may be proving a disincentive to travel, especially during the school holidays (P3).

If you look at the school holidays it's impossible to book at the last minute, all the hotels will be full ... around Peninsula Malaysia it's almost impossible. It means to say that Malaysians are spending holidays within the country. So I think there has been very brisk business in the coastal areas, towns like Port Dickson for example, Langkawi, Pangkor, Penang of course has always been a popular tourist spot, not just for foreigners but for locals. (P5)

The second objective of the *Cuti Cuti Malaysia* campaign, the education of the public as to the tourism resources of the country by means of the media coverage, was considered to have been more successful.

This stirred up the interest that people didn't know was there. Nearly always I end up being asked this question over and over, what is there to see in Johor? What is there to do? ... they never knew such good things exist. They didn't know what they had in their back yards so you can't blame them. (P9)

Apart from straightforward information on the destinations, special events were staged and publicised through the media:

Last week there was something on Sabah, something about music [a festival of ethnic music] which hopefully they were able to direct

some people to, so I think now they are beginning to use a lot of themes to encourage people to take some sort of a holiday activity with their theme in mind. (P15)

The increased promotion was considered by one regional participant to have been the single most effect strategy in increasing tourism in the state of Johor (P7).

4.2.3 The promotion of Malaysia abroad

In order to tackle the problem of declining trends of confidence within the sector, the first strategic plan of action by Tourism Malaysia was identified by P2 as to bring in the numbers. Tourism Malaysia anticipated that should the nationals of neighbouring countries which were also suffering the economic crisis wish to travel abroad, they would be more likely to travel within the region rather than long haul. It was therefore considered worthwhile to focus on these markets as a substantial proportion of the population were potential travellers:

They have got the means, the propensity to travel within the region. We tended to forget this until the economic crisis came. Now we realise that we don't have to look far in terms of promoting travel, we need only to focus our eyes to our neighbours. Then you can get not only the numbers but also those who are capable of spending equally as high as most of the travellers from the developed countries. (P2)

In addition, it was felt that the regional markets would be relatively cheap to promote and any benefit to accrue from this strategy would be felt relatively quickly. This was found to be the case:

So they came in droves, the Singaporeans came in droves, the Thais came in great numbers, the Indonesians - you have to bear in mind that although we are so close to each other, the number of Indonesians who travelled for a holiday to Malaysia prior to and during the Asian economic crisis was very negligible. (P2)

The major advantage of the fast response from intraregional markets was that the tourism economy could be kept going while more protracted marketing was carried

out in the more distant or uncertain markets such as Europe, the Middle East and the South Pacific. As a public sector participant observed:

So what was really urgent at that time was firstly to get some people back, without regard to how much they can contribute, just to have them back, at least to have the hotels and everything functioning, and secondly was to boost up those who were already coming - a two prong strategy: fast conversion and repositioning. So for the fast conversion we actually looked at the neighbouring countries, Singapore, Thailand, Indonesia, also China, Taiwan, the regional markets, and we went very hard on that. TV, newspapers, whatever we can do. (P3)

The strategy was summed up neatly by one participant as:

... identifying market areas that are not affected by the economic crisis or by the economic downturn and focusing our full plan or our whole campaign, in those markets. And these market areas are China, with a population of over one billion, we look at India, again a population at that time was about 900 over a million, and then we look at the Middle East who were not affected by the economic crisis. And we also go beyond to selected market areas in Europe where accessibility to Malaysia does not pose a problem to the would-be traveller. (P2)

Although the targeting of the new markets was considered to be a good thing by most of the participants, there were inherent obstacles to the free flow of anticipated inbound tourists from these sources.

And then we also seriously looked at some of the impending problems at that time, like visas, and friendly visa policies ... everything that was possible. (P3)

This was not intended solely to please the Malaysian tourism sector. As the NEAC representative observed:

Many people complain especially people from China and from India complain about the delay in getting visas. But now we have

implemented our policy that you don't need a visa - for India still, but for Chinese they don't need a visa any more. We also allow in most people without visa from Singapore, meaning that people from China who are going to Singapore can come direct to Malaysia without getting a visa. (P4)

However, it was not felt to have gone far enough by one of the private sector representatives interviewed, who felt that the visa policies were still acting as a hindrance to inbound tourism and referred to the situation in Europe, where countries signing up to the Schengen agreement⁵ have removed border controls so that visitors from outside the region need only one visa to enter all participating countries (P12).

In spite of the cost, Tourism Malaysia prepared and launched a huge campaign to promote the country abroad. The aim of the campaign was to reposition Malaysia in a global context and involved advertising on international television networks such as CNN.

... they developed a new campaign, ... explored all avenues, checked all the set-ups and then they launched this campaign, *Malaysia Truly Asia*. It was a massive campaign. After being silent for two years it was really felt. It was launched towards early 2000. Planning and that took a while. 1999 passed with just a servicing of the old markets, checking on what's going on, making sure all information channels and all that are clear, before we started our campaign. In the year 2000 we went full swing. (P3)

Another participant rather cynically agreed:

Even given the prices the government engaged an international PR firm - there was a huge advertising campaign and on CNN. (P10)

Although there were financial constraints at the state level, the aggressive promotion of Malaysian tourism by the federal government was viewed as being of benefit to the states which lacked the funding to run their own campaigns (P7). In addition,

⁵ An agreement between signatory European countries, allowing non-Europeans three months travel on a common visa (Downes 1997).

international events were scheduled to boost international and domestic tourism. One participant observed that such events allow the government to create economic activity which cuts across different Ministries and agencies and it has a direct effect on the occupancy rates of hotels. (P5)

Apart from spending substantial sums on advertising on CNN, for example, Tourism Malaysia also increased its presence overseas with tourism representation in the embassies in many of the source markets and public relations visits by tourism officials (P15). The promotion of Malaysia at overseas exhibitions and trade fairs was identified by the NEAC representative as being of major importance to the private sector and had been very effective especially in the Arab markets.

From many Arab countries they like to come to Malaysia, it's not just the shopping and the medical aspects, but the environment - some Arab people in fact they like the waterfalls. (P4)

This view was shared by one of the MATTA representatives who considered that the spending on promotion was so high because prior to the crisis the government had not been spending enough. This was not because the Ministry of Tourism did not want to spend more but because the Treasury had been reluctant to allocate funds as there was no concrete evidence of any significant return on such expenditure. He considered that Tourism Satellite Accounting which was at the time being introduced in Malaysia would go a long way to justifying any further funding.

If we'd had that before, then we could prove to the government at that time that 'OK this is what we spend, this is what we get and quite clearly this is what return is derived by the industry'. The government saw it enabled travel agents and hotels but they didn't think of how it flows down through the economy, the trickle down effect into the souvenirs, into restaurants, right down to the vegetable farmer. (P8)

The Mega Fam campaign was very well received by the private sector and considered to have been original and very cost effective, very much as Durocher (1994) recommends, discussed in Chapter 1.4.3:

For the first time, I don't know if whether any other country has done it in such an extensive manner but this was something that was proposed by our industry to the government. We can have all the brochures, we can do all the advertisement, we can put behind a bus in London and say 'Visit Malaysia!', it's not going to help. But you bring the media, you bring the agents, you bring some of the corporate people, you bring them and show them what we have to offer, that's the best marketing tool. And they applaud it. And they've spent a lot of money on that, they're still doing it this year, it's very good. (P9)

In addition, it was felt that it had been very successful and gone a long way towards correcting the distorted image of the country which many Malaysians felt was created by the international media during the crisis period.

So the cabinet made the decision to have a perception-correcting effort overseas. ... So tourism had to play its part and [introduced] the Mega Fam trips - it's now in the 15th month of the programme. Bringing in 500 people a month, tour operators and media, into the country, I think has helped to somewhat correct the image of what's happening here. There was a distorted image and people were afraid to come. (P8)

4.2.4 Micro level strategies

Apart from Tourism Malaysia's programmes, some of the organisations represented had played an active part in marketing and promotion overseas. MAHO had felt strongly that as their members would benefit from any increase in arrivals, while either unable to or not prepared to take the initiative, they supported the government and became involved. This involvement, however, extended only as far as making recommendations for others to implement:

We coordinate with MAH who are having a bigger membership and who are the actual operators and managers of the hotels. We just looking at the situation and then we tell them 'this needs to be done to get this thing going', things like that. So we don't really do it on a hands-on basis where we ourselves are actually on the ground, we push some of this work to be done. (P11)

The Sunway Lagoon Resort spent a considerable sum on promotion so as to be more visible, trying to capitalise on the situation and obtain a greater market share during the crisis period by expanding their potential intraregional markets. The representative considered this strategy to have been very successful and accounted for their current very good patronage (P10). In contrast, in Langkawi there had been an orchestrated response to falling tourist numbers in 1997 with a proactive attempt to attract visitors from neighbouring countries which they felt were not being targeted aggressively enough by the government at the time:

... during, or just before the crisis ... we decided to do road shows. Road shows are a very important element in going city by city, right up to Bangkok and then back. ... We go also to Singapore, we have done one to Australia - a very, very important thing going to Australia with a road show. (P12)

This was a combined public-private sector initiative and will be discussed further in Chapter 5.3.4.

The Langkawi participants described a local strategy that had been very effective. At the height of the crisis when many of the private sector in Langkawi - private owners, hoteliers, guides, restaurateurs - were suffering and some actually forced to close down their businesses, a combination of the state of Kedah, the Langkawi Development Agency, the Langkawi Tourist Organisation, Malaysian Association of Tours and Travel Agents all got together and in conjunction with Malaysia Airlines developed a programme to encourage people to visit the island, the Langkawi Supersaver. This was a package of return flights from Kuala Lumpur to Langkawi plus two nights' bed and breakfast, transfers and a specially priced optional excursion for RM250 which was very good value as the standard return flight alone at that time was RM280. This programme was so successful that it ran from 1998-2000 and was only terminated because of the difficulties Malaysia Airlines was facing. It was well promoted through familiarisation visits for overseas travel trade and travel writers and supported by the Langkawi Development Agency (P13). Another participant referred to this promotional initiative when describing a personal visit to the island:

I remember prices were significantly dropped so that one could go to Langkawi and still spend some time there for next to nothing. But ... you'd go and I was there at that time and a restaurant would switch on the AC⁶ only when you sat down. At times even, they would switch on a fan just to keep down the costs. (P15)

Along these same lines Malaysia Airlines operated a special promotional programme, Golden Holidays, with packages to a number of Malaysian destinations such as Kuching in Sarawak, on the island of Borneo (P9). This suggests that crisis management measures can be developed and implemented at a regional or local level so as to benefit those with the greatest needs. This will be discussed further in Chapter 5.3.4.

One of the participants from MATTA also pointed out that one reason that there had been a shift towards inbound tourism was that some of the travel trade at that time had become aware of the increasing influence of the internet on the process of business transactions and the extent to which it is becoming used for reservations especially for outbound travel. Because many travel agencies felt that

... outbound travel will be bought in future quite a bit on the net and competition will be very high, it drove members to change the way they did business. ... So those who were selling outbound packages thought that 'OK we may as well go this way, do inbound to balance up the outbound, not to go out of outbound totally'. (P8)

This reflects the increase in ICT usage described in Chapter 2.2.2 which is important as it is a major factor in the improvement of the efficiency of marketing and communication, both of which are recommended as a means of enhancing the performance of the travel trade in Chapter 5.1.4.

4.2.5 Evaluation

There was some criticism of the tourism strategies from a number of the participants, particularly in the area of promotion. It was recognised by participant P2 that the

⁶ Air conditioning

crisis had taught Malaysia not to underestimate the importance of marketing even while there is a healthy market and sustained growth. In contrast, several participants felt that the promotion was inadequate. Firstly, the representative from NEAC felt that Malaysia should be more aggressive when promoting tourism, so as to compete with Singapore which was much more successful in attracting tourists from, for example, China. Although Chinese visitors to Singapore often visit Malaysia as part of their package, they spent perhaps not as much as a single day visiting Melaka for its history or the Genting Highlands for its gambling, and this was where he felt there was potential to exploit (P4). Secondly, it was felt by one participant that Tourism Malaysia were slow to respond to the crisis and it was only after the worst was over that they focused on the development of a big promotion which then took a long time to plan (P9).

Thirdly, the MIDA representative considered that there was considerable scope for developing a better image so as to compete with Thailand, Singapore and Indonesia, particularly in the area of handicrafts such as batik, as the Malaysia product is overshadowed by imports from Thailand and Indonesia (P5). Fourthly, the same participant observed that the Borneo states of Sabah and Sarawak had their own attractions but although there was considerable potential for tourism development, “they are mainly still eco-based, still poor, tree-based, they are going through industrialisation”. The problem she felt was that while they receive assistance from the federal government, their state governments “don’t have enough resources to really push their tourism” and marketing is so expensive. “You’ve got to be in a sense connected to the main international agencies that bring in tourism and I think we are not that well connected internationally yet” (P5).

The second main area of criticism of the tourism strategies concerned the poor access to Malaysia. One of the Tourism Malaysia’s representatives felt that Malaysia Airlines had failed to meet the needs of the tourism sector and was a constraint on the increase in the flow and quality of tourist traffic; without good access it was not possible to attract the desired market segments. Although Malaysia Airlines was

losing money on many of its international routes as well as on its domestic operations, he complained that the government would not lift restrictions on foreign carriers which were keen to service those routes and this was having a detrimental effect on both inbound and domestic tourism (P2). Participant P8 felt that the government had done all that it could to attract foreign airlines by, for example, waiving landing fees but he considered that they should make more effort to promote Malaysia and KLIA as a hub for foreign airlines.

They have to go to the foreign airlines, the planners, actually not just talk about it here, they have to go there. And I think the Ministry of Transport is starting to do that, the Minister himself is trying I think to do that. To meet, to go wherever it is, sit down with the planners and tell them all about the airport and the advantages of working together with Malaysia Airlines, although Malaysia Airlines itself is undergoing so many changes now. (P8)

A participant from Langkawi considered that the slowdown in airline capacity into Malaysia was a major problem for the island which they were trying to solve by increasing private or charter flights between regional hubs Bangkok and Singapore and Malaysian destinations Langkawi and Penang.

4.3 THE ISSUE OF CONFIDENCE

As was discussed in Chapter 2.2.1, the loss of investor confidence was considered to have played a major part in the spread of the Asian financial crisis. However, the crisis and its impact was viewed by some as nothing more than a period of bust in the general cycle of the economy. One of the public sector representatives, himself Chinese, observed that the Chinese are entrepreneurs and always confident. Many of the Malaysians involved in business are Chinese and mostly they do very well, often coming from poor backgrounds and having started with very little.

What happened in tourism was temporarily a setback, which they [the Chinese] regarded as a cyclical thing, part of the normal ups and downs of business. (P7)

This attitude was not universal; the crisis of confidence in the economies of the region also created a crisis in tourism, illustrated by the fall in tourist arrival figures shown in Figure 2.4. As described in section 4.1, tourism was identified as one of the economic activities that could generate economic benefits and participant P2 observed that it could also restore confidence among investors and Malaysia's trading partners.

4.3.1 Investor confidence

The representative from Sunway City Berhad, part of a big construction and development group, pointed out that a period of crisis is the time when most foreign investors enter the market as the cost of investment is low. Property is cheap and there are substantial profits to be made. Malaysia is a comparatively safe country with a relatively large economy and it did not suffer from political instability after the crisis in the way that Indonesia did. In addition, it offers a wide range of investment incentives for both foreign and Malaysian investors, summarised on their website (www.mida.gov.my/invest.html). However, participant P15 commented that in view of the incentives it should be easier than it is for foreigners to invest in Malaysia but the potential for them to do so is very tightly managed.

Although there was a moratorium on the building of new 4- and 5-star hotels in parts of the country, participant P6 observed that elsewhere a number of construction projects, such as apartment blocks and hotels, had not been completed and had been taken over by Danaharta, the national asset management company described in Chapter 2.4.3. Because the return on investment was so low during the crisis, investors were either reluctant or unable to commit sufficient resources to some of the building projects. As participant P11 observed, it is not uncommon to see buildings half-built and abandoned. Overcapacity means that genuine investors suffer because of the low return on investment as 40-50% occupancy rates are unsustainable (P2).

The representative from ISIS summarised the advantages that Malaysia offers to foreign investors

Malaysia is one of the best countries to invest in. It has sophisticated infrastructure, it is relatively cheap, you have a fairly educated labour force, fairly English speaking, so we have all of the advantages and you have a government which is responsive to private sector needs. In fact it is a very pro-business government, compared to previous governments. ... as a foreign investor I would see all of these as positive factors. (P14)

However, she commented that the labour intensive industries are moving to countries such as India and China, as it is no longer cost effective to remain in Malaysia. Both countries offer a better environment for investment and have very substantial resources of both skilled and unskilled labour as well as huge markets and this might account for the low entry of foreign investors into Malaysia. In contrast, the ASEAN region is viewed by investors as a single, very large market but still relatively unstable for reasons which will be discussed in Section 4.4.1, and she suggested that it needed time while foreign investors waited to see what would happen before the levels of investment recovered.

On the issue of investment in the tourism sector, a number of participants observed that there has been relatively little foreign investment in tourism, other than some from Singapore and Hong Kong, even though there are incentives for foreign investors in Malaysia. The majority of property investors are big Malaysian construction corporations; foreign investment is in the management of the properties and in franchising, rather than in ownership (P6, P1). Malaysian investment overseas, for example, in hotels in the Indian Ocean or Australia, is becoming more attractive (P8); participant P10 observed that Sunway had already invested in Cambodia and was currently interested in Myanmar and commented that a logical growth pattern would include China, which had many advantages for investors although real estate was very expensive. Echoing the views of the ISIS representative above, he commented that compared to domestic investment in, for example, Langkawi:

China has not got the labour costs. Also I think with Langkawi a lot of investors see that the potential is not as good as our Prime Minister

thought it would be. Our Prime Minister is the main, the key promoter of Langkawi. But even for all of us, we don't think that Langkawi....

Why is that? Other than the beaches and the nature, there is virtually nothing else for tourists to do.

So you think there is more of a demand for resort theme parks?

Or if Langkawi was as Phuket or Pattaya where day and night there is all sorts of activities. I think that that has got a factor to motivate people going to Phuket. (P10)

However, the crisis had set the organisation back and they were now reconsidering whether to invest any further overseas. Because investment in a hotel or theme park was very heavily capital intensive, the costs are high and the benefits therefore had to be carefully evaluated. He suggested that the Asian market was not sophisticated enough to guarantee adequate returns on investment as the average spending power of ASEAN nationals is still less than that of the Americans or Europeans. In addition, the weakness of the ringgit since the crisis has substantially increased the costs of importation of necessary equipment.

The MIDA representative observed that overall in both the manufacturing and tourism sectors the number of applications for investment incentives has been maintained, although there were considerable variations on a year by year basis.

When we had a deadline of 2000, we received a huge number of applications to meet that deadline. And then the following year there was a massive drop because they had decided to invest earlier than their usual, they would have come into '01 but the same thing with the Commonwealth Games. So they have sort of... But if you go by a normal pattern I think they would have still come, so if you go by the average, we are doing OK, but if you look at year to year then you see a massive drop. (P5)

She considered that confidence to invest in the tourism sector has been sustained by the successful encouragement of domestic tourism which has cushioned the impact of the fall in intraregional arrivals and felt that this could be explained by the greater number of affluent Malaysians who now had more spending power. Although

investors remain eligible for exemptions from duty on imported equipment, the government no longer offers incentives for 5-star hotels which means that the number and size of foreign investments are not captured. As regards budget hotels, as a result of the promotion of domestic tourism:

There are still not enough, because there are still a lot of areas with tourist potential but not enough accommodation to put people in. Particularly on the east coast - the east coast somehow has not been catching up that well. But the west coast yes, Melaka has been quite a good area for tourism. (P5)

One private sector participant observed that for approximately ten years before the crisis corporate tax exemptions had been available for travel agents and tour operators involved in organising at least 400 foreign tourists or 1,200 domestic tourists. When the crisis occurred, these opportunities for the private sector were highlighted in order to encourage them to participate in the tax exemption policies (P12).

4.3.2 Confidence in tourism

Most participants felt that confidence in the tourism sector had not been damaged to any great extent by the Asian financial crisis. The explanations for this suggested by the participants were firstly, that because of the poor exchange rates with the US dollar and the European currencies, people were content with intraregional travel or even domestic travel which had boosted sales for the Malaysian travel trade (P10) and secondly, that the crisis had actually helped tourism as the depreciated ringgit had made Malaysia much more competitive on the international market (P6). In contrast, participant P15 intimated that in spite of this, the number of tourist arrivals was not as high as the government would have expected or wished but gave no possible explanation for this. It must be remembered, however, as outlined in Chapter 2.5.1, that at the time of the financial crisis there were other crises of much less international significance, the haze and the outbreaks of Cocksackie virus and Japanese encephalitis for example, which were widely reported and which are considered to have affected Malaysian tourism to a greater extent than the financial crisis (P14). This point is dealt with further in Section 4.5.1.

In contrast, it was observed by participant P11 that there may well have been a decline in confidence within the travel trade as a number of Malaysian tour operators and travel agents had lost money with the initial fall in the value of the Malaysian currency, as some hotels and attractions were in the habit of quoting rates in US dollars and also because their turnover had been drastically reduced with the decrease in outbound travel. The realisation that a change from outbound to inbound tourism would be more profitable and offer the potential to gain foreign revenue was then seen as an opportunity to be exploited (P9). MIDA does not keep records of tour operators or travel agents which are registered with one of the MOCAT departments, although the representative commented that the number has increased enormously over the last five years. This contradicts the figures supplied by Tourism Malaysia, presented in Table 2.8. One MATTA representative summed up the effect on investors in the travel trade:

I think [the crisis] has given the industry a wake-up call. I think that for future investment, future strategists will look at [tourism] in a different way, rather than in the rather laid-back way that we had in the past - you know, let the government do everything, it'll come, the tourists will come, and all that. We have to play a much more active part. (P8)

4.3.3 Restoring confidence

When asked how confidence in the economy might be restored, most participants felt that the government had a role to play. There was a variety of views on the relatively recent resignation of Daim Zainuddin as Finance Minister in June 2001 and the assumption of his duties by Dr Mahathir himself. Participant P15 observed that Mr Daim was widely thought to have managed the economy well during the crisis and while he was in his position people had great confidence in his ability. This view was echoed by the NEAC representative:

Mr Daim, the Finance Minister during that time, contributed a lot to the economy. He has done a very good job during the crisis. (P4)

However, a series of corporate scandals and accusations of cronyism had damaged his reputation. Even though on taking over the job the Prime Minister admitted that

he knew nothing about finance, Malaysians had such confidence in him that they did not question his ability to succeed in setting the economy on a strong course, one way or another.

I think it is known that there are people around who are capable and that he's a good leader and he will make sure. So it's his good leadership skills rather than his technical ability to manage the Ministry. I think that is more of the issue than the question of the confidence in his ability to do this. This is somebody who has led the nation through a crisis. (P15)

The MIDA representative was quick to give an example of measures taken in the two months since the Prime Minister had taken over the job of Finance Minister, which she felt would help restore confidence. The Finance Ministry had already established a bureau for the settling of outstanding government payments to the contractors on government projects, many of whom had not been paid for some time.

These are the ones that are creating the economic activity, there is no money coming in from the government to assist them and there's a chain reaction, they can't pay their contractors, the contractors can't pay the workers, and you know, it goes right down. So I think that was one of the major moves that the Finance Ministry has done in the last month or so. I think the Prime Minister is behind it. (P5)

Others did not agree. The representative from ISIS considered that Malaysians were looking for other progress on, for example, transparency and transition of power which, she observed,

are the crucial factors in the financial restoration because policies in this country go on. ... So things will go on, so it doesn't mean that the PM [Prime Minister] takes over makes too much difference. In fact I would say there's a greater uncertainty because they know he is not going to be there for ever but he said he's going to appoint someone else. (P14)

This hints at the close relationship between investor confidence and issues of transparency and accountability referred to in Chapter 1.4.1 and discussed by Aziz

(1998). The importance of transparency and access to information was stressed by the NEAC representative who explained that information regarding the real economic situation was made available to the general public on the NEAC website (www.neac.gov.my).

So people can be quite confident because they know the real situation, even though we have been hit by the crisis still we publish the data and so on. But we publish the real data, we don't hide it, if the data is negative we put it negative. (P4)

As outlined in Section 4.1.1, in addition to their website, information from agencies and ministries responsible for particular areas is relayed by NEAC to the public through the press as well as through briefings to relevant groups. Information is also supplied to foreign media agencies so that they know the true economic situation in Malaysia at any one time.

Participant P5 observed that the government had been taking steps to assist the private sector in cases where their investment was unsustainable. An example of this was the case with the Light Rail Transport system in Kuala Lumpur which was being developed by the private sector; the government realised the project was turning out to be too expensive and the domestic market was too small to make it a viable entity and so had decided to subsidise it. However, she felt that the government should make efforts to rectify the image of Malaysia portrayed by the media as this was creating difficulties where attracting investment was concerned. She commented:

They think that just because we are in ASEAN they think that what happened in Indonesia is also happening in Malaysia. **Who do you mean by 'they'?** The foreign press, these are the ones that carried the message of confidence in this part of the world when we were hit by the crisis, what was happening in Indonesia it was sort of the way they pictured it, like we are all in a whole group of countries that are now facing the same problem. So it was really very biased - I think Indonesia got it worse but if they actually come to the country and it's peaceful just because one isolated incidence of riots, for example, they think that the whole country is in trouble. (P5)

Whether or not confidence has now been restored is debatable. For the tourism sector, participant P8 observed that inbound tourism statistics are encouraging and at over one million a month are the highest numbers of arrivals experienced to date. He felt that this boosted the confidence of the government as it indicated that their policies were on course and that the Treasury had allocated the appropriate sums of money and would see a return on their investment. There is currently substantial local investment in tourism projects. The theme park, Sunway Lagoon, already has over 340 rooms but is expanding by another 400-500 rooms which would suggest that they are confidently predicting a sustained market, albeit mostly domestic. The government is also trying to encourage the completion of all the abandoned projects and is offering funding initiatives to this end. It is perhaps felt that it is safer to invest in tourism projects rather than in the stock market (P15). However, the ISIS representative felt that it was still a period of uncertainty, with a lot of companies over-valued and investors not in a hurry to return. Political and religious issues cannot but influence the situation. She observed

And the other problem is the religious problem. As a foreigner, people are - you know even when I was in Australia recently, they were all talking about Islamic fundamentalism, it seems to be foremost in their minds. So as a foreigner you would be very aware of these sorts of problems, that there is another factor, apart from the leadership crisis, you have other religious problems and if you look at what is happening elsewhere in the world, it's very dangerous to mix religion and politics. (P14)

It is interesting to note that these words were spoken in August 2001; they have a particular significance in the light of the terrorist attacks which have taken place worldwide since then and the current unstable global situation in early 2003.

4.4 REGIONAL ISSUES

4.4.1 The role of ASEAN

Since the crisis, the representative from NEAC observed that members of ASEAN feel that it is important to develop regional cooperation in financial matters. A

number of ideas as to how this might be done had been put forward. For example, there had been a proposal to link the ASEAN currencies although there were considerable difficulties in achieving this; the idea remains a long term plan. Another proposal had been to encourage trade within the ASEAN region through making financial payments in the currencies of the importing country, rather than making payments in US dollars as is done at present. Other proposals include the pegging of all the Asian currencies to the Japanese yen and the use of the yen as the main currency in Asia as opposed to the US dollar but in view of the slowdown of the Japanese economy in recent years, these remain very much in the future (P4).

There was little support or enthusiasm shown by the participants when asked to comment on the possible role of ASEAN in cooperative ventures in the future, very much as suggested by Soesastro (1999). The representative from ISIS summed up the situation very succinctly:

It's brought down by its own problems. They are overwhelmed and if you look at the leadership in each of these countries it's very weak, the political leadership at the top is very weak. ... the only strong leadership comes from Singapore and that is why Singapore seems to be playing a very important role in ASEAN. And in fact it has given up to a certain extent, so much so it has gone into bilateral trading arrangements. It considers the rest of the economies as laggards and they are moving ahead - because they are a very small economy and very open, it's trade dependent. (P14)

One of the representatives from MATTA felt that ASEAN as an organisation had failed to act in an effective manner during the financial crisis and as a result had lost the confidence of those in the region. He considered that this failure could be accounted for by the fact that in the few years prior to the crisis the number of members had risen from six to nine⁷ countries with the result:

The six were quite a well-knit group and quick to communicate with each other and quick to come up with action plans. Now there are ten

⁷ The tenth, Cambodia, joined in 1999.

and you have to work by consensus in ASEAN. It was not easy to get consensus and because you could not react immediately, by the time you come back from reporting to the government, events have overtaken whatever possible action there could have been. (P8)

In addition, he considered that the private sector had not worked together from the platform of ASEANTA or any of the other ASEAN associations which meant they were less effective as well (P8).

In contrast, the participant from MIDA felt that ASEAN was working very well from the point of view of encouraging investment in the region. There is an ASEAN industrial agreement which aims to make the region a very practical area for industrial developments, both for ASEAN and non-ASEAN investors. Malaysia has signed this agreement because, as described in Section 4.1.4, MIDA has managed to open up all but a few sectors to foreign investment. The ASEAN finance group facilitates access to capital in the region and the customs are also working towards the provision of a green lane for products and equipment required by investors (P5). However, as mentioned in Section 4.3.1, the instability of some of the member countries, such as Indonesia, has made the climate for investment uncertain and this cannot but affect investment in the more stable economies such as Singapore and Malaysia (P14).

One area where there is potential for cooperation between ASEAN countries is over border regulations and visa requirements. The participant from MIDA observed that this would be a real attraction for potential investors, as it would facilitate the movement of labour. In addition, as participant P12 pointed out, it would benefit the tourism sector enormously as had been seen in Western Europe, where owing to the Schengen agreement, visitors from overseas need only one visa to enter the region and then can move freely between participating countries.

At the moment the policies of these [ASEAN] countries differ, they charge inbound airport tax, outbound tax ... and then there is a plane tariff for the aircraft too, landing charges, this sort of thing we need to look into. (P12)

All participants agreed that ASEAN offers considerable potential for facilitating tourism. Participant P5 spoke enthusiastically about the part that ASEANTA plays in trying to integrate tourism and to market the ASEAN region as a single tourism destination, a focus of regional cooperation highlighted by Mansfeld (1999). Marketing all the countries as a single destination would attract international visitors because it offers more choice and variety for little extra cost as there is only one return airfare to pay and once in the region there is the ASEAN Air and Hotel Pass. If ASEAN becomes more popular, all the member countries should gain (P3). A number of the participants referred to the approaching Visit ASEAN Millennium Year 2002 which at the time of the interviews had recently been launched and was already encountering some difficulties as the cost was too high, especially for the new members which are all low income countries (World Bank 2003). As the MOCAT representative observed:

The problem is that each member country has their financial problems because we pay *pro rata*. (P1)

4.4.2 Growth triangles

With respect to tourism, growth triangles were not considered by one of the representatives from MATTA to hold much potential in terms of facilitating tourist flows between the respective countries. He described their focus as more towards attracting investment into the area through the creation of joint ventures although the recent political and social unrest in Indonesia and the separatist activities in the Philippines were acting as considerable disincentives. However, even before the crisis when they were introduced there was cooperation between the countries (P8).

A number of the participants had direct experience of the growth triangles, in particular those in Langkawi and in Johor. Speaking of the IMS-GT, the southern growth triangle linking Johor, Singapore and Riau, a private sector participant from Johor described how, prior to the crisis, the government announced that any developments within the growth triangles had to be private sector driven.

And when you are talking about the private sector, there is always a cooperation between not so much Indonesia, of late Indonesia has

been off lists, but we have a continuous working relationship with Singapore. Unfortunately like on the tourism sub-sector I am also in charge of the three countries here but it makes no difference because I haven't done anything. As far as Singapore is concerned, we always work together but Indonesia - now maybe things will change. (P9)

This view was supported by the public sector representative from Johor, speaking again about the IMS-GT:

There was nowhere actual cooperation. Singapore and Malaysia, Johor and Singapore yes. But involving Indonesia, very little. Projects are ... more bilateral rather than triangular. I have been to two trips, and to be honest I'm not running down any country, there's nothing much that I think I can do there. (P7)

There was potential, he agreed, only if the bureaucracy in Indonesia is regularised and becomes more systematic, especially when it comes to investment.

We have people who have been there and they were so disillusioned they came back to their countries. Singaporeans are the first to go, I'm sure they are the first to run away. (P7)

This is exactly the situation described by Grundy-Warr and Perry (2001).

One of the criticisms of the growth triangles is that although they may be agreements between states or regions, as in the case of the IMS-GT, they are still international. Any plans or decisions, while formulated at state level must be accepted at a federal level; if it is an issue that involves a number of different departments this may take considerable time and inevitably involve customs and immigration.

One of the issues again is the national makeup, in terms of population, for the purposes of voting. So [the government] is very careful to maintain a certain significant dominant Malay population to ensure Malays continuing to be in control of the political power in this country. So that could explain why, we don't want suddenly more inflows of Chinese and such, before you know it they become resident and the next thing they are all voting. So those are issues that explain the larger perspective in Malaysia's immigration policies. (P15)

In contrast, one of the private sector representatives from Langkawi (P12) was very enthusiastic about the growth triangles. There was, he accepted, already considerable movement of labour between Indonesia, Malaysia and Thailand which was not well publicised and the designation of a growth triangle, in this case the IMT-GT, was a mechanism by which communications and developments could be improved and promoted. He considered there to be considerable potential for tourism, especially should a similar crisis reoccur, because travel within the growth triangle was inexpensive and business could be generated quickly in order to keep the tourism economy afloat while other more volatile or distant markets were reactivated.

4.4.3 The future

Not all the participants were positive. Whilst recognising the importance of strategic alliances in whatever form, participant P10 considered that this was something which needed developing; he had his doubts about the effectiveness of current cooperation over tourism marketing. Another participant, P4, considered that in the long term ASEAN had potential but the differences in, for example, the political views in member countries was a major obstacle to harmonisation. In a crisis situation such as the haze in 1997, which affected Malaysia, Brunei, Singapore, Indonesia, and to some extent Thailand, there had been some cooperation over the dissemination of public information with the governments working together to provide a travel advisory service, although Indonesia was barely involved (P3). Ironically, even the participants failed to show any support for their ASEAN neighbour when commenting on the haze, laying the blame for the haze squarely on Indonesia without citing any extenuating circumstances or offering any positive solutions.

Participants accepted that both ASEAN and the growth triangles have potential in some areas but support was mild. One participant from Langkawi, an island positioned to benefit from both, commented:

In fact during the instruction on the working group on tourism, they were talking about more regional action. But you know, there is a sense of, not jealousy, but everybody is keeping to their own. (P13)

Again, speaking of growth triangles, a private sector participant observed:

In practice it doesn't work - everybody is jealous still. In Malaysia, we also try to protect our turf. (P10)

The participant from the NEAC suggested that particularly in the context of tourism there is the inevitable competition between destinations, such as between Singapore and Malaysia. Currently, even with the existing cooperative initiatives in place, visitors are brought into Malaysia for short visits or day trips but then return to Singapore - there is no 'sharing' of the tourism benefits (P4).

4.5 THE MEDIA

The MOCAT representative described how the government worked closely with the Ministry of Information and Bernama, the national news agency, to counter media hype with the truth:

We try to give the true story, or give the actual facts, so to speak, to the press. What we wanted to tell the world was, 'yes we have demonstrations, only one stretch of road in Kuala Lumpur, near the National Mosque, why not, but the country, in other parts of the country is very peaceful. Yes, we have haze but it's not the whole country'. So we tell the truth. (P1)

In addition, the government communicated the crisis situation to other countries by means of their overseas representatives.

The government acts in many different mechanisms, how those areas can be tackled. Number one, the government works through the ambassadors, the Malaysian councillors in different countries, to give the statement to the normal government departments about what exactly is the situation if there is a crisis, how much is truth which has been reported. (P12)

Judging by the responses of other participants, although the government perceived their communication of the crisis and the situation in Malaysia to have been honest and unambiguous, the image of Malaysia conveyed by the media both at home and abroad was very different from the reality.

4.5.1 The international media

When asked for their views on how the international media had reported the crisis, not a single participant had any positive comment to make. None of the other participants felt that 'the true story' had been communicated to the world with any measure of success and media coverage had not been fair.

So it [the coverage] was really very biased. And we tried to arrest this by giving some kind of feedback that it is not like this. (P5)

During that time people outside, I mean people from other countries, who read about Malaysia, they don't really know about the political economy of Malaysia. I don't know what information was kept back, because there was a lot people mentioned that was not true. The news and so on, was not reflecting the true Malaysia during that time. (P4)

It appears from the participants' responses that the negative image that Malaysia acquired at that time arose for three main reasons. Firstly, relations between the international media and Dr Mahathir reached an all-time low. This was summarised diplomatically by one participant:

I think it's more personality. Our PM seems to have somehow got onto the wrong side of the foreign reporters. The foreign media seemed not to be with our Prime Minister's strategy, so imagine, you have the foreign media promoting it in a different light. So things would seem less stable and then there's less foreigners travelling to Malaysia. (P10)

Another participant was less restrained:

The foreign press, they have been very, very unfriendly to Malaysia. And I guess because they didn't like the Prime Minister for being so vocal, for being so outspoken about a lot of things which most other developing countries are not in a position of saying anything. Mahathir just couldn't care less! So he did put the country somewhat at stake and we all were holding onto our dear lives thinking 'oh my God, what is he going to say next!' because he was going to make our

promotion work more difficult!! And then you ask him personally and he says that's a political statement, it's meant for domestic consumption and the foreign press picked it up and think it's for the rest of world! (P5)

Secondly, the haze and the riots over the Anwar trial and imprisonment were newsworthy topics and the media did not hesitate to capitalise on the fact:

Well, for the media during that time in Malaysia there was political instability, it was not just the economic instability, also political, social instability and so on. They heard it from outside and from their own countries, bad things about Malaysia. (P4)

Several participants (P4, P12, P14) considered that reports were exaggerated in order to attract readers:

The press and – you see the mentality of human beings today, they always like to read about negative issues, and that is exactly what is happening today. And that is what the media like to carry, something bad, something negative. So it is sad that the world is heading this way but it is true, this is what readers want to read. ... So the media makes a mountain out of molehills. (P12)

Thirdly, some participants felt that the journalists were not well informed:

The way I look at it and a lot of us have that feeling that they just come into any country, stay there for three days, have a chitchat with a few people whom they probably never even know and then they start writing as if they are a prophet of doom or prophet of prosperity. (P7)

Despite the fact that great efforts were made to provide balanced and accurate coverage by, for example, *The Economist*, the *Far Eastern Economic Review* and the BBC World Service, especially *Asia Today*, the participants considered the media to have been biased and in addition, they did not adequately differentiate between the situation in Malaysia and that in other Southeast Asian countries:

There was some difficulty to correct the perception overseas that - CNN would show, would talk about Malaysia and demonstrations, of people protesting against the imprisonment of Anwar Ibrahim or whatever, and include in the same film clip bits about Indonesia. And Indonesia of course, people were running riots down the streets and all that, and it would just confuse people. (P8)

This exaggerated and inaccurate reporting is just as Milo and Yoder (1991) warn will occur if the media are not handled with great care.

It was felt by several participants that the fall in tourist arrivals had been caused by the negative publicity rather than as a direct result of the economic crisis, when the weak ringgit should have attracted international visitors. In particular, while the haze was a serious problem for a time in some places, they considered that its extent and severity had been exaggerated by the media (P4, P14).

The progress of the economic crisis I don't think was, to the general public overseas, was not of much, I don't think they have much importance there. But there were other things that happened during that time. (P8)

But what actually brought the figures, or the arrivals down was the negative publicity which I'm sure you've heard of it, for various reasons, and also, we also, coincidentally during that period the haze, '97-'98 the haze was very, very bad, and then we also had a political situation which also incited a lot of overseas television stations to create some negative impact and that actually affected us more, I would say, than the economic currency problems. (P9)

I know that there was a lot of writing in the news which would have compelled some people to feel 'my health is more important, I wouldn't go there', but largely here it was seen as negative reporting about the economy but of course some people also put down that things are bad because of the negative reporting about the haze. Not that the haze did cause it but the negative reporting about the haze

helped to contribute to the losses in revenue from tourism. And I should think that that probably is more right than the haze actually being a problem - it was the perception of the haze. (P15)

One participant observed that once people visit Malaysia they love it but the problem Malaysia is now facing is that potential tourists are discouraged from visiting by the negative image of the country which was created at that time by the press (P7), a view supported by another:

There was a distorted image and people were afraid to come because they said 'oh, there'll be riots, there'll be this, there'll be that'. (P8)

Participant P5 commented that it became the responsibility of the government to try to correct the negative image of Malaysia.

So the Cabinet made the decision to have a perception-correcting effort overseas. It was difficult without spending money on the mass media. So tourism had to play its part in correcting this image or perception. OK, that I think has helped to somewhat correct the image of what's happening here. (P8)

Further details of the measures employed are discussed in Chapter 2.5.3 and how these were viewed by the participants is reported in Section 4.2.3.

As a result of the adverse international coverage, considerable hostility was felt towards the foreign media.

And in fact it made a lot of educated people quite angry and nasty, negative towards some of these press. (P7)

Unexpectedly, this fostered a feeling of nationalism among Malaysians and encouraged them to band together against the outsiders, which may well have helped the government when it called for public support for its policies.

The view was that they are screwing us up, they are giving us bad press, they are selling our currency, they are trying to take over, they are colonising us, and so on. We must therefore band together as nationals, bring our resources from overseas to save the economy, save

our lifestyle, save our culture and so on. So that was their attitude - it felt a bit of nationalism but not the extreme kind of nationalism. (P15)

However, it also slowed the recovery of the economy by making it much more difficult for the government to attract foreign investment, for example. The Sunway participant suggests that proactive crisis management might offer a solution:

So that in a sense is something that is worth pursuing, how to mitigate this sort of damage. That's for the future. (P10)

4.5.2 The domestic media

In contrast to the negative comments from the participants as to the performance of the foreign media, very little was said about the domestic media, which is tightly controlled by the government, the *New Straits Times* being owned by UMNO. One participant, however, observed that the domestic media was very limited:

Well, at home I can tell you that the media here is two different newspapers, and largely ... I think the main content of what is important comes more or less from one source. Because it's so similar, you listen to your news and what you see in the newspaper, and one is exactly like the other. (P15)

Another participant was much less discrete. When speaking about visitors' perception of the troubles in Malaysia, he alluded to the fact that the domestic press was controlled during that time. He commented:

They were here when they were caught up with this hoo-hah on Mahathir, Anwar, and there was a clampdown on the news on demonstrations and that was at the height of the crisis. There was also capital controls, the currency peg and he felt why should the government be so restrictive in press coverage. That press coverage would be synonymous with a full democracy, and that it would be good to have total absolute press freedom. (P7)

This control of the press was not referred to by all the participants and by some it was condoned. Participant P15 observed that a proportion of the information about the crisis was suppressed:

Details of how much the country had in terms of resources to maintain, imports for example, I think those nobody felt they had a right to know. It was managed by the Prime Minister's department, and OK they got it right. So if things were very, very serious, the general population probably didn't know, they just knew that something was happening, and they could see the currency falling, and they could only be told and they were told the potential consequences of not being nationalistic about them bringing their resources home and so on. (P15)

The issue of media control was taken up by the representative from ISIS who observed that there were strong advantages in this.

OK, if you look at economic perception methods, perception becomes reality because the way that human beings react depends on perception. So to have a closed media sometimes helps as they always give you positive information, so that psychologically helps but it's a double edged sword. So there's a lot of positive news and that's good, in a way it's good. Because if you say there's going to be a drastic downturn it's going to be very pessimistic and people are not going to spend. You know, like what's happening in Japan. But in that sense it's good, as an economist I would think that having positive views is good, otherwise you tend to lead to self-fulfilling prophecies. (P14)

In view of this participant's obvious hostility towards the government and championing of transparency and openness shown throughout the interview, this opinion surprised the researcher who would have expected her to challenge the practice of press censorship.

Most participants considered that the Malaysian press had provided an accurate picture of the crisis situation, both the good and the bad aspects, and had reported the government's updates on the progress of the crisis and explanations of the need for capital controls, the pegging of the ringgit and so on. One felt that with the exception of Singapore, the Southeast Asian media had performed poorly.

I thought in this part of the world we have not done well. In damage control, in dissemination of correct information we have not done correctly, not only in Malaysia but by all the countries except Singapore. (P7)

One of the Tourism Malaysia representatives was unsure how effective the media had been in keeping potential overseas visitors informed of the situation.

The job that needed to be done at that time was to inform the visitors of the opportunities because everything is half the price. I'm sure that for the first year it was not done so well because people did not come in yet. It's only when we started announcing it that people saw opportunity in that. (P3)

One participant considered that in future the quality of reporting by the domestic media should be improved:

Within the country I feel that some reporting should be more critical, should be more analytical. I feel that the writers in this country, I'm sorry I'm not trying to be arrogant, I don't read some of them because they are just very basic which I don't even have to read I already know about it. It lacks depth.

Do you think that people were clearly informed about the crisis situation?

No I don't think they were clearly informed.

Do you think there might be ways of better communication?

There should be a better way of communication. I feel that our TV is not functioning properly, the internet... I would say that in Malaysia the number of people who are subscribers to the internet is only about 1.2 million, it's about 5-8%, not a very high proportion. And even the people who are reading here are not really that critical. (P7)

4.5.3 Internal communications

The importance of good internal communication within organisations prior to, during and after a crisis was stressed in Chapter 1.3.6. However, the comments of one

participant who was working abroad with Tourism Malaysia in 1998 suggest that, as found in Hong Kong by Huque and Lee (2000), there were insufficiently regular updates on the situation within MOCAT:

In 1998 the figures were coming late, the statistics were not coming in, it was surely a situation where the country was going through a period where “don’t worry about the past, look forward to the future”. So we didn’t know what was really happening! Just behind us everybody was busy looking forward. (P3)

In contrast, one private sector organisation did try to communicate with its members. Two of the participants, both from MATTA, had different views on how the organisation had communicated during the crisis period. One, the more senior, summarised the measures that had been taken:

We put out whatever we could in trying to correct the image and to help members’ positions, to make statements, the correct kind of statements, to do with the haze, to do with the encephalitis, to do with the economic downturn. We actually had put out, what do you call it, statements that hopefully the members could use if they were not sure what to say and they could use these statements. (P8)

The other, who was from Johor, contradicted this view but although he felt he had not been kept fully informed as to the information, he did not feel that this had been a mistake.

... on the general information if you are asking whether there was everything in the open and such situation where everything was readily available I don’t think so.

Why is this? What do you feel could have been done that wasn’t?

If you ask me whether information was actually given out correctly I would say no. But if you ask me if it was right or wrong, I would still say it’s right. (P9)

Since 1999, MATTA had started to distribute news by way of a newsletter.

Do you have a magazine or any sort of communication newsletter....?

We have that in our sometimes monthly, sometimes twice, once in two months, something called the MATTA update which just recently has gone online, on the net. We send it out as an email, monthly online but as email. But we used that channel to do that, but that was only since 1999, early '99.

Yes, right, at the time, at the height of the crisis you just relied on general....

Well, there was general confusion! (P8)

This can be regarded not only as a response to the financial crisis but also as a proactive move to be better situated should another crisis occur.

4.5.4 Future management of the media

Only one participant made any comment about the internet and he considered it to be something of a two-edged sword. This was because there are few or no controls over what is written, so nobody is clear how much is true, how much the writer knows or the reasons behind the writing:

There are many people who feel for the country and there are also a lot of people who don't feel for the country, so the internet can be a yes and no situation. That's just like politics. The internet is actually a political vehicle ... for both oppositions and the government parties to fight. (P6)

This participant clearly views the internet as a challenge to the government, as Winter and Steger (1998) describe, an opposition rather than as an aid to clear and informative communication with the public as Osborne and Tomlinson (1995) suggest it should be. As participant P7 observed above, fewer than 10% of Malaysians subscribe to the internet and it is not yet considered to be a real force for communication. In spite of the fact that this situation will change as a result of the government's promotion of ICT, none of the participants showed much interest.

Many of the participants agreed that the media could be better managed in the event of a future crisis and used to communicate the progress of the crisis and to disseminate other information. One suggested that the government should be more proactive and provide full and accurate information as soon as any problem arose in the country so that potential tourists would know the real situation. He gave as an example the kidnapping of tourists from Sipadan Island by the Abu Sayaf terrorists:

People don't know where Sabah is, people don't know where Kuala Lumpur is, they think 'now, why do you want to send us to a country where they're having problems and people being kidnapped?'. But immediately if they had responded saying 'hey look, this is Malaysia, this is where we are, this is Sipadan, it's not a problem'. People are coming on a holiday, they don't want to go to a problem area. ... That's the problem. So you must be proactive and be able to come out with something clear that whatever the situation is, that's what I believe. (P9)

This view was echoed by another private sector participant:

You've got to make sure from economic to political scenarios will be taken care of so that these people will not feel worried to visit Malaysia. I think you've got now with the internet and with all the CNN really the same day before you fly people hear the bad news about Malaysia, so...! Nowadays there is no more information gap so it's so sensitive to the media protecting it. The same hour you get it on the internet, it's received all over the world. (P10)

Finally, one participant made the point that there should be some responsibility assumed by the media over the long term effects of their coverage on the country or sector concerned:

So, the media needs to be more sensitive about how they market or belittle tourism areas as this can be very, very bad. We had a lot of problems with the foreign media in our country, so we are very vocal and the media is controlled by big politics, some countries were using

the media to bring down the government, to ward out the government and the country as a tourism destination, like you know, the people in the countries are not as stupid as how sometimes the media is claiming. But media must be a responsible figure I think. (P12)

This chapter has been largely concerned with reactive crisis management and the views of the participants with regard to the response of the Malaysian government to the Asian financial crisis. In the next chapter the participants' evaluation of the performance of the government and private sector during the crisis and post-crisis period is analysed and ways in which the lessons that have been learnt from the experience can be applied in the development of some form of crisis management provision for the future is explored.

Chapter 5: Learning from the Crisis

This chapter also deals with the data collected from the interview but here the focus is on the participants' evaluation of the response to the crisis and the lessons that can be learnt from this response. The last two sections are concerned with proactive crisis management; how the knowledge gained from the experience of the Asian financial crisis can help in the preparation of some type of plan action that will help to protect the tourism sector should another crisis strike in the future. The issue of indicators is addressed first and this is followed by an exploration of what format the crisis plan should have, how it should be funded and implemented and who should be involved.

5.1 EVALUATION OF THE CRISIS EXPERIENCE

5.1.1 Positive aspects of the crisis

As suggested in the literature and discussed in Chapter 1.6, there is usually some good to come out of a crisis and if this is harnessed then the aftermath of the crisis can be turned from disaster into perhaps not success but into something positive. One of the questions asked in the interviews was whether the participant could identify anything good to have come out of the Asian financial crisis. There was a certain amount of consensus which was surprising considering that those interviewed came from such a diversity of backgrounds. The general impression from the response to the question was that, although unpleasant, the crisis had resulted in some good, or as one respondent observed:

When the crisis came, when they analysed it, it helps Malaysia more.

(P10)

It was felt that surviving the crisis was a valuable experience for Malaysia and one not to be repeated if possible. Participant P15 described it as 'never again'.

Well, at the macro level, at the political level the lesson is 'never again'. I think the 'never again' mentality will be the basis of most decisions that are made for a long time to come. Because they

genuinely believe that they'd built up a solid economy which was prospering and overnight half of it was lost. So 'never again' is the major line of thinking that will underline everything they do from now on and for a long to come. (P15)

One of the Tourism Malaysia representatives suggested that having suffered and survived the crisis, Malaysians were now more experienced and mature and had somehow 'grown up'.

For a new country you cannot just have a lot of money and become big. To become big you must have the right mental and moral and organisational behaviour, to remain big. ... As I say, the crisis has taught us the difference between men and boys. (P3)

This would therefore mean that they would be in a better psychological position to react should something similar happen again, confident that they had managed in the past. One participant summarised what many had hinted at:

Another thing we have learnt from the crisis is that if you work hard enough, everything is possible. (P3)

Some private sector representatives and the economist from NEAC suggested that there was now no denying the need to be prepared for a future crisis.

I think now this will really jog even from the top to bottom that we must always prepare for eventualities; definitely with every growth there is a downturn. (P10)

The MIDA representative thought that it was important to look and plan ahead.

I think that management of the economy again is a lesson, to look forward and to sort of prepare for the impossible. I think a lot of countries have failed to see what is coming ahead. So I think the important thing is to reach a crisis which can be as a result of your own doing or externally, just put onto you. That's what happened in the financial crisis. The nation has got to react very, very quickly to arrest the damage. (P5)

As outlined in Chapter 1.6, Meyers and Holusha (1986) suggest that one of the benefits to emerge from a crisis is that early warning systems may be developed. As

is discussed in Section 5.2, the experience of some of the participants is at least prompting them to consider proactive crisis management as an option, even though they are far from developing an early warning system. As one participant explained, “I think perhaps the lesson they should learn is that they need to prepare for when things go wrong and when things go wrong, what do you do?” (P15). Another felt he had learnt from the experience of the crisis that his business should have a back-up plan in case something happens (P9)

Many of the participants considered that Malaysians would in future be much more cautious, in both a corporate and a personal sense. The representative from MAHO observed that before investing in, for example, the construction of a new hotel, there would be greater analysis of the political and regional economic situation:

Actually development of property for hotels actually is quite a tricky thing to do, because once you decide to build a hotel, it will take you two or three years to be ready. When you start building it the tourists are coming in but before you could complete it business may be down. So this is quite difficult for everybody to make use as a lesson but you have to be more careful, I think, in terms of development of hotels and look at the size of the hotel probably and on the strength of the economy. (P11)

Similarly, participant P15 felt that people would be more cautious when borrowing money:

You can't borrow too much, especially large sums for, for example, development projects because sooner or later somebody will ask you to pay. I think it has now been said enough times, that borrowing from outsiders to fund things subsequently they have to repay, everybody has to be careful. (P15)

One tourism private sector participant commented:

I think our industry is one of the most volatile industries. ... I mean the amount of money that we put it, especially being an inbound operator, we also have equipment, we've got vehicles. OK, so can you imagine when you don't have business for three months the banks are

not going to be kind to you either. They become worse! So that's one very good lesson. (P9)

In addition, several participants commented that people are more careful about spending their own personal money and it is expected that it will take some time before consumer spending reaches pre-crisis levels. This may be especially true of tourism which "is the kind of expenditure which doesn't bring any income or return except to have a holiday" (P15).

I think people are more careful now, more cautious in what they think, in their business plans and activities and most important I think they take care of their funding much better, their financing. (P11)

And a lot of the sort of extravagant expenditure is also going, even among the Chinese, taking holidays overseas for the whole family and things like that, it's all cutting down. One can still afford it but there are more important things to look out for. (P15)

People have become more prudent in spending, I've noticed that. Even when they go overseas I noticed that they are not spending that much. (P7)

Not only would they spend with more caution but they would now save more. The 'saving ethic', as participant P15 put it, had not been significantly affected and it was felt that more people would start saving, possibly as a means of self improvement and as a way of managing costs better. Participant P3 suggested that personal loans would be sought less frequently as Malaysians would be less inclined to buy things they do not need:

Maybe a second house, you can buy it if you have enough savings, but not to borrow and buy a second house, you can rent it out or sell it at a higher price later. I think a lot of people who were speculating, I think they have got the message. (P3)

The ISIS representative was pleased that since the crisis there had been much more transparency and companies were being examined much earlier and restructured if

necessary. She observed that one of the reasons that Malaysia did not suffer as much as other economies was that they had less foreign debt. By restructuring those companies that had substantial foreign debt exposure, vulnerability to future currency instabilities would be reduced and this would benefit the country as a whole. However, she also commented that there were still issues that were not in the open, such as companies seeking foreign buyers. Again, Meyers and Holusha (1986) suggest that one positive outcome from a crisis may be that latent problems are faced and this tallies with P14's observation:

If you look at the history of Malaysian economic development, massive restructuring took place in 1985 when there was a downturn. So companies will go on until there is a drastic set back and then they will reorganise their structure. But in a sense it is good because they are removing the comparative advantage and then it's got to be best that we should actually face them out rather than taking in foreign labour and sustaining them. (P14)

Similarly, the NEAC participant observed that the economic fundamentals are important but noted that other factors play a part. He felt that the government had learnt that it was important to ensure that the ringgit is not vulnerable to the currency traders. In addition, he suggested that it might be a good idea to have "a sort of international arrangement of how to manage the crisis in different countries" because the IMF formula cannot be applied to every country (P4). One of the private sector participants commented that he hoped that Malaysians had learnt that high growth in any economy is cyclical and cannot be sustained indefinitely, so when things are going well they should be prepared for a lean time to follow in due course (P9).

5.1.2 New thinking on tourism

As regards the good to have come out of the crisis in terms of tourism, the most significant benefit to result from the crisis was felt by the private sector to be that at last tourism was being recognised as a major contributor to the national economy.

... they realised more than ever what the tourism dollar is all about!
And I think the easiest way to spur or to boost the economy, we needed the foreign exchange and what better way than tourism? (P9)

The ISIS representative observed that this is reflected in the personnel, the policies and the budget allocated to tourism activities and the rate it has increased. The Minister is much more active now and the campaigns are more extensive. As participant P10 put it:

We have a government who now sees the daylight of tourism being so important that the whole government machinery is supporting it. So all this augurs very well. Yes, I think it's in this crisis that actually the government realised tourism is such an important industry. (P10)

Several of those interviewed commented on the extent to which this realisation will be reinforced once Tourism Satellite Accounting becomes more widespread.

... and I think that it has given us a recognition in terms of government, that tourism is a economic force that they must pay attention to which can give them a good response. I think that has been a good thing. (P8)

These private sector views do not quite tally with that of the MOCAT representative who observed that since the crisis there has been new understanding from the trade:

They [the travel trade] understand that things are not only government's job. Tourism is everybody's business. (P1)

The successful recovery of the tourism sector in the years following the crisis was ascribed by many of the participants to marketing and they felt that its importance should not be underestimated. One commented:

We have actually learned the actual function of advertising in relation to arrivals. Because you have to wipe the board first before you can see the chalk marks and we had the haze that really wiped it very well and they started the campaign to put it on specific markets and saw how they reacted and we have a good model now for us to see the reaction of each market from a particular advertising campaign. We are doing a good media study, we are making assessments of things. In our case it was an attempt to do extensive marketing and see the effects. (P3)

He observed how easy it is to be complacent while the market is healthy and there is growth and he felt that Tourism Malaysia had consequently taken its traditional markets for granted and allowed advertising and promotion to lapse. As a result, when the crisis struck it took two years before a successful marketing campaign, *Malaysia Truly Asia*, could be launched. It was only when traditional markets were targeted that it was realised how much potential they offered.

As mentioned in Section 4.2.1, there was a radical shake up of personnel in MOCAT and in Tourism Malaysia. The Ministry expanded its activities, particularly in the area of marketing, but the number of employees remained the same, which meant that their workload increased. One of the representatives of Tourism Malaysia observed that during this period only the best-qualified applicants were appointed as “this crisis gave recognition to people’s ability and qualifications” and they got the required results. The performance of employees of Tourism Malaysia was scrutinised and they had to account for their time and justify expenditure initially on a daily, later relaxed to a weekly basis. In the two years after the crisis the expansion of Tourism Malaysia equalled that of the last 20 years and there are now more offices in key markets (P3). When one of the Tourism Malaysia representatives referred to this he made an interesting comment:

The government made a very critical evaluation of our function, what we should be doing that we are not doing, things like that. The whole organisation was submitting reports daily to tell what we were doing. And then the accusation at that time was probably because we are not serious with our job that we are not getting the tourists. (P3)

This is an example of the blame that is characteristic of the post-crisis ‘chronic’ period (Fink 1986). The participant considered that it requires more than hard work alone to get results and this was a lesson that had been learnt by the government from the experience of the financial crisis.

It’s not only working hard, it’s having the resources to conduct proper advertising and promotional campaigns that matters more than just burning the midnight oil. Some things need money, purchases like air time or media time. They can bring journalists here, they can give two

pages write up but if you want to time your information and the right amount with the right creative at the right time you have to pay for that. (P3)

5.1.3 Upgrading of the tourism product

The financial crisis conferred an artificial competitive advantage on Malaysia as the fall in the value of the ringgit made the country very cheap to visit. This was appreciated by several of the participants:

What good has the crisis done for the Malaysian travel industry? It has brought in more tourists and made our services more competitive, I mean price wise and reduced the outflow of capital because of the exchange rate difference. (P3)

Singapore at the moment is going through a bit of a bad economic downturn and now you see more and more Singaporeans travelling to Malaysia. So it has got its plus points. I don't like to use the word cheap, I say because it is value for money! (P9)

The idea of good value for money was also echoed by one of the Johor participants who emphasised the importance of offering good quality products and services for attracting repeat visitors (P7, P1). However, it was recognised that Malaysian tourism was not as competitive as it might be and that the crisis had highlighted deficiencies in the industry which needed to be improved on and there were quality issues which needed to be addressed:

Well I think after the crisis, one of the things we have seen is the need to improve things. The way they manage things. They need to have a lot of quality boost, they need to be competitive. I think it's been drummed into people. They need to be competitive in what the country does and that is quite clear because it was obvious that competitiveness helps you to stay afloat. (P15)

The recognition that here is an area which requires improvement in order to achieve a competitive advantage confirms another of Meyers and Holusha's (1986) suggested benefits to emerge from a crisis, that is the appearance of a new competitive edge.

There were three aspects of this suggested upgrading of the tourism product. Firstly, it was felt that there should be new products and attractions:

The Minister now is looking at the future with a vision. What we need to do immediately is to upgrade the product. Having done that you must talk in terms of developing mega products, making sure that Malaysia would have that added attraction, to be the destination. That's why he talks about having a cable car from the city to Genting Highlands. It's a major investment but what's wrong? Look at what they have done with KLCC - the same architects, the same planners the world over. CNN described it as the Third World Everest. They are proud, yet it is a practical Everest that people can still go up. (P2)

Another participant considered that the government should be monitoring the emergence of new destinations in the region with which Malaysia could develop joint packages or persuade their international visitors to stopover in the country *en route* (P15). A third considered that Malaysia should focus on high yield tourists as Mauritius and the Maldives do, and pay little attention to what he described as "junk tourism" (P12).

Secondly, it was felt that tourism services and facilities had not kept pace with the increase in arrivals. One participant made the point by comparing tourist guide provision in the Thai island of Phuket with that in Malaysia:

In the early 1990s the island of Phuket had only ten French speaking guides and we had slightly more than them, and we used to get our people to also assist in handling French groups for them. Today they have 400, we still have just over ten. And they want to bring in a greater number of French tourists to Malaysia. So are we prepared? We talk about the Arab market. It used to be that we had 19,000 Arabs to Malaysia; today we are getting over 100,000 Arabs. Look around the hotels - have they got any Arabic speaking front office managers or front office staff? Are we prepared for that? We are not. You say you want to be unique. How can you be unique if you can't even communicate with them? (P2)

Thirdly, the Sunway representative observed that tourists should be made to feel welcome and be treated well by all Malaysians. He considered that the situation had improved over the years in some respects:

The concepts, it's gone a long way. But if you want this sort of tourism related business, you are stopping this with protests about ladies wearing bikinis. Now in KL you see bars and street drinking and it's not to say encouraged but it's part of the flavour. So at least we have got through that phase of recognising it. (P10)

However, with regard to customer service he considered there could be improvements:

People are not smiling, not so friendly as Thais, even our Tourism Minister honed up a greeting. They thought Europeans shake hands, why don't we do something like this? So there's a lot of ways to welcome the foreigners visiting our country. (P10)

The MOCAT representative viewed this in terms of upgrading the service offered and the welcome offered to visitors:

But we are still not happy. I don't mean that we are not happy totally, but when you first enter the country there's no hassle at immigration and customs. When I go to other countries I'm being harassed, the customs harass me, I've no complaints. But here, people don't smile at people, we complain. (P1)

As might be expected, this participant reflects the view of the Tourism Minister. The issue of harassment by immigration officials at the points of entry appears to be very much in the forefront of their thinking, possibly as a result of media focus on recent occurrences:

So when they start to look at the tourism business, where it went wrong, then if you read the papers of late, you see our Tourism Minister's complaining of all sorts of things. Recently at the immigration the computers went down and the tourists were waiting. So you see the government is actually now trying to get its act

together, to change the whole mindset from the airport, the immigration, even the tourist agents, and of course all the private sector. But now there is at least something like an open forum and a master plan to get the private sector and the Ministry to work together, to all constantly promote tourism. Only now we realise that tourists who we spend so much money advertising to come here, they are still sometimes being stopped and harassed, not provided the service standard that befits a country that you want to welcome these tourists. (P10)

5.1.4 Changes in the travel trade

Several participants commented on the impact of the crisis on the travel trade, which was summarised by one private sector participant as:

Positive for the inbound business, not so much those outbound, because tourism travel agencies who do the outbound, ticketing and send people overseas, but this is where most of the agencies who have felt the negative effect. Less people will be travelling because of the pegging of the ringgit and the high cost of travelling especially overseas. But on the other hand for people to come to Malaysia it will be cheaper. So probably there's a shift of business approach by the tourism players. Maybe more will realise that more emphasis on inbound may be profitable, better. (P11)

Financial constraints also forced those working in the tourism private sector to evaluate staff performance and to prioritise their operations. As discussed in Chapter 2.5.4, some businesses succumbed, but the 'fittest' survived and the sector cannot but benefit from this.

Of course when the crisis came, we actually every week go into the business to see how we can keep ourselves lean and mean, to weather through the storm. Of course painfully there was even some retrenchment during the period and cost cutting and rationalising business. (P10)

In order to sustain this benefit, two further recommendations were made. Firstly, one of the Tourism Malaysia representatives commented that since the crisis, recognition has been given to the tourism sector as a revenue earner and as part of this recognition he suggested that it was essential for measures to be taken to prevent non-professionals from entering the sector, attracted by the supposed glamour of tourism. He considered that such people had no serious commitment and therefore should not be licensed:

That's the core problem with our industry. You have to be drastic to be kind. The Minister has the power and he should make sure that licensing must be such that it is only open to those who are committed to the industry. It's not an easy task but it has to be done. (P2)

This view was supported by the representative from Sunway who felt that people are finally realising that it is difficult to be successful in tourism:

I'm sure a lot of people have learnt that tourism industry as well as the hospitality side, to make money from this sector is still very hard. It's quite a long gestation period. Except those who bought those properties in a fire sale, you see during the crisis a lot of corporations bought cheap hotels. Then if you own it and you run it then it's easy, your entry point is low. But if you wait at a higher price then I think that the return is not as attractive as many other investments and the tourism sector is contiguous on so many variables. (P10)

Secondly, more widespread use of ICT should be made:

Because that's now becoming available as a good tool but not many of our members are using it yet, and it's not just for marketing but it's also for efficiency, in getting information to hand so that they can use it, to market better and to communicate better. (P8)

These are two areas of importance for crisis management, as Coombs (1999) suggests and are discussed in Chapter 1.3.6.

There has been widespread recognition of the importance of diversification. One participant from the private sector remarked that traditionally it was felt in Malaysia that to build a successful business it was necessary to specialise into a niche market.

I think diversification of business, not putting all your eggs in one basket, that's been one of the things that MATTA members have learnt from this. It goes against the grain, though, from what I've been, I still believe in, that to be strong you have to specialise, to have the niche area. So it goes against the grain to say this, but it has helped members to overcome the crisis by being able to, whoever could diversify into other areas were able to get through the crisis a bit easier. (P8)

Certainly with regard to the travel trade, those operators who had diversified and were operating in different markets or offering a variety of tourism products were in a stronger position to withstand the damage inflicted by the crisis and continue trading. The Sunway representative observed that diversification was a means of spreading risk, so that in the event of another economic downturn and a decrease in the number of business travellers, the suppliers would be able to weather the storm. He argued that Sunway had been fortunate during the 1997 crisis:

We were quite lucky that we were able to balance between leisure and corporate, so much so that during the crisis we were actually having more leisure share, but our situation is unique because we have a very strong leisure component. So we were able to weather through the crisis and that's why in a way we succeeded. (P10)

Meyers and Holusha (1986) also suggest that one of the benefits to result from a crisis is the adoption of new strategies. As described in Chapter 2.5.3, one of the new strategies introduced by the Malaysian government in response to the financial crisis was the promotion of domestic tourism. This was recognised by a number of participants as being a benefit not only to the domestic tourism sector but also to Malaysians personally.

I think it's a brilliant stroke to encourage locals to visit at least for this period, you are also helping the industry and in the meantime exposing this fabulous product [Malaysia] to the citizens of the country. (P10)

Travel agents and tour operators started to develop specific domestic travel programmes for which there had been no market prior to 1997 as people were not

interested in travelling within the country (P8). Before the crisis there had been little holiday culture amongst the Malaysians but as the middle class emerged, with more leisure time and disposable income, those who could afford holidays travelled overseas. One of the positive things identified as emerging from the campaign to increase domestic tourism is that many Malaysians have been made aware of their own country in a way that previously was not known. Publicity surrounding tourist attractions and events and activities of interest to people all over the country has meant that places which previously were popular mainly with international tourists are now being frequented by the domestic market. As one participant put it:

So it was a case of Malaysians being forced by the economic crisis to discover their own country and having discovered their own country they liked it. (P8)

As observed in Section 4.5.1, the crisis has given rise to a resurgence of nationalism and a feeling of banding together and working towards a common goal that has reinforced Malaysian identity and cannot but help to strengthen the image of Malaysia as a tourism destination both at home and abroad.

5.1.5 Post-crisis recovery

Although he did not consider that the crisis was yet over, the NEAC representative was of the opinion that the Malaysian economy had recovered and this was through their own efforts, as opposed to other Asian countries which had received some assistance from the IMF.

So we see our performance with our competitors, even though we don't receive any assistance from IMF. I mean we can manage our country, our economy. Some people say other countries, they received assistance from IMF, they recovered. And we also recovered, so what's the difference? But certainly they are different. (P4)

However, the participant from ISIS viewed the recovery as short term and anticipated that the economy would crash. In spite of the fundamentals of the economy being sound, she considered that the instability arose largely because the proposed restructuring of institutions and large corporations had not been performed adequately so that many of them still had substantial debts and were looking for

foreign buyers. In addition, she considered that the 35% growth forecast for the manufacturing sector was too high and that instead the future source of growth should be the services sector, although this was dependent on how the sector was liberalised. Furthermore, she considered that the government was weak which contributed to the instability and when asked to explain this opinion, she observed:

There is still political crisis in this country, it's not really been solved.

There is no clear line of leadership transfer. That has to be solved, there's problems within UMNO, and nobody seems to know really what is happening but definitely there is a lot of ups and downs. (P14)

A factor which lessened the impact of the crisis on the Malaysians and allowed a relatively rapid recovery was the fact that approximately 20% of the Malaysian labour force is from Indonesia and Thailand, an unknown number of them working illegally, and many of the redundancies in manufacturing and construction were borne by them (P14).

The same participant attributed the post-crisis recovery of the Malaysian economy to the strong US economy which is the ultimate destination for a large proportion of Malaysian exports:

The reason why we recovered from the 1997 crisis was because of the US economy, that's a major factor. And if you look at the electronic exports, they are a huge component of our export sector. If you take the electronics and electrical goods and textiles they constitute about 70%. And a large part of it goes to the US, about 22% or 30% if I am not mistaken, and 15% goes to Japan. But all those that go to Japan also the final market is actually the US. So the US economy was doing well and therefore we recovered quite well. (P14)

However, although Malaysia was able to benefit from the strong US market for its exports, the subsequent slowdown of the US economy has meant that demand for microelectronic components fell which has in turn affected Malaysian exports. Another participant observed that it was difficult to say for certain that the economy had recovered because the evidence was blurred by the recession in the United States and because the ringgit was still pegged to the US dollar:

And whenever it seems to be normalising then other things happen outside of the Malaysian economy which have an impact on the Malaysian economy. ... So one of the issues they've been considering is whether to do anything about the peg because it's not certain though here people's confidence and the consumers have more confidence and are more willing to spend and to believe that things are getting better. And although Malaysia has oil to depend on, they also are very dependent on exports, especially microelectronics. (P15)

Based on the experience of the financial crisis, the government is implementing measures in response to the economic slowdown in the United States:

We have put another 3 billion on the 28.8 billion for this year - the budget, I mean - because now we cannot depend on the external sector because our exports are reduced, demand for our products has decreased. But we've got to stimulate our domestic economy by injecting money on the schools, the universities and so on, the infrastructure projects - we continue with these projects to boost the domestic consumption because we cannot depend on the external sectors. And we also, towards the promotion of consumption, for example we reduced the EPF employers contribution from 11% to 9%. So with the reduction in the EPF rate now the people will get more money to spend and we also encourage the use of credit cards and so on. We also promote sales of passenger cars. And we also continue with the monetary policies. And we also have special funds for small and medium scale industries, and we also reduced the interest rate for people to borrow and do some business. (P4)

From the point of view of tourism, all the participants observed that the tourist arrival figures had increased consistently since the worst of the crisis and the annual figures had surpassed the pre-crisis figures:

The only statistics that unfortunately we have is inbound tourism statistics. That's the only thing we have that can be relied upon. And

that's been encouraging. We've never had tourism ever in the history, never mind since the crisis, but ever, as much as we have now. The highest we've had before the crisis was 7 point something million, and now we are in excess of 12 million, sorry, in excess of 7 million in this half year, at the halfway mark. (P8)

However, as one of the Tourism Malaysia representatives pointed out, it is not enough to focus on arrivals alone but rather the yield should be considered. This supports the WTO (1999a) observation that the focus for Southeast Asian tourism should be more on yield.

You see, we have about 106,000 hotel rooms, and they can actually provide double the revenue. ... Therefore we are constantly trying to see with the growth in arrivals if we can also improve the yield which means we have to be now more focused on certain market segments to ensure that the quality of arrivals improves together with the numbers. (P3)

The private sector all reported an increase in trade since the crisis. One of the MATTA representatives observed that outbound bookings did not increase much until 1999 and even then it was slight. However, at the MATTA International Travel Fairs since, the experience of the suppliers had been quite different.

The year 2000 of course there was a tremendous jump again and this year 2001 who are saying reported sales of packages and things like that were close to 100 million ringgit at this 3-day fair and the previous one was a 2-day fair - we had about the same number of people coming through over three days and two days and the sales were round about 60 million ringgit so there was quite a big jump and the year before that was about 30 something million. These are not very accurate figures because we asked the exhibitors to tell us what kind of sales they experienced and they're not bound to give us any audited figures or anything but it gives an idea. (P8)

Similarly, the representative from the Sunway theme park reported that the previous year (2000) their hotel had one of the highest occupancy rates of 85%, which he

considered comparable to the city hotels like Mandarin Oriental. Reflecting the success of the recovery of the tourism sector and the increase in tourist arrivals, Tourism Malaysia was expanding the number and size of their overseas offices.

Of course we are now on the expansion plan, we are having more offices in key places, wherever necessary we have more than one office, we're expanding. The expansion will last two years and can equal the expansion we had in the last twenty years. That's how fast we are moving. (P3)

5.1.6 Comment on the response

The first area of concern felt by all the participants was the speed of the government's response to the crisis which they felt had not been fast enough; as one person put it "the nation has got to react very, very quickly to arrest the damage" (P5). One participant observed that because of the political structure in Malaysia there should have been no obstacle to taking appropriate action.

It's so easy to make a provision in this country unlike others because the infrastructure is there. Because of that it's very easy to make this policy, they can do it overnight. I can't imagine this thing done in any other country! You can bulldoze through parliament, you know! The Prime Minister makes a decision and that becomes policy! So I don't think that's a problem. (P14)

It was suggested by another participant that the problem may have been that the government simply did not know what action to take. He commented wryly:

The crisis started in 1997 sometime towards the end of December, it took our great Prime Minister nearly eight months, we just didn't know what to do because it was something new, it was something that appeared suddenly, it was just like a thunderstorm. And it was compounded by some political problems. (P7)

The political problems referred to here are the riots and international outcry over the arrest of Mr Anwar. This supports the argument for having a crisis management plan, and illustrates the point made in Chapter 1.3.4 that the existence of a plan when a crisis strikes offers direction for action and a good use of time. There were

explanations offered as to why the government response had been so slow. The reason given by the NEAC participant for the delay before the pegging of the ringgit was that Malaysia wanted to be seen as an open, market economy rather than as a closed economy. Another participant suggested that because there was no severe unemployment “there was no necessity to actually undertake really drastic measures” (P14).

Where the speed of response in terms of tourism was concerned, one of the Tourism Malaysia representatives suggested that the reason that the government was slow to act was that initially tourism was not seen as a critical contributor to the economy and higher priority was given to other sectors. This is similar to the findings of Sharpley and Craven (2001) and the British government’s prioritisation of assistance to the agricultural sector rather than to the tourism sector during the foot and mouth crisis in 2001. In addition, because in 1998 there was the opening ceremony for the KLCC complex and twin towers, the Commonwealth Games were held and the Kuala Lumpur International Airport (KLIA) opened, it was generally assumed that tourism was doing very well. Interestingly, he considered that the government should have responded to the haze which had affected tourism so badly, six months before the worst of the financial crisis in Malaysia.

In July ’97 the haze came, bringing tourism to a standstill but when the haze was out of sight we should have quickly started our mass, big campaign. Just to remind people about the fact that it’s over and to show our result and the places they could go, quickly, just to give the momentum. I believe a quick campaign would have been very helpful. (P3)

This view was supported by another participant who felt that more could have been done and faster to counter misinformation from all the crises at that time, as stressed by Durocher (1994).

If at all they wanted to help the industry, what they could have done was to respond to all the negative that was coming out. They shouldn’t take time to respond to it, they should immediately. If

something comes out in Hong Kong, whoever the body is must be in the position to respond to that thing tomorrow, the following day. But what has happened is it takes one week, and by which time people already have a mindset. When we'd been going through a bad period in terms of haze, we had this Coxsackie and then we had this disease of the pig and during that period there was big headline news in Hong Kong saying that there is an outbreak of foot and mouth disease here ... but it took them 4-5 days to respond to that by which time we've already lost about 50% of our bookings. This is what I mean by being able to respond immediately, I think in any situation. (P9)

A private sector participant felt that the response would have been faster had there been some sort of plan.

Speaking purely on the tourism aspect, I think they were fast enough, of course if we'd had a plan, if such a thing happens then these other things would not have happened. (P9)

He illustrated his point with the Sri Lankan response to the Tamil Tiger attack on Bandaranaike International Airport in July 2001 when "they did pretty well in a crisis situation, within a mere five hours they are on air telling people what to do. This is what we need". This view was echoed by a public sector participant:

Any response action that had been put into action much earlier of course would have helped to alleviate whatever suffering that the crisis brought along. (P7)

Both these people were interviewed in Johor and would have been well placed to see the effect of the crisis on the 'man in the street', supporting the view that regional crisis management has the advantage of being able to identify the local needs and respond to them, discussed in Chapter 1.4.6.

The second area of criticism was the corporate restructuring which the ISIS representative considered had not been effective or comprehensive enough. She observed that the appropriate policies were in place but they were not implemented

because “there was no political will to undertake this” on account of the political economy and the links between the private sector and the government.

The huge companies were involved. ... So there were no proper reforms made. OK, there was always this thing that if we go for constructive, creative destruction then there will be massive unemployment. I don't believe it. If there is a company, it doesn't mean it doesn't exist any more after restructure. It is physically still there, the market is there, it is only the top people who lose their jobs. But it didn't happen in this country, restructuring at the company enterprise level did not take place. So although there were external problems in terms of demand as well as heavy loans, internally there was no restructuring and the excuse was people are going to lose out. Of course it's easier to do this sort of a restructuring even from the political point of view when the economy is still in full employment, not when there is going to be a severe downturn. They thought there is going to be political backlash, so they didn't do it then. It was a very minimalist approach, the excuse was people are going to get hurt - I don't buy that. (P14)

Measures were taken but they were not the measures which would put the economy on a sustainable course. The implication of this she pointed out as being that when the next crisis arrives there will be the downturn but it will be compounded by the structural problems.

Finally, with regard to the access to data to clarify the real progress of the crisis, there were some comments as to the difficulties of getting figures. One of the Tourism Malaysia representatives observed that at the height of the crisis in 1998, the tourism statistics were released 6-8 months late which he contrasted with Thailand's response.

Statistics were delayed at that time. I remember it was July/August 1998 when I was crying for the January/February statistics. When the statistics finally came, they were actually not scoring as much as we

had in 1997. I remember Thailand came in fast. Tourism Authority of Thailand, after they were hit they went out full steam and that's why they got their figures before us. Yes, we started late - there was one year lapse. (P3)

It was not only the production of tourism statistics that was criticised; the representative from ISIS complained that none of the data she could obtain was very good.

Nobody really knows what the real situation is. One is because of lack of transparency, the other is actually trying to get these figures. In that sense there is no machinery actually to look into the serious aspect. This is one of the weaknesses in this country and we are just finding it really difficult to get a hold of all these data. I mean the Department of Statistics, for example, is never given priority like in the US or elsewhere. Even on the financial sector, our data is just not really very good. I mean the major sources of data would be the economic reports. They are all arbitrary figures - you can see that they all change. (P14)

These views support the findings of Durocher (1994) and Huque and Lee (2000) and the importance to all stakeholders of knowing the exact state of affairs during a crisis.

With hindsight it is easy to criticise the government but not all the comments were negative. One private sector participant said simply

I think they did a wonderful job. Because they were listening to the industry, that makes a difference. (P9)

Dr Mahathir was praised by one participant for his handling of the crisis.

I must give our Prime Minister credit that he handled things very well though people may like to criticise him. But as far as a lot of Malaysians are concerned, he may have given out medicine sometimes wrongly but overall I think he has given out the correct medicine. (P7)

This is an appropriate metaphor, given that both P7 and Dr Mahathir were medical doctors before going into politics.

5.2 INDICATORS

5.2.1 Warning signs prior to the crisis

After any crisis there will be some who claim that they knew something was about to happen but one of the characteristics of the Asian financial crisis was that it was so unexpected. It is generally accepted that there were in fact warning signs of an approaching crisis which with the benefit of hindsight might have been detected had they already been identified as indicators. As discussed in Chapter 1.3.2, the difficulty of identifying appropriate indicators is one of the major obstacles to proactive crisis management.

When asked whether, with hindsight, there had been anything that might have warned them that a crisis was coming, the majority of those interviewed answered that there had not been. It emerged from their comments that not only was the crisis itself unexpected but also its intensity. One of the features of the economy that a number of participants felt had lulled the Malaysians into a false state of security, even complacency, was that there had been continuous growth for the 8-10 years prior to 1997.

First I think the sad thing was that we thought the economy was still flying. All the corporate people and the strategists all were thinking that the Malaysian economy is still going to grow. So I think there was no premonition that it's going to be a crisis. So everybody is so euphoric about the economic growth. (P10)

Malaysians were working towards and looking forward to both the Commonwealth Games and the Sea Games in 1998 and "by the time the Commonwealth Games were here there was a recession" (P11). As another put it:

It's perhaps strange but what it was is that nobody ever expected it. It's like, it's the sort of thing you never think of. ... They genuinely believed that they'd built up a solid economy which was prospering and overnight half of it was lost. (P15)

Referring to the intensity of the crisis, one participant said that "nobody was expecting it to be that bad" (P11). Another observed:

Everybody was caught off guard, but the way that it hit you, I mean, never in the history of Malaysia has the ringgit depreciated by almost 50%. It was so volatile, it was going down almost every week. (P14)

The response of the ISIS representative differed from the rest in that she considered that some had anticipated a crisis:

Yes, because we had been monitoring [the situation] for some time. And I think a lot of people said that people in the stock market were caught off-guard but I don't think so because these people always talk to people, they know how to get information. So they knew exactly what was happening. They saw the weaknesses in the economy and that's the reason they pulled out. These guys know. ... They knew much more than even some of the major institutions. But I suppose if you work in a certain area, you know where to get your information, you build your links over time. (P14)

One of the participants from Tourism Malaysia suggested that no-one had seen what was right in front of them:

Nobody expected that Malaysia, which has achieved constant growth for eight years, would be affected by any crisis. But the signs were clear and nobody took any action. (P2)

The first of the signs he refers to was oversupply. The Sunway representative commented that the analysts were concerned about the oversupply of business and residential buildings and the huge infrastructural projects that had been undertaken, many aiming for completion in time for the Commonwealth Games in 1998. These included the KLIA at Sepang; Putrajaya, the new government centre south of Kuala Lumpur; and in the same area the Multimedia Super Corridor, the Malaysian equivalent of Silicon Valley.

The second sign was the ease with which people could borrow money; in the case of the developers the loans were to finance the massive construction projects. The representative from MIDA summed up the situation very neatly:

The economy was also booming at that time and the property prices too. It was happening in the stock markets in the US too, I think, and the US knew that the balloon was about to burst but when you are in a good environment, in this growth syndrome, nobody wants to do anything about it! So the market went up and the property market became also really overpriced, nobody wanted to do anything about it because everybody was enjoying such good profits and the banking sector was again lending to these property developers - construction companies – so easily, they're begging us to take the money and with very, very generous terms and very enticing. (P5)

Still in a financial context, it was suggested that a third sign was the volatility of the stock market which was an early indication of instability, with sharp drops and very few rises. As this had happened in Thailand prior to the collapse of the baht, the participant observed that Malaysians should have foreseen what was coming (P8). One of the representatives from Tourism Malaysia referred to an article in the *Japan Times* in 1996 in which the situation in Malaysia was compared with that in Mexico before the Tequila Crisis of 1994/5 when the economy overheated. He observed that nothing was done about this as it was felt that in Malaysia's case the banking sector was very strong and had good fundamentals.

It was saying that our economy had heated up, overheating, but nobody knew what they meant until it finally showed up! '96 was enough time, one year's notice. But this is the one error in every country, you got to happen before you understand what it is. It's like growing up! (P3)

The researcher was unfortunately unable to locate this article.

It is important to note that when asked whether anyone expected the crisis, one of the MATTA representatives commented:

No, actually on the tourism side nobody expected, overall on the economic crisis, on the economic downturn yes, on the financial crisis yes, on tourism no. But on hindsight, as you say, yes we should have

seen that that would lead to that, and that would lead to that. Yes, we just saw it as a financial crisis and not a total economic crisis. (P8)

It is clear from this response, together with the others, that the warning signs were all financial in nature and not related to tourism. The implications of this will be discussed in the next chapter.

5.2.2 The monitoring of indicators

The NEAC representative observed that the Malaysian government currently monitors indicators both at home and abroad. These indicators include GDP, exchange rates, balance of payments and the consumer price index, which he pointed out, although not 100% accurate do display trends in the respective economies. By making comparisons with other Asian countries, especially Singapore, Thailand, South Korea, Japan, Philippines and Indonesia, Malaysia can measure progress against its competitors and evaluate the success of Malaysian national strategy against that of the IMF. In addition, the government uses a variety of statistics to measure changes in confidence, not only investment levels but also others such as the balance of payments or international reserves (P4).

From a tourism perspective, the participant from MOCAT said that while they monitor the usual tourism figures, such as arrivals, expenditure and occupancy rates, they could not predict why suddenly tourists stay away.

We cannot pre-empt things about this, we do not know why, until we see there's a drop ... we do monitor, but in the case of why suddenly the Germans don't come here, I mean we cannot predict why they don't want to come. ... But to project these things are going to happen, I mean, nobody can do that. We don't keep track of what happens in other countries but we do take note. For example, the chicken scare in Hong Kong, the mad cow disease in the UK, we do monitor these, but the monitoring is that if this affects the tourist arrivals from those countries. (P1)

With regard to the Asian financial crisis, he was unclear as to how the monitoring had been carried out and explained:

It's not under this Ministry. Basically we are not involved really in that. Not involved directly, we are involved indirectly. (P1)

In contrast, one of the representatives from Tourism Malaysia stressed that the economic indicators in source markets were monitored and used as a basis on which to make a judgement in any given situation (P2).

5.2.3 The collection of statistics

The collection of tourism statistics has not had always been as efficient or as comprehensive as it might have been. One Tourism Malaysia representative commented that during the worst period of the crisis, 1997-8, the statistics were 6-8 months late (P3). This is not surprising as the crisis was severe as well as very unexpected and as described by participants, everyday work patterns were seriously disrupted, but in view of the importance of monitoring the progress of a crisis which is stressed in the literature (Cassedy 1991; Huque and Lee 2000; WTO 1985) it is to be regretted. Since the crisis, however, the representative from ISIS explained that improvements have been made and not only does the Department of Statistics now produce a quarterly forecast, a move which had been triggered by both the crisis and some IMF regulations, but so too does the Malaysian Institute of Economic Research, an independent think-tank with a good reputation in both the public and private sectors (P14).

Inbound tourism statistics are collected by way of the immigration cards, the relevant part of which is shown in Figure 5.1. It was observed by participant P15 that most of the tourism figures were only 1-2 months out of date and were published on the internet. He did, however, question the accuracy of some of the statistics. Although the immigration department has been recently computerised, he pointed out that the data collected in many hotels were still processed manually and consequently take much longer to filter through the system. In addition, many of the smaller hotels pay scant attention to collecting accurate details. A further source of inaccuracy is the Singaporean border, where most Singaporean visitors drive through and are required only briefly to show an identity card. His concern was echoed by the MATTA representative who said that the figures for 'purpose of travel' may be inaccurate:

A lot of foreigners we understand put 'leisure/holidays', even though they're coming for business because in Asia, in Southeast Asia especially countries like Indonesia, if you put 'business' then you get asked all kinds of questions. So they say 'holiday', actually they come on business. Malaysia it isn't so, it doesn't matter if you come on business or holiday, they are treated the same. But some people don't know. And so even an engineer for a big Japanese company living in Singapore and coming to Kuala Lumpur to see his factory once a week, might put a holiday each time, so he would have been counted 12 times. But I'm not too sure how far skewed out it would be. (P8)

Figure 5.1: Malaysian immigration department arrival card

AA0117597589		FLIGHT NO./VEHICLE REGN NO./VESSEL NAME/TRAIN NAME	
			
ARRIVAL CARD PLEASE WRITE CLEARLY USE BLOCK LETTERS			
FULL NAME (AS APPEARS IN PASSPORT)		FIRST VISIT TO MALAYSIA* YES NO TRAVELLING ON PACKAGE TOUR* YES NO	
PASSPORT NO		OCCUPATION* Professional/Technical Sales/Clerical Housewife Management/Administration Student/Retired Others	
DATE OF EXPIRY (DD-MM-YYYY)		PURPOSE OF VISIT* Holiday In Transit Employment Business Conference Education Visit Friends/Relatives Official Mission Others	
PLACE OF ISSUE		ACCOMMODATION DURING STAY* Hotel/Motel/Rest House Residence of Friends/Relatives Others	
NATIONALITY		HAVE YOU EVER USED A PASSPORT UNDER DIFFERENT NAME TO ENTER MALAYSIA? *IF YES, PLEASE STATE YES NO	
DATE OF BIRTH (DD-MM-YYYY)		GENDER MALE FEMALE	
CITY OF RESIDENCE		PLACE OF BIRTH	
COUNTRY OF RESIDENCE		ADDRESS IN MALAYSIA	
LAST COUNTRY OF EMBARKATION		+ SIGNATURE	
(2)		(3)	

It is interesting to note here that until 1999 the tourism statistics to which P15 referred above used indeed to be published on the Tourism Malaysia website, with more detailed figures available from Tourism Malaysia upon application. Subsequently, the very comprehensive 1997/8 figures were published as a 68-page A4 book in two languages which could be bought directly from Tourism Malaysia for RM30.00. The excellence of this book was its undoing; the next issue covering the

three years 1999-2001 came out in October 2002 and cost the same but had only 34 pages of large graphs and a disappointing range of statistics. At a time when it might be assumed that MOCAT had learnt the importance of data collection and dissemination, it is surprising that the statistics available from Tourism Malaysia should be so limited and so out of date.

At a micro level, when asked whether their organisations monitored the wider picture, what was happening in the world or in specific generating markets that might affect tourist flows and their organisation or locality, many participants did not know. From the information provided by those that did, it appears that this monitoring falls into three categories. Firstly, there is the monitoring of general levels of public opinion, largely through the media; the Sunway organisation follows international public opinion by reading relevant materials from the hotel and retail sectors and general tourism magazines (P10). Secondly, there is the scrutiny of what is happening in the business. MAHO does not collect statistics but instead it takes note of financial issues or new policies, such as the imposition of a tax or tariff that could affect either hotels or tourism, which would in turn affect the hotel owners. They also monitor the situation with regard to room rates (P11). Thirdly, there is the collection of data by the organisation or destination itself. Possibly for reasons of cost, it appears to be the regional locations that do this rather than a single organisation. One of the Langkawi participants described how:

some people in Langkawi are very aggressive in collecting international information about the trend of tourism, what are the synergies that we should take, or what are the marketing issues we should go for now which is gearing up for a better yield of tourism that is coming in. ... Obviously there are certain markets which will go up or go down depending on their ethnic problems in their own countries, capacities of air seats and availabilities. (P12)

Similarly, one of the representatives from the state of Johor described how tourist arrivals at the state entry points as well as hotel occupancy were monitored and over the six months prior to the interview, both had increased which indicated that the

tourism sector of Johor was experiencing some growth. In addition, retail outlets were monitored in terms of percentage sales, rather than in actual figures which retailers were reluctant to supply. During the crisis they collected figures for retail sales in those places frequented by Singaporeans, which clearly showed very good growth for the first six months followed by a steady decline (P7). This is be very much what might be expected; initially Malaysia would have been a very cheap destination for Singaporeans but once the crisis affected them too, they would have reduced their discretionary spending.

5.2.4 Possible indicators for future use

When asked for ideas about possible indicators of approaching crises, the participants were not very forthcoming; in fact, the majority said they had no idea at all. When asked whether changes in investor confidence could be used as an indicator of an approaching crisis, participant P6 thought not as the fall in levels of investment seen in Malaysia was the result of the crisis rather than a precursor to it. The ISIS representative suggested that business sentiments might be used as an indicator of investor confidence but did not elaborate on how this might be done.

One idea put forward concerned the information regarding visitors from particular source markets that many in the travel trade have but which is not exchanged other than informally in discussions or chance contacts.

You meet a hotelier, you meet an operator, you talk about it, 'yes, yes, you know' and 'they are coming later', and 'they're coming less', or 'they're going to Langkawi, they are not staying in Kuala Lumpur at all' - things like this would come up. But there has been no formal and organised way of getting this information. (P8)

The participant considered that this information could be of tremendous use, giving early warning information to the trade, but he had no suggestions as to how this information could be collected and monitored.

It was suggested that advance group bookings might be a possible indicator worth monitoring. Participant P15 suggested that if the Malaysian travel trade built up

good relationships with overseas tour operators and the cruise companies, they could obtain regular updates as to booking patterns, especially given the ease of electronic communication. Travel agents would be able to provide a very good idea of inbound and outbound figures, as bookings may be made a year in advance. Participant P9 disagreed and pointed out that this might have been a good idea ten years ago as the big tour operators used to book 12-18 months in advance, but nowadays bookings may be made as little as 2-4 months before the proposed arrival dates. Malaysians, too, are more inclined to travel on the spur of the moment rather than planning long term (P7, P2). Participant P8 was doubtful whether this would be feasible given the reluctance of the private sector to supply information of this type, an issue that is discussed in more detail in the next chapter.

Participant P15 also considered that more attention should be paid to what is happening in the other East Asian economies and to general regional political and cultural issues, as well as how people perceive East Asians in general and their reactions to specific aspects such as safety and security. Apart from the views of business consultants, he felt that a lot more attention could be paid to the articles published in the press and reports in the media. This is very much what the Sunway representative described his organisation as doing. Other suggestions of possible indicators were less detailed. Participant P7 suggested that a more comprehensive analysis of the performance of retail outlets, as is done in Johor and is discussed above, might possibly indicate trends in visitor spending which might be useful.

5.3 PROACTIVE STRATEGIES

5.3.1 The need for proactive crisis management

Having experienced one crisis, it might be expected that there would be support for any measures to prepare themselves should another crisis strike. Some participants argued that having weathered the financial crisis, Malaysians are now in a position to be proactive to another crisis. The senior representative of Tourism Malaysia commented:

Since we have gone through the experience of the Asian economic crisis, now we are well prepared. Well prepared in terms of what needs to be done to overcome any negative implication as a result of the slowdown in the US economy. Tourism for instance, we have therefore to make a slight shift of our strategic emphasis in certain markets in order to overcome any possible decline in terms of arrivals. So to us it only emphasised the fact that we have to continuously adapt or continue with our strategic approach that we adopted during the Asian economic crisis. (P2)

However, this is not preparation for a crisis but rather being alert to changes in the global economy and reacting to variations in the market. Later in the interview the same participant contradicted himself:

Bear in mind countries like Vietnam that have not as yet positioned themselves tourism-wise will come on-stream offering a new experience for the would-be travellers. And when they wake up, countries like Indonesia, the sleeping giant, if they can get out of their crisis and go all out for tourism they will be one of the draws. By that time, you talk about crisis management, I'm saying 'Are we prepared? No, we are not'. We should now be strategising ourselves in such a manner that we are one up, no matter what the second crisis is going to be. (P2)

It seems that most of the participants agree that the tourism sector is still unprepared for a future crisis. One of the representatives from Tourism Malaysia cited Thailand as an example of a country which restored the status quo with enviable speed after the financial crisis and he claimed that compared to Malaysia, Thailand was in fact anticipating the crisis a year before it occurred:

A year before the economic slowdown came Thailand was already selling their rooms on a discount at such travel fairs as ITB and so on. And I was watching what Malaysia would do. They [Thailand] were already selling in 1996, offering discount rates on hotels in Thailand, in ITB, which means that they were alert to the fact that there would

be an economic slowdown after continuous years of growth. The economy was heating up, you know what I mean? But we were then enjoying life! The industry was not prepared. The government was prepared but the industry was not. (P2)

In fact, as discussed in Chapter 2.2, it is more likely to have been the case that Thailand was offering discount rates because of oversupply that contributed to the collapse of the property market and the subsequent fall in the value of the baht.

The participants had little to contribute as regards proactive crisis management or, as described in Section 5.2.4, suggestions as to future indicators. One participant commented that he had never thought about being proactive to a future crisis (P3). The reason for this in the case of some of those interviewed might be that they appeared to have a rather fatalistic attitude to life and consider any efforts invested in crisis management a waste of time as crises will keep recurring:

You see, you can't avoid the crisis from happening again. I think it's a matter of ten years, five years, the cycle will always be there. (P10)

However, it can be argued that there is all the more reason to be proactive to these inevitable crises, that it would be money well spent. Most participants felt that crisis leadership and a plan of some sort would be of great value in the event of another crisis occurring. However, he doubted whether anything would actually change:

Unfortunately we never had any precautions or measures anyway just in case something happens. But now we talk about it, next time we'll know what to do. But I believe maybe the next time we'll come back to the same thing again and they will do whatever they did before. (P9)

5.3.2 Public/private sector cooperation

It was observed by one participant that since the crisis the government has been trying to develop a more holistic approach to tourism which included working with the private sector, particularly in the area of promotion.

So you see the government is actually now trying to get its act together. But that itself will take a few years. You know, the whole

mindset from the airport, the immigration, even the tourist agents, and of course all the private sector. But now at least there is at least something like an open forum and a master plan to get the private sector and the Ministry to work together, to all constantly promote tourism. (P10)

For this reason, it was generally felt by participants that the private and public sectors would have no real problems working together and cooperating over developing a crisis management plan. Already there is a good relation between the government and the private sector, as was observed by one of the private sector participants.

Yes, in this country the private sector are given a lot of chance to voice their grouses or give input to the government. We can tell the Minister anything we want. This is a very good thing, it started I think very recently, about two years ago. (P12)

The MAHO representative observed that the Malaysian hotel owners and operators already work with the government to increase arrivals, coordinating and supporting promotional activities and overseas sales missions. The Malaysian Association of Hotels (MAH) has a large membership and plays a more active role, with MAHO acting as support (P11).

It was felt by both private and public sector participants that the private sector would cooperate with the government in developing some form of proactive crisis management plan as there would be self-interest, financial or otherwise, to motivate them:

If it's going to help their business and the bottom line, I'm sure they'll do it, yeah, why not? (P11)

There is hope, if the private sector can see that this committee is meant for their good and not just for the government. (P7)

Another participant also felt that the private sector would be prepared to cooperate given that many of them had suffered badly during the financial crisis:

I think most of them [the private sector] would have been very grateful for some sort of plan in place that, even if it meant they contributed to

the maintenance of that plan which subsequently when things went wrong the plan kicks in, I'm sure many of them would have been pleased because overnight they started losing all their incomes especially those who had invested heavily in 4- and 5-star hotels which were practically empty. (P15)

Whereas normally there is no real desire to cooperate, the crisis had created the conditions to foster cooperation between tourism stakeholders. An example was provided by one of the participants from Langkawi:

Normally the hotels would not work together, the tour operators would not work together because they are in competition. And that was actually our success with the Langkawi Supersaver where we said 'OK, it's a crisis problem we have on the island, all operators are also having problems, let us make a control team of about nine operators together, travel agents, you take these hotels, you take these', we channelled it through LADA, we did a fantastic job and it was quite a lot of fun! (P12)

However, although they felt that most would support a crisis management initiative, the participants were divided on who should lead it. Representatives from the private sector felt that the government should play the major role. The Sunway representative described his idea as:

I think it should be government led. But I think in a way it's like a think tank, to monitor potential crises. I think the think tank would have subcommittees, who of course have to work hand in glove with the government. (P10)

The most senior MATTA representative agreed that the government should lead any initiative and explained that this was because although membership of MATTA is compulsory for all licensed travel agents or tour operators, it is in practice very difficult for the organisation to oblige its members to do anything that they do not wish to do. He felt that the same would be true of other private sector organisations and therefore for any proactive crisis management provision to be effective, it would require government legislation in order to obtain the full cooperation of the private

sector. He did make the proviso, however, that although it should be government led, there has to be “one crisis management manual that everybody contributes to and works to and adheres to” (P8).

In contrast, the public sector representatives considered that proactive crisis management should be initiated and driven by the private sector. The participant from the NEAC gave his reasons for this.

It shouldn't depend so much on the government because there's not much the government can do in terms of the business because we let the private sector manage the economy since 1981. It's not only other sectors but also the tourism sector. Well the government can from time to time propose policies and so on but it's up to the private sector to take up the Malaysian industry. From time to time we take some steps to increase, to boost the tourism industry in our country, for example, like visas. (P4)

This view was echoed by another participant who considered that the sector had reached the point when it should now determine its own direction:

The private sector takes things for granted. Very much of the efforts of the industry is government led, not industry led. In the infancy stage, yes I can say I think it was right, but at a time when we talk of the industry having reached a certain level of maturity, the government should take a back seat and provide the platform where necessary for the private sector to go aggressively about selling the country. (P2)

He gave as an example Thailand's recovery by way of the *Amazing Thailand* campaign:

Why did their *Amazing Thailand* campaign become so successful? It is not because TAT¹ has got all the money in the world. No, but the whole effort has been duly supported not only morally but financially by the private sector and complemented by the aggressive approach adopted by the private sector, including Thai International. (P2)

¹ Tourism Authority of Thailand

Another participant echoed the views expressed by P2 with regard to the private sector taking things for granted. He observed that the private sector are interested only in their own situation and do not look at the wider picture:

You see, the tourism industry in Malaysia, somehow the only people who are left with the task of knowing beyond what they have to do for the day, are left with the government or the authorities. Not so much with the people in the industry, they don't seem to care very much, they seem to be only worried about their business. As was very correctly put by one of my Director Generals before, he said the lack of intellectuals in the tourism industry, people who try to read and understand what's going on, go beyond what their daily duty calls, there are very few. So if a crisis like this happens everybody stands up and says "let's see what the government does now". That is the situation here. (P3)

There was only one participant who thought that a joint effort would be best. He said simply:

We should have more discussion with all those sectors, NGOs, private sector, public sector, to fix the problem because it affected everybody. It shouldn't be a government effort alone. It should be a joint effort. (P6)

5.3.3 A crisis committee and a plan

The general impression to emerge from the interviews was that there was chaos during the crisis, with both public and private sectors trying desperately to carry out their duties with no co-ordination, nothing resembling a crisis committee or a plan of action and no means of monitoring the success or otherwise of any measures taken. This is very much the situation that might be expected, described in Chapter 1.3.4.

Participants were asked whether there already was any form of crisis committee. all but one denied knowledge of anything other than the NEAC. However, in one of the last interviews to take place, the representative from MOCAT astonished the

researcher when he stated that for some time there had been a crisis management committee which responded to the haze and other crises which occurred at the same time as the financial crisis and affected the tourism sector.

Our crisis management committee, this was not as a result of the MTEN [NEAC] but it came together at the same time. While MTEN looked at things like the financial crisis, at that particular time also we looked at the environmental crisis.

So are the people on your crisis management committee, are they all the people that will be able to contribute at short notice if something happens?

Of course, yes. For example, the Cocksackie thing - the Ministry of Health was with us, the Information Ministry was with us, so we could continue. During the Nipah [Japanese encephalitis] virus, we started killing the pigs, culling them or killing them - culling them.

Who from tourism is on this committee?

Everybody in the industry. They have MAH, MATTA, MAHO, that kind of thing, tourist guides basically.

Nobody seems to know that there is a crisis management committee - the people I've spoken to.

Why should we highlight those things?

No, I'm just observing.

Why should we highlight that? It's an in-house thing. The NEAC is for if there's a national crisis. (P1)

When encouraged to elaborate on the role of the crisis management committee the participant explained:

The crisis management committee basically is to tackle issues that were really issues of the day, it was about floods, for example the British girl who died last week on Mount Kinabalu, that sort of thing. How should we tackle that? But basically this crisis management committee is to build very much PR kind of thing, PR work. Tell the

truth, that is the philosophy of the crisis management committee, more so during the haze period. (P1)

And later on in the interview he returned unprompted to the point, quite aggressively and almost in a spirit of defiance:

I'm surprised you asked me the question just now, that nobody knows of the crisis management committee, why should we highlight it?

No reason at all.

Nobody knows it. Only people who are in it. But then what we do is as a result, a crisis management thing. I handle policy. (P1)

This is not quite the transparency and good communication between all involved that is stressed repeatedly in the crisis management literature as desirable in order to reassure the public and bolster investor confidence. It is difficult to understand why, if such a committee exists, it is such a well kept secret. No mention of it had been made by any of the other participants, some of whom held very senior positions in organisations which were supposedly represented on the committee. The demeanour of the participant, particularly his defensiveness, suggests that he was blustering so as to cover up the fact that there was in fact no committee. Further research into this issue would be most interesting.

One participant from Johor was interested in the composition of a committee, which he referred to as a council, having already given the matter some thought:

Late last year I saw the Minister, we are talking about having tourism councils, even state level, national level. OK, like in Johor you have the Department of Tourism in Johor, and you have a local Minister, then you have a Director and that's it. So the Minister changes, the Director changes, you don't know anything. So I've always advocated that we have a council where we make plans for 10 years and these are all politicians, they only make plans for 5 years, for their term because they don't know if they're going to sit down for the next term! So this council has to be partly government and partly private sector and that's something that will help. In a similar way I think the government on a federal level they should act in the same way. (P9)

It is worth noting that he is the only participant who appears to be thinking about crisis management in the long term and looking for a way of introducing some continuity into the planning process. The advantages of crisis management at state rather than federal level are considered in Section 5.3.4.

There were not many ideas as to the format of a crisis management plan. One participant suggested that the fast and effective dissemination of information and public relations were both very important, so that people know what is being done and he stressed that it is often rumour and false information that spread fast and may cause panic (P7), supporting the literature (McKercher and Young 1999; Seymour and Moore 2000). This contrasts with the MOCAT representative's view that nobody should even know that there was a crisis management committee. His account of the crisis committee in the context of the haze is a good example of the absence of cooperation between Ministries commented on by Huque and Lee (2000).

In relation to the haze, we have Environment, we have Information, we have Tourism Malaysia, we have the Ministry of Health, we have Home Affairs, we have Foreign Affairs, of course, Malaysia Airlines, then there's the ... **Agriculture Ministry?** Agriculture, no, nothing to do with the haze, nothing to do with tourism. Haze would affect their product activity, yes. For food, yes, but let them tackle themselves. Because we are, agriculture or rather food was not our attraction. If it is their attraction they should be calling us, rather than we call them. (P1)

Participants were asked to suggest strategies for proactive crisis management which might be incorporated into a plan and used in response to indicators warning of approaching trouble. One of the private sector participants suggested that long term investments might be postponed should an approaching crisis be detected, as they need a long gestation period. Surprisingly, he also questioned whether the government should perhaps control private sector development to a greater extent, through the regulation of land released for building, as is done in Singapore.

Maybe the government should actually control private sector development. There is also two schools of thought. Some say the government should not actually interfere with the entrepreneurs and the private sector. In Singapore it's a bit different. In Singapore they have a body that regulates the release of land. So when they see that things are overheated they stop releasing land. (P10)

Another participant suggested that there should be an organisation established to monitor the situation in the markets worldwide.

There is a hoteliers' association and all that, but whether they've veered from the normal roles of maintaining the association to actually maintaining the markets of that association, I don't know whether they've gone that far, but perhaps that is the way to go. So that then there'll be a unit which they'll all fund which can be looking at these things in advance and preparing for them, so that in a time of crisis this unit can be coming out with advice and strategies which everybody can follow to survive. I don't think they have gone that far. Tourism tends to be so fragmented that it's difficult actually for them to get up, it might be easier to look at hoteliers separate from tour operators or something like that, but put them altogether itself is another problem. (P15)

5.3.4 Implementation

There was considerable difference in the views of the participants from the public sector and those from the private sector. The former were of the opinion that the government already does enough for tourism and that this would be a suitable instance where the private sector could play a significant role as they would be major beneficiaries.

They expect the government to do that. That's why I said, in 1999 we had the additional funds for promotion, 150 million, because the private sector couldn't come up with it. Then in our crisis management we discuss: 'Let's promote together. Last time you promoted

yourself, we promoted the country. Now, after the crisis we promote together'. So they say 'No'. I don't say a total 'No' but mostly they are very independent. During crisis management we now come together, save money, save costs, we bring together our focus. (P1)

In contrast, the private sector felt that as a result of the intense pressures of the last four years their profit margins were so low that they could ill afford to contribute to a scheme that might never be needed and this was recognised by the MOCAT representative:

Some will, some will not, mostly will not because they were affected by the crisis for themselves. (P1)

With tourism being so important to Malaysia and as it would be a national initiative they saw funding as the responsibility of the government. However, it was suggested by the representative from MAHO that if the private sector could gain any advantage by contributing to the funding of a crisis management plan they would be more amenable:

I think it depends on how they are going to benefit out of it. Of course, if it is going to help them, of course at the end of the day if they are going to benefit somehow I'm sure they will be willing to do so, yes. (P11)

An interesting suggestion from one participant was that an independent funding scheme might be a compromise and that the private sector might be prepared to contribute to such a scheme.

So I'm sure, yes, the private sector definitely could play a role, in fact to actually help to put something in place even if at the level of just contributing to what, some sort of funding scheme that runs certain assistance. (P15)

However, the supplying of confidential statistics, such as occupancy rates or bookings, for use as indicators to warn of a looming crisis was more contentious. The MOCAT and Tourism Malaysia representatives felt that the private sector should be prepared to supply the data which could be used for monitoring the situation and

warn of trouble approaching. They considered that there would be no problem as the private sector is already required to supply figures to the government; similarly the senior representative from MATTA thought there would be no problem. Those closer to the practitioners, however, were more sceptical and expressed some doubt as to how likely the private sector would be to participate and contribute such information.

I understand that the private sector has to submit regularly figures about hotel occupancy and so on. Do you think the private sector would cooperate in this?

It always depends - especially in Malaysia it's so difficult.

Why is that?

It's just - we are not a society that seem to - but I'm sure in times to come things are getting more transparent. It's still not as readily available.

Do you like to keep your

Trade secrets, yes. General occupancy and all these, yes. (P10)

The explanation given for this reluctance was that the private sector seldom sees the wider picture but instead focuses on the immediate environment and operation:

I find that a lot of private sector people in this country tend to be very focussed on their own small niche and forget about the totality of the situation. The input that we get I am sorry to say is often very limited, confined to his small niche and often can be quite selfish. And some are not even willing to divulge information for fear that the information that they provide may be quite sensitive in the sense that it may be leaked to others. ... They were worried, they were very guarded, they don't want their opponents to know that they are doing much better or they are doing worse than the others. (P7)

While agreeing that data of some sort would be useful, the private sector participants were unhappy about submitting any additional information to the government and said that they would either provide false information or refuse altogether.

They can all give figures but how realistic or how crude the figures are is a very big question mark. Even hoteliers for that matter, if they exchange their occupancy rate nobody knows, don't want to really exchange true information among themselves, let alone rivals - I wouldn't want to give a total company breakdown. Sometimes the government departments do come and ask 'give us the name of the company, who is sending what' and I say 'what the hell do you want to know all this for, it's none of your business?!' (P9)

One MATTA representative observed that MATTA would like to fund research in this area but do not have the financial means and the government feels that the statistics they have are good enough for their purpose. Without the government making the submission of such information obligatory, the organisation feels it is not within their power to obtain it from members (P8). A suggestion that an independent third party should be involved in collecting and handling the data was felt to be an acceptable option, supporting the view of P15 regarding an independent scheme referred to above.

The interviews in Langkawi and in Johor Bahru focused on the level at which any crisis management provision might be implemented. While those interviewed perceive themselves to be very small cogs in the large national wheel, they were unanimous when asked whether regional crisis management provision was desirable. One participant considered crisis management at a state level to be the only realistic option; at a national level he had grave doubts about its feasibility (P15). Referring to the NEAC, one participant observed:

I feel that we should have a special team, even Langkawi. (P6)

They also agreed that one major benefit was that the response could be tailored to the requirements of the state:

The tourism officials at the state level would be closer and the government at the state level and for that matter they can influence policies which can be directed specifically at saving the industry in times of crisis. (P15)

There was also general agreement among all the participants that crisis management at state level would allow a much faster response to a crisis. One observed:

I think the states are in a position to act faster because every state has a councillor representing the various sectors of the Ministry and so it's like a Minister of Tourism at the state level and they tend to be much, much closer to the practitioners than the Minister is. So I think perhaps they are in a position to make a much faster decision which doesn't encroach on federal issues. (P15)

However, he pointed out that state action is limited to issues that are not federal matters and these tend to be the most effective:

But it often tends to be that the decisions that can make a big difference tend to be the sort of decisions that has to involve central government. (P15)

There are already some institutional structures which could assist implementation of a crisis management initiative. A public sector representative from Johor, for example, described how there is a state Economic Planning Unit, headed by a senior civil servant as well as the State Economic Action Council which is a regional version of the NEAC. The latter, however, is largely nominal:

We have such a council in place but I must say it only exists on paper. At the acute stage [of the crisis], I was a member of that committee but we didn't meet frequently. We call it the State Economic Action Council. In other words anything that is urgent is brought to this council. It is chaired by our Chief Minister with the State Secretary, State Financial Officer, the Economic Planning Unit and the relevant departments. We have no private sector representative in the real sense that they are there permanently. We call upon them as the need arises to get their input. (P7)

Alternatively, there are MATTA regional chapters and one participant from MATTA suggested that there should be a council equivalent to these, each working closely with the state government and communicating with each other. Citing the

kidnapping of tourists in Sipadan Island off Sabah by Filipino terrorists as an example, he considered the advantages of such an arrangement:

The guy sitting in Kuala Lumpur, he would have no clue what's happening. The local guy should be able to feed, let's say, the national president, and the national president straight away has to tell the Minister. There should be a good networking in that respect. And this can be done by having it all over the country. (P9)

It became evident that there was some reaction at state level to crises in the past. In response to the differing requirements of each state after the financial crisis, the government targeted particular states for assistance where needed:

The government has, after the crisis, engaged in a lot of activities for the tourism in the island of Langkawi, especially when the downturn was there. There were a lot of problems for the private sector, the private owners, hoteliers, guides, restaurateurs, a lot of them had to close down. The state of Kedah, Langkawi Development Agency, Langkawi Tourist Organisation, Malaysian Association of Tours and Travel Agents all got together and put through the message to the government that their responsibilities had to be fulfilled. A different, very well established new Minister reacted to exchange a lot of domestic travel initiatives throughout the country, Malaysia Airlines with LADA initiated this whole thing, set up a very special package called the Langkawi Supersaver. (P12)

The private sector has also taken action in times of crisis, not only in the Peninsular states but also in the Borneo states of Sabah and Sarawak, such as the Golden Holidays initiative mentioned in Section 4.2.4. In Langkawi, when arrivals were falling because of the haze in 1997 it was decided to do a promotional road show in order to stimulate regional visitors which they had tended to overlook in favour of European markets.

We knew that much of the rich pasture was around us. So as a group with the tour operators, the hoteliers, the restaurateurs, with the

government departments, with the national tourism promotion board, we drove about 60 cars from Langkawi all the way to Bangkok, stopping in every city, we got the mayor there visibly to lead a promotion of Langkawi and so on. And we went city by city right up to Bangkok and then back. (P12)

However, a participant from Tourism Malaysia observed that this is unusual in the Peninsular states as they rely heavily on the government for any such actions. Contrasting them with the Borneo states which are more independent, he commented:

They've taken steps even, writing out releases, doing crisis management when there is bad publicity, they go out of their way to fax and email and all that. I see very little of those things done within the Peninsular. Here 'what have the government done?' is always the question. So the entire responsibility is on the government. It may not be fair to blame them altogether but it is still there. (P3)

This is not surprising considering that Sabah and Sarawak are a relatively long way from Kuala Lumpur and the states are also semi-autonomous.

This chapter has focused on the lessons learnt from the crisis and has examined first the participants' evaluation of the response of the government and private sector and then their views as to the potential for proactive crisis management and how this might be effected. In the next chapter the implications of all the findings outlined in Chapters 4 and 5 are discussed in the light of the objectives of this research, namely how successful the response to the crisis was and how a more proactive approach to crisis management could be developed for the future. The limitations and delimitations of this research are summarised and suggestions as to further research are made.

Chapter 6: In Conclusion

This chapter considers what has been learnt from a review of the crisis management literature and an examination of Malaysia's response to the Asian financial crisis. The purpose of the research is stated again, together with the two objectives and the research questions. This is followed by an examination of the reaction of the Malaysian government to the crisis and then a consideration of the potential for proactive crisis management in a Malaysian context. Next there is a conclusion as to whether crisis management is a realistic possibility at sectoral level. Finally the limitations and delimitations of the study are outlined and suggestions are made as to possible research for the future in this area.

The purpose of this research was to examine crisis management at sectoral level. As pointed out in Chapter 1.1, this is an area which has been largely neglected by crisis management researchers and considering the importance of tourism to many economies, particularly those of developing countries, it is an omission which merits further attention. The first objective of this research was to examine the Malaysian government's management of the impacts of the Asian financial crisis. The research questions to be answered here are firstly, what were the measures employed to manage the impacts and how effective were they perceived to be, and secondly, what were the lessons that were learnt from this experience. The second objective was to explore ways in which the government might prepare for possible crises in the future and to consider whether there is a potential role here for the private sector. Here the research questions asked how the government might be proactive to future crisis and to what extent could or should the private sector be involved in this crisis management.

6.1 MALAYSIA'S RESPONSE TO THE CRISIS

6.1.1 The effectiveness of the action taken

Figures for tourist arrivals and receipts would indicate that on balance the measures that were introduced as part of Malaysia's response to the crisis have been effective, although factors such as the disappearance of the haze, the strengthening economy

and the fact that Malaysians have increasingly more disposable income may have played some part in the recovery of the tourism sector. The promotion of domestic tourism made an important contribution as did the increased marketing overseas, to develop new markets and to expand existing ones with the necessary changes in immigration regulations. Compared to Indonesia, Malaysia was fortunate in that the impact of the crisis was largely financial and there was little in the way of social unrest and political instability. From the point of view of the recovery of the tourism sector, this meant that marketers did not have to overcome a perception of Malaysia as an unsafe and politically unstable destination.

The government's response to the crisis was viewed by those interviewed to have been positive. Only one person had any real criticism of what had been done and this was still relatively mild. This was rather disappointing to the researcher who had hoped to obtain a good spectrum of positive and negative feedback but not altogether unexpected both because the Malaysian government does not tolerate open criticism and because it is not culturally acceptable to oppose authority. Understandably, the people who have reached senior positions in the public sector administration or private sector organisations have not done so through ill-judged outspokenness.

The most radical step taken by the Malaysian government was the introduction of capital controls. Although flying in the face of the IMF and World Bank recommendations, the government implemented its own policies with considerable success. Whether this would have been possible in any other country is debatable. As discussed in Chapter 2, the Malaysian economy was in some respects quite strong and there was a high rate of domestic saving. The Prime Minister, Dr Mahathir, had the confidence and power to defy internationally accepted conventions and follow a quite different path to recovery, aided by the esteem in which he was held by the majority of Malaysians who were prepared to do as he said in the belief that he would solve the country's problems. It is clear from the renewed growth of the economy that the controls have been a success, although this success has been dulled a little by the subsequent slowdown in the world economy and the recession in the United States which had a serious impact on the electronics sector in particular. The

pegging of the ringgit was the only one of the capital controls to have any significant effect on tourism and it was welcomed by the sector. Other measures to boost the economy such as greater financial assistance for those starting up new businesses and the relaxation of import duty on certain items contributed indirectly to the recovery of the tourism. The relaxation of restrictions on access to the EPF provided people with around RM5,000 (US\$1,316) to spend on computers; had they been able to spend this amount of money on domestic tourism it would have been of enormous advantage to the sector.

Once the tourism sector had been identified as a major contributor to the economy, steps were taken to maximise its contribution. The replacement of key personnel in MOCAT and Tourism Malaysia meant that there could be a fresh appraisal of Malaysian tourism and the direction it should move in. The fact that several of the new appointees had some experience of tourism and had worked overseas was important insofar as it allowed them to evaluate Malaysia's image as a destination from a global perspective and then focus on improving the service offered especially to international visitors as well as upgrading products and facilities appropriately. The efforts to attract international tourists highlighted the importance of the intraregional markets in post-crisis recovery in the short term, while more time-consuming promotion in selected long haul markets is developed for the longer term. The promotion of domestic tourism was also considered to have been very successful by the majority of those interviewed although some did have reservations. Not only were hotels and tourist facilities kept open and their employees in work, but it also meant that Malaysians got to know their own country and people better. This has gone some way towards fulfilling the government's early hopes that tourism would foster a better understanding between the ethnic groups of Malaysians and reinforce national identity.

The issue of media relations is an obvious area requiring improvement. Neither Dr Mahathir's strong criticism of the currency speculators and international financial bodies nor his falling out with the international media whom he accused of biased reporting did Malaysia any favours. Although some of the media coverage of the

various crises at that time in Malaysia was of a very high quality, complaints from the interviews described all of it as exaggerated, sensational and giving a false and consequently confusing picture of the actual situation, all of which Milo and Yoder (1991) warn will happen if the media is not treated with care. The situation was further aggravated by the detention of Mr Anwar on charges of sodomy and corruption which added prurience to the coverage. The Mega Fam campaign offering promotional visits to representatives of the media and travel trade went some way towards correcting the distortion but it would have been better not to have had to spend money on something that could have been avoided in the first place. The domestic media present less of a problem as they are currently controlled by the government, although this might change under Dr Mahathir's successor. The internet poses a greater threat and here there appears to be little that any government can do to counter sustained opposition or negative coverage from activists using the latest electronic techniques.

6.1.2 The lessons learnt from the crisis

There are number of lessons which have been learnt from the crisis. Malaysia is perceived to have matured in a number of ways as a result of the experience. The Malaysians have become more cautious in both business and personal investment and spending terms. The importance of the speed of the response is now appreciated as it was generally accepted that the reaction to the financial crisis was much too slow. This would of course be faster and more effective should there be another crisis because the response would be formulated in the light of past experience. But the necessity of looking ahead and being better prepared against future events has been reinforced and there is now a recognition that it would be of great value to have a prepared plan of action already in place.

It was not felt that the corporate and financial restructuring which has been effected since the crisis had gone far enough even though there was some dispute over this. Measures to improve transparency and to reduce corruption and cronyism were also felt to have been inadequate. However, these matters are time consuming and politically sensitive and cannot be achieved in a short period. How effective these

measures have been will be seen in time. In terms of tourism the most important outcome of the crisis was considered to have been that the sector has been recognised as having a great deal to contribute to the national economy which it is hoped will help to generate investment in tourism infrastructure and the development of products and facilities. At the same time it has been realised that improvements need to be made in order that Malaysia can compete in a global marketplace and one area that needs to be addressed here is the collection and dissemination of data, especially as a component of a proactive crisis management plan.

6.2 PROVISION FOR THE FUTURE

As discussed in Chapter 1, reactive crisis management is relatively straightforward compared to proactive crisis management. The detection of an approaching crisis and the introduction of measures to minimise the severity of its impact or to deflect it altogether, is a much greater challenge but potentially of considerable value. However, before any other steps are taken, the issue of indicators must be addressed.

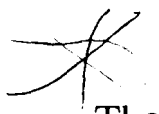
6.2.1 Indicators

As emerged from the classification of crises in Chapter 1.2.3, continuous crises with a relatively long pre-crisis period are the only ones which offer a realistic opportunity for proactive crisis management, as with careful and consistent monitoring there may be enough time to detect changes in the indicators which warn of approaching trouble. As seen in Malaysia in 1997/8, a number of crises may strike at once; many occur with next to no warning but there may be time to detect the signals if they have already been identified as such. As discussed in Chapter 1.3.2, traditional indicators such as tourist arrivals and length of stay may not always be appropriate for use in the context of crisis management but instead it may be necessary to use completely different data such as that suggested by the WTO (1999a), or more likely a combination of both.

A crisis may arise within the tourism sector or it may occur outside it but still have a significant impact on tourism. The fact that the sector is so disparate and constantly

changing in response to demand makes crisis management in this context very difficult. Because it is made up of many different entities with links to a variety of other sectors of the economy, tourism may be affected by a crisis occurring in any one of these sectors, as was seen in the British foot and mouth outbreak in 2001, when a crisis in the agricultural sector sparked one in the tourism sector. One of the difficulties of identifying indicators which may warn of the approach of a crisis in tourism is that it is impossible to monitor indicators of every possible crisis in all the sectors of the economy of both the generating markets and the destination. If the crisis is market driven, the appropriate indicators to monitor will be economic; if environmental, changes in the levels of air or water impurities might act as indicators. The monitoring of tourism indicators will only be of use in warning of a crisis arising within the tourism sector and even then there needs to be a long pre-crisis period to allow time for evasive action to be taken.

As was seen in Chapter 5, the value of crisis management for the tourism sector was not disputed by those interviewed but neither was the difficulty of identifying indicators. The collection of tourism statistics by the government was seen as inefficient as they were inaccurate and often late. Investor confidence was rejected as a potential indicator as it was observed that by the time changes in investment levels are detected the crisis has arrived. The few suggestions made as to possible indicators that might give sufficient warning of an approaching crisis were not very practical. A monitoring system for travel trade gossip seems like a good idea but is unrealistic; once gossip is formalised it ceases to be gossip and loses its value. Along the lines suggested by the WTO (1999a), the sharing of information by tour operators appears to have the most potential but is dependent on the private sector releasing confidential information regarding business operations which is a sensitive issue. Possibly the most practical suggestion is the monitoring of general regional issues and trends and the sharing of this information between all the stakeholders in tourism.

 The Malaysian government currently monitors economic indicators both at home and abroad and as emerged from the interviews, MOCAT monitors tourism statistics in

some detail as well as events in the major markets but only to the extent that they may affect tourist arrivals. As regards the Asian financial crisis, there were only really three concrete indications that the crisis was looming: oversupply of business and residential accommodation; the ease with which loans could be obtained at extremely generous terms; and a very volatile stock market. But as one of the participants pointed out, these were financial signals and had nothing ostensibly to do with tourism, which may account for the fact that the tourism sector was taken completely by surprise by the crisis.

6.2.2 The potential for public/private sector cooperation

It is clear from the interviews that both the private sector and public sector feel that some sort of crisis management provision would be a good idea but whether there is enough commitment to develop and fund a plan which may never be needed is open to question. As tourism players are often small or medium enterprises, it would be difficult to orchestrate a significant and cohesive response. In addition, because the tourism sector is so diverse and there is so great a range of products and facilities, in order to be tailored so as to be of benefit to all stakeholders, any sectoral crisis management provision might have to be so general as to be of little value. However, at the very least there are good relations between the public and private sectors which is a good foundation on which to build.

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As regards a crisis management team, there already exists the tourism subcommittee of NEAC and possibly the MOCAT crisis committee which no-one appears to know about. A formal team might be formed from a combination of some or all of these two as both appear to have representation from a wide range of stakeholders in tourism, an essential feature stressed in the literature. In Henderson's (1999a) study, she concludes that there is a need for some pre-planned strategy to assist in the management of crises but does not make any suggestions as to the format of such provision. As over the issue of indicators, there were few suggestions as to what a crisis management plan might consist of. Again, had the participants been able to give more time to this question they might have been more forthcoming. It is safe to say that because members of the private sector would benefit from any crisis

management provision even if they chose not to contribute to or cooperate in its development, some government regulation would be necessary in order to constrain participation by those relevant.

It was suggested that private sector cooperation over the development of a crisis management strategy is only likely where it is clear that there will be something to be gained and whether they would be prepared to submit the real figures relating to their business is very uncertain. Those interviewed felt strongly that they would not like to disclose this type of information either to the government or to their competitors. There appears to be most potential in the establishment of an independent third party who would act as a confidential go-between, interpreting the statistics submitted to the private sector in the context of those collected by the public sector and making recommendations based on these figures as to the most appropriate action to be taken. The question then arises as to how such an organisation would be funded. While a government may accept that it should initiate such a scheme, neither the public nor the private sector appear to feel that responsibility for its funding lies with them, especially when the tourism sector is relatively healthy resulting in a false sense of security.

6.2.3 The level of implementation

There can be no doubt that, especially in the case of the tourism sector where the different subsectors are so closely interrelated, a single sectoral policy would facilitate the monitoring of tourism demand and world events, as well as the response should a crisis occur. However, as was seen in Malaysia, the impact of a crisis on tourism may not be consistent throughout the country affected. This was seen in the Asian financial crisis, when the southern state of Johor as a cheap destination for Singaporeans suffered less from the crisis than did Kuala Lumpur and the Klang valley which is much more dependent on business tourism, while the northern island of Langkawi that caters for the international market experienced an increase in international visitors. This would suggest that a federal crisis management plan may not be the best option but instead a state approach might be more appropriate and there was considerable support for this voiced during the interviews. It could not

only be more prompt but also better tailored to suit the immediate requirements locally. There would appear to be three main considerations here: the speed of the response; the appropriacy of the measures in terms of the local needs; and communication and coordination both between the different states as well as with the central government, identified in the literature as problem areas.

Whilst crisis management at state level initially appears to be a real option, it is hard to envisage how this could be implemented. As observed by one participant, there is some infrastructure in the country which might be used to implement policy. Structures which would facilitate implementation at this level already exist in the form of State Economic Development Councils or State Economic Action Councils which may not be currently used to their full potential. There could be some integration or association of such bodies with the regional chapters of organisations such as MATTA and MAH. However, it must be stressed that additional funding would be required for any such initiative as was pointed out in Chapter 4.2.5. The most successful strategies for Malaysia after the financial crisis included the international marketing promotions and the measures taken both to boost domestic tourism and to facilitate travel from new markets, which required substantial funding, and government action in terms of the collection of statistics or legislation; none could have been effected by any one state. However, the proximity of the state public sector to the private sector tourism players does suggest that some involvement at a state level would be advantageous. It might be that the direction of the crisis management should be at a national level but its interpretation and feedback should be regional so as to be tailored to suit local requirements. ~

6.2.4 Regional considerations

Because of crisis contagion, no single country in a particular region can be isolated from its neighbours, a fact that was clearly illustrated by the fall in tourism to Southeast Asia following the Bali bombing in October 2002. Growth triangles, even though offering a means of cooperation between adjoining countries, also mean that trouble in one country may spread even more quickly to another, especially if border regulations have been relaxed as has been seen in the European Union where there

are now problems with evasion of customs and excise payments and the movement of undesirable characters is very difficult to control. McKercher and Young (1999) advocate collaboration between governments as a component of proactive crisis management and it is perhaps here that ASEAN could take a lead in developing some kind of crisis management provision. Already, as recommended by Ioannides and Apostolopoulos (1999), there have been concerted efforts made to market the region as a single destination with a strong image. To this end a new website and logo have been designed and a private sector initiative combining hotel accommodation with flights within ASEAN has been made available to international visitors. The danger here is that if one of the partner countries suffers a crisis, the impact will affect all the others, as has been seen in South Africa, Namibia and Botswana since the troubles began in Zimbabwe (Thondlana 2000).

The summit of ASEAN leaders in Bangkok in April 2003 to be briefed by representatives from China and Hong Kong as to preventative action against the SARS virus demonstrates that it is possible to orchestrate a regional response to the threat of a particular crisis (*The Guardian*, 29 April 2003). Obviously there is a need for a more general crisis management programme to be developed in anticipation of future crises well before they appear. In ASEAN there are already committees established that deal with issues such as marketing and communication in general or the haze in particular which would facilitate the establishment of a generic team and a plan. However, it is not certain whether there would be cooperation at such a high level when there was no disaster imminent. In the case of SARS the potential damage to national tourism sectors was frighteningly obvious.

6.3 REDEFINING CRISES

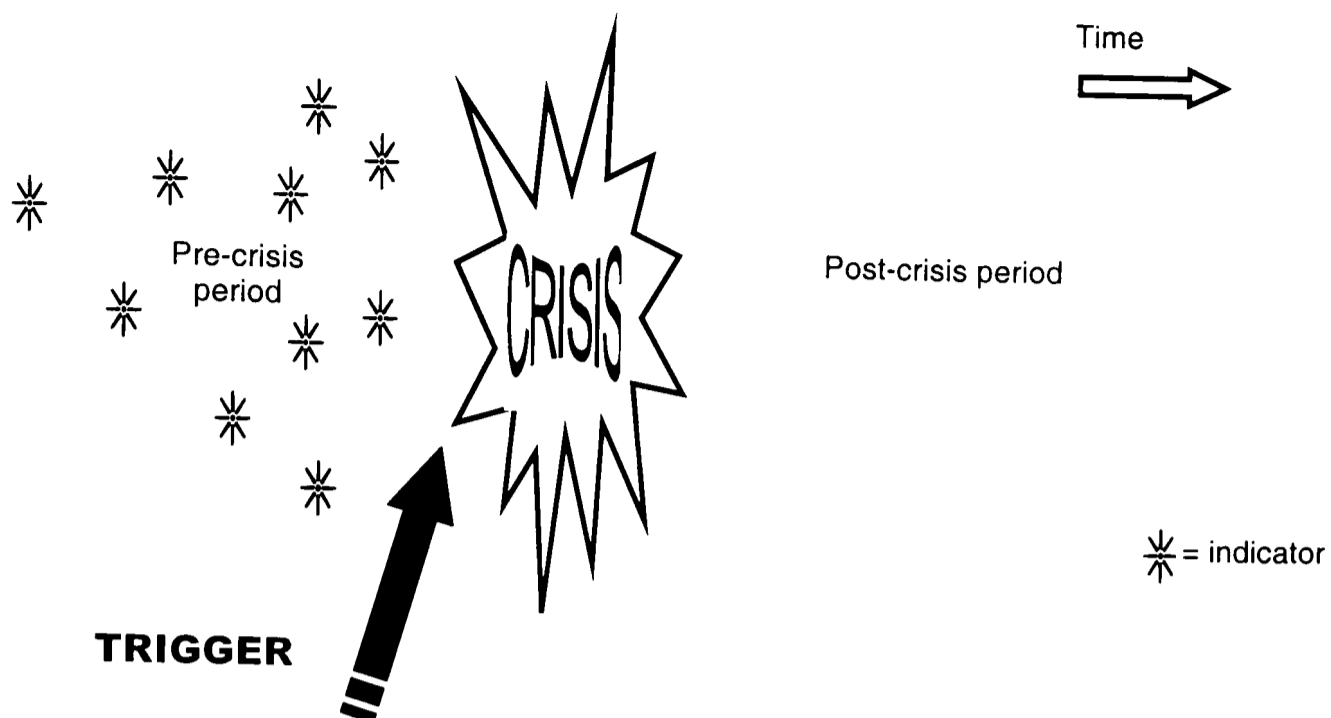
The difficulty of identifying indicators and, in the context of tourism, the cost of monitoring indicators in many sectors of the economy of all the key markets of a destination is daunting. To resolve this it may be necessary to reconsider the crisis itself. The impact of the crisis depends not only on the size and importance of the crisis itself but also on the conditions in which it occurs. It might be suggested that

those who have been classifying crises according to their being man-made or natural, discrete or continuous, are perhaps missing an important point. From the point of view of crisis management, surely it is not the typology of the crisis itself that is important but the context in which the crisis occurs. At whatever level in question, if the sector is robust, if the organisation is running well, if systems are in place and working properly, if manpower is optimum, then a crisis is unlikely to occur or if it does, its impact and repercussions will be minimised. In contrast, if the situation is already bad, if the sector is unhealthy, if the organisation is poorly managed, if systems are out of date or badly maintained, if employees are dissatisfied, lazy, inadequately trained or supervised, then the chances that a crisis will occur are increased and should this happen, its effect may be devastating.

Pauchant and Mitroff (1992) suggest that it is inappropriate to talk of an event causing a crisis, but instead, it may trigger the crisis. A trigger is whatever sets off the crisis - it is the match that lights the fuse that sets off the explosion. The trigger may be an event or happening within a given sector (or organisation) or it may come from outside it. So in the case of the 2001 foot and mouth outbreak in the UK, the contamination of the animal feed by imported infected meat was the trigger which started the foot and mouth crisis in the agricultural sector and this in turn was the trigger which led to the crisis in the UK tourism sector the same year. Similarly, in the terrorist attacks on the US in September 2001 the hijacking and crashing of the aircraft by Al Qaeda members were the triggers of the crisis in the US airline sector. Although usually classified as a natural crisis, a serious forest fire is not in itself a crisis but a trigger of either an environmental crisis or a crisis for tourism in that particular area.

Thus the representation of the stages of a crisis shown in Figure 1.1 can be modified to incorporate the trigger, as illustrated in Figure 6.1.

Figure 6.1: The stages of a crisis taking into account the trigger



To date, very little attention has been paid to the triggers of crises which may be a mistake. If the sector is unstable, an event outside may trigger a crisis, so it follows that it is important to maintain the sector in as healthy a state as possible. It may also be suggested that there are indicators of both the crisis and the vulnerability of the sector in which it occurs. Thus before the crisis of 11 September 2001 there were signs of an increasingly volatile situation, such as worsening relations between the USA and some Middle Eastern countries, increased numbers of disaffected young Muslims, and other terrorist incidents. There were also indications that all was not well in the US airline industry and that it was overstaffed with too many routes and too much capacity and consequently it was in a vulnerable state.

It therefore makes sense to reclassify crises according to their trigger. If the trigger comes from within the sector, the crisis might be termed an endocrisis and it will probably be a continuous crisis building up slowly. It should therefore be possible to identify and monitor appropriate indicators so as to highlight any changes in the state of the sector and warn of a crisis looming. An example of an endocrisis in the tourism sector might be one brought about by the change in consumer demand for a particular destination, or the result of the collapse of an airline. In contrast, if the

crisis is triggered by an event outside the sector, it might be called an exocrisis. It will be unexpected with little or no warning and therefore classed as discrete. Indicators in this case will only warn of instability within the sector, so all that can be done by way of proactive crisis management is to maintain the sector in as robust a state as possible. An example of an exocrisis in the tourism sector would be the crisis in UK tourism brought about by the 2001 foot and mouth outbreak. It follows therefore that a single event can bring about an endocrisis and an exocrisis; the flotation of the Thai baht and its subsequent collapse in July 1997 triggered an endocrisis in Thailand's financial sector and an exocrisis in the tourism sector.

The potential for proactive crisis management depends on whether the crisis builds up relatively slowly giving time for intervention or whether it is entirely unexpected. If therefore an endocrisis is equivalent to a continuous crisis and an exocrisis equivalent to a discrete crisis, indicators will only be of use in the former, as a tool for measuring the vulnerability of a sector to crisis. The change in a particular indicator may herald the approach of a crisis because it highlights the increased level of vulnerability of the sector and therefore the increased risk of a crisis occurring. The monitoring of indicators such as tourist departures from major markets and consumer attitudes within them, as well as tourist arrivals and satisfaction levels in the destination, together with data supplied by the travel trade, such as booking figures, can warn of an impending endocrisis and it may also serve to alert key tourism sector players to the fact that the sector may be facing problems and would not be able to withstand a serious threat arising outside the sector.

As the range of potential indicators for any number of possible crises which might arise in an economy is so large, any attempt to monitor them all is an inefficient use of time and resources. In practice this means that where resources may be constrained, the monitoring of indicators other than tourism indicators by the tourism sector is not an option. Available funding should be spent on monitoring the tourism statistics, reducing public spending and getting rid of bad practices, such as corruption and cronyism. As observed by Aziz (1998), countries with the lowest corruption indices were least affected by the Asian financial crisis and recovered

fastest. As discussed above, a crisis in one sector may act as a trigger of a crisis in another, so it is important for one sector to receive information as to the state of another. This would suggest, therefore, that if monitoring of indicators in every sector of the economy was efficiently and comprehensively carried out, the information could be shared to the benefit of all. The regular collection of detailed and up to date statistics is therefore a requirement, as is effective communication between government departments and a certain amount of transparency as to the status quo.

6.4 CRISIS MANAGEMENT AT SECTORAL LEVEL

As discussed in Chapter 1.1, the majority of the research into crisis management has been at an organisational level, mostly in a pharmaceutical or industrial context, and the extent to which this knowledge can be applied at a national or sector level is questioned. Tourism differs from most other industries in that it is not easily delimited and many of the components of the tourism sector, such as transportation, may also play an important part in other contexts. Aspects of crisis management were examined in Chapter 1 and issues to have emerged from the literature were discussed. Wherever possible these were viewed in the light of recent crises or national policy so as to give them a contemporary and macro level context rather than a theoretical and micro level one. It would seem that many aspects of crisis management which were formulated at organisational level appear still to be valid at sectoral level, particularly if the tourism sector is viewed as an organisation, with the government equivalent to the management and state tourism sectors as regional branches.

In addition, as discussed in Chapter 1.2.3, crises differ enormously from one another and again it can be questioned whether the management of each crisis needs to be a different or whether the strategies employed to deal with one crisis may equally well be used for any other. From the analysis of the crisis management literature, it may be suggested that for reactive crisis management the strategies of media handling, information distribution and the restoration of public confidence can be generally

applied after any crisis although they will be affected by the severity of the crisis, the extent of the damage caused and, in the case of tourism, the existing level of tourism development. However, as one interview participant pointed out, it should be noted that although the measures taken were appropriate in the case of the Asian financial crisis, they would not be effective in response to a crisis threatening another sector. In contrast, proactive crisis management is only an option in the case of crises with a long pre-crisis period which offer a chance to monitor indicators and, should a crisis appear to be looming, to take evasive action before the crisis becomes a reality.

As no two countries are exactly the same, it is reasonable to question whether the lessons learnt from the response of one country to a given crisis can be of any value to the government of another. It would appear that while the principles of crisis management are transferable from one country to another, the similarity of response of countries will be limited by issues such as firstly, the suitability of institutional structures by means of which any crisis management provision may be implemented and secondly, the availability of funding. This latter may be of considerable importance in the case of developing countries where there may be competing demands for any funds and it is these countries which ironically have the greatest need for crisis management as their tourism sectors may be of considerable importance, albeit very fragile.

It can be concluded from this study that crisis management at sectoral level is certainly desirable but whether or not it is achievable is still open to debate. There is little doubt that because the return on investment in tourism is faster than in other sectors, the tourism sector should be accorded special consideration in terms of crisis management and as Sharpley and Craven (2001) illustrate in their analysis of the response to the British foot and mouth outbreak, the tourism sector may be of much greater real value to an economy than the perceived value of other sectors. It is surely therefore important that resources are focused on managing the successful recovery of a specific sector rather than being less effective through being spread thinly throughout the economy as a whole. But whilst crisis management at sectoral level may be feasible in the more homogenous and discrete sectors of an economy, a

factor to emerge from this research is the difficulty of formulating crisis management provision for the tourism sector because it is so fragmented and so diverse.

As regards the manner in which a crisis may be managed so as to be of greatest benefit to the tourism sector, the experience of Malaysia has shown reactive strategies to be effective. Initially the stabilisation of the economy was the primary objective of the government and once this had been achieved, international and domestic marketing of tourism together with the easing of financial constraints on the private sector and facilitation of international tourism movement were all major contributors to the recovery of the tourism sector. However, it is more difficult to draw conclusions about the potential for pre-crisis management in general and public/private sector cooperation in particular; competition in the industry is intense and there is considerable reluctance in the private sector to spend hard-earned profits on making provision for a hypothetical crisis that may never materialise. In addition, the format of a crisis management plan and the most appropriate indicators to be monitored all remain unresolved and more research is needed in this area. Because tourism is so vulnerable to such an enormous number of possible crises in so many different scenarios, the identification of an approaching crisis by monitoring appropriate indicators in sufficient time to take remedial action becomes so complex as to be unrealistic. It may be the case that less ambitious and regular monitoring of tourism trends will keep the industry healthy, diversified and well regulated and consequently more resilient in periods of adversity.

6.5 CRITIQUE OF THE RESEARCH

6.5.1 Assumptions

It was assumed that the damage done to various sectors of the economy were all the result of the Asian financial crisis.

6.5.2 Delimitations

The research was delimited in two ways. Firstly, the focus of the interviews was limited to Malaysia itself. Apart from a brief consideration of the role of ASEAN as

an organisation, no account was taken of the influence of events in the other Southeast Asian countries, particularly those with common borders with Malaysia. Secondly, only the impact of the Asian financial crisis was considered. Data and literature primarily concerning the other concurrent crises in Malaysia were not included.

6.5.3 Limitations

Owing to the absence of appropriate data, this research neither considers the environmental or political dimensions of the Malaysian experience, nor is there a distinction made between the impacts of the several crises that occurred in Malaysia in 1997. Because the economic dimension overshadowed these other considerations, the changes in tourist arrivals have been attributed to the impact of the financial crisis, which in turn has been considered the focus of the crisis management measures introduced. In fact, it has been suggested that media coverage of the haze may have affected tourist arrivals from outside the East Asia Pacific region to a much greater extent than the financial crisis; further research in this area would be of considerable interest.

The second limitation concerns the amount of time that the interview participants were given to think about the issue of indicators and the format of a crisis management plan and committee. These are difficult issues to address in the stress of an interview situation and with hindsight it is felt that had the participants been supplied with the questions in advance and so had more time for reflection they might have come up with more and better ideas. At the time the researcher decided against sending the questionnaires before the interview because she felt that she would obtain more spontaneous and possibly more honest answers to all the questions if the participants had not seen them first and in addition she would be able to deal on the spot with any language difficulties or misunderstandings which might arise.

A third limitation relates to the difficulty of verifying the evidence provided by only one of the participants regarding the crisis management committee he described as

existing to deal with crises that might affect tourism. No mention of this committee had been made prior to the interview, not even by those who would have very likely been on it or closely connected with it. As this interview was held very shortly before the researcher left Malaysia, there was no opportunity to return to earlier participants for clarification. Once back in the UK the tragedy of 11 September 2001 occurred and the terrorist threat became a much more pressing issue for policy makers; the researcher was thus unable to reach those who might have been able to help shed light on the situation.

6.5.4 Suggestions for further work

Although there remain a number of unresolved issues, this research offers a foundation on which to base further study. Possible areas for further research might include crisis management in the context of different cultures, considering whether the practice is more appropriate to some cultures than others; the link between entrepreneurship and crises especially in the context of tourism development, raised by Faulkner and Russell (2001); as suggested above, an analysis of the extent of the impact on tourist arrivals of the various crises in Malaysia in 1997; and a more in-depth examination of the effect of the crisis on the different states, the response to the crisis at state level and the exploration of the potential here for crisis management.

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APPENDICES

Appendix 2.1: The members of the National Economic Action Council

1.	Prime Minister & Minister of Finance
2.	Deputy Prime Minister & Minister of Home Affairs
3.	Executive Director NEAC
4.	Minister of Transport
5.	Minister of Works
6.	Minister of Primary Industry
7.	Minister of International Trade and Industry
8.	Minister of Education
9.	Minister of Agriculture
10.	Minister of Entrepreneur Development
11.	Minister of Domestic Trade and Consumer Affairs
12.	Minister of Land and Co-operative Development
13.	Chief Secretary to the Government
14.	Chief Secretary to the Treasury
15.	Governor, Bank Negara Malaysia
16.	President, National Chamber of Commerce and Industries Malaysia
17.	Managing Director, Flour Mills
18.	Representative of the Association of Small and Medium Scale Industries
19.	Chairman, Association of Banks in Malaysia
20.	President, Federation of Malaysian Manufacturers
21.	Chairman, Association of Finance Companies Malaysia
22.	Chairman, Association of Brokerage Firms in Malaysia
23.	President, Malaysia Trade Union Congress
24.	President, Federation of Consumers Association Malaysia
25.	President, Congress of Union of Employees in the Public Administration & Civil Service
26.	Chairman and Chief Executive, Institute of Strategic and International Studies
27.	Director-General, Economic Planning Unit
28.	Adviser to the Prime Minister

Source: NEAC website (<http://www.neac.gov.my>)

Appendix 3.1: List of participants and interview coding

POSITION AND ORGANISATION	INTERVIEW CODING
Deputy Secretary General (Tourism) Ministry of Culture, Arts and Tourism	P1
Director General Tourism Malaysia	P2
Director, International Marketing I Tourism Malaysia	P3
Principal Assistant Director, National Economic Action Council Secretariat Economic Planning Unit, Prime Minister's Department	P4
Director, Planning & Research Division Malaysian Industrial Development Authority	P5
General Manager Langkawi Development Authority (Ministry of Finance)	P6
Chairman, Tourism & Environment Committee Johor State Executive Council	P7
President Malaysian Association of Tour & Travel Agents	P8
Chairman Malaysian Association of Tour & Travel Agents - Johor Chapter	P9
Executive Director Sunway City Berhad	P10
Executive Director Malaysian Association of Hotel Owners	P11
Chairman Malaysian Association of Tour & Travel Agents - Langkawi Chapter	P12
Treasurer, Malaysian Tourist Guides Committee Secretary, Langkawi Tourist Guides Association	P13
Senior Analyst, Bureau of International Economic Studies Institute of Strategic and International Studies	P14
Lecturer, School of Business & Information Technology Monash University Sunway Campus Malaysia	P15
Chief Technical Advisor Perlis State Park Project	P16

Appendix 3.2 - The two questionnaire prototypes

A. QUESTIONNAIRE FOR A MALAYSIAN GOVERNMENT REPRESENTATIVE

Background Information

1. What is your position in the organisation?
2. How long have you been in the position?
3. What are your main responsibilities?

General

4. A lot has been written about the crisis but what in your opinion were the key events which triggered it and what do you consider have been the most important steps taken to overcome it?
5. Do you consider that the crisis is now past and the economy is on an upswing?
6. Does the Malaysian government have a general crisis management policy and/or one for tourism? If so, can you tell me something about it?
7. How has the crisis affected tourism differently to other sectors of the economy?
8. Were certain sectors within the tourism industry more vulnerable to the impacts of the crisis than others?

Crisis Management Strategies

9. Has the government introduced any strategies in addition to x, y and z in order to contain the crisis and protect the tourism industry?
10. Were there any other strategies that could have been introduced but were not? If yes, why were they not introduced?
11. Has the effectiveness of all the strategies been monitored and if so, how?
12. Will any of the temporary policies that were adopted be retained?
13. What financial assistance, if any, did the government offer to the private sector during the crisis?
14. If you had seen the crisis approaching, what would you have done differently or earlier?

Indicators

15. Does the Malaysian government currently use any indicators to warn of impending crisis in Malaysia or in Southeast Asia, and if so which?
16. Does MOCAT monitor any indicators of possible crisis in the major generating countries, such as Germany? If yes, what is done with the information?
17. Do you think the private sector would co-operate in supplying statistics that could be used as indicators?

Private Sector Involvement

18. Do you think that the private sector recognises a need for and wishes to be involved in sectoral crisis management?
- 19. How, if at all, do you consider that the private sector could be involved in crisis management in future?**

Exchange Rate Controls

20. For how much longer will the ringgit be pegged to the US dollar?
- 21. To what extent have exchange controls had an effect on the tourism sector?**
- 22. How do you think the situation would have developed had exchange rate controls not been introduced?**

Domestic Tourism

23. Have any strategies other than x, y and z been used to encourage domestic tourism?
- 24. How has the success or failure of the strategies been monitored and by whom?**
- 25. To what extent have exchange controls increased domestic tourism?**
26. What do you think would have resulted had domestic tourism not been so actively encouraged by the government?

The Issue of Confidence

27. To what extent has confidence in the tourism industry been affected by this crisis?
- 28. Are there any statistics which can be used to measure confidence, such as foreign (or national) investment or unemployment in the sector?**
- 29. What do you consider to be the government's role in restoring confidence in the tourism industry? How can this be effected?**
- 30. Do you see the private sector as having a role in rebuilding this confidence? How can this be effected?**
31. Do you see a possibility of other ASEAN (or elsewhere) countries being involved in measures to build confidence?
32. What has been the role of ASEAN's Sub Committee on Tourism during this period?

Marketing and Promotion

- 33. Do you feel that the situation in Malaysia during the crisis has been communicated fully and clearly to potential visitors from overseas and to domestic tourists?**
- 34. Have people working within the tourism sector in Malaysia been kept fully informed of the developing situation?**
35. Have you any comment to make about how the press represented the situation?
36. Are there any ways that the press and/or internet could be better used in a future crisis?
- 37. What marketing strategies have been used to revive the tourism sector image and how effective have they been?**

38. **Have any regional marketing activities been initiated since the crisis and to what extent has the Malaysian tourism industry benefited from them?**
39. **To what extent has ASEAN played a part in any marketing initiatives?**

The Future

40. **What would you say are the most valuable lessons arising from the crisis that the government has learnt since 1997?**
41. **What measures have you taken to be proactive to indicators of a future crisis?**
42. **To what extent do the measures require joint action between the private and public sectors?**
43. **What good has come out of the crisis for the Malaysian tourism industry?**
44. **Given the nature of tourism, does it require special consideration by the government in the event of a crisis?**
45. **Have lessons been learnt from other sectors that can be applied to crisis management in a tourism context?**

B. QUESTIONNAIRE FOR A PRIVATE SECTOR REPRESENTATIVE

Background Information

1. **Can you tell me a little about your business/organisation?**
2. **What is your position in the organisation?**
3. **How long have you been in the position?**
4. **What are your main responsibilities?**

General

5. **What in your opinion were the key events which triggered it and what do you consider have been the most important steps taken?**
6. **Do you consider that the crisis has now passed and the economy is on an upswing?**
7. **How has your business/organisation been affected by the crisis?**
8. **Were you taken completely by surprise by the crisis or did you detect any signs of its approach and if so what were they?**
9. **Does your business/organisation have a crisis management policy? If so, can you tell me something about it?**
10. **Would you say that the crisis has affected your sector of tourism differently to others and if so how and why?**

Crisis Management Strategies

11. Did your business/organisation use any strategies to cope with the crisis and if so what were they?
12. Did you measure their effectiveness? If so how, and would you use them again?
13. In the event of a future crisis, are there any other strategies that you might consider using?
14. Did the strategies have a cost and if so, was it worth it?
15. Had you seen the crisis coming, what would you have done differently or earlier?
16. Did the government offer any assistance, financial or otherwise, to your business/organisation during the crisis?

Private & Public Sector Involvement

17. What do you feel has been the government's role since 1997 in terms of crisis management both generally and specifically in a tourism context?
18. In your opinion and for your sector of tourism, which of the government's strategies have been effective and which not?
19. Do you think that there is a need for crisis management for the tourism sector?
20. How, if at all, do you consider that the private sector could be involved in sectoral crisis management in future?

Indicators

21. What statistics do you or could you use in your business/organisation as indicators of an impending crisis?
22. With hindsight, do you think that there might have been some statistics that would have warned you that the situation was changing for the worse?
23. Would your business/organisation co-operate in supplying statistics to a crisis management group as indicators that could be monitored? If not, why not?

Government Strategies: Exchange Rate and Capital Controls + Domestic Tourism

24. How do you think your business/organisation would have fared had exchange rate controls not been introduced?
25. Would you recommend the pegging of the ringgit in the event of another crisis?
26. To what extent have capital controls affected your business/organisation?
27. Has the government's active encouragement of domestic tourism made a difference to your business and if so, have you any statistics to support this?

The Issue of Confidence

28. In your opinion, has confidence in the tourism sector been affected by the crisis and if so, to what extent?

29. **Can you suggest how confidence in the tourism sector might be measured, for example, statistics such as investment or unemployment figures?**
30. What do you see as the government's role in restoring confidence in the tourism sector?
31. Do you consider that the private sector might have a role in rebuilding this confidence?

Marketing and Promotion

32. **Do you feel that the situation in Malaysia since 1997 has been communicated fully and clearly to potential visitors from overseas and to the domestic market?**
33. Did your business/organisation receive full and accurate information about the progress of the crisis?
34. Have you any comment to make about how the media represented the situation?
35. Was there good communication within your sector of tourism, for example via a sectoral magazine or website?
36. **Are there any ways that the media or the internet could be better used in the event of a future crisis?**
37. Have you used any particular marketing strategies to revive the image of your business/organisation and how effective have they been?
38. **Have any regional marketing activities been initiated since the crisis and to what extent has your business/organisation benefited from them?**

The Future

39. **What would you say are the most valuable lessons arising from the crisis that your business/organisation has learnt since 1997?**
40. **How would you do things differently in the future if another crisis occurred?**
41. What measures has your business/organisation taken to be proactive to a future crisis?
42. **Would you like to see joint action between the private and public sectors and if so, what?**
43. **What good has come out of the crisis for your business/organisation?**
44. **Given the nature of tourism, do you think it requires special consideration by the government in the event of a crisis?**
45. **Do you think there should be a sectoral crisis management plan for tourism and if so what form do you think it should take?**
46. Are there any strategies introduced as crisis management measures that you'd like to see the government adopt as permanent policy?