

Ecotourism in Malaysia

**Project for PP5279: Clusters and National Competitiveness
Lee Kuan Yew School of Public Policy**

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1. Introduction

Malaysia has the potential to become a top of the list destination for ecotourism. It is one of the world's 12 mega diversity areas, blessed with a variety of ecosystems such as mangroves, swamps, mountains, coral reefs, limestone and caves. However, the ecotourism industry in Malaysia is far from fully developed and faces competition of land use for industrial agriculture, mining and industry. This report will explore the current status of the ecotourism industry in Malaysia and analyze the factors affecting the development of the cluster. We will finalize by providing concrete policy recommendations for further developing the ecotourism cluster in Malaysia.

2. Country Analysis

Malaysia has a total landmass of 329,847 square kilometres, a population of 25 million and is divided into two regions, known as West Malaysia and East Malaysia. West Malaysia, also known as Peninsular Malaysia, consists of the southern portion of the Malay Peninsula and nearby islands. Malaysia is a federation of 13 states and 3 federal territories and has some of the most important environments on the earth. Major industries are rubber and oil palm processing and manufacturing, light manufacturing, electronics, tin mining and smelting, logging, timber, petroleum production and refining. Figure 2.1 describes Malaysia's main clusters in 2005.

2.1. Recent history of Malaysia

The appointment of Mahathir Mohamad as Malaysia's fourth prime minister in 1981 marked the start of a new era in the nation's politics. His tough leadership style lasted for two decades until his retirement in 2003 and marked a break with the past. One of his main priorities was to shake the Malay mindset out of its colonial mould

and put Malaysia on the world map. To achieve these objectives he encouraged Malaysians to make a mark in the world; his government launched ambitious mega-projects such as the 7 km long bridge linking Penang Island to the mainland and the Petronas twin towers. Malaysia moved from government control towards liberalization and free-trade. Government institutions were privatized including telecommunications, postal services, railway, power and water. Foreign capital poured, business was good and the property market grew.

Mahatmir Mohamad carried on the New Economic Policy that was instituted in 1969. Under this policy bumi putra (literally sons of the soil: Malays and other indigenous peoples) are accorded positive discriminatory treatment in the economy. This means that businesses require a certain amount of bumi-putra ownership and that land-ownership is restricted to bumi-putra (Insight Guides, 2006).

2.2. Recent economic performance

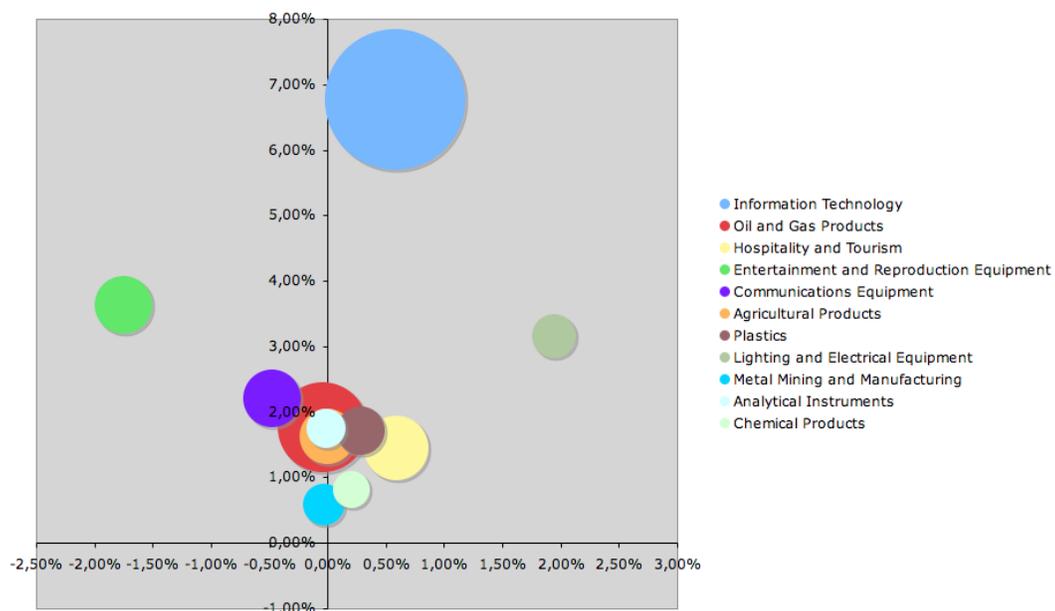
Within the last two decades Malaysia has transformed itself from a primary commodity producer to an industrialized nation; however long-term growth will depend on its ability to move up the value-added chain to preserve its competitiveness against fast-growing markets such as China, India and Vietnam. Additionally, further deregulation and an increase in openness of the labour market will be required to continue to attract foreign investment, promote innovation and encourage entrepreneurship (Insight Guides, 2006).

2.2.1. Asian financial crisis: Before the 1997 Asian crisis Malaysia was a popular investment destination and growth rate was expected to continue and catapult Malaysia to development status by 2020. However on July 1997 the Malaysian ringgit was attacked by speculators and devalued 50% leading to a panic sale of stocks and

currency. GDP decreased by a painful 6.2% during 1998 and did not recover until 2002.

2.2.2. Future outlook: Economic growth is expected to ease as exports decrease given the economic crisis and weak US. Agitation about the uneven benefits of globalisation could further fuel ethnic tension in the country and trigger a dramatic change in power that can paralyse the country and undermine all efforts to increase economic growth (Global Insight Report, 2008).

Figure 1: Malaysia's main clusters in 2005 (larger image in appendix 1)



Source: Prof. Michael E. Porter, International Cluster Competitiveness Project, Institute for Strategy and Competitiveness, Harvard Business School; Richard Bryden, Project Director. Underlying data drawn from the UN Commodity Trade Statistics Database and the IMF BOP statistics.

2.3. Competitiveness

Malaysia ranks number 24, out of 137 countries, in the Global Competitiveness Index published by the World Economic Forum. The same organization ranks Malaysia number 32, out of 66 countries, in the Travel and Tourism competitiveness index. Furthermore, Transparency International ranks Malaysia number 47 out of 180

countries in corruption perception index and the World Bank ranks Malaysia 24 out of 178 countries in its 2008 ease of doing business index.

2.4. National diamond¹

2.4.1. Factor Conditions: Malaysia is endowed with abundant natural resources like oil, rubber and an extensive biodiversity. Strengths include a history of long political stability, good infrastructure and a concerted effort to encourage large investments, particularly in infrastructure. Staff training and the general quality of the educational system are seen as competitive advantages. Weaknesses can be seen in its long history of subsidies and protectionism, an increasing risk of ethnic conflicts, limited use of the English language and poor quality of managerial and technical education (Global Insight Report, 2008).

Table 1		
Aspect	Parameters	Rank
(+)	Natural endowments	NA
(+)	Political stability	NA
(+)	Quality of education system	18
(+)	Infrastructure	19
(-)	Business impact of rules on FDI	47
(-)	Availability of training services	27
(-)	Risk of ethnic confrontation	NA
(-)	Government surplus/deficit	109

2.4.2. Firm Strategy and Rivalry: The Global Competitiveness Report ranks Malaysia 21 out of 134 and the Doing Business organization ranks Malaysia number 20 of 181 in ease of doing business. Starting a business is fairly easy as it requires 13 days and an average of 9 procedures (above the average etc). Respect for legal rights ranks among the highest and laws are designed to expand access to credit, however registering property requires a long 144 days, 50 percent more time that the region

¹For purposes of the national diamond we consider anything below 21 to be a competitive advantage and higher than 21 to be a competitive disadvantage; Malaysia ranks 21 out of 134 countries according to the Global Competitiveness Report.

averag. Further business may be discourage since enforcing Contracts requires an average of 600 days and costs an average of 27 percent of the amount claimed, compared to the average 551 days of countries within the region (World Bank Group, 2008). Good access to loans and venture capital is also a strong competitive advantage (Global Competitiveness Report, 2008).

Table 2		
Aspect	Parameters	Rank
(+)	Access to loans and VC's	15
(+)	Government regulations	13
(-)	Intellectual property protection	33
(-)	Property rights	38
(-)	Ease of starting a business	51
(-)	Local competition	31
(-)	Anti-monopoly policy	40

2.4.3. Demand Conditions. Malaysia has a medium size domestic market of 26 million people. Domestic demand is healthy although to some extent it can be driven by government subsidies, as was evident in the decline of consumption when the government eliminated fuel subsidies. According to the Global Competitiveness Index, buyer sophistication and local competition ranks below the overall ranking of Malaysia and is considered a competitive disadvantage. Foreign market size is larger than domestic market size; however, during the last 5 years domestic demand has grown while foreign demand has decreased.

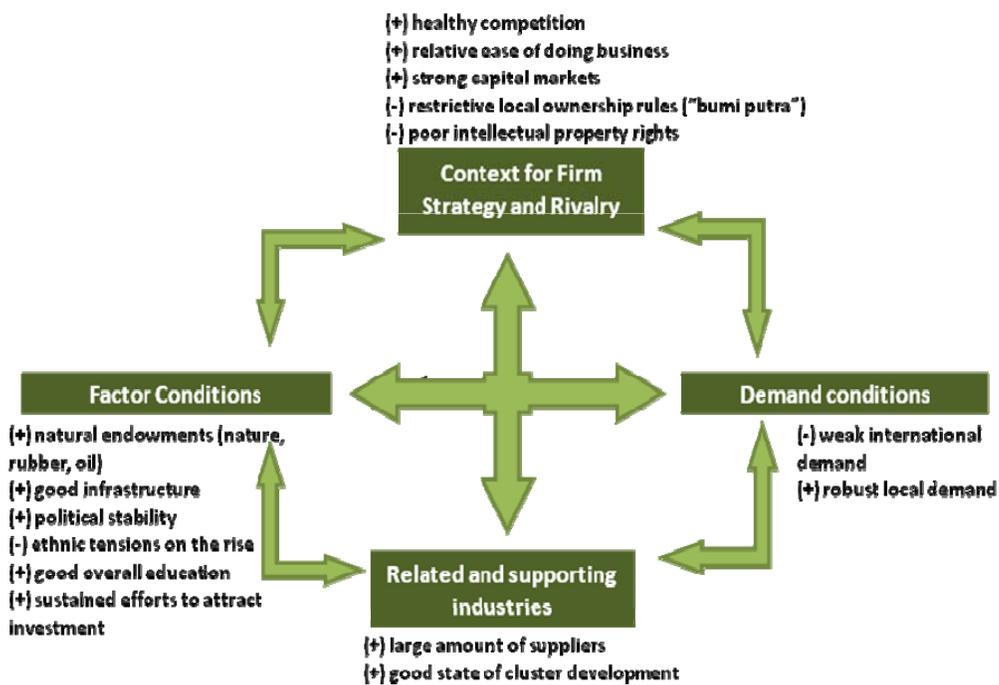
Table 3		
Aspect	Parameters	Rank
(+)	Foreign market size	17
(-)	Domestic market size	35
(-)	Intensity of local competition	31
(-)	Low buyer sophistication	23

2.4.4. Supporting Industries: There are a fairly large number of suppliers. However, the quality of products is considered low. According to the Global Competitiveness

Index, the state of cluster development is considered a competitive advantage ranking 13 out of 134.

Table 4		
Aspect	Parameters	Rank
(+)	Number of suppliers	16
(+)	Cluster development	13
(+)	Quality of scientific research institutions	20
(-)	Quality of suppliers	32
(-)	Value chain breadth	26
(-)	Production process sophistication	27

Figure 2. National Diamond (larger image in appendix 1)



3. Ecotourism as an industry

3.1. Definition

Ecotourism is a sub-sector of tourism which is geared towards nature-loving, socially and ecologically conscious people. There are many definitions of ecotourism. The most commonly used definition is the one established by The International Ecotourism Society (TIES) in 1990, which defines ecotourism as **“responsible travel to natural areas that conserves the environment and sustains the well-being of**

local people.” Accordingly TIES suggests that those *implementing* and participating in ecotourism activities should adhere to the following principles:

- Nature-based
- Minimize impact
- Build environmental and cultural awareness and respect
- Provide financial benefits and empowerment for local people
- Raise sensitivity to host countries' political, environmental, and social climate

3.2. Certification and Accreditation

Certification can ensure a certain minimum quality standard for the tourist experience as well as ensure that businesses engaged in ecotourism meet a minimum set of standards for the preservation, conservation and sustainability of natural, protected, or fragile ecosystems that may include indigenous communities (Center for Ecotourism and Sustainable Development, 2006).

Certification helps distinguish genuine ecotourism from others, and provides business with a number of advantages. Certification can help business improve their operations as well and reduce the associated costs. Additionally it improves their marketing advantage. Despite its benefits, certification in ecotourism has not been widely adopted. In Costa Rica, the voluntary Certification for Sustainable Tourism Program (known as CST) has met with only mild success (Fallas, 2008).

3.3. Ecotourism in the world

Precise figures on the economic impact of ecotourism are hard to gauge. The worldwide tourist industry generates 10% of the global GDP. Currently the market for conventional sand-and-sea tourism is saturated and there is a growing market for

ecotourism. Globally this market has been growing by 20-34% per year in the 1990s and is now growing by 10-12% yearly. It is projected that the market for ecotourism will keep growing (TIES, 2006).

Ecotourism allows for more tourist expenditure to stay in the local economy thus boosting national wealth. Experiences from various locations show that ecotourism establishments put as much as 95% of expenditure into the local economy. Adding to this is the fact that the daily expenditure of eco-tourists' is higher than that of other types of tourists. For example, in Costa Rica, tourism (which is primarily ecotourism) generates USD 1000 per visitor as opposed to France where tourism only generates USD 400 per visitor. Similarly studies have shown that tourists in Dominica (a Caribbean island) who uses small-nature based lodges spent 18 times more than cruise passengers who visited the island (TIES, 2006).

The major markets for ecotourism are Costa Rica, Ecuador, Nepal, Kenya, Madagascar, however most countries particular the Southern Hemisphere countries are actively engaged in promoting ecotourism.

3.4. Demand for Ecotourism

To understand the demand for ecotourism requires an understanding of the eco-tourist profile. At a very generic sense an eco-tourist is one who wishes to be perceived and often has a higher social, environmental and cultural consciousness. Part of the reasons may stem also from a desire to visit and see natural areas before they disappear.

The demand for ecotourism is primarily driven by the United States, Western Europe and Australia. Two-thirds of US and Australian travellers and over 90% of British tourists consider that a hotel should be responsible for active protection of the environment and supporting the local community. In Europe 5-10% of travellers

demand a green holiday and 10-20% look for green options. A majority of American, British and Australian tourists consider active support of the environment to be a part of a hotel's responsibility (TIES, 2006).

3.5. Ecotourism in the South East Asian region

With respect to Malaysia, most neighbouring countries (ASEAN countries) promote ecotourism. Precise figures are again hard to gauge. Thailand and Indonesia who are also engaged in ecotourism are rated below Malaysia in terms of ecotourism experience (FAO, 1998). Some studies have suggested that 20% of all foreign tourists to Thailand (in 1990) visited nature tourism sites. While South East Asian countries do offer significant ecotourism opportunities, the demand generated from these areas is less than those from those emanating from higher income developed countries of North America and Western Europe. However given income growth in the South East Asian region, demand from these areas is expected to grow. However the South East Asian tourists would generally expect a higher degree of comfort than those demanded by tourists from Western countries (FAO, 1998).

4. Tourism in Malaysia

The tourism industry in Malaysia was until the 1990s focused on the mainstream tourist destinations such as Langkawi and Penang with its beaches and big resorts. The industry has been developing since the 1970s and in the 1980s the government made its first strategic policy on tourism (World Travel & Tourism Council: 2002). In 1999 the successful brand "Malaysia Truly Asia" was launched to position Malaysia as a major destination in the region (Economic Planning Unit, 2001).

Currently tourism in Malaysia directly accounts for 4.8 percent of GDP and 4.9 percent of employment and has been growing steadily over the years (WTTC, 2008).

Visitor's arrivals and receipts have steadily increased over the past 10 years according to figures 3 and 4.

Figure 3: International arrivals in Malaysia by year (larger image in Appendix 1)

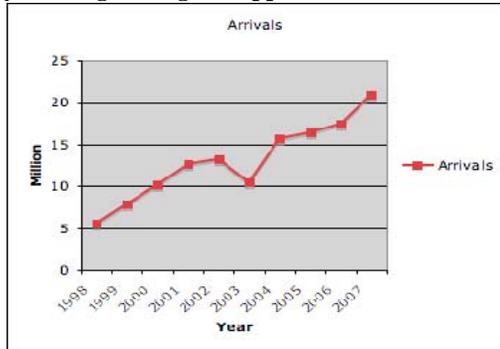
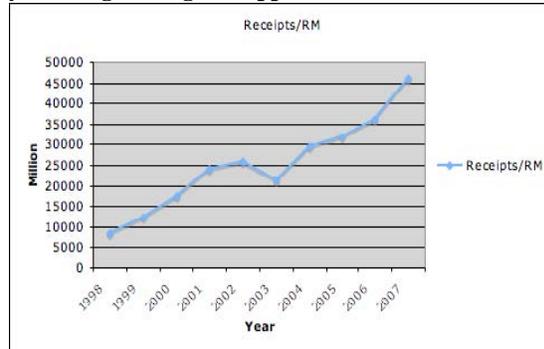


Figure 4: Receipts from Tourists in Malaysia by year (larger image in Appendix 1)



Source: Tourism Malaysia Website

Figure 5: Proportion of visitors to most receiving SE Asian Countries (larger image in Appendix 1)

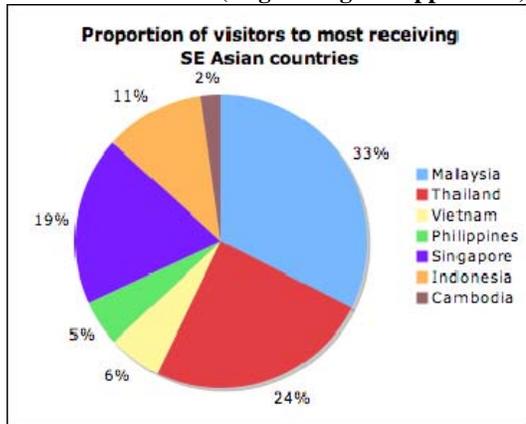
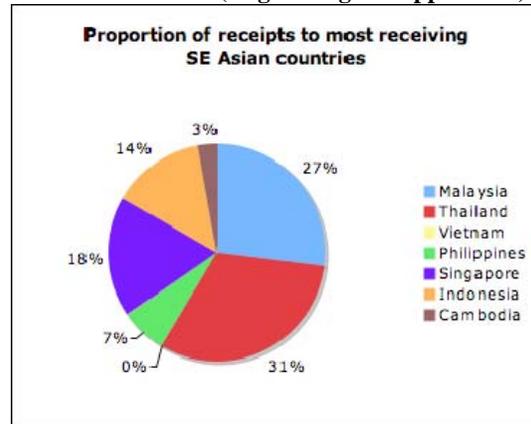


Figure 6: Proportion of receipts to most receiving SE Asian countries (larger image in Appendix 1)



Source: World Tourist Organization: "International Tourist Arrivals & Tourism Receipts by country – Asia-Pacific"

Malaysia is one of the main tourist destinations in ASEAN (figure 5 and 6). The table below compares the impact of tourism on the economy of Malaysia with that of Thailand and Indonesia. We compare Malaysia to Thailand and Indonesia because these countries are located near Malaysia, are among the most visited in the region and have a similar profile; notably they also promote ecotourism (MOCAT, 1996)

Table 5: Impact of Tourism in Malaysia, Indonesia, Thailand and Vietnam in 2007

	Malaysia	Indonesia	Thailand
Industry Impact	USD 10bn (4.8 % of GDP)	USD 11bn (2.3% of GDP)	USD 17bn (6.4% of GDP)

Industry Employment	532,000 (4.9% of total employment)	1,926,000 (1.9% of total employment)	1,858,000 (5% of total employment)
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Source: World Tourism & Travel Council 2008 Country Reports

As the table and figures above illustrate, Malaysia's tourism industry is doing well compared to some of its regional neighbours. While international arrivals (figure 3) and receipts from international visitors (figure 4) have been continually rising, they are could be rising more quickly according to the World Travel and Tourism Council (2002). Furthermore while Malaysia received more visitors compared to Thailand, the receipts per visitor are lower.

4.1. Competitiveness

The table below highlights selected tourism competitiveness rankings for Malaysia, Thailand, Indonesia and Costa Rica. Costa Rica is added to provide an international benchmark. The indicators are selected for their general importance for tourism as well as their relevance for ecotourism.

Table 6: Competitiveness in tourism

	Malaysia	Thailand	Indonesia	Costa Rica
Overall ranking	31	43	60	41
Tourism infrastructure	60	53	87	36
Natural and cultural resources	101	77	58	28
Government prioritisation of Travel of Tourism	21	25	6	34
Environmental regulation	20	39	81	35
Human resources	34	75	62	28

Source: World Economic Forum, Tourism Competitiveness Report 2007 (top performers highlighted)

The table shows Malaysia has competitive advantage in tourism relative to its two main competitors. It also shows that Malaysia is actually doing well compared to Costa Rica. Notable for ecotourism is that Malaysia's indicators on natural and cultural resources are very low due to relatively fewer protected areas and world heritage sites. However, the strength of Malaysia's environmental regulation is the best among the four countries.

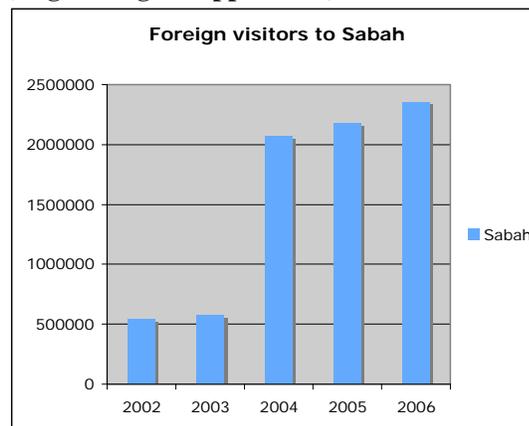
4.2. Government focus

Ecotourism is one of the tourism areas that the government focuses on. It has been mentioned since the 7th Malaysia Plan. The 9th Malaysia Plan emphasises promotion of a large number of tourism themes from MICE (Meetings Incentives Conferences and Exhibitions) over health and education to sports alongside ecotourism (Economic Planning Unit, 2006)². Under the direction of the new Tourism Minister Dato' Seri Azalina Othman Said, the principal focus areas are expected to be in MICE, ecotourism, wellness tourism and multi-country tourism (Rogers, 2008).

5. Ecotourism in Malaysia

In general terms, ecotourism in Malaysia is simply nature-based tourism which does not explicitly focus on the responsible aspect. Examples of places in Malaysia that promote ecotourism is the Danum Valley on Borneo which is a conservation jungle in which tourist trek, watch birds and swim in the river. Accommodations range from a comfortable lodge to basic dorms and camp grounds. It is also the Endau-Rombin State Park on mainland Malaysia which is the world's oldest rainforest. Visitors stay in camps and dorms. Furthermore an option is to climb the

Figure 7: Growth in foreign visitors to Sabah (larger image in appendix 1)



Source: Tourism Malaysia Website³

² Full list: Ecotourism, Heritage tourism, Agro-tourism and home-stay programmes, Culture, entertainment and arts, Meetings Incentives Conferences and Exhibitions (MICE), Shopping, Sports, Education, Health, Holiday homes in Malaysia

³ The change in foreign visitors to Sabah from 2003 to 2004 is quite marked. We suspect that this might be because of differences in measurement although this seems unlikely given that the data is from the same source. Either way data still shows an upward trend in visitors.

Mount Kinabalu on Borneo around which you can stay in everything from dorms to resorts (Tourism Malaysia).

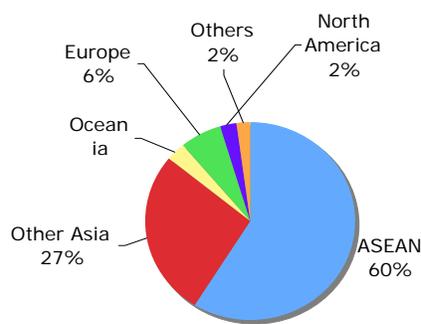
5.1. Trends and visitors

According to estimates in 2002, nature-based tourism was the fastest growing segment of tourism in Malaysia growing at 35% per year and constituting 10% of tourism in Malaysia (WTTC, 2002).

Because there is no classification system, it is difficult to obtain precise data on the industry. We know however, that Sabah is a major destination for ecotourism (Interview – appendix 2) and figures from that state are available. Figures show that the amount of foreign visitors to Sabah has increased since 2002 supporting the tendency of growth in the industry (figure 7). We also see that the profile of international visitors to Sabah differ somewhat from the profile of visitors to Malaysia in general (fig. 8 and 9). Thus we see a higher proportion of visitors from countries that are more likely to appreciate the inherent value of nature; such as European countries, North America and Oceania. This indicates that ecotourism is attracting tourist from higher income countries that are more likely to spend more money.

Figure 8: International visitors to Sabah 2006 (larger image in appendix 1)

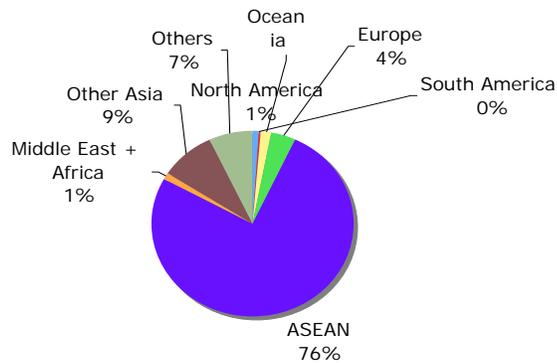
International visitors to Sabah 2006



Source: Sabah Tourism Board Website (Oceania is 3%)

Figure 9: International visitors to Malaysia 2006 (larger image in appendix 1)

International visitors to Malaysia 2006



Source: Tourism Malaysia Website (Oceania is 2%)

5.2. Government policies

As stated above the Malaysian government has been pursuing ecotourism since the mid-nineties. The following paragraphs sketch the development of government policies.

5.2.1 The National Ecotourism Plan: In 1995 the government produced the National Ecotourism Plan along with WWF Malaysia. The plan identifies 52 potential sites for ecotourism in Malaysia and suggests that Malaysia has a great potential for ecotourism.

It further identifies a number of policies that the government can undertake to strengthen the industry. These most notably include:

- Improving management of ecotourism areas
- Promoting product development
- Providing for training and certification of guides
- Establishing a consistent branding strategy (National Ecotourism Plan, 1995).

Since then the government has pursued a number of policies under the 7th, 8th and 9th Malaysia Plans as part of a long-term strategy to diversify the tourism products that Malaysia has to offer. From the 8th plan notions of sustainable development become part of the reason for more ecotourism.

5.2.2. Seventh Malaysia Plan 1996-2000: The Seventh Malaysia Plan intended to let the private sector implement the bulk of the National Ecotourism Plan. The government intended to only provide basic infrastructure for potential ecotourism sites such as national parks (Economic Planning Unit, 1996).

5.2.3. Eight Malaysia Plan 2001-2005: For the Eight Malaysia Plan the government stepped up its efforts in ecotourism. It wanted to provide policy guidelines for sustainable development, make sure that products offered match the changing demand

and by promoting Malaysia as an ecotourism destination. Furthermore the government launched a home-stay programme under which visitors would have the possibility of staying with Malaysian families in villages.

Additionally RM14.2 mil (USD 3.8m) was allocated for 20 projects in 10 areas specifically conducive to ecotourism (Economic Planning Unit, 2000). However, as per the Auditor General's report, the implementation of eco-tourism projects under the Eighth Malaysia Plan was "less than satisfactory" with only half of the 20 projects completed. The implementation of the Ecotourism Plan was also criticised for not actually following the plan (The Star Online, 2008).

5.2.4. Ninth Malaysia Plan 2006-2010: Under the ninth and current Malaysia Plan, the government seems to increase its efforts on ecotourism and sustainable travel somewhat: State tourism councils will be given a stronger role to monitor and evaluate projects and local authorities will be encouraged to be more involved in tourism developments to ensure that the environment is not damaged. The government also plans to upgrade and make more ecotourism activities and facilities available. It has an approved budget of RM 260.6 million (USD 70.4m) for 73 projects along with those implemented under Eighth Malaysian Plan (Economic Planning Unit, 2006).

In a mid-term evaluation of the 9th Malaysia Plan, however, the focus of tourism results are on health, education and MICE tourism. This suggests that ecotourism is not prioritised that highly (Mid-term review of the Ninth Malaysia Plan, 200x: 26).

5.2.5. Government promotion: The government promotes Malaysia as an ecotourism destination but not consistently. On the federal government's tourism website (Tourism Malaysia) ecotourism is presented as a separate option and the site mentions several activities that tourists can undertake while in Malaysia and areas in

which they can do them. However, the website provides no connection with specific operators or hotels that cater to ecotourists. Rather it is assumed that an operator or hotel in a location described as ecotourist is in fact an ecotourism resort. The links provided link to VirtualMalaysia.com, a government website that allows visitors to find accommodation and activities. This website uses the description 'Nature and Adventure' to refer to ecotourism.

5.3. The ecotourism cluster

Sabah and Sarawak are heavily focused on ecotourism (See Exhibit 9 in Appendix 1 for main ecotourism sites in Malaysia). While both states focus much on nature tourism, the Sabah board explicitly mentions ecotourism (Sabah Tourism Board Website). Similarly, other states represent their specific regional assets. There is no government-sponsored accreditation of ecotourism operators, nor is there a private one (Interview – Appendix 2).

Various ministries and agencies provide input into the industry by shaping environmental regulations (See Exhibit 13 in Appendix 1 for government linkages). It must be noted that many environmental regulations for national parks are made at the federal level but are implemented at the state level. This creates implementation problems (Badaruddin, 2002).

5.3.1. Tour operators and activities: Private enterprises are encouraged to play their part to develop and promote ecotourism destinations in the country, within the guidelines prepared by the relevant authorities (Interview – appendix 2). Amongst the agencies that offer ecotourism in Malaysia, most are young and new within 4-6 years. The main clientele for these agencies are foreign nationals, mainly Europe and North America. 30% of the agencies have little or no interaction with the government with

almost 80% activities offered tending to be fun-filled or adventurous but lacking in term of getting to know the nature (Badaruddin 2002).

A significant player is Borneo Eco Tours an operator that specialises in nature based tours, bird watching tours, wildlife river safari, white-water rafting, jungle trekking, health and wellness, holiday homes etc. Borneo Eco Tours also operates the budget 50 beds Borneo Backpackers, in Kota Kinabalu and a 20-room ecolodge Sukau Rainforest Lodge that actively promotes conservation and community projects.

The government has sponsored a growing home-stay programme since the 8th Malaysia Plan. In 2007, there were 2611 participants in 138 villages (SME Annual Report, 2007).

5.3.2. Supporting industries and Institutions for Collaboration (IFC): As for the IFCs, there are some NGOs that support the ecotourism industry: The Malaysian World Wide Fund for Nature (WWF) and the Malaysian Nature Society (MNS) being the notable ones. Malaysian World Wide Fund for Nature (WWF) and the Malaysian Nature Society (MNS) being the notable ones. WWF Malaysia works on public awareness programs and ecotourism training. The MNS is currently working with the government in the management aspects of ecotourism destinations.

The Malaysian Association of Tour and Travel Agents (MATTA) is involved in ecotourism and provides training to guides and managers. It also arranges the bi-annual Asia-Pacific Ecotourism Conference (APECO). However the involvement seems to be sporadic and very much on an on-demand basis (MATTA Website). There are also other conferences, such as the PATA Adventure Travel and Ecotourism Conference and EU-Malaysia Ecotourism Conference.

Looking at the Sabah tourism board website we can identify a number of supporting industries, for e.g. 11 handicraft shops and 16 transport operators. There also seem to

be some cultural offers in the form of museums and events. We assume that numbers are higher as not the data is sparse. This suggests that there are supporting industries for the ecotourism cluster but we suspect that rather than the industries being tailored specifically to ecotourism, they are directed at tourism in general. This suggests that the ecotourism cluster draws a lot on the general tourism cluster (See Figure 15 for the ecotourism cluster map).

There is at least one consultancy on ecotourism. It was set up in 2006 by the company Borneo Ecotours in order to spread the best practices and expertise beyond Sukau into other parts of Sabah. It is called Borneo Ecotourism Solutions and Technologies⁴. The existence of a consultancy suggests that the Malaysian ecotourism industry is maturing as it becomes profitable to run a business advising ecotourism businesses.

5.4. The diamond

5.4.1. Factor conditions: Malaysia has good natural endowments. About 10% of Malaysia's land area is protected and the country boasts 40 marine parks making it a prime diving destination (UNDP, 2005). However, according to WEF Malaysia, ranks comparatively low when it comes to the number of World Heritage Sites and National Parks.

As for labour quality, for tourism in general training in general Malaysia ranks fairly high in comparison with similar countries as seen above. Initiatives such as the National Tourism Development Council support this (National SME Development Council, 2007). We are informed that there is training specific to ecotourism and that hotel managers are educated on responsible tourism (Interview – appendix 2). However, a survey from 1999 shows that many guides in ecotourism areas are generically trained and have limited knowledge of ecotourism principles (Badrudin,

⁴ <http://borneoecotours.com/best.php>

2002). Added to this is the fact that general environmental awareness in Malaysia is low and there is low interest in national heritage sites, although there are attempts to make it an integrated part of all education (Daniel & Nadeson, 2006). This suggests that there is capacity and potential for training for ecotourism guides.

Finally while all four state universities have research in tourism and one even has a faculty on tourism, there are very few publications on ecotourism. The publications that exist tend to be from the standpoint of sustainability rather than business development (e.g. Kasim, 2007). This suggests few, if any, links between the ecotourism industry and universities.

5.4.2. Demand: It is estimated that 7-10% of all tourists to Malaysia be viewed as ecotourists (FAO 1998), with a higher percentage in Sabah and Sarawak. About 70% of tourist arrivals to Malaysia are from other ASEAN countries. This is problematic for demand conditions as visitors from these countries will be less sophisticated consumers with regards to ecotourism. While 50 percent of tourism in Malaysia is domestic tourism, and more than half than visitors to national parks are locals, the local demand for ecotourism is also unsophisticated and thus has not forced the industry to innovate in terms of products and services, although the government has continually taken steps to fuel domestic demand (WTTC, 2002; Interview – Appendix 1; Tourism Malaysia, 2006). There is, however, greater realisation amongst the local population that Malaysia attracts tourists because of its natural diversity and conserved areas (Interview – Appendix 2).

A further demand factor is the extent of government regulation like the regulation on accreditation forcing firms to upgrade. There is no accreditation system in Malaysia, and the national ecotourism plan seems to have been implemented only on an ad-hoc and limited basis. However, Malaysia is the only country that had environmental

regulations before it became fashionable to talk about ecotourism and is rated comparatively high in this area. However regulation is made more difficult by the fact that the federal government is responsible for the management of natural parks - which are under the jurisdiction of the individual states (WTTC, 2002).

5.4.3. Context for firm rivalry: Data from the Malaysian Ministry of Tourism shows that there are 3308 travel agents and tour operators registered in Malaysia (Malaysia Ministry of Tourism, 2008). An earlier study had found that roughly 800 of the then 2000 registered operators took bookings for travel to nature-related destinations. (Yasak, ca. 1996). This suggests competition is high. However no statistics exist specifically on ecotourism. A short survey of the official tourism websites of the state Sabah - one of the states that promote ecotourism most – further shows that there are enough players to warrant some competition between them.⁵

Based on knowledge from people in the industry, however, it would seem that competition is not at a sufficiently optimal level, as indicated by long-time eco-tourist professional Albert Teo, *"More private investments would have taken place in rural areas with potential for employment opportunities in ecotourism products if not for restrictive land and bank lending policies"* (ECOCLUB, 2007). The quote also suggests that, although Malaysia is favourable ranked in terms of access to capital, the government is not doing enough to promote a conducive business environment for specifically small to medium sized businesses. That being said there is a special fund for tourism that provides loans for small and medium sized businesses to set up (National SME Development Council, 2007).

⁵ The website divides operators and accommodation into categories. We looked at the categories most likely to contain eco-tourist players, i.e. tour-operators (234), lodges and bed & breakfasts (31), island/diving (6+11) and adventure (3). The numbers should be read with some caution as there might be some overlapping. Still, even considering the large amount of tourists that visit Sabah every year (5.389.876 visitors in 2006) there is still some competition

Specifically for ecotourism we suspect that a lack of a ratings system is holding back competition. An accreditation system could also enhance competition as businesses would be forced to measure up to higher standards. As is competition is random, meaning that businesses are competing in different areas - leaving little room for consolidation and improvement.

5.4.4. Supporting industries: There are some institutions for collaboration but they are either not geared specifically towards business development (NGOs) or not geared specifically towards ecotourism (trade associations). There are signs, however, that the private sector is trying to increase cooperation in ecotourism by the bi-annual APECO conferences.

The supporting industries that exist are already a part of the established tourism cluster, e.g. bus services, handicrafts, restaurants etc. This suggests that the ecotourism cluster is still not very well developed. There does seem to be some activity with at least one consultancy providing services for ecotourism operators.

5.5. Conclusions from the diamond

From the diamond analysis, we can conclude that Malaysia to some extent have good factor conditions in terms of natural endowments. However while general training is considered good we have some concerns about the specific training for ecotourism. This might be solved, though, given Malaysia's good training track record. Linkages with universities are a critical point. Similarly demand conditions could improve; a notable concern is the lack of sophisticated local demand. As for competition we fear that it is unfocused and not strong enough to improve the quality of the ecotourism product to allow Malaysia to move up the value chain. Finally supporting industries are unconsolidated although IFCs are starting to appear.

6. Building an ecotourism industry - the case of Costa Rica

The small Central American country of Costa Rica has a highly successful tourism industry built primarily on ecotourism. In 2008, the travel and tourism industry in the country is expected to generate USD 3.77bn in revenue or 13.5% of GDP). The ecotourism industry in the country has also benefited from strong government support and effective local community involvement in preserving and promoting the naturally appealing ecosystem. Locally owned lodges and hotels are integrated with local communities and the natural environment to ensure sustainable development practices that preserve the environment. The success of Costa Rica's ecotourism industry has been attributed to a number of factors:

- a) *Biodiversity*: Costa Rica offers scenic beaches, rugged mountains and volcanoes and incredible biodiversity within a small region. Its rich and diverse wildlife and fauna are protected in 24 natural parks covering 21% of the country's territory.
- b) *Location*: Costa Rica's close proximity to the North American market has given it a considerable advantage (Americans make up roughly 20% of the world tourism market). Tourists from North America have continued to account for nearly 50% of Costa Rica's nearly 2 million annual international arrivals.
- c) *Civil and Political stability*: Costa Rica has managed to keep political and social stability despite the turmoil in neighbouring countries. Coupled with strong democratic institutions and low crime rates, Costa Rica is considered a safe tourist destination.
- d) *Strong Environmental Practices*: There is a strong and influential environmental lobby. The sustainable development plans initiated by President Figueres in 1994, created short term losses to the industry (higher prices for tourists led to a drop in international arrivals initially) but eventually provided long term benefits to the

environment and the ecotourism industry (the attraction of higher paying customers meant overall revenues rose which were used in part for environmental preservation activities).

e) *International support*: Environmental conservation efforts and the ecotourism industry as a whole benefited from the widespread and continuous support from donor countries and multilateral agencies such as IMF, World Bank and USAID.

f) *Recently initiatives in multi-country ecotourism* with its neighbours have also helped further promote ecotourism in Costa Rica.

Economically, ecotourism has had spill-over effects in related industries in Costa Rica. For example, increased domestic consumption of coffee as a result of tourists has reinvigorated its sagging coffee market. Costa Rica's otherwise economically disadvantaged regions have benefited from the influx of eco-tourists. Ecotourism has also helped diversify the economy, which previously depended primarily on agricultural exports. Costa Rica's ecotourism efforts have encouraged small-scale infrastructure development rather than big hotels to maintain a healthy balance between ecotourism and environmental preservation. The strong local community efforts in preservation have facilitated positive influences on visiting travellers thus promoting conservation efforts worldwide.

7. Strength, Weaknesses, Opportunities, Threats

A SWOT analysis of Malaysia's ecotourism cluster relative to that of Costa Rica will – together with the conclusions from the diamond – help shed some light on the possible policies that the government of Malaysia can pursue to improve the ecotourism cluster.

Table 7: SWOT Analysis

<p>Strengths</p> <ol style="list-style-type: none"> 1. Biodiversity, age of rainforests, good infrastructure. <i>Like Costa Rica</i> 2. Good environmental regulation relative to the region. <i>Like Costa Rica</i> 3. Good training. <i>Like Costa Rica</i> 	<p>Weaknesses</p> <ol style="list-style-type: none"> 1. Lack of consistent political will. <i>Unlike Costa Rica</i> 2. Lack of promotional focus. <i>Unlike Costa Rica which has an overall green branding strategy</i> 3. Lack of sufficient interest in the environment. <i>Unlike Costa Rica</i>
<p>Opportunities</p> <ol style="list-style-type: none"> 1. Possibility to leverage multi-country tourism. <i>Like Costa Rica</i> 2. Possibility of growing market for ecotourism in the region with growing wealth in East Asia. <i>Unlike Costa Rica that may have tapped existing markets.</i> 	<p>Threats</p> <ol style="list-style-type: none"> 1. Countries close by that compete on same parameters. <i>Like Costa Rica</i> 2. Strength of less sustainable industrial clusters (oil, palm oil). <i>Unlike Costa Rica that has an overall green strategy.</i>

8. Recommendations

According to Blamey (2001), a debate exists whether demand from tourists for ecotourism products and services should drive ecotourism or whether increasing the amount of ecotourism entails increasing the supply side, even in the face of low demand. Considering that Malaysia wants to push ecotourism as a way to ensure the long-term sustainability of their tourist industry as well as to create a new product, we are recommending policies that lean towards increasing the supply side. However the demand side must not be ignored and so we provide recommendations for the entire diamond.

The recommended policies derived from our analysis in fact match very closely the policies suggested by the National Ecotourism Plan in 1995 (see above). This suggests that the government needs to seriously step up its efforts in ecotourism if they seriously want ecotourism to be a successful cluster.

The policies are grouped according to how they affect each aspect of the diamond. Overall the recommendations look at strengthening cluster linkages and cohesiveness

and improving government focus. The distribution across the diamond reflects that the clusters main weaknesses are in terms of Firm Rivalry and Demand.

Table 8: Recommendations

Factor Conditions	
<i>Step up environmental education</i>	<ul style="list-style-type: none"> ▪ Costa Rica had ecotourism before it got branded as an ecotourist destination. There was already a sense of taking care of nature. This is not true to the same extent in Malaysia. ▪ Government must step up its efforts to educate Malaysians about the value of the environment. Also about how the environment is a source of income.
Context for Firm Rivalry and Strategy	
<i>Set up national accreditation scheme</i>	<ul style="list-style-type: none"> ▪ Improves competition and improves the product ▪ Sets Malaysia apart from competitors - brands Malaysia more distinctly ▪ The accreditation should be voluntary but inclusion in government sponsored promotions would depend on it. ▪ In Costa Rica businesses wanted to become accredited because that would mean that people would seek out their businesses
<i>Promote competition between states by showcasing good examples of ecotourism</i>	<ul style="list-style-type: none"> ▪ To improve the quality and interest in ecotourism the federal government should encourage the states to invest time and effort in it. This can be done by benchmarking the individual states and showcasing good examples.
<i>Leverage possibility of multi-country ecotourism</i>	<ul style="list-style-type: none"> ▪ Malaysia is located close to other ecotourism destinations. This presents an opportunity for multi-country tourism like Costa Rica is doing in Latin America.
<i>Provide investment incentives for SME specifically for ecotourism</i>	<ul style="list-style-type: none"> ▪ Matching funds for broad projects would help business as well as conservation. ▪ Favourable loans for entrepreneurs who want to set up as ecotourism players.
Supporting industries	
<i>Universities and research should look more into business R&D for ecotourism.</i>	<ul style="list-style-type: none"> ▪ Universities need to create linkages with industry. This can be done by setting up collaborative forums or inviting universities into existing forums. ▪ Universities need to do research on the link between business and sustainability, e.g. on trends in demand.
<i>Government promotion and policy on ecotourism should focus</i>	<ul style="list-style-type: none"> ▪ Focus marketing efforts on those markets that are likely to supply ecotourists. That is at present not ASEAN and the local market (although this might later be the case, so this needs to be taken into account). ▪ Focus on ecotourism: It cannot be just a buzzword. Real regulations and categorisation must follow intentions and guidelines. ▪ Align state and federal promotions on ecotourism to ensure consistent brand.
Demand	
<i>Set up national</i>	<ul style="list-style-type: none"> ▪ An accreditation scheme will help demand become more

<i>accreditation scheme</i>	sophisticated. As tourists can see clearer what product they are buying they will be able to choose more discriminately.
<i>Step up environmental education</i>	<ul style="list-style-type: none"> ▪ 50 percent of tourism in Malaysia is local. As Malaysia grows wealthier there is a potential for more local demand for ecotourism. However for this to happen, there will need be a greater appreciation of the environment.
<i>Improve regulations of environment</i>	<ul style="list-style-type: none"> ▪ Malaysia has good environmental regulations compared to its regional competitors. This needs to be leveraged more. ▪ Government powers are limited to monitoring and evaluating when it comes to the national parks. This is a result of Malaysia's federal structure. ▪ The individual states need to be more dedicated to sustainability rather than just economic growth. ▪ Balance growth in resource-intensive clusters versus environmental sustainability

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Appendix 1: Exhibits

Exhibit 1: Map of Malaysia



Source: CIA World Fact Book

Exhibit 2: Key indicators on Malaysia

<ul style="list-style-type: none"> • Population: 25 Million • Life Expectancy: 73 years • Ethnic groups: Malay 50.4%, Chinese 23.7% Indigenous 11%, Indian 7.1%, others 7.8% • Religion: Muslim 60.4%, Buddhist 19.2%, Christian 9.1%, Hindu 6.3%, Confucianism and others 4.9% • Literacy: 88.7% 	<ul style="list-style-type: none"> • GDP (2007): US\$361 Billion • GDP per capita (PPP): US\$14,500 • Unemployment (2007): 3.2% • Population below poverty: 5.1% • GINI index (2002): 46.1 • Inflation (2007): 2% • Public Debt (2007): 41.6% GDP • Budget: revenues: US\$40.69; expenditures: US\$46.7
<ul style="list-style-type: none"> • Telephone lines: 4.35 million • Internet users: 15.8 million • Airports: 116; 36 paved, 80 unpaved • Heliports: 2 • Ports: Bintulu, Johor Bahru, Kuantan, Labuan, George Town (Penang), Port Kelang, Tunjung Pelapas 	<ul style="list-style-type: none"> • Railways (2006): 1,890 km • Roadways (2004): 98,721 km; paved:80,280 km, unpaved: 18,441 km • Waterways (2005): 7,200 km • Pipeline (2007): gas: 5,273 km, oil: 1,750 km, refined products: 114 km

Source: CIA World Fact Book

Exhibit 3: Composition of industrial clusters in Malaysia

Source: Source: Prof. Michael E. Porter, *International Cluster Competitiveness Project*, Institute for Strategy and Competitiveness, Harvard Business School; Richard Bryden, Project Director. Underlying data drawn from the UN Commodity Trade Statistics Database and the IMF BOP statistics

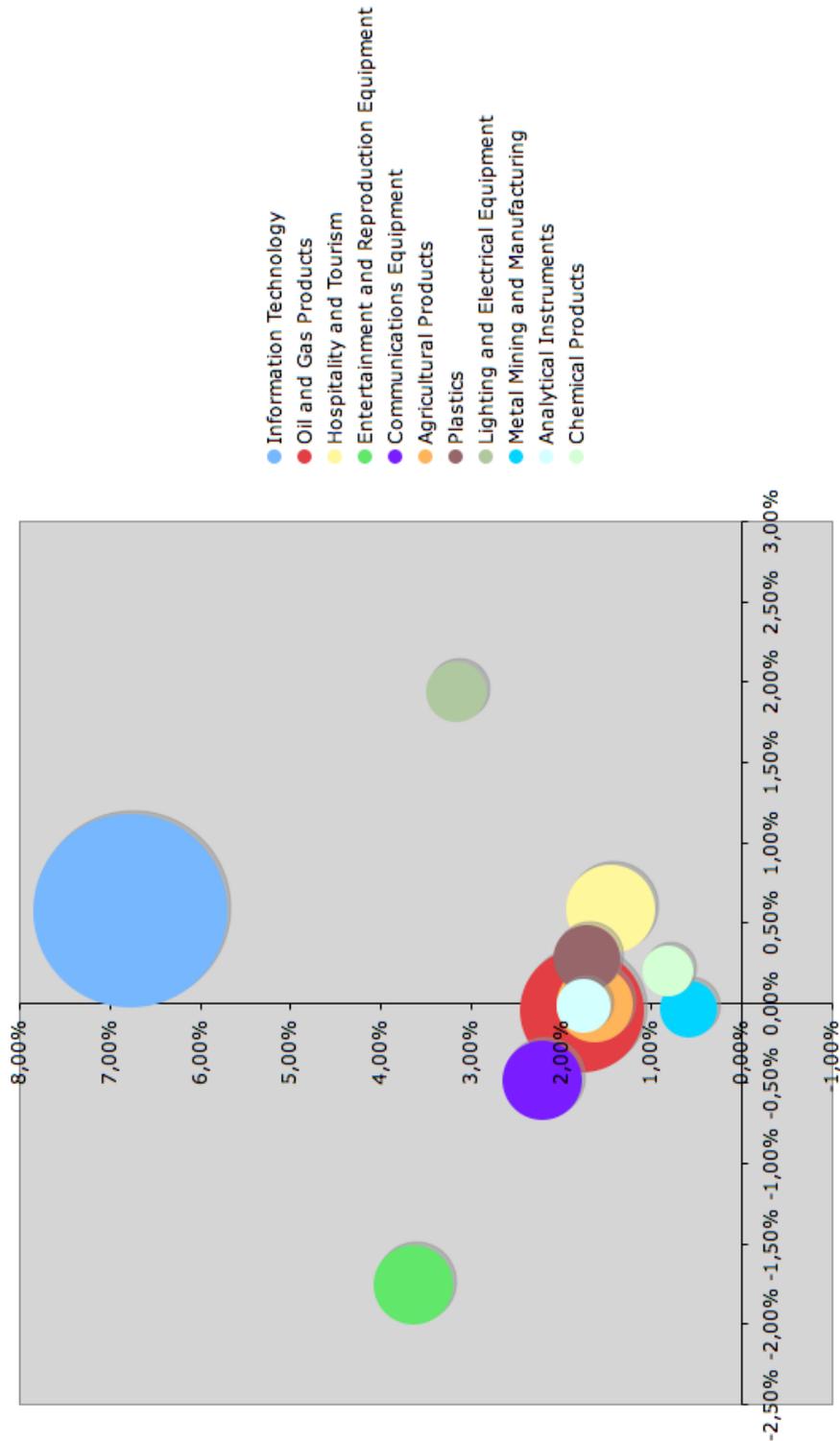


Exhibit 4: National diamond

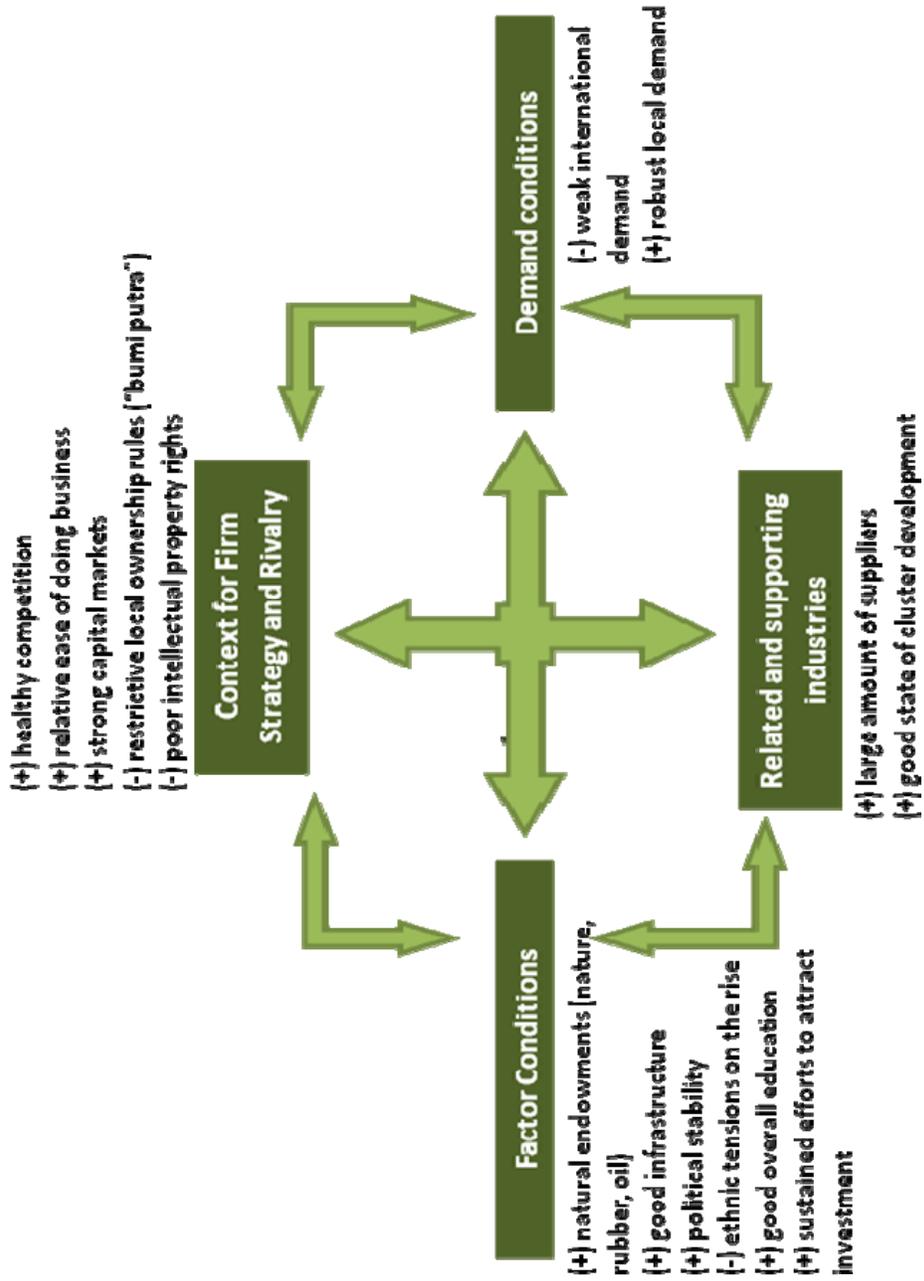
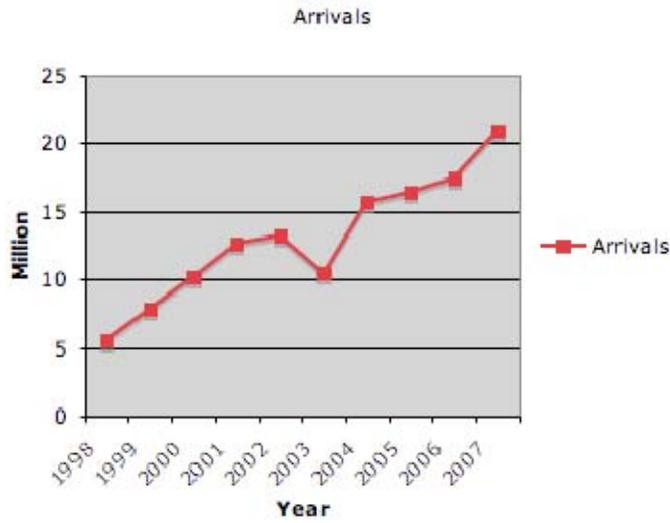
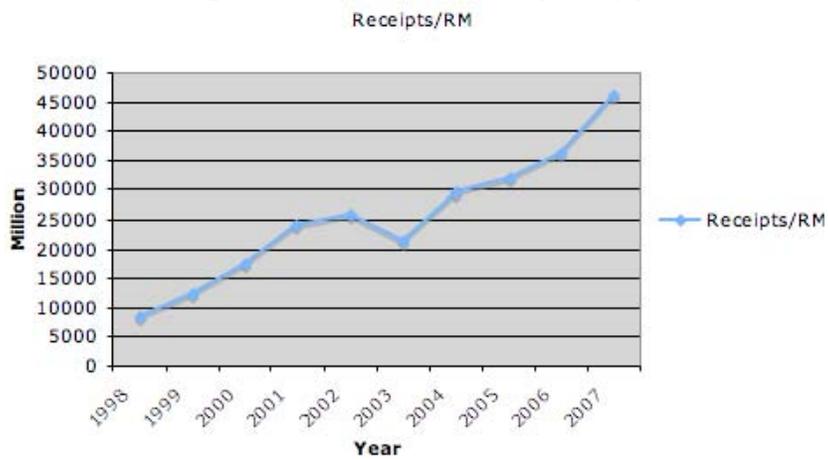


Exhibit 5: International arrivals to Malaysia by year



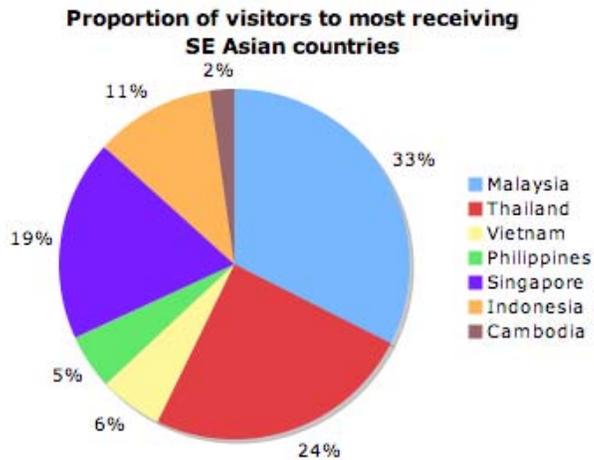
Source: Tourism Malaysia Website

Exhibit 6: Receipts from Tourists in Malaysia by year



Source: Tourism Malaysia Website

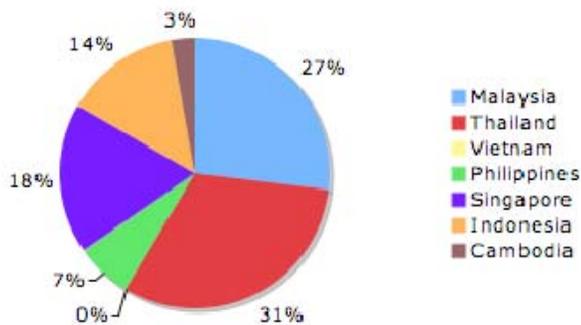
Exhibit 7: Proportion of visitors to most receiving South East Asian countries



Source: World Tourist Organization: “International Tourist Arrivals & Tourism Receipts by country – Asia-Pacific”

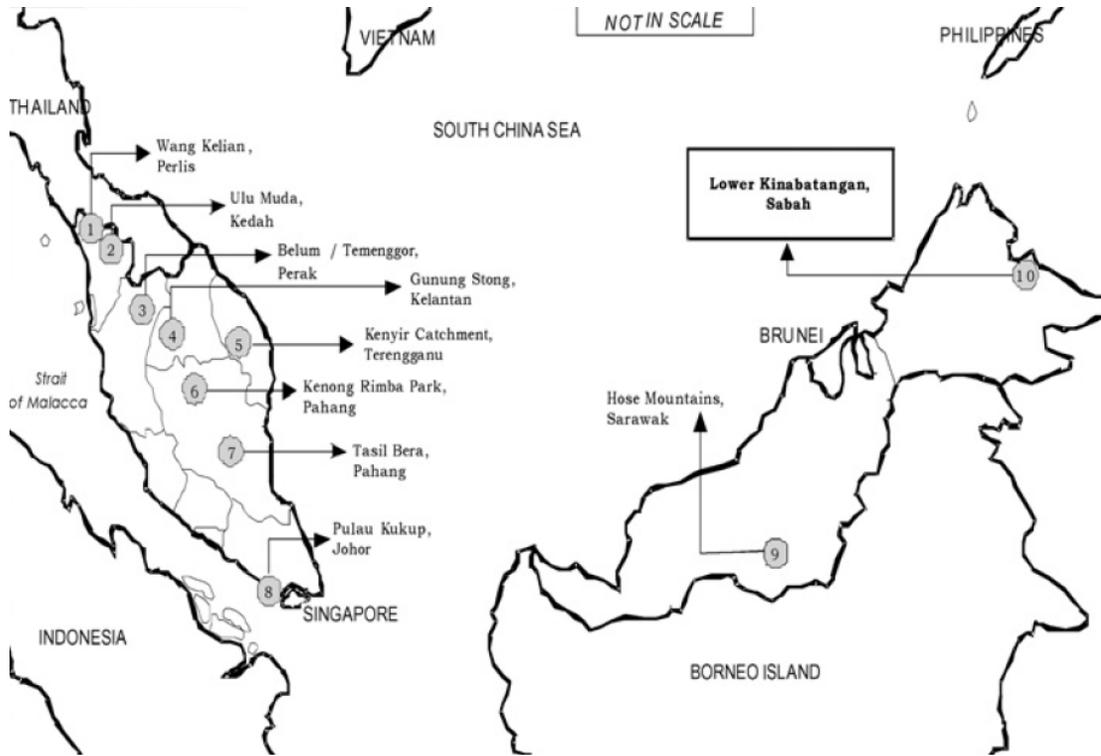
Exhibit 8: Proportion of receipts to most receiving South East Asian countries

Proportion of receipts to most receiving SE Asian countries



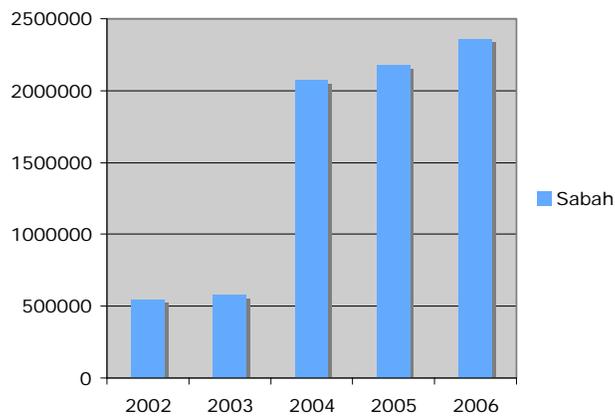
Source: World Tourist Organization: “International Tourist Arrivals & Tourism Receipts by country – Asia-Pacific”

Exhibit 9: Major Ecotourism sites in Malaysia



Source: Chan J.K.L. & T. Baum (2007)

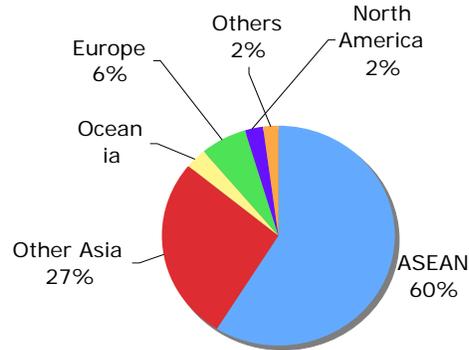
Exhibit 10: Growth in foreign visitors to Sabah
Foreign visitors to Sabah



Source: Tourism Malaysia Website⁶

Exhibit 11: International visitors to Sabah 2006

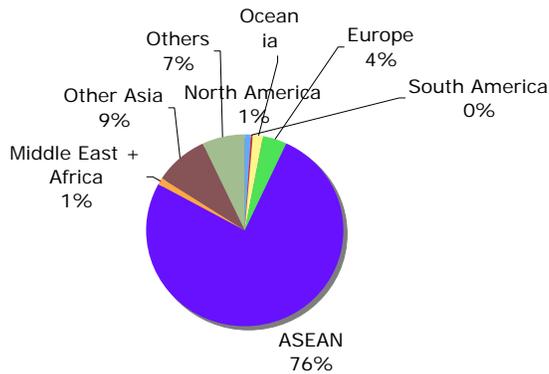
International visitors to Sabah 2006



Source: Sabah Tourism Board Website (Oceania is 3 %)

Exhibit 12: International visitors to Malaysia 2006

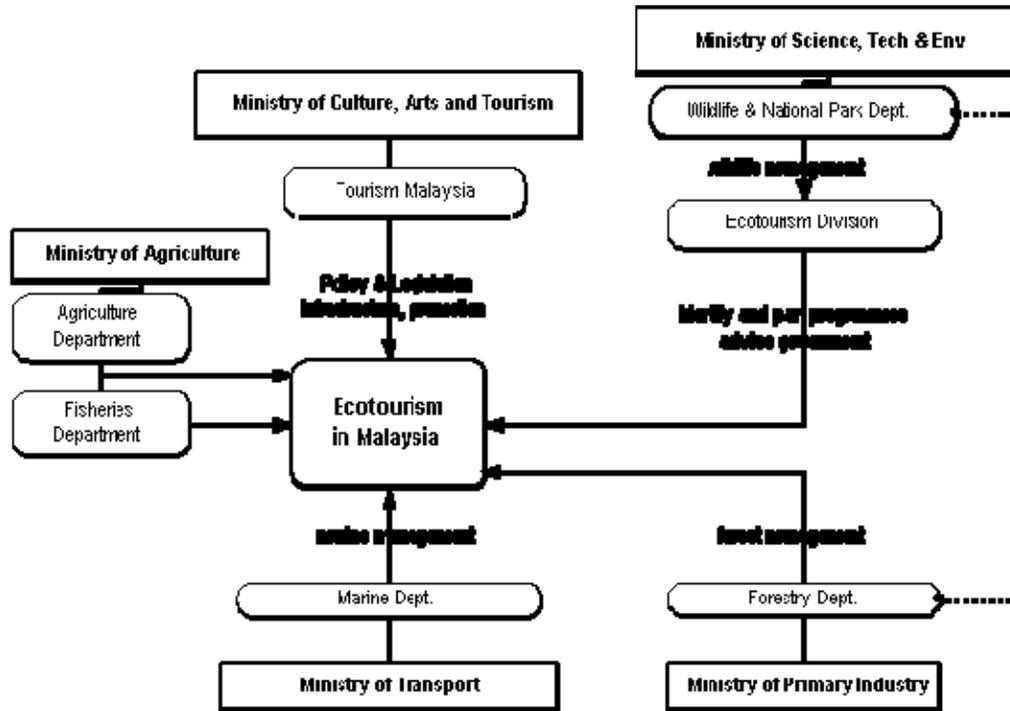
International visitors to Malaysia 2006



Source: Tourism Malaysia Website (Oceania is 2%)

⁶ The change in foreign visitors to Sabah from 2003 to 2004 is quite marked. We suspect that this might be because of differences in measurement although this seems unlikely given that the data is from the same source. Either way data still shows an upward trend in visitors.

Exhibit 13: Government linkages in the ecotourism cluster



Source: Badaruddin, 2002

Exhibit 14: Cluster diamond

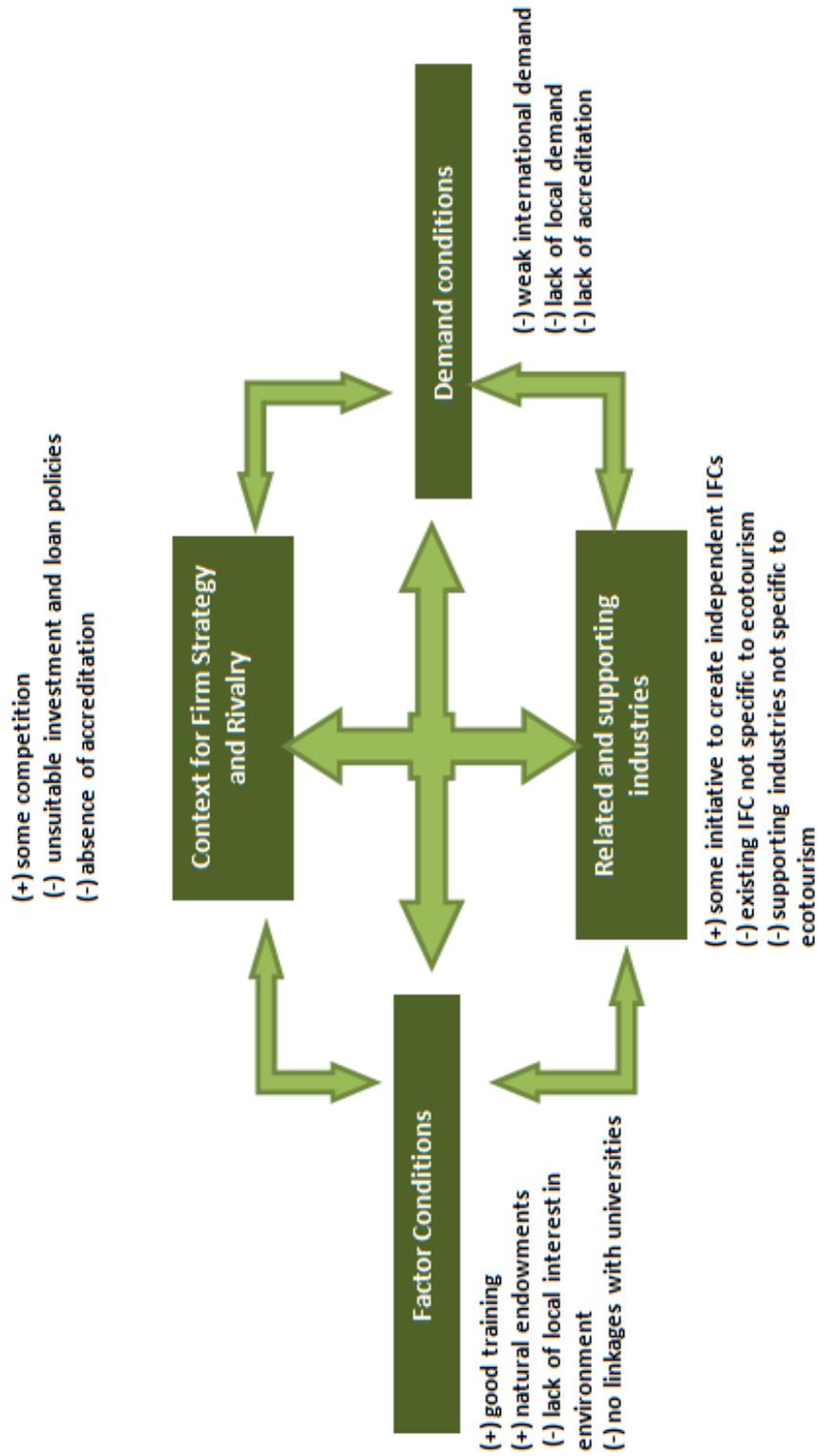
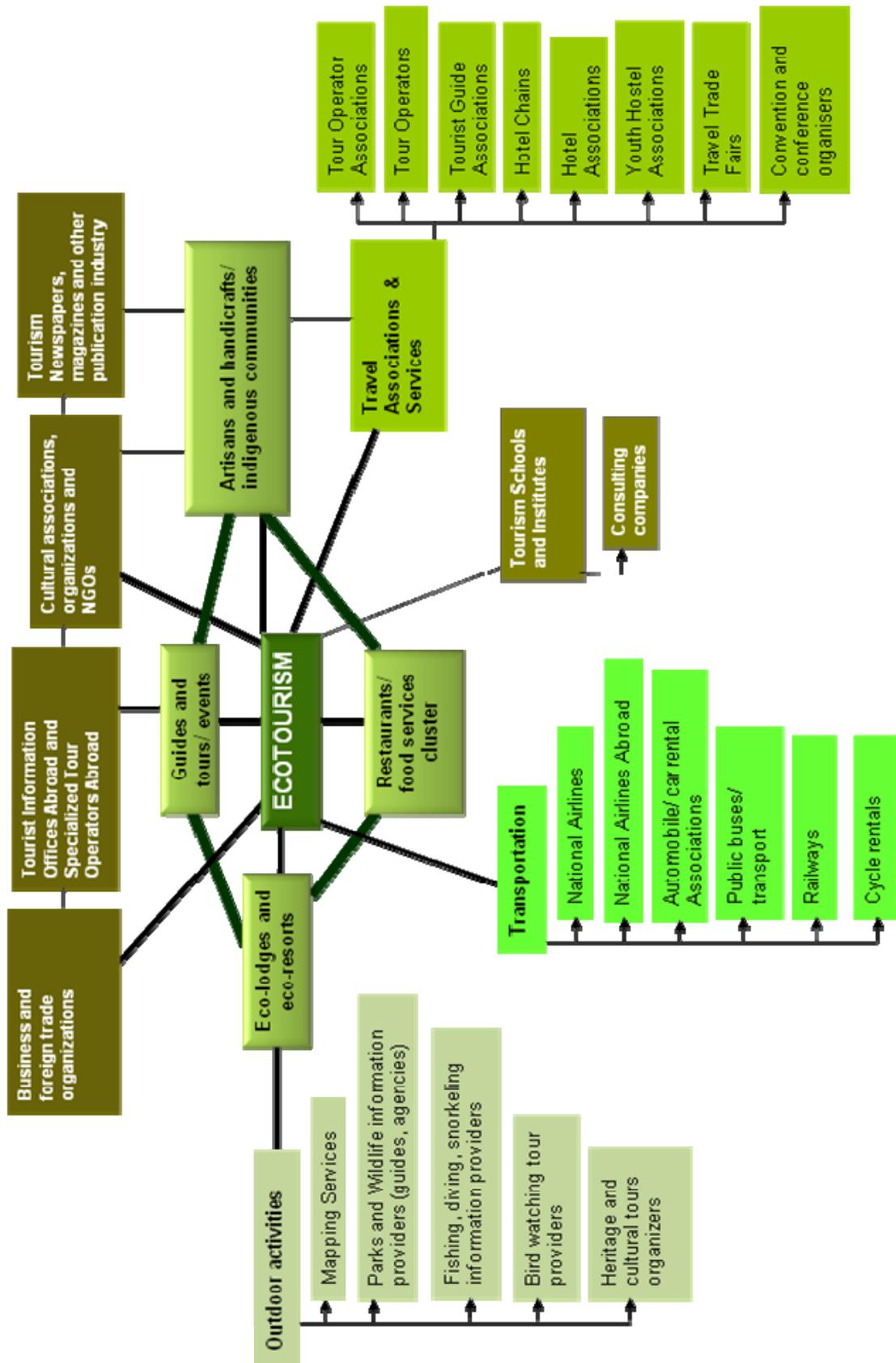


Exhibit 15: Cluster map



Appendix 2

Interview with official from Tourism Malaysia

An interview was conducted with Mr Muhammad Irwan Ismail, Marketing Executive at the Singapore office of Tourism Malaysia. A summary of information obtained via the interview as well as through email correspondence is included below:

Environment/Tourism Education

All people who work at a resort/ hotel etc. are educated on the environment around them; types of plants, birds, animals etc.

There is no formal government requirement for hotel staff to be educated specifically in Tourism and environmental protection, but given that the environment is something they leverage in their tourism related activities, hotels themselves see it in their best interest to educate the staff on the local environment and good environment practices. Also it should be noted that all nature and city guides do have to have a minimum overall educational level. Hotel Manager on resort locations are also educated on responsible tourism with basic knowledge on nature care. A good example of an eco-tourist resort is Frangipani Resort Langkawi which is an eco-friendly resort that promotes recycling of waste materials and the care of environment to guests.

Regional Competition

There is no official policy of competing with other countries in the region for eco-tourism. Tourism Malaysia sees eco-tourism as important and complementary to the overall tourism experience they want to promote.

Promotion

Tourism promotion is specific to the perceived needs of the specific countries. For example when we do a major promotional activity in Singapore, the Tourism Malaysia office here invites travel agencies and operators. We bring in representatives from the regional tourism boards of the Malaysian states and they each get to promote their own covered areas. And obviously with areas like Sarawak and Sabah the main thing is eco-tourism.

Areas and Activities

Malaysia has 54 protected areas of more than 1000 hectares each, totally 1.483 million hectares (4.5% of the land surface of the country). They include 28 district nature reserves and some are not open to tourism activity. Kinabalu Park recently joined rank with other 630 sites worldwide as a UNESCO's World Heritage Site. Peninsular Malaysia on the other hand, has over the years been establishing a network of protected parks, wildlife reserves and sanctuaries, nature parks, birds' sanctuaries and marine parks have been established since 1930s. Peninsular Malaysia's largest national park covering 434k ha was gazetted as early as 1939, which comprises mainly virgin forests of various forest types according to the altitudes and soils. Currently Peninsular Malaysia has 0.74m ha located outside the Permanent Forest Estate, whilst another 0.19m ha. are within the Estate.

At individual parks, various activities are promoted. Most parks start with a briefing of the safety features and the dos and don'ts in the park. Respecting the human boundaries with any wildlife and most importantly care for the environment e.g. do not litter in the park. In Kuala Gandah Elephant Sanctuary guests learn about the elephants and can stay over and make contributions to the wildlife sanctuary as well.

Environment protection rules

I can't remember exactly if environment protection rules in general are generated at the federal or local state level. However in most diving areas they each have a limit on the number of divers allowed each day (different for different areas).

Specific Data

It is difficult to quantify how many passengers go to Malaysia specifically for ecotourism. As far as tourism Malaysia office here in Singapore is concerned, the only thing they have to go by is emigration cards which doesn't' specific what type of eco tourism. However Sabah and Sarawak are major destinations for ecotourism given their natural endowments.

Definition of Ecotourism

Malaysia adopts the definition by the World Conservation Union (IUCN) which is "Environmentally responsible to relatively undisturbed natural areas in order to enjoy and appreciate nature (and any other accompanying cultural features). On that promotes conservation, on that has low visitor impact and ones that provides for beneficially active socioeconomic involvement of local populations."

Conservation and Accreditation/ Certification

Malaysia doesn't have any formal accreditation system specifically for ecotourism operators. The sincere involvement of the private sector is still limited. While the Government takes the lead in term of legislation and planning of parks, etc., the running of ecotourism in these areas are often privatized. While the government talks about carrying capacity and sustainability, the private sector thinks of ways to increase the limit further and further.