

The Impact of Covid-19 on Tourism Sector in Sabah

Rafiq Idris

University Malaysia Sabah (UMS), University College Sabah Foundation (UCSF)

To Link this Article: <http://dx.doi.org/10.6007/IJARBSS/v15-i6/25711> DOI:10.6007/IJARBSS/v15-i6/25711

Published Date: 30 December 2024

Abstract

The spread of COVID-19 as a global pandemic has triggered changes to the world economy, especially sectors related to the service sector, namely the tourism sector which depends on movement of people. It brought a profound and unprecedented impact on the global tourism sector. World GDP growth were reported to be -2.9 percent in 2020 from 2.7 percent in 2019 (World Bank, 2023). At the end of January 2020, COVID-19 outbreak started to post tourism industry with a major challenge. The thriving industry experienced an abrupt halt as countries worldwide implemented stringent measures to contain the virus. Some countries have banned the arrival of tourists from other countries. This has affected the tourism sector in Sabah, Malaysia. Having said that, how severe is the impact of COVID-19 on Sabah's tourism sector? How has it affect different tourism firms in the economy? This study has undertaken a survey and stakeholders engagement activities to understand and examine the impact of COVID-19 on tourism sector in Sabah at firm level during the early disease spread, during Movement Control Order (MCO) period and post MCO period as well as issues associated with it. Recommendations are also proposed based on the lessons learned from the out-break.

Keyword: Sabah, Malaysia, COVID-19, Tourism, Economy, Impact

Introduction

World economic growth were reported to be -2.9 percent in 2020 from 2.7 percent in 2019. COVID-19 had affected the tourism and hospitality business in a deep and unforeseen way. COVID-19 outbreak is a big test for the tourism market when it got started at the end of January 2020. It had been a thriving industry in Sabah, with filling up airports and packing attractions and hospitality. Several nations have prohibited travellers from foreign nations from visiting. In Sabah, Malaysia, this has impacted the tourism industry.

COVID 19 had a huge impact on the tourism sector, changing the way of travel and functioning of businesses. The tourism industry emerged as one of the first sectors which are getting affected by the repercussions of the pandemic in the whole wide world, and they are among the last ones which will eventually come out of the chaos too.

When it comes to Sabah, the state on January 30, 2020 temporarily suspended all flights, both scheduled and chartered from China to Sabah. As inflow of non-Malaysian visitors as well as Malaysians to the state was already restricted and announced during the first week of February, 2020, Sabah, has also introduced more travel restrictions week to ensure a total blockade against the spread of the virus, as the state government extends the small travel restrictions by air, sea or land gates. More generally december 2019 to 18 march 2020 is the early spread of the disease period.

Malaysia responded to the rising cases of COVID-19 pandemic on the 18 of march 2020, by implementing the Movement Control Order (MCO). The MCOs were a series of movement control implemented within the period of 2020 and 2021 which involved limiting movement, closing non-essential businesses, and suspending public events including tourism-related events. Different phases and levels of restrictions were imposed, and the MCO was pushed till the limits before being re-implemented several times. The nation also declared Conditional Movement Control Order (CMCO) on 4 May 2023 after several extensions of MCO. That was followed by Recovery Movement Control Order (RMCO) beginning June 10, 2020. That being said, some of them have declared a total lockdown in 2021, however, that is once again dependent on the conditions and requirements of different states. These all have become new norms and regulation of life implemented against COVID-19 through different phases of movement control order. Such safety and health measures had to be undertaken.

Discussing about tourism industry and services being offered in the economy, it actually cover many different types of related services. Hence, while talking assessing the impact on tourism sector, it covers wide aspect. The tourism sector consist of numerous services to fulfil traveller requirements. These services can be organized into a number of related classes, all of which are essential to improving the overall travel experience.

Table 1

Main Type of Tourism Services

| Main Tourism Services | Example of Services |
|---|--|
| Accommodation Services | Hotels Homestays Resorts |
| Transportation Services | Airlines Cruise lines Ground transport Car rentals |
| Tour and Guided Tour Operators | Tour operator Guided tours |
| Catering Services | Restaurants Cafes or bars |
| Recreational and entertainment services | Theme park Amusement arcades Exhibitions and performances |
| Travel Agencies | Travel consultation Ticketing services |
| Adventure and Outdoor Activities | Adventure tourism: eco-tourism |
| Wellness and Health Tourism | Spas and wellness resorts Medical tourism |
| Events and MICE (Meetings, Incentives, Conferences, Exhibitions) | Event management services: workshops, conferences, meetings and exhibitions. |
| Travel Insurance and Financial Services. | Travel insurance companies Exchange and banking |

Table 1 gives an overview of main type of services in the tourism industry. As depicted in table 1, it is clear that these various services are actually making up the tourism ecosystem. The ability to combine these services often makes for a smooth, enjoyable travel experience for both individuals and groups.

In conclusion, international tourist arrival ban, MCO and CMCO have impacted the tourism industry in the state of Sabah, Malaysia. That said, how bad is the damage to Sabah tourism from COVID-19? What has it done to the different tourist companies existing in the economy? This study addresses the firm-level impact of COVID-19 on tourism in Sabah during the early months of the pandemic, during the Movement Control Order (MCO) phase, and in the post MCO period, by conducting a survey and stakeholders engagement activities involving firms in the industry. Based on the lessons learned from the outbreak, general recommendations are also suggested.

Literature Review

There seems to be many studies on these related areas and some studies or report could be found such as by ADB (2020), KPMG (2020), International Labor Organization (2020), Congressional Research Service (2020) R. Idris et. al (2020), Hanafiah, M. H. et. al (2021), Jennifer Chan Kim Lian et al. (2022) and M F Abdullah et. al (2023). However, there are limited studies of diseases and economic effects at least in the context of Sabah.

Methodology

The research surveyed 60 tourism-related companies in Kota Kinabalu, Tawau, and Sandakan, Sabah, Malaysia, as individual firms to obtain responses to their views related to the effects of the COVID-19 on the tourism sector during the early spread of disease, during the MCO, and during the recovery period. 20 of the firms offer accommodation services, another 20 firms offer food and beverage services while the remaining 20 firms engage in tour operations and guided tours. All firms belong to the category of small enterprise.

This study refers early disease spread period as period 3 months prior to the first lock down in March 2020. "MCO" and "lockdown" are terms that are often used interchangeably, but their exact definitions are tied to respective context and the policy direction of respective countries or local area. In most cases, the two words refer to actions taken by the government to prevent people (or a certain category of people) from moving in order to contain the spread of diseases in human populations during periods where the control of the spread of disease (usually an outbreak) is recognized as a public health emergency, like in the case of the COVID-19 pandemic. The lockdown and MCO in this study means the same thing, whereby during lockdown period, the people allowed to move to buy basic necessities like food, even though there are many restrictions impose at the same time. The MCO period in this study refers to the period where there are still movement restriction applied among countries. For this study, the post MCO period up to end of December 2022 is deemed as economic recovery period.

This study focuses to examine and report five aspects of economic and financial impact. Effect on income, effect on services demand, effects on employment, effect on liquidity position of company and effect on gearing position of company are the five economic and financial impacts being discussed in this study.

Results

Surveys were done involving tourism industry based firms on service category, which includes accommodation, food and beverage and tour operator guided tours which is tabulated in Table 2. Table 2 summarizes selected survey outcome. If the impact is negative it means that the situation is worsening as compare to the scenario in pre COVID-19 period. An increase means that the outcome is even more favourable than pre-COVID-19 period; a positive impact means that the outcome is more favourable, compared to pre-COVID-19 situation. Moreover, if the inputs reflected in the survey indicated do not witness significant change (not significant) that means the performance is about the same as the situation during pre-COVID-19.

Table 1

Summary of Effects by Tourism Services (percentage of firms) during early disease spread, MCO and Post MCO in Percentage and in comparison to the Situation pre-COVID-19

| Tourism Services and Effects of CoVID-19 | During Early Disease Spread Period | | | | During MCO Period | | | | During Post MCO Period | | | |
|--|------------------------------------|----------|--------------------------|-----------------|-------------------|----------|--------------------------|-----------------|------------------------|----------|--------------------------|-----------------|
| | Positive | Negative | Range of Negative Effect | Not Significant | Positive | Negative | Range of Negative Effect | Not Significant | Positive | Negative | Range of Negative Effect | Not Significant |
| Accommodation Services (20 firms) | | | | | | | | | | | | |
| Effect on Income | 0% | 15% | 10-15% | 85% | 0% | 100% | 90-100% | 0% | 0% | 90% | 40-50% | 10% |
| Effect on Services Demand | 0% | 15% | 10-15% | 85% | 0% | 100% | 90-100% | 0% | 0% | 90% | 40-50% | 10% |
| Effect on Employment | 0% | 0% | | 100% | 0% | 100% | | 0% | 0% | 90% | | 10% |
| Effect on Liquidity Position of Company | 0% | 0% | | 100% | 0% | 100% | | 0% | 0% | 90% | | 10% |
| Effect on Gearing Position of Company | 0% | 0% | | 100% | 0% | 20% | | 80% | 0% | 90% | | 10% |
| Food and Beverage Services (20 firms) | | | | | | | | | | | | |
| Effect on Income | 0% | 10% | 5-10% | 90% | 5% | 65% | 20-30% | 30% | 15% | 55% | 10-20% | 30% |
| Effect on Services Demand | 0% | 10% | 5-10% | 90% | 5% | 65% | 20-30% | 30% | 15% | 55% | 10-20% | 30% |
| Effect on Employment | 0% | 0% | | 100% | 0% | 40% | | 60% | 0% | 15% | | 85% |
| Effect on Liquidity Position of Company | 0% | 0% | | 100% | 5% | 60% | | 35% | 15% | 55% | | 30% |
| Effect on Gearing Position of Company | 0% | 0% | | 100% | 0% | 0% | | 100% | 0% | 0% | | 100% |
| Tour Operations and Guided Tours (20 firms) | | | | | | | | | | | | |
| Effect on Income | 0% | 15% | 10-20% | 85% | 0% | 100% | 80-100% | 0% | 0% | 90% | 50-79% | 10% |
| Effect on Services Demand | 0% | 15% | 10-20% | 85% | 0% | 100% | 80-100% | 0% | 0% | 90% | 50-79% | 10% |
| Effect on Employment | 0% | 5% | | 100% | 0% | 100% | | 0% | 0% | 90% | | 10% |
| Effect on Liquidity Position of Company | 0% | 20% | | 80% | 0% | 100% | | 0% | 0% | 90% | | 10% |
| Effect on Gearing Position of Company | 0% | 0% | | 100% | 0% | 20% | | 80% | 0% | 90% | | 10% |

Table 1 indicates that the impact of COVID-19 on tourism services related business (by percentage of Firms) during early disease spread and MCO period in percentage and in comparison with the performance during early disease spread period are negative. Looking into the effect on accommodation services related business, 15 percent of the firms declared that the impact of COVID-19 on income and demand for accommodation services during early disease spread period are negative or lower than the situation before COVID-19. The magnitude of negative effects during the early disease spread period range between 10-15 percent or drop in income by 10-15 percent. The situation is even severe during MCO period where all the firms engaged indicate that the impact is negative on income and service demand. The magnitude of effects range between 90-100 percent or decline in income and services demand by 90-100 percent as compared to the situation during pre-COVID-19. The situation is improving slightly during recovery or post MCO period where 90 percent of the firms state that the effect is still negative on income and services demand, while only 10 percent reported that the situation is more or less the same as pre-COVID-19. The size of negative effect are reported to be in the range of 40-50 percent or alternatively it means decline in income and services demand by 40-50 percent. On the impact on employment, the effect was reported to be non-significant during early disease spread period, negative during MCO period and post MCO period, based on the inputs from firms engaged in the survey. Moreover, the impact on liquidity and gearing position of companies, in general are reported to be negative during MCO and post MCO vis-à-vis the performance before COVID-19.

For the effect on food and beverage services related business, only 10 percent of the firms declared that the impact of COVID-19 on income and demand for food and beverages services during early disease spread period are negative or lower income than the performance before COVID-19. The magnitude of negative effects during the early disease spread period range between 5-10 percent or drop in income by 5-10 percent, based on the inputs given by 2 out of 20 firms being consulted. The situation is even severe during MCO period where 65 percent or 13 of the firms engaged indicate that the impact is negative on income and service demand. The magnitude of effects range between 20-30 percent or decline in income and services demand by 20-30 percent as compared to the performance during pre-COVID-19. The situation is improving slightly during recovery or post MCO period where 55 percent of the firms state that the effect is still negative on income and services demand, while only 30 percent reported that the situation is more or less the same as pre-COVID-19. The size of negative effect are reported to be in the range of 10-20 percent or alternatively it means decline in income and services demand by 10-20 percent as compared to the income they used to make during pre-COVID-19. For the impact on employment, the effect was reported to be non-significant during early disease spread period, negative during MCO period according to only 40 percent of the firms and 15 percent of the firms during post MCO period. Moreover, the impact on liquidity and gearing position of companies, in general are reported to be negative during MCO and post MCO vis-à-vis the performance before COVID-19 for most companies.

Looking into the effect on tour operations and guided tours services, 15 percent of the firms declared that the impact of COVID-19 on income and demand for services during early disease spread period are negative or lower than the situation before COVID-19. The magnitude of negative effects during the early disease spread period range between 10-20 percent or drop in income by 10-20 percent. The situation is even severe during MCO period where all the firms engaged indicate that the impact is negative on income and service demand. The magnitude of effects range between 80-100 percent or decline in income and services demand by 80-100 percent as compared to the performance during pre-COVID-19. The situation is improving slightly during recovery or post MCO period where 90 percent of the firms state that the effect is still negative on income and services demand, while only 10 percent reported that the situation is more or less the same as pre-COVID-19. The size of negative effect are reported to be in the range of 50-79 percent or alternatively it means reduction in income and services demand by 50-79 percent. For the impact on employment, the effect was reported to be non-significant during early disease spread period, negative during MCO period and post MCO period, based on the inputs from companies engaged in the survey. Moreover, the impact on liquidity and gearing position of companies, in general are reported to be negative during MCO and post MCO vis-à-vis the performance before COVID-19.

Based on the survey and stakeholders engagement activities conducted, there are many issues and reasons that have been pointed out by various stakeholders. The MCO which intended to contain the spread of COVID-19, have had significant impacts on the sector. In addition, there are many issues associated with it. Among others, table 3 summarizes some of the key issues associated with tourism industry during MCO period that may explain the drop in firms' income, services demand, as well as employment. The views expressed are also

based on their observation in the cities where they operated business and might be different from what their respective company experienced.

Table 3

Summary of issues associated with tourism industry during MCO period

| Issues | Explanation |
|--|---|
| Travel Restrictions | Travel restrictions such as border closures and cancellation of flights have resulted in a significant decrease in both global and local tourism. People have avoided planning trips due to travel bans and quarantine requirements. |
| Drop in Tourist Arrivals | Borders have closed and movement was restricted, leading to the immediate severe drop of arrivals and tourist arrivals. The number of visitors to tourist destinations has decreased drastically and suddenly and this will result in economic losses, hence drop in income. |
| Economic Impact | The MCO (Movement Control Order) has hit hard on all businesses, especially in particular hoteliers, restaurants, tour operators, and transportation services. As a result of this and others, Sabah registered negative GDP growth. |
| Job Losses and Unemployment | The Pandemic led to the down of tourism activities due to which many businesses in the tourism industry slowly started scaling down or even closing down. resulting into job losses and unemployment of people working in the tourism industry like hotels. |
| Closure of Tourism-related Businesses | Some of the tourism-related businesses, particularly those which are small enterprises, had not been able to bear the cost put on their operation due to the MCO, and eventually close down. |
| Impact on Accommodation Providers | Cancellation of many reservations has led to poor hotel and resort occupancy levels. |
| Cancellation of Events and Festivals | The MCO lasted through many events, festival, and conferences season, affecting tourism and business opportunities, affecting local or traditional business, businesses found it hard to able to cut cost, such as rentals and staff salaries. |
| Strain on Airlines and Transportation | Impact on airlines and transportation services providers experienced reduced passenger volume, resulting in monetary losses and operational difficulties. Demand for public transportation services significantly dropped |
| Uncertainty and Fear | The fear of contracting the virus and uncertainty about the evolving situation have led to a decrease in consumer confidence, discouraging travel and tourism-related activities. Fear of virus and uncertainty over the ongoing actions has reduced consumer confidence and reduced travel and tourism related activities. |

Recommendations & Concluding Remark

The objective of this study is to examine the impact of COVID-19 on tourism services from economic and finance perspective in Sabah. Based on the survey and stakeholders engagement undertaken, it is evident that COVID-19 brings negative impact to income,

services demand, employment, liquidity position and gearing position of company especially during the lockdown or MCO as well as during post MCO period.

These findings portray the complexity of the impacts on the tourism sector in Sabah, Malaysia, especially given the sample of accommodation service providers, food and beverage service providers, tour operators, and guides participated in the study. These disruptions, which have included travel restrictions, border closures and changes in consumer behaviour have led to drop in sales, income and service demand. Despite all of this, the sector has shown itself to be resilient, adaptable and innovative.

In all the above cases, stakeholders from governments to businesses to communities need to work on rebuilding a stronger tourism sector. Measures which should not only respond to the immediate economic impact but also ensure the shock does not jeopardise the long-term sustainability of the tourism sector. The post-COVID tourism recovery and strengthening of sector will rely on the adoption of digital solutions and the revival of domestic tourism to help rebuild a more resilient and sustainable tourism sector.

Among other recommendations from the study, it is crucial to revive and kickstart international flights from Sabah to countries globally where the state previously had direct flights to before the COVID-19 pandemic struck. In addition, international events, conferences and festivals to be held in Sabah will continue to boost the flow of tourists coming to Sabah. There must also be continuous development for niche tourism products and activities such as birding among others.

There must also be effort to further diversify existing attraction in addition to natural beauty such as matters related to new tourism product and services, availability of theme park, availability of more shopping destination as well as increasing and enhancing local identity products for tourists.

Acknowledgement

This research is a part of several research conducted on the impact of COVID-19 on economy funded by UMS research grant (SDK0250-2020).

References

- Asian Development Bank. (2020). The Economic Impact of the COVID-19 Outbreak on Developing Asia. https://www.adb.org/sites/default/files/publication/571536/adbbrief_128-economic-impact-COVID19-developing-asia.pdf
- Congressional Research Service. (2020). Global Economic Effects of COVID-19. <https://fas.org/sgp/crs/row/R46270.pdf>
- Hanafiah, M. H., Balasingam, A. S., Nair, V. Jamaluddin, M. R. and Zahari, M. S. M.(2021). Implications of COVID-19 on tourism businesses in Malaysia: Evidence from a preliminary industry survey. *Asia-Pacific Journal of Innovation in Hospitality*
- International Labor Organization. (2020). COVID-19 and the world of work: Impact and policy responses. https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/briefingnote/wcms_738753.pdf
- Idris, R., Mansur, K., Idris, R. Z., and Kogid, M. (2020). COVID-19 Outbreak in Sabah: A Preliminary Survey on its Effects on Hotel Industry & Some Key Concerns During Pre-Movement Control Order Period. *International Journal of Academic Research in Business and Social Sciences*, 10(11), 771–778.
- Lian, J., Lily, S. (2022). Impacts and Measures Covid-19 Pandemic and Tourism Industry in Sabah. *Journal of Sustainability Science and Management* Volume 17 Number 8, August 2022: 1-21
- Abdullah, M. I. M., Noor, B. E., Ahmad, M. P., and Pardi. (2023). Managing the impact of COVID-19 crisis on tourism sector in protected area: A case study in Pahang National Park. *IOP Conf. Ser.: Earth Environ. Sci.* 1217 012024