

**THE EFFECT OF ECONOMIC AND SOCIAL
FACTORS ON TOURISM DEMAND FOR
MALAYSIA AND SELECTED NEIGHBOURING
COUNTRIES**

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COUNTRIES**

by

NURBAIZURA BINTI BORHAN

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LIST OF ABBREVIATION

ADF	Augmented Dickey Fuller
AFC	Asian financial crisis
AIDS	Almost ideal demand functions
AIAEST	International association of scientific experts
ARDL	Autoregressive distributed lag
ARIMA	Autoregressive integrated moving average
ASEAN	Association of southeast Asian nation
CHEGY	Hylleberg-Engle-Granger-Yoo
Chow2	Second Chow test
CORPI	Corruption perception index
CPI	Consumer price index
CRS	Computerized reservation system
DF-GLS	Dickey-Fuller generalized least square
DFE	Dynamic fixed effect
DOLS	Dynamic OLS
EC	Euro debt crisis
ECT	Error correction term
EG 2-step	Engler-Granger 2-step
EIU	Economist intelligence unit
EPP	Entry point project
EPU	Economic planning unit
ERS	Elliot, Rothenberg and Stock point optimal unit root test
ETP	Economic transformation program
FCU	Fare construction units
FE	Fixed effect
FLU	Avian influenza A pandemic
FMOLS	Fully modified OLS
GARCH	Generalized autoregressive conditional heteroskedasticity
GDP	Gross domestic product
GFC	Global financial crisis

GLC	Government linked corporations
GMM	Generalized method of moment
GMM-DIFF	First difference GMM
GNI	Gross national income
GTI	Global terrorism index
H1N1	Swine flu pandemic
ICT	Information and communication technology
IPS	Im, Pesaran and Shin
JB	Jarque-Bera
JJ	Johansen and Juselius
KF	Kalman filter
KF-EC-AIDS	KF estimation error correction AIDS
KPSS	Kwiatkowski-Phillips-Schmidt-Shin
LEPROSY	Leprosy disease
LLC	Levin, Lin and Chu
LM	Lagrange multiplier
MALAR	Malaria disease
MG	Mean group
MICE	Meetings, incentives, conferences and exhibitions
MOTAC	Ministry of tourism and culture Malaysia
MWC	Maddala and Wu, and Choi
MyCEB	Malaysian convention & exhibition bureau
NKEA	National key economic areas
OLS	Ordinary least square
OLS-EC	OLS at first difference
PATA	Pacific Asia Travel Association
PMG	Pooled mean group
POLS	Pooled OLS
POLSI	Political stability index
PP	Philipps Perron
RE	Random effect
RP	Relative price level
SARIMA	Seasonal ARIMA

SARS	Severe acute respiratory syndrome outbreak
SRI	Strategic reform initiatives
SRP	Substitute relative price level
TA	Number of international tourist arrivals
TB	Tuberculosis
TDC	Tourism Development Corporation
TERROR	Terrorism index
TFE	Tourism foreign exchange earnings
TVP	Time-varying parameter
TVP-EC	TVP at first difference
UNWTO	World tourism organization
US	United States of America
VAR	Vector autoregressive
VEC	Vector error correction
VFR	Visit family & relatives
W	White test
WHO	World health organization
WoM	Word-of-mouth effect
WTTC	World travel & tourism council

**KESAN FAKTOR-FAKTOR EKONOMI DAN SOSIAL
ATAS PERMINTAAN PELANCONGAN BAGI MALAYSIA
DAN NEGARA-NEGARA JIRAN TERPILIH**

ABSTRAK

Industri pelancongan telah menjadi salah satu sektor penting di rantau ASEAN. Walau bagaimanapun, pertumbuhan bilangan ketibaan pelancong telah berkurangan dalam beberapa tahun kebelakangan ini. Disebabkan kepentingan ekonomi bagi industri pelancongan, kajian ini menyiasat hubungan jangka panjang dan dinamik jangka pendek antara permintaan pelancongan dengan pembolehubah ekonomi dan indeks sosial terpilih. Menggunakan data daripada 23 negara, pembolehubah yang digunakan dalam kajian ini terdiri daripada empat pembolehubah ekonomi serta lima indeks sosial dan lima peristiwa *one-off*. Untuk mencapai objektif, kajian ini telah menggunakan beberapa teknik ekonometrik yang termasuk prosedur 2-langkah *Engle Granger* (EG), pendekatan pemodelan autoregresif tertabur susulan (ARDL), teknik data panel statik dan *heterogeneous* dan juga teknik anggaran *Kalman filter* (KF). Keputusan analisis kointegrasi mendedahkan bahawa terdapat hubungan jangka panjang antara pembolehubah yang terpilih. Keputusan daripada teknik data panel menghasilkan peratusan yang lebih tinggi bagi tanda yang betul bagi koefisien model dengan kadar pertukaran dan tahap pendapatan umumnya mempunyai impak positif terhadap permintaan pelancongan. Harga relatif dan harga relatif pengganti didapati mempunyai campuran impak positif dan negatif. Kajian ini juga mendedahkan bahawa wabak SARS, pandemik FLU dan krisis hutang euro mempunyai impak negatif terhadap permintaan pelancongan bagi Malaysia manakala pandemik H1N1 dan krisis kewangan global

tidak mempunyai impak negatif terhadap bilangan ketibaan pelancong. Seperti yang dijangka tahap kestabilan politik yang lebih tinggi dan tahap rasuah yang lebih rendah didapati mempunyai impak positif terhadap bilangan ketibaan pelancong ke Malaysia dan tiga negara jiran sementara keganasan tidak mempunyai impak negatif yang dijangka. Walaupun penyakit kusta mempunyai kesan yang signifikan terhadap bilangan ketibaan pelancong, penemuan itu juga mendedahkan bahawa malaria tidak mempunyai kesan yang signifikan terhadap ketibaan pelancong ke rantau ASEAN. Analisis kepekaan menunjukkan bahawa anggaran model panel *heterogeneous* adalah peka terhadap spesifikasi pangkat, panjang tempoh sampel dan kemasukan negara AS sebagai negara asal. Keputusan menunjukkan bahawa teknik KF telah menghasilkan pekali anggaran yang jelas berbeza di sepanjang tempoh sampel, mempunyai campuran anggaran positif dan negatif dengan magnitud yang lebih besar pada permulaan tempoh sampel. Penganggaran KF juga menunjukkan bahawa kelajuan pelarasan untuk keseimbangan jangka panjang berikutan penyimpangan jangka pendek adalah lebih cepat semasa separuh pertama tempoh sampel. Memandangkan permintaan pelancongan bukan sahaja terjejas oleh faktor yang berkaitan dengan ekonomi tetapi juga faktor sosial, keselamatan dan kesihatan, kerajaan di Malaysia dan di negara jiran perlu mewujudkan dasar ekonomi yang menggalakkan dan melakukan usaha keras untuk mencapai persekitaran yang kondusif bagi menarik pelancong asing ke rantau ini.

**THE EFFECT OF ECONOMIC AND SOCIAL FACTORS
ON TOURISM DEMAND FOR MALAYSIA
AND SELECTED NEIGHBOURING COUNTRIES**

ABSTRACT

Tourism industry has become one of the important sectors in the ASEAN region. However, the growth in the number of tourist arrivals has reduced in recent years. Due to the economic importance of the tourism industry, this study investigates the long-run relationship and short-run dynamic between tourism demand with that of selected economic variables and *social indices*. Utilizing data from 23 countries, the variables employed in this study consist of four economic variables as well as five *social indices* and five one-off events. To achieve the objectives, the study has employed a few econometric techniques that include Engle-Granger (EG) 2-step procedure, autoregressive distributed lag (ARDL) modelling approach, static and heterogeneous panel data techniques and also Kalman filter (KF) estimation technique. The result of cointegration analysis revealed that there exist long-run relationship among the selected variables. The results from panel data techniques yield higher percentage of correct sign for the model coefficients with exchange rate and income level generally have positive impact on tourism demand. The relative price and substitute relative price are found to have a mixture of positive and negative impact. This study also revealed that the SARS outbreak, FLU pandemic and euro debt crisis have negative impact on the tourism demand for Malaysia while the H1N1 pandemic and global financial crisis do not have a negative impact on the number of tourist arrivals. As expected greater level of political stability and lower level of corruption are found to have positive impact on the

number of tourist arrivals to Malaysia and the three neighbouring countries while terrorism does not have the expected negative impact. While leprosy has a significant impact on the number of tourist arrivals, the finding also revealed that malaria does not have a significant impact on the number of tourist arrivals to the ASEAN region. Sensitivity analyses showed that the estimates of heterogeneous panel are sensitive to the order specification, length of sample period and the inclusion of the US as country of origin. The results show that the KF technique produced estimated coefficient that are clearly varying over the sample period, having a mixture of positive and negative estimates with the magnitude is larger at the beginning of the sample period. The KF estimation also showed that the speed of adjustment to long-run equilibrium following short-term deviation is faster during the first half of the sample period. As tourism demand is not only affected by economic related factors but also on social, security and health factors, governments in Malaysia and the neighbouring countries should create favourable economic policies and make great effort in attaining conducive visiting environment to attract foreign tourists to the region.

CHAPTER 1

INTRODUCTION

1.1 Background of Tourism Industry

Tourism has become one of the largest economic sectors globally and the growth has outperformed in majority of the leading sectors in 2014, including automotive, public services, retail, information and communications technology (ICT), financial services, aerospace and extraction. Tourism growth stimulates global economic development in generating national revenue, employment opportunities, export earnings and capital investments. In 2014, tourism industry has contributed to 9.8 percent of world gross domestic product (GDP), 9.4 percent of total employment, 5.7 percent of total exports and 4.3 percent of total investments (World Travel & Tourism Council (WTTC), 2014).

According to World Tourism Organization (UNWTO, 2014), the tourism industry has surpassed expectation over the last few decades and has continued to expand steadily in 2014 with the number of international tourist arrivals have increased by 374 million from 761 million in 2004 to 1135 million in 2014 despite continual global economic challenges and geopolitical instability. In addition, international tourism receipts by destination grew by an average 8.2 percent annually

in real terms from US\$ 635 billion in 2004 to US\$ 1245 billion in 2014, making one of the fastest industries in the world (UNWTO, 2014).

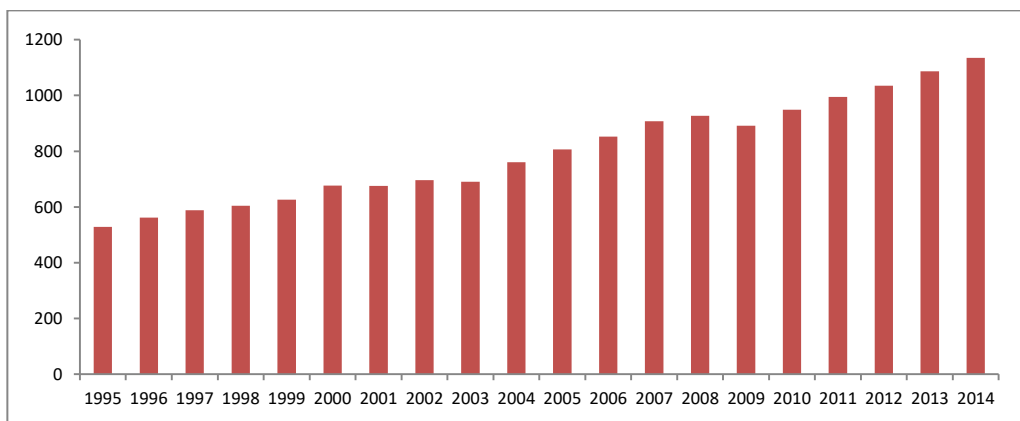
In spite of persisting global economic challenges and geopolitical shifts, tourism continues to grow and even exceed long-term forecasts and expectations. After reaching a historic milestone in 2012, of one billion people traveling the world annually, tourism maintained its momentum with a 5% grow 2013. An additional 52 million international tourists travelled the world, reaching a total of 1,087 million international tourists a year. Truly, we are living in the Age of Travel.

(Source: Talib Rifai, UNWTO Annual Report 2013)

As shown in Figure 1.1 and Figure 1.2, it can be observed that there is a similar increasing trend in the total number of international tourist arrivals worldwide and the total amount of tourism receipts. Notice that during 2009 the number of international tourist arrivals has dropped by 3.9 percent that is equivalent to 36 million arrivals while the tourism receipts also has fallen by 9.3 percent that is approximately US\$ 90 billion. The drop could be attributed to global financial crisis aggravated by the uncertainty during the avian flu H1N1 pandemic, by commodity and oil price rises and by sharp exchange rate fluctuations.

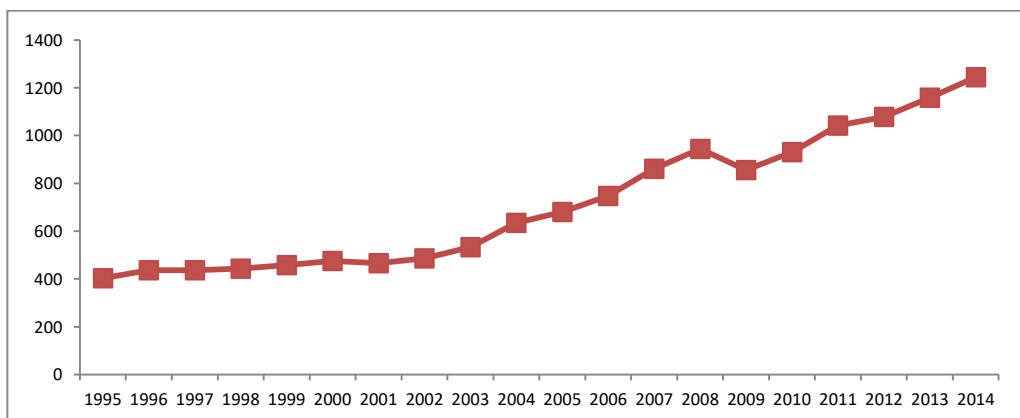
With regards to tourism in Malaysia, as majority of the international tourists to Malaysia are European, after the Southeast Asian region, the drop could be attributed to Eurozone sovereign debt crisis (euro debt crisis) that started at the end of 2009 until at the end of 2010. However, despite the weak growth due to euro debt crisis in 2009, the global tourism growth has showed an increase in both the total number of tourist arrivals and the total amount of tourism receipts in 2010 onwards. The drop in the number of tourist arrivals in Malaysia could also due to appreciation of ringgit Malaysia.

Looking at Figure 1.3, it can be observed that the European region remains the most visited region in the world, welcoming 563 million tourists in 2014 that is approximately five percent or 29 million increase in tourist arrivals as compared to 2013. In 2016, the number of tourist arrivals to Europe has increased by one percent equivalent to 616 million. For more than a decade, France has been the most visited country in the world with 84.5 million in 2015. As expected, Asia and the Pacific region, the second most visited region in the world shows a growth of fourteen million or six percent increase in the number of international tourist arrivals, reaching to 248 million in 2014, making the region as the strongest growth for international tourism.



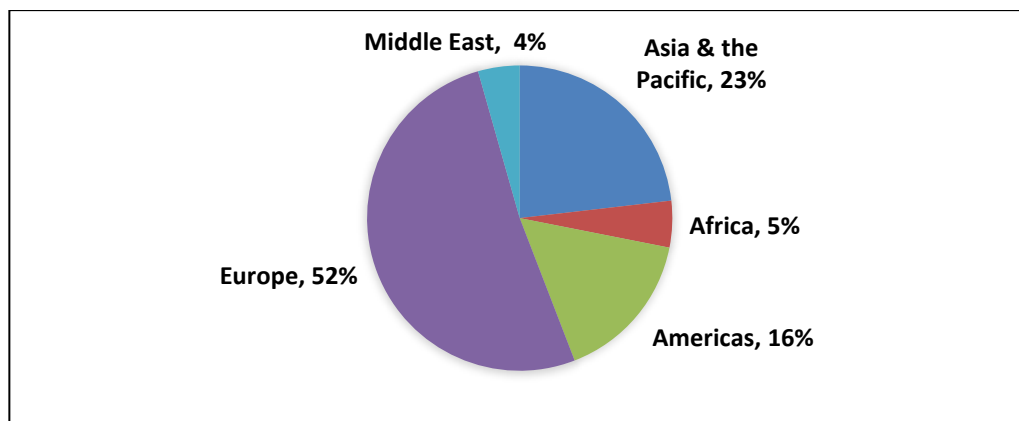
Source: UNWTO Annual Report 2015

Figure 1.1: Inbound tourism international tourist arrivals in million (1995-2014)



Source: UNWTO Annual Report 2015

Figure 1.2: International tourism receipts in billion US dollars (1995-2014)



Source: UNWTO Annual Report 2015

Figure 1.3: Percentage of international tourist arrivals by region

In addition, the number of international tourist arrivals from the Americas saw an increase of six million, reaching a total of 169 million while the growth from the African region has also increased by six million arrivals, reaching a total number of international tourist arrivals of 56 million. Not surprisingly, the number of tourist arrivals from the Middle East region has decreased markedly. Perhaps due to the unstable political situations in countries such as Syria, Yemen and Palestine have slowed down the global number of tourist arrivals from these countries due to fear causes by the militant group or terrorists. (Economic Impact of Travel & Tourism: 2015 Annual Update Summary).

Table 1.1: Percentage change of tourists arrivals by region (2011-2014)

Year	Asia & the Pacific	Africa	Americas	Europe	Middle East
2011	6.37	2.04	4.00	5.66	-8.33
2012	7.83	6.00	4.49	5.95	-5.45
2013	5.98	5.66	3.68	5.43	0.00
2014	6.05	0.00	7.69	3.73	-3.85

Source: Ministry of Tourism Malaysia

Table 1.1 presents percentage change in the number of international tourist arrivals by region between 2011 and 2014. It can clearly be seen that most regions have shown positive growth throughout the four consecutive years except for the case of Middle East region whereby the percentage change in the number of tourist

arrivals has shown a negative growth. Generally, it can be observed that the percentage change in the number of tourist arrivals has shown an increasing trend from 2011 to 2012, followed by a marginally decreasing trend from 2012 to 2013. In 2014, the percentage change in the number of tourist arrivals from Africa, Europe and Middle East region have shown a decreasing pattern while the change in the number of tourist arrivals from the Americas region was two times larger than the change in the number of tourist arrivals in the previous year.

1.1.1 Definition of tourism

Despite the growing importance of tourism, there is no precise definition of tourism because of its multidisciplinary nature. Tourism is distinguished in the literature by various definitions, such as holistic, interdisciplinary and technical (Ma and Law, 2006). Holistic tourism is defined as the sum of phenomenon and relationship between mind, body and soul. Holistic tourism offers activities that combine therapies and counselling, pathways to spiritual development, creative enhancement and many other routes to reconciliation of body, mind and spirit. In other words, holistic tourism gives tourists enjoyment of different experience through contact with cultures, people as well as natural beauty at destinations. Meanwhile, interdisciplinary tourism covers practically all aspects of the society and the aspects of tourism disciplines including sociology, economy, psychology, anthropology and political science. For example, in the context of cultural and heritage tourism, the anthropological view defines tourism as the different behavior of people in reasoning for travelling and involvement in cultural activities, while the psychological view describes tourism as the best way to promote and market the tourism products.

A study by Burkhart and Medlik (1974) have distinguished tourism into conceptual and technical definitions. For conceptual definition, the International Association of Scientific Experts (AIEST) has defined tourism as the sum of the phenomena and relationships arising from the travel and stay of non-residents, as they do not lead to permanent residence and are not connected with earning activity. For technical definition, the United Nations in 1963 has defined tourism as an instrument for particular statistical, legislative and industrial purposes. The word “visitor” describes a person who visited a country other than his or her usual place of residence, for any reason other than working within the country visited.

According to WTTC (2014), tourism is related to the activity of travelers on trips outside their usual environment with duration of less than one year. The definition of tourism can also be defined as a social, cultural and economic phenomenon which entails the movement of people to countries or places outside their usual environment for personal or business purposes (UNWTO, 2014). Other definition such as by Macintosh and Goeldner (1986) stated that tourism is the sum of the phenomenon and relationships arising from the interaction of tourists, business suppliers, host governments and host communities in the process of attracting and hosting tourists and other visitors. Meanwhile, Mathieson and Wall (1982) has defined tourism as temporary movement of people to destinations outside their normal places of work and residence, the activities undertaken during the stay in those destinations and the facilities created to cater to the needs. In this study, the definition of tourism generally follows the definition given by the World Tourism Organization.

1.1.2 Importance of tourism in economy

As mentioned in the previous section, tourism industry is known as an important sector in 2014 that has contributed US\$ 7.6 trillion to the global economy which equates to 9.8 percent of total global gross domestic product. The tourism sector also contributes to employment opportunity in the local area and to business linkages that presents a partial depiction of the economic impact of the tourism activity in the area. As such, it is important to promote mutual understanding among people and expanding social, economic, cultural and systematic cooperation to generate income particularly through consumption of goods and services by tourists, taxes charged on businesses in the tourism industry and the opportunity for employment in the service industries associated with tourism.

For instance, for the case of emerging countries, Nepal and Nicaragua, even though poverty level in these two countries is quite high, tourism in Nepal and Nicaragua is still one most of important sectors for economic growth of both countries. More specifically, Nepal is one of the richest countries in the world in terms of biodiversity due to its unique geographical position and altitudinal variation. According to the World Travel and Tourism Council (WTTC), travel and tourism sector in Nepal has directly generated 487500 jobs in 2014 representing a 3.5 percent of the total employment in the country.

Meanwhile, according to WTTC Travel & Tourism Economic Impact (2014), the increasing number of international tourist arrivals to Nicaragua is making this country to be one of the world's top ten emerging destination. The tourism industry directly contributed to 4.0 percent of the country's GDP in 2013. In terms of jobs, the tourism industry generated 82000 jobs directly representing a 3.3 percent of total

employment and 195500 jobs indirectly representing a 7.9 percent of total employment in 2013. Based on Lonely Planet, Nicaragua is featured among the Best Travel Countries in 2015, pointing out that Nicaragua is similar to the Costa Rica. Besides, the country is said to be cheaper, safer and less developed than its Central America neighboring country. In addition, the local people typically describe Nicaragua as a unique country.

“Nicaragua is a unique natural playground with a history, culture and cuisine all of its own”.

(Source: Nicaragua Press Release, January 14, 2015)

As expected, for the case of top tourist destination such as Hawaii and France, tourism makes a crucial contribution to the economy of both state and country. According to Hawaii Tourism Authority, a total of 8282680 visitors came to Hawaii islands in 2014, exceeding the 2013 record of 8174461 visitors by 1.3 percent. Meanwhile, France is the world’s top tourist destination, with a total of 83 million tourist arrivals. Tourism in France makes a vital contribution to the foreign trade and this trade has shown a noticeable progression, achieving a balance of nearly €13 billion in 2012, as compared to €7.5 billion in 2011.

1.1.3 Factors affecting tourism demand

Similar to other industries, the success and failure of the tourism industry are often depend on various factors. These factors include politic, social and health, economic, cultural and environmental, infrastructure and technology and other factors that related to one-off events. Each factor affecting tourism industry at the destination country is discussed briefly and the examples are described as well as the impact of each factor is explained.

a) Political factors

A few researchers highlighted that political factors can have a huge impact on tourism development. The factors are vast include political instability or political unrest, political coup, corruption, intergovernmental relation and others. Political change in a country can seriously impact the prospects for the tourism industry in the destination country. Perhaps the best example of the political change of a country is Cuba. The restrictions on travelling by the US citizens to Cuba have seriously reduces the prospects for tourism industry in Cuba. Political unrest of a country can cause tourists to fear for travelling and lead to avoid that country. A few countries that have perceived as political unrest among others are Egypt, Catalonia (Spain), Kenya, Turkey and Thailand (Ingram, Tabari and Watthanakhomprathip, 2013). For example, the political protests and uncertainty in Thailand have negative impact on its national tourism businesses and have reduced the number of international tourist arrivals gradually. Many visitors who decided to postpone and cancel their trips to Thailand have led to severe loses in income generated by the tourism businesses.

Municipal Association of South Carolina has used the term “intergovernmental relation” that is generally means interaction among the various levels of government by understanding the roles and responsibilities of each level and, developing effective relationships at the local, state and federal level. The impact of intergovernmental relation on tourism indirectly provides a way of building a product base for international tourism and stabilizes the cyclical and seasonal flows of the international inbound tourism.

b) Social and health factors

Hall *et al.* (2004) emphasized that safety and security issues will be very much interests, as well as health issues and climate change. One example of safety and security issue is terrorism and according to the US Federal Bureau of Investigation, terrorism is defined as the use of serious violence against property of people and to intimidate a government, and the public. Terrorism in a country can disrupt business as well as the national economies if the government do not take precaution in handling this matter. Typically travel perception has changed as a result of the frequency and perceived scale of terrorism attacks reported in the media. Some destinations may appear to be associated with greater travel risks than others, such as, the Bali bombings in 2002 and 2005, the Madrid bombings in 2004, incidents in Turkey and Egypt in 2005 and the attacks on the London transport link in 2005. These perceived increased risk of terrorism may led to short-term cancellation by travelers with high risk sensitivity.

c) Economic factors

Global economic environment generally would affect intention of tourists to travel to other countries and people tend to spend more on travelling if they are under a favorable economic environment. For example, the appreciation of Japanese yen to Malaysian ringgit has encouraged more Japanese visitors travelling to Malaysia since they perceived a higher value of their currency when spending their money in Malaysia. In addition, the decision for having a holiday is largely dependent on the financial of the individuals and freedom to make the journey possible. Thus, the external factors that proving influential to this need would be freedom, fitness, time and money.

d) Cultural and environmental factors

There are some other important factors that affect tourism demand as well. Typically, a greater environmental awareness and a society that takes its health and fitness more seriously than it was in the past have affected travel and tourism developments in the recent years. 'Green issues' such as the development of eco-tourism, green hotels and conservation of heritage sites are becoming more and more important which provide a basis for sustainable tourism development of a tourist destination. Pooi (2006) has suggested that quality of environment is one of the main factor for the tourists in making destination decision.

e) Infrastructure and technological factors

The infrastructure of a tourism destination is yet another dimension that has not been put in place mainly to serve tourism. Basic infrastructures such as roads, sewage systems, communication networks, and many commercial facilities include supermarkets and retail stores have been put in place to meet the needs of local residents. To contribute to the growth in the international tourism that meet the needs of local residents are by promoting products diversity effectively, constant improving the national transport system including increasing affordability of air tickets with the advent of low cost carrier as well as the introduction of an extensive high speed rail network. The most obvious examples include hotels, restaurants, conference centers, car rentals and major attractions. Salleh *et al.* (2010) have pointed out the importance of the hotel industry to the tourism industry in Malaysia.

Travel and tourism have always been an industry that have made extensive use of new technological equipment. In many ways, technology can be viewed as one of the most distinctive and most powerful characteristics of the built environment

since the dawn of modern tourism following World War II. The advent of jet aircraft and the massive invasion of telecommunications technology, linked closely with computer technology, has had a dramatic impact on the very essence of the tourism phenomenon. For example, computerized reservation system (CRS), the use of computers and sophisticated databases for marketing purposes are very common among travel agencies. Increasing competition within the industry force agencies to use new technology to its fullness. Latest developments in transportation that make extensive use of new technology are for example the mainland's high-speed rail and the advances in aircraft design which help opening up new long-haul destinations.

f) Other factors (*one-off* events)

Other factors such as demographic trends, social changes and even *one-off* events will have important impacts on the future development of the tourism industry. The fact that people are living longer, the fall in the number of young people, the increase in one parent households, more couples choosing not to have children or delay having children. They all point to the fact that the type of travel and tourism products and services will change radically. For example, the aging population will be an opportunity for the cruise travel market where seniors are their key target groups.

Other examples that related to one-off events are severe acute respiratory syndrome (SARS) outbreak in 2003, global financial crisis, euro sovereign debt crisis, tsunami disaster, among others. Generally, these unexpected events generally have negative impact on tourism demand at the destination country. Studies that have been include any of this *one-off* events among others are Othman and Salleh (2009), Gormus and Gocer (2010), Salleh *et al.* (2010), and Asemota and Bala (2012).

1.2 Overview of Tourism Industry in Malaysia

Since 1960s, tourism industry in Malaysia is one of the new forces in the economic sectors, however the growth was slow and less encouraging. In addition, the commencement of tourism in Malaysia is marked as the largest contributions to the economic growth after progressive of tourism strategies was added in Master Plan 1971-1975. The aim of the development of tourism industry in Malaysia is by enhancing the contribution of the tourism sector to the national economy, by empowering the rural community through rural tourism activities and by catalyzing the development of Malaysia through tourism activities (Tourism Malaysia, 2014).

In 1972, a dedicated agency, the Tourist Development Corporation (TDC), was conceived by parliament and it took over the task of promoting tourism from the department of tourism. This agency has resulted in new phase of development with regards to the intervention of the government in the tourism industry. In the same year, Malaysia was hosting the 21st conference of Pacific Asia Travel Association (PATA), indirectly propel the country into the international stage. As such, the event has resulted an increased number of international tourist arrivals to Malaysia gradually (Awang and Aziz, 2011). The increase in the number of inbound tourists is also due to increase in accessibility provided by the transformation of regional airports into international status during the 1970s. Hosting the PATA 35th conference in 1986, further boosted Malaysia's credibility in attracting tourist in subsequent years where greater interest was generated through the highlighting of facilities and services to delegates.

Along with the vision and mission of Ministry of Tourism Malaysia that are developing Malaysia as a world class tourist destination and to work with all industry

players in positioning the tourism industry as a catalyst for sustainable economic growth, the tourism industry in Malaysia needs to formulate a national tourism policy by implementing policies relating to the growth and development of the tourism industry, and finally by coordinating monitor and assessing the effectiveness of tourism programs and projects (Tourism Malaysia, 2014). Therefore, tourism industry is a very important contributor to the economy of Malaysia besides foreign exchange earnings and employment opportunities.

1.2.1 The role of tourism industry in Malaysia

According to Ministry of Tourism Malaysia, the numbers of tourist arrivals and receipts to Malaysia have increased by 19.5 million from 7.9 million in 1999 to 27.4 million in 2014 and have increased by 59.7 billion ringgit from 12.3 billion ringgit in 1999 to 72.0 billion ringgit in the same period respectively, making Malaysia the top 10 destination in the world. Malaysia was also ranked by Singapore’s crescent rating as the world’s best Muslim travel destination in 2013 (ETP annual report, 2013). The substantial increasing number of tourist arrivals and tourism receipts can be seen in Table 1.2.

Table 1.2: Number of tourist arrivals (million) and tourism receipts (billion ringgit)

Year	Arrivals	Receipts	Year	Arrivals	Receipts
1999	7.93	12.3	2007	20.97	46.1
2000	10.22	17.3	2008	22.05	49.6
2001	12.78	24.2	2009	23.65	53.4
2002	13.29	25.8	2010	24.58	56.5
2003	10.58	21.3	2011	24.71	58.3
2004	15.70	29.7	2012	25.03	60.6
2005	16.43	32.0	2013	25.72	65.4
2006	17.55	36.3	2014	27.44	72.0

Source: Tourism Malaysia (2015)

Despite weak global recovery and slow economic growth in key advanced economies, and some major tragedies the nation had to face, among others, the aggressive promotional efforts and commitment from government and tourism authorities along with the celebration of Visit Malaysia Year 2014 have contributed to the continuous growth of the tourism industry in Malaysia.

From January to May, Malaysia welcomed a total of 11.53 million (11,532,859) tourists, registering a hike of 10.1% compared to 10.48 million (10,478,419) tourists for the same period last year. Throughout the month of May, the ASEAN region continued to be the largest contributor of tourist arrivals with 75.7% share (1.72 million) of Malaysia's total arrivals.

(Source: The Star Online, 16 October 2014)

In addition, the direct contribution of tourism to gross domestic product (GDP) in Malaysia reflects the total spending within a particular country by residents and non-residents for business and leisure purposes as well as government spending directly linked to tourists, such as cultural or recreational for example museums and national parks respectively. In 2014, the direct contribution to GDP was RM 61.0 billion, a 5.7 percent of total GDP and is forecasted to rise by 5.6 percent in 2015. Meanwhile, the total contribution of tourism to GDP in Malaysia approximately thrice as large its direct contribution, received about RM 161.0 billion, supported by 14.9 percent of GDP and is forecasted to rise by 5.3 percent in 2015. The direct contribution of tourism to total number of jobs in Malaysia was 724500 jobs in 2014 that is supported by 5.3 percent of total employment.

Furthermore, exports of tourists are another direct contribution to tourism, consist of spending within the country by international tourists for both business and leisure trips, including spending on transport. The direct contribution were generated

by RM 74.0 billion which supported 8.6 percent of total exports in 2014 and is forecasted to grow by 5.8 percent in 2015, encouraging the country to attract a total of 29285000 international tourist arrivals to Malaysia. Finally, capital investment that constitutes of spending directly by all sectors on specific tourism assets such as new tourist accommodation and passenger transport equipment, as well as restaurants and leisure facilities for specific tourism use in 2014 was RM 19.4 billion, and is expected to rise by 5.3 percent of total national investment in 2015.

We were also strongly encouraged by the various international accolades and recognitions received in 2014. Among them were Asia's Best Golf Destination 2014, the World's Third Best Retirement Haven for 2014, top ten ranking in Lonely Planet's Best in Travel 2014, PATA Gold Award for the Malaysia Truly Asia - The Essence of Asia video, and Lonely Planet's 2014 Best Family Destination.

(Sources: Tan Sri Dato' Sri Dr. Ng Yen Yen, Tourism Malaysia Annual Report 2014)

1.2.2 Malaysia strategies to boost tourism industry

Malaysia is going to be a higher income country by 2020 since the government has implemented an Economic transformation program (ETP) in response to the global economic shift. The ETP incorporates two crucial elements of the 12 National key economic areas (NKEA) to encourage economic growth and the six Strategic reform initiatives (SRI) to create a vibrant business environment. Prime Minister, YAB Dato' Sri Mohd Najib Tun Hj. Abdul Razak has noted that these two elements aimed at raising Malaysia's gross national income (GNI) per capita to US\$ 15000, creating 3.3 million new employment opportunities and attracting US\$ 444 billion in investments by 2020.

In 2013 alone, the ETP contributed RM 7.4 billion to gross national income (GNI), creating 29373 new employment opportunities and driving RM 8 billion worth of investments. These activities have increased our GNI per capita to US\$ 10060 during the year.

(Source: ETP annual report 2013)

One of the components in the 12 NKEA of ETP is focusing on high yields tourism, targeting leisure and business tourism to grow tourist arrivals and tourism receipts. For example, the Mitsui outlet park Kuala Lumpur international airport in Sepang was launched and represents the second outlet center in Malaysia after the Johor premium outlet in Kulaijaya. Moreover, as Malaysian convention & exhibition bureau (MyCEB) was organized from 2013 towards 2020 by securing a total of 38 association events, targeting an economic contribution of about RM 400 million, it was recorded as the significant achievement in the area of business tourism. Amongst Asian countries, Malaysia has been singled out for its significant efforts in facilitating nationwide coordination and development of the local cruise industry.

After adopting the ninth Malaysia plan in the period between 2006 and 2010, dynamic efforts in promoting tourism Malaysia as a well-known tourism destination in the world have taken into account as one of the leading contribution to the economy as well as promoting domestic tourism. The allocation of RM 1.9 billion has been provided by the federal government to coordinate tourism resources, to develop and improve tourism infrastructure, facilities and environmental conservation in tourist destinations and, to increase innovation for tourism products and services, for achieving efficiency of sustainable tourism development.

With regards to tenth Malaysia plan for the period between 2011 and 2015, the plan has been given emphasize to develop exciting and iconic tourism initiatives,

to proper management of existing tourism destinations and also to focus on tourism promotional activities. Within this plan period, Malaysia has targeted to reach the top 10 countries in the world in terms of global tourism receipts by prioritizing on promotional strategies for tourism development as suggested by the Prime Minister of Malaysia, YAB Dato' Sri Mohd Najib bin Tun Abdul Razak.

During the Plan period, the target is to improve Malaysia's position to be within the top 10 in terms of global tourism receipts and increase the sector's contribution by 2.1 times, contributing RM115 billion in receipts and providing 2 million jobs in the industry in 2015.

(Economic planning unit (EPU), 2015)

By achieving the target in 2015, the plan will be focusing on attracting a larger share of high spender of foreign tourists and capturing a larger share of high growth countries, particularly from Russia, India, China and the Middle Eastern countries, in addition to increasing the number of tourist arrivals to Malaysia. For this purpose, the selected key strategies are written as follows:

(a) Sustainable tourism development

Government of Malaysia has played a significant role in regulating legal and institutional framework for ensuring sustainable tourism development by stimulating the economic progress and reducing poverty among the local community. Sustainable tourism development has three inter-related major components that are environmental by creating linkages particularly with agriculture and servicing providing sectors and also employment opportunities, economic by establishing of financial services, and social cultural by stimulating the development of infrastructures through construction of roads, port and airport facilities. As such, the

institutional regulatory frameworks should stimulate the development of supply capacity in the national markets with the given incentives for tourism sustainability.

(b) Tourism products and services

According to Ministry of Tourism Malaysia, the categorization of tourism products and services are divided into six elements. These elements are accommodation services; food and beverage serving services; passenger transportation services; travel agency, tour operator and tourism guide services; cultural services, recreation and other entertainment services; and also miscellaneous tourism services such as camping sites, museum and theme parks. In response to abundance of accommodation choices, the option to stay in Malaysia even for the high-quality hotel is remain remarkably affordable. For example, Penang has the highest establishment of accommodation services whereby many resorts primarily located along Penang tourists spot including famous beaches such as Tanjung Bungah, Batu Feringhi and Teluk Bahang.

A variety of food and local condiments is another specialty and unique iconic tourism products provided in Malaysia, encouraging majority of the international tourists to stay a bit longer in Malaysia due to its different taste experiences. For example, Kuala Lumpur as the capital city of Malaysia and recently known as “tourist-friendly city” are serving more restaurants and hawkers, the state of Penang continuously refurbishes its city attractions, particularly at Gurney Drive, a famous place offering a variety of Penangite delicious local foods.

The development of new iconic tourism products will be encouraged in increasing tourist arrivals through private sectors and, public and private partnership, by expanding length of stay of both international and domestic tourists with varying

interest and preferences. In addition, travel and tour agencies are encouraged to improve the design, attractiveness and marketing of travel packages, paying particular attention to special interests, quality and pricing to meet varying demand of tourists, for examples; Kidzania, Malaysia Truly Asia Centre in Kuala Lumpur and also Legoland Malaysia in Iskandar Malaysia, Johor.

Another strategies that will improve the tourism products are by focusing the tourism clusters that will leverage on existing and new iconic tourism products, for examples: the Geopark and Pulau Payar Marine Park in Langkawi, Georgetown UNESCO World Heritage Sites in Penang, Sipadan Island and Kinabalu Park UNESCO World Heritage Sites in Sabah and Sarawak Cultural Village and Gunung Mulu National Park UNESCO World Heritage Sites in Sarawak.

Furthermore, other miscellaneous tourism services also include few famous campsites that are allowing overnight accommodation at Endau Rompin National Park in Johor, Malaysia such as Pantai Burung, Kuala Jasin, Kuala Marong and Batu Hampar. Tourism products and activities such as parks and gardens, arts tourism for example Wall-Art-Street along few streets in Penang town is one of the famous places that attract tourists to travel to Malaysia, shopping, tourism events and festivals will also be promoted. As such, actions need to be taken in improving maintenance of tourist sites through multiple approaches, including through government linked corporations (GLCs) and corporate sponsorship, stronger enforcement and imposition of gate fees, particularly in environmentally sensitive and heritage sites.

(c) Marketing and promotion

Government of Malaysia has promoting differentiated strategies to cater for uniqueness and distinctive travel patterns for the determinations to encourage international tourists to travel to Malaysia. The first strategy is providing an affordable luxury items in Malaysia for examples: positioning Malaysia as a duty-free shopping destination for tourist goods, designating Kuala Lumpur City Centre (KLCC) or Bukit Bintang area as a premier shopping hub and also establishing three new premium outlets in Malaysia, including Johor premium outlets as the first new premium outlet in Malaysia and Southeast Asia located at Kulaijaya, Johor. In addition, although the duty-free only apply to selected items, it undoubtedly adds appeal to annual Malaysia sale carnivals such as Malaysia grand prix sales, Malaysia mega sales carnival and Malaysia year end sales. Besides increasing international tourist arrivals to Malaysia, the strategies also set new shopping trends amongst the local people.

The second strategy is providing nature adventure for ecotourism section by establishing Malaysia as a global biodiversity hub. "Adventure and Ecotourism" is a relatively new tourism market in Malaysia and this sector has great potential for expansion particularly in this modern era where people are more aware of living a healthy lifestyle and being close to nature. Example of places in Malaysia that promote ecotourism is Taman Negara, Endau Rompin, parts of Langkawi, and Sabah and Sarawak on the island of Borneo. In addition, to seek for natural ecoadventures can be experienced in Kinabalu park, Turtle islands park, and Danum valley on Borneo, Tabin wildlife reserve and Lower kinabatangan river in Sabah. Meanwhile, similar experiences can be had in national parks of Sarawak such as Gunung Mulu, Bako, Batang Ai and Gunung Gading.

In addition, the third strategy is developing an eco-nature integrated resort in Sabah and creating Straits Riviera for family fun concept. The fourth strategy is providing various events and entertainment, spa and sports by targeting more international events, establishing dedicated entertainment zone, developing local expertise and regulating the spa industry better and also expanding sports tourism. The fifth strategy is establishing Malaysia as a leading business tourism destination through incentives the development of Meetings, incentives, conferences and exhibitions (MICE). Finally, in 12 Entry point project (EPP), the government is enhancing connectivity to prioritize medium-haul markets and improving rates and also quality of hotels.

In achieving the targets successfully, financing of RM 204 billion is needed for over the next ten years and strategies on the government planning and physical development of the tourism sector in Kuala Lumpur is summarized in the Kuala Lumpur Structure Plan 2020 and the Kuala Lumpur City Plan 2020. The cooperation by the tourism bodies also need to realign promotional and advertising activities and physical presence of Tourism Malaysia offices overseas by focusing on main markets, particularly, India, China and Middle East.

(d) Safety of tourism product and services

According to a survey by Crescent rating, a Singapore based Muslim travel consultancy in 2013, Malaysia was categorized as one of the top muslim-friendly holiday destination country in the world and is also known as the world's friendliest country in 2012 by Forbes online. As cited in Anuar *et al.* (2013), one of the respondent suggested that providing a generous smile when seeing tourists and showing good ethics to them have become a "habit" for tourist friendly destination.

"...Tourist friendly destination has become a habit; we see tourists -we will smile. It not only involves the software community, the community is one thing (software) when travelers meet, we smile, we show good ethics...tourism in Kuala Lumpur is heading to the front to see destinations in total, the human factor is the human factor, but the most important is the 70% tourist friendly facilities, tourist friendly toilets, disabled facilities, car parks for women, introducing bicycles for rent...."

Source: Anuar *et al.* (2013)

1.3 Tourism Industry in ASEAN Region

Tourism has become one of the key growth sectors in Association of Southeast Asian Nation (ASEAN) and has proven resilient during economic challenges globally. The wide array of tourist attractions across the region has drawn 81 million tourists to the ASEAN countries in 2011 and increased by 30 percent compared to 62 million tourists in 2007. Data from the Pacific Asia Travel Association (PATA) showed that on the first few months of 2012, ASEAN region was the fastest growing destination in the world, followed by the South Asian region.

"Southeast Asia: The most diverse, beautiful, enjoyable and accessible landscapes in the world."

Source: <http://www.aseantourism.travel/>

According to the World Travel and Tourism Council (WTTC), tourism directly contributed to ASEAN GDP by 4.4 percent and employment by 3.2 percent in 2011. In addition, the sector accounted for an estimated eight percent of total capital investment in the region. The sector has seen increased interest not only from usual markets in European and the Americas but also from economic of Asian and

emerging markets. ASEAN region has emerged as a top source of tourists, accounting for about one-third (approximately about 38 percent) of the total number of tourist arrivals. Chinese tourists have been flocking the region, as the number of tourist arrivals rapidly increased by 86 percent from 3.93 million in 2007 to 7.32 million in 2011 while the number of tourists from India rose by 49.5 percent in 2007 to 2.71 million in 2011.

For the indirect contributions, tourism accounts for approximately 4.6 percent of ASEAN GDP and at the same time providing jobs for 9.3 million people for approximately 3.2 percent of total employment, that equivalent to 25 million jobs. In addition, according to UNWTO (2014), with regards to 9.7 percent growth from 2012 to 2013 in the international tourism receipts and 10.5 percent growth in the international tourist arrivals, the Southeast Asian region has achieved the highest tourism growth rate in the world, above European and the Americas region. Clearly, tourism is a very important platform for the ASEAN members.

However, deeper research finds confounding patterns in tourism performances of individual ASEAN countries. Singapore, for example, draws 20 times more tourists per capita and 30 times more receipts per capita than the ASEAN average (UNWTO, 2014). If ASEAN intends to exploit the tourism industry as leverage for strong economic growth, it needs to look into patterns such as disparity in revenues, and focus on value tourism instead of attracting tourists but not their money. This will likely create trade surpluses in individual ASEAN countries, enabling prospects of investments in capital. Intuitively, high tourist arrivals with low revenues may even represent a loss to the host country, taking into account the

social and economic costs of providing the necessary services and infrastructure, such as immigration costs, airport maintenance costs and cleanliness costs.

1.4 Objectives and Significance of the Study

This section discovers the main problem of the study and explains in detail of the main purpose of the study.

1.4.1 Motivation of the study

Tourism is a key source of foreign exchange income earnings and this industry is one of the main contributor to the balance of payments and to macroeconomic stability, especially in a few developing countries. Given the importance of tourism industry in ASEAN region, the government and tourism authorities have put many efforts to stimulate and enhance the growth of the industry. As cultural diversity makes ASEAN countries look more fascinating and welcoming to be cherished/valued, this study is hopeful to explore Malaysia and the three ASEAN countries: Indonesia, Thailand and Vietnam.

Another reason for the interest in pursuing this study is related to the technique being used in past studies. Most studies that include among others; Salleh *et al.* (2007), Salleh *et al.* (2008), Lau *et al.* (2008) and, Lean and Tang (2010) have used time series cointegration techniques in modeling the tourism demand. These studies generally aim to investigate how particular economic variables affect the number of tourist arrivals from a particular country to a particular destination. Rather than looking at individual countries, investigation should look into the demand by a group of countries using technique that is called panel data analysis.