

**CONTRIBUTION FACTORS OF TOURISM
INDUSTRY TOWARDS GDP:
A STUDY IN TEN ASIAN COUNTRIES**

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ABSTRAK

Kajian ini menggunakan data sekunder untuk memeriksa hubungan langsung dan sebab-akibat antara faktor-faktor sumbangan (bilangan ketibaan pelancong antarabangsa, pelaburan modal, perbelanjaan kerajaan, pendapatan pelancongan antara bangsa dan kadar pertukaran asing) dengan Keluaran Dalam Negara Kasar (KDNK) dengan data panel sepuluh negara Asia dalam tempoh 1993 – 2003 berdasarkan teori pertumbuhan (teori pertumbuhan ekonomi yang dipimpin pelancongan, teori pertumbuhan pelancongan yang didorong ekonomi dan teori sebab-akibat salingan). Model regresi panel dengan model kesan tetap dijalankan untuk menyiasat hubungan langsung antara faktor-faktor sumbangan dan Keluaran Dalam Negara Kasar (KDNK); keputusan menunjukkan pelaburan modal, penerimaan perbelanjaan kerajaan dan pendapatan pelancong anantara bangsa mempunyai kesan positif terhadap Keluaran Dalam Negara Kasar (KDNK). Satu panel ujian Granger dijalankan untuk memeriksa arah perhubungan sebab-akibat antara faktor-faktor sumbangan dan Keluaran Dalam Negara Kasar (KDNK); keputusan itu menunjukkan bahawa bilangan ketibaan pelancong antarabangsa dan pendapatan pelancongan antarabangsa mempunyai searah sebab-akibat berkaitan dengan Keluaran Dalam Negara Kasar (KDNK); Keluaran Dalam Negara Kasar (KDNK) mempunyai kesan sebab-akibat searah terhadap perbelanjaan kerajaan; pelaburan modal dan kadar pertukaran asing mempunyai dwiarah sebab-akibat berkaitan dengan KDNK masing-masing.

ABSTRACT

This study used secondary data to examine the direct and causal relationships between factors of contribution (number of international tourist arrivals, capital investment, government spending, international tourism receipts and foreign exchange rate) and Gross Domestic Product (GDP) for panel data of ten Asian countries over a period of 1993 – 2003 based on the growth theory (tourism-led economic growth theory, economic-driven tourism growth theory and reciprocal causal theory). A panel regression model with fixed effect model is performed to investigate the direct relationship between factors of contribution and Gross Domestic Product (GDP); the results showed capital investment, government spending and international tourism receipts have positive effect on Gross Domestic Product (GDP). A panel Granger causality test is carried out to examine the direction of causal relationship between factors of contribution and Gross Domestic Product (GDP); the results showed that the number of international tourist arrivals and international tourism receipts have unidirectional causal related to Gross Domestic Product (GDP); Gross Domestic Product (GDP) has unidirectional causal effect on government spending; capital investment and foreign exchange rate have bi-directional causal related to Gross Domestic Product (GDP) respectively.

CHAPTER 1

INTRODUCTION

1.1 Introduction

This chapter introduces the overview of research of the study in Asia tourism industry. The chapter includes the background of the study, problem statements, research questions, and research objectives, significance of the study and organization of remaining chapters. Short definitions of key terms of major variables are also included to assist a better understanding.

1.2 Background of The Study

There are different types of tourism such as medical tourism, education tourism, cultural tourism, luxury tourism, and eco-adventure tourism. According to the annual report from World Travel and Tourism Council (WTTC) in year 2014, tourism industry is an important sector that brings a positive contribution to economic growth in many countries around the world. Along the tourism sector's supply chain, it covers all other sub-service sectors such as accommodation services, food and beverage services, retail trade, transportation services, entertainment, shopping, attraction, cultural, sports, and recreation services. In fact, tourism industry has the ability to provide economic benefits in term of generating foreign exchange revenues, creating employments, strengthen the linkages among sub-sectors to enhance the economic growth and sustainability of a nation.

Based on WTTC (2014), most of the countries governments have noticed the great powerful of international travel and tourism contribution to economic growth. In order to generate the nation revenues and promote the tourism internationally,

government improved the policies and developed the tourism industry in different ways to help in expanding this sector worldwide. For instance, government's spending on capital investment in tourism's marketing and promotion, sanitation services, and security services in a country. These expenditures do not only bring the effects to generate household incomes but also to provide the government's with revenues and improve balance of payments. Therefore, the development of tourism by government will bring the positive and significant impact to economic growth.

Some researchers proposed that tourism-led growth theory which showed tourism industry as a major factor of economic growth (Song et al., 2012; He and Zheng, 2011; Hojaghan and Esfahangari, 2011; Samimi et al. 2011; Matarrita-Cascante, 2010; Schubert et al. 2010; Guyana, 2007). As a proof, international travel and tourism has developed rapidly and giving a shocking and significant number of impacts to global economy comparing to other sectors such as manufacturing, retail, automobile, finance, agriculture and telecommunication in 2012 (Skift, 2013). Tourism industry has created additional 5 million of new jobs to 266 million. One in 11 of all jobs are created by tourism industry in the world. According to the statistics compiled by World Travel and Tourism Council (WTTC)'s economic research publication in 2014, 7 trillion in US dollars was contributed by tourism industry, and it contributing to 9.5% of the global Gross Domestic Product (GDP) in 2013. Tourism expenditure including domestic spending and leisure spending in year 2013 accounted about USD 5.84 trillion, approximately to 6.5% of worldwide industries contributed to Gross Domestic Product (GDP). This contribution from tourism to GDP figure is expected to grow further in order to adopt the tourism-oriented policies worldwide.

Based on Goh and Bryan (2012), tourism industry in fact is one of the famous service sectors for most of the countries in Asia especially in China, Japan, India, Hong Kong, Thailand, and Malaysia. This service sector consists of very high ratio of growth rate in most economies and able to enhance the competitiveness and living standards of people in that countries. Therefore, tourism industry not only contributes to socio-economic development of a country but also improve the quality of living standards in Asia countries. As part of emerging market in tourism, Asia has abundance of cultural and natural resources to generate great developments in tourism industry.

In the coming years, Asia will be the fastest growing tourism countries. Most Asian nations will have a significant impact contribute to Gross Domestic Product (GDP) from travel and tourism industry. For example, in 2022, China is forecasted to become the world's largest tourism industry to overtake the United States. China tourism economics is predicted to contribute 10.8% of total Gross Domestic Product (GDP) (WTTC, 2014). The other countries such as Cambodia's Gross Domestic Product (GDP) is expected to rise 11.5%, Philippines' Gross Domestic Product (GDP) is estimated to increase 5.8%, and least significant increasing number of Hong Kong's Gross Domestic Product (GDP) is forecasted to be 1.6%.

Figure 1.1 below shows the total contributions from tourism industry to Gross Domestic Product (GDP) in Asia. Total contributions from travel and tourism industry to Gross Domestic Product (GDP) including direct, indirect and induced contribution from Asia countries accounted to USD 2,017.1 trillion and 8.9 % of total Gross Domestic Product (GDP) in year 2013. Direct contribution of tourism to Gross Domestic Product (GDP) generated by tourism related industries in Asia is USD 654.1 billion, 32.5% while indirect contribution such as capital investment,

government spending and domestic supply chain effect in Asia is USD 979 billion, 48.5%. Induced contribution such as the spending of direct and indirect from employees is USD 384.1 billion or 19%.

**Total Contribution from Tourism Industry to GDP in Asia
(2013)**

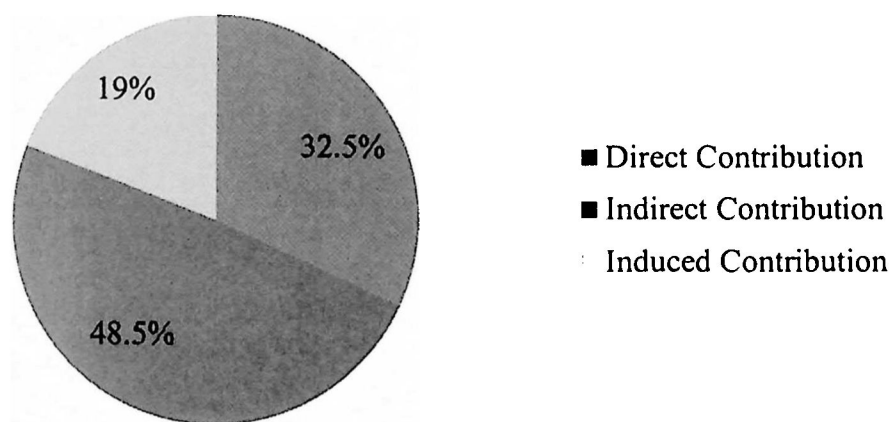


Figure 1.1: Total contributions from tourism industry to GDP in Asia
Source: World Travel and Tourism Council (WTTC) economics research in 2014

In addition, according to The United Nations World Tourism Organization (UNWTO, 2013), Asia region attracted more 15 million arrivals in 2013as compared to year 2012,as a result the number of international tourist arrivals reaching a total of 233 million. In 2014, Asia is expected to attract 256million of international tourist arrivals, which is 4.4% of growth according to WTTC (2014). Figure 1.2 below shows the foreign visitor exports and number of international tourist arrivals in Asia showing the increasing trend from 2004 to 2013.

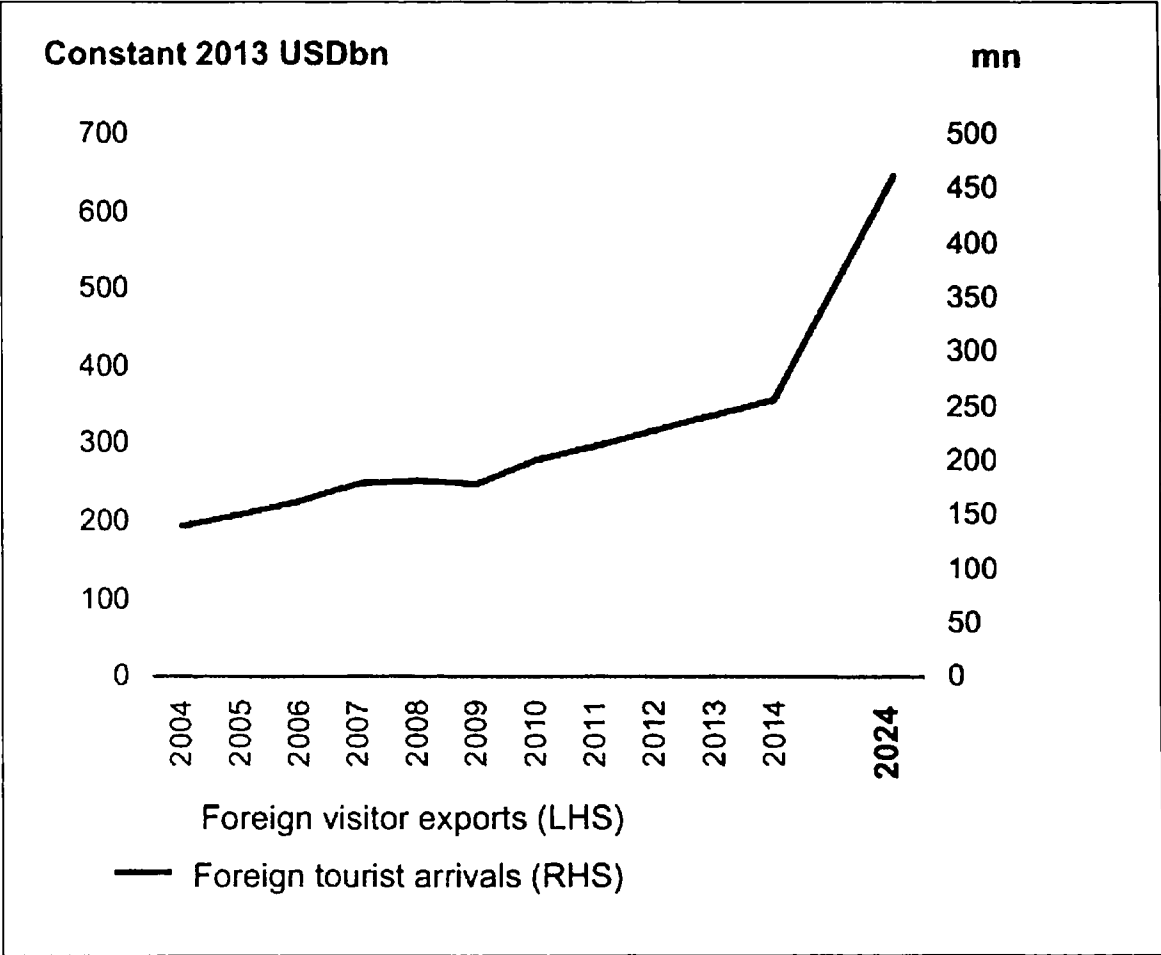


Figure 1.2: Foreign visitor exports and number of international tourist arrivals in Asia
Source: World Travel and Tourism Council (WTTC) economics research in 2014

From the Figure 1.2 above, the foreign tourist arrivals and foreign visitor exports declined dramatically in year 2008 and 2009 as compared to previous years. In fact, there are some reasons impacted the Asia tourism industry.

First, the collapse of global financial and economic crisis occurred in year 2008 is considered as one of the factors influenced the Asia tourism industry performance, causing fall of 4% in international tourist arrivals and 6% in foreign tourism receipts. Beginning in the summer of 2007, first in the United States, followed by the European and Asian financial markets, incurred financial crisis. Asia has been suffered from the global credit crisis, loss of market confidence and falling revenues, fluctuating currency exchange rates, withdrawal of investment funds and

increasing in taxation are affected the tourism industry and also economic performance (Eiteman et.al, 2013). Bad news brought to Asia country especially in India, China and Japan. According to Shah (2013), India's economic growth was reduced to 7.1%, China fell by 8%, while Japan also experienced a sharp slowdown to 10%. Economic unstable influenced the Gross Domestic Product (GDP) in Asia and also lead to the problems of job losses. According to World Travel and Tourism Council (WTTC) economics research, after the economic downturn and recession in year 2008, tourism rebounded strongly again in 2010 and 2011, the number of international tourist arrivals and tourism receipts are increased substantially.

Second, the issue is the quick spread of bird flu (H1N1) around the world also brought a significant negative impact on tourism industry. The United Nations World Tourism Organization (UNWTO) reported that in year 2009, 4% or 880 million of decreasing foreign tourist arrivals for business, leisure or other purposes worldwide. An extraordinary rebound happens in Asia while foreign tourist arrivals declined by 7% in the first half of 2009, but 3% growth in second half of 2009, reflecting slightly improved in Asia tourism industry. In year 2010, most of the countries reported the 10 % positive growth in Asia tourism industry such as in China, Hong Kong, Japan, Singapore, Indonesia, and India. Economic recovery starts in year 2010 and continues to growth in 2012.

Lastly, other factors such as political disturbance in Thailand in year 2009 and 2010, flood in Bangkok for many weeks in year 2011 also affect the foreign tourist arrivals. Japan had experienced the serious tsunami in year 2012 also caused a negative impact for tourism industry. The increasing number of criminal activities in India also damaged the reputation of the country.

Pertaining to the problems mentioned above, it is very hard to control the external factors that influence the number of foreign tourist arrivals and foreign visitor exports. Thus, this study does not focus on the external factors such as financial and economic crisis, spread of bird flu (H1N1) and the political disturbance that may affect the economic growth and development.

This study focuses on some of the Asia countries from year 1993 to 2013. The countries mentioned include China, Japan, India, Indonesia, Thailand, South Korea, Hong Kong, Malaysia, Singapore, and Taiwan. The choices of the 10 countries are based on the top ten ranking of monetary earning for tourism's total contribution to Gross Domestic Product (GDP) in 2013. China tourism's contribution accounted to 850.13 billion US dollar and 9.2 % of the country's Gross Domestic Product (GDP) in year 2013. Japan and India tourism contributed 339.90 billion US dollar and 113.21 billion US dollar, respectively. Taiwan tourism has least significant contribution as compared to the other 9 selected countries which accounted to 25.80 billion US dollar in year 2013. However, Hong Kong has the highest percentage of total contribution from travel and tourism to Gross Domestic Product (GDP), which is 21.8%, while Taiwan has only 5.3 % of total contribution from travel and tourism to Gross Domestic Product (GDP) in year 2013. Table 1.1 below shows the total contribution from travel and tourism to Gross Domestic Product (GDP) in 10 countries in 2013.

Table 1.1

Total contributions from travel and tourism to Gross Domestic Product (GDP) in 10 countries in 2013

Travel and Tourism Economy (Total Contribution to GDP) 2013		
Country	Billion US dollar	% of Contribution to GDP
China	850.13	9.2
Japan	339.90	6.9
India	113.21	6.2
Indonesia	80.84	9.2
Thailand	78.09	8.9
South Korea	69.80	5.8
Hong Kong	59.83	21.8
Malaysia	50.34	16.1
Singapore	31.72	10.9
Taiwan	25.80	5.3

Source: World Travel and Tourism Council (WTTC) economics research in 2014

Different countries provide different products of attractiveness for tourist in terms of history of a country, traditional villages and towns, cultural landscape, shopping and food. The heritage of Asia is one of the immense and valuable interests to tourists. For example, The Great Wall and the Terracotta Army are the greatest wonders of the world in China. TajMahal and Golden Temple represent the rich heritage in India. Besides that, different cultures and food could be found in Japan, Malaysia, Taiwan, and Thailand. Japanese cultures include traditional cultures and modern cultures. Traditional cultures such as Geisha, Japanese tea ceremony, Garden,

traditional clothing, and Japanese language while modern cultures such as Japanese fashion and music. Multicultural such as festivals, traditional dances, games and food make Malaysia as a special place for culture. Hong Kong is the shopping paradise in Asia due to the inexpensive branded commodity in this country. Sentosa Island makes Singapore different to other countries and attracts many tourists every year.

China has a top ranking of monetary earning for tourism's total contribution to Gross Domestic Product (GDP) in Asia. China modernized rapidly from the Communist Party to opened economy in order to join the international trade. Besides, this country has a wide land and rich in tourism resources such as historical sites, spectacular landscape, colorful and various national customs to attract foreign visitors to China.

Thailand's tourism industry contributes a higher Gross Domestic Product (GDP) as compared to Malaysia due to several comparative advantages. The living cost or standard such as accommodation, transportation, food and beverages in Thailand are lower than in Malaysia. As a result, Malaysia's government always promotes the country in the worldwide in order to compete with Thailand.

Singapore distinguished the tourism industry by announcing endowment strategic compared to other countries in Asia hospitality. This strategic shows a key success factor of economic development in service sector in Singapore. Besides that, promotion and advertisement of Sentosa Island attracts many foreign tourist visit Singapore.

As a result, tourism industry not merely represents the world's largest service sector industry but also play the crucial and essential role in the growth of Asian economy.

1.3 Problem Statement

In recent years, Asia tourism brings the positive growth to Gross Domestic Product (GDP). Therefore, many researchers aim to investigate the contribution of tourism development to economic growth in certain countries. For instance, Harun (2012) analyzed the development of tourism industry in Thailand which focus on the increasing numbers of tourist visiting to Thailand, that contribute a significant source of tourism sector's income and its role to generate the Thai's Gross Domestic Product (GDP). The contribution made by tourism industry and its linkages with other sectors of the Malaysian economy had been demonstrated using input-output techniques (Mazumder et al., 2009). A case of Taiwan is performed using Granger causality test to reveal the direction of causality between economic growth and tourism expansion (Kim et al., 2005). Oh (2003) also investigated the causal relations between tourism growth and economic expansion for the Korean economy using Engle and Granger two-stage approach and a bivariate Vector Auto Regression (VAR) model.

On the other hand, the result from Oh (2003) indicated that tourism-led growth theory is not held in the Korean economy. The results implied that the rapid economic expansion in Korea tends to attract more international travels only in the short-run. There is surprisingly no long-run effect from Korean tourism sector on the Korean economy. Chen and Song-Zan (2009) also formed the tourism-led growth hypothesis is supported for Taiwan while a reciprocal causal relationship is found for South Korea. Tourist arrivals in South Korea are much higher than those in Taiwan, but tourism receipts for both countries are similar. The tourism destination image has been largely enhanced through South Korea's government, leading to recent significant growth of international tourism demand. Also, the South Korean

government placed strict rules for imports and international travels. High tariffs were imposed on imported goods to protect Korean products. Most foreign firms were not allowed in the Korean market until South Korea became wide open in the mid-1990s after joining the WTO (World Trade Organization).

Independent variables used in previous studies consist of number of international tourist arrivals, capital investment, international tourism receipts and foreign exchange rate. For example, the number of international tourist arrivals, international tourism receipts and foreign exchange rate are used as independent variables in the case of Taiwan and Organization for Economic Cooperation and Development (OECD) and non-OECD countries (Lee and Chien, 2007; Lee and Chang, 2007). Using a non-linear approach, Fayissa et al. (2011), Po and Huang (2008) applied the foreign exchange rate, international tourism receipts, and capital investment as independent variables to investigate the relationship between tourism development and economic growth. The relationship between the independent variables of foreign exchange rate and international tourism receipts also been used in the case of Brazil, Antigua and Barbuda (Brida et al., 2011; Schubert et al., 2010). From the previous studies mentioned above, certain problems are crucial and needs to be looked into for more details.

Firstly, since most of the empirical studies are focusing on only singular country such as Taiwan, South Korea, Thailand and Malaysia respectively in particular years, there have limited research done in Asia countries as a whole. Therefore, the gap in this study is to provide a details discussion based on the data collected from the economic research reports for the 10 selected Asia countries which are China, Japan, India, Indonesia, Thailand, South Korea, Hong Kong, Malaysia, Singapore, and Taiwan from year 1993 to 2013.

Secondly, there are few studies consider the government spending as the independent variables. The role of government is part of competitive advantage. Government spending in fact is an important factor that may influence the tourism industry and economic development. Harun (2012) proved that the government spending to the tourism sector in Thailand is a major factor that influences the increase of total number of tourist to Thailand in a positive way. Culture and social background especially for the areas in north, north-east, east and southern part of Thailand will attract tourists to visit these cultural rich regions, thus Thailand's government spending on promoting tourism places. However, the sensitivity of government spending may cause different impacts on tourism sector in different countries. The effectiveness of government spending on tourism development could be one of the gaps in this study that affects Gross Domestic Product (GDP). Yet, the efficiency of government expenditures on different countries may lead to different impacts on the economies.

Thirdly, in an attempt to fulfill the gap in this study, it is valuable to investigate the causal relationship between tourism expansion and economic growth in Asia countries based on the tourism-led growth theory, economic-driven tourism growth theory and reciprocal causal theory (Oh, 2003). From the previous studies, Kim et al. (2005) proved that there exists a long-run equilibrium relationship and bi-directional causal relationship (reciprocal causal theory) between the tourism expansion and economic development by using a Granger Causality test in Taiwan. Lee and Chang (2007) showed the unidirectional causal relationships among the international tourism receipts, international tourist arrivals and Gross Domestic Product per capita by using panel causality test in OECD countries but bi-directional causal relationships are found in non OECD countries.

Therefore, this study is conducted in order to investigate whether the government spending is an independent variable influence significantly on Gross Domestic Product (GDP). The issue of causal relationship between tourism development and Gross Domestic Product (GDP) growth included in the 10 selected Asia countries from year 1993 to 2013 is concerned in this study.

1.4 Research Questions

According to the WTTC(2014), annual statistics shows that the tourism industry contributes a significantly growth to global Gross Domestic Product (GDP). In consideration of the relevant issues, many economists and tourism researchers have devoted a lot of efforts in investigating the dynamic linkages between the tourism industry and Gross Domestic Product (GDP) for different countries. Although the tourism industry provides a positive impact to economic growth in many countries around the world, tourism and economic researchers found that there are competitions among countries on their allocation on tourisms. However, some countries are more successful than others in tourism compared to others. The fundamental of the question is therefore: Why some countries are more effective in international tourist arrivals, capital investment, government spending, international tourism receipts and foreign exchange rate towards Gross Domestic Product (GDP)? This remains an interesting issue as it reflects the capabilities of economics factors and policies on tourism industry.

Moreover, there are also arguments that a rich country has higher capability in capital investment and government spending, therefore a higher Gross Domestic Product (GDP) country can causality affect the tourism industry. Specifically, this study aims to solve the following mentioned questions:

1. What are the relationships between the factors of contribution (number of international tourist arrivals, capital investment, government spending, international tourism receipts and foreign exchange rate) and Gross Domestic Product (GDP)?
2. Are the factors of contribution lead to Gross Domestic Product's (GDP) growth?
3. Is the Gross Domestic Product (GDP) causality leads to the factors of contribution growth?
4. Are the factors of contribution and Gross Domestic Product (GDP) growth causing each other?

1.5 Research Objectives

In an attempt to fulfill the limitation of the literature and empirical linkages between the tourism industries and economic growth in Asia countries, this study focuses on the crucial and essential role of the Asia tourism industry contribute to Gross Domestic Product (GDP) from year 1993 to 2013. Therefore, the purposes of this paper are mentioned as following to give a better understanding of contribution from Asia tourism industry to economic growth performance in order to develop a general theoretical framework that link between the independent variables and dependent variable.

1. To investigate the relationship between the factors of contribution (number of international tourist arrivals, capital investment, government spending, international tourism receipts and foreign exchange rate) and Gross Domestic Product (GDP).

2. To analyze the factors of contribution lead toGross Domestic Product (GDP) growth(One-way causality: the tourism-led economic growth).
3. To identify Gross Domestic Product (GDP) leads to the factors of contribution growth (One-way causality: the economic-driven tourism growth).
4. To examine the factors of contribution and Gross Domestic Product (GDP) growth causing each other (Two-way causality: the reciprocal causal relationship).

1.6 Definitions of Key Terms

In attempt to have a better understanding of the further concepts and discussion, key terms' definition are stated clearly in this section. All variables include the number of international tourist arrivals, capital investment, government spending, international tourism receipts, foreign exchange rate and Gross Domestic Product (GDP) will be defined in details.

Number of international tourist arrivals - *Number of international tourist arrivals is defined as the total number of arrivals of international visitors, including the tourists stay in the same day and overnight to the particular country (WTTC, 2014).*

Capital investment – *Capital investment is defined as the spending by all sectors such as accommodation, transportation equipment, restaurant, leisure industries that directly involved in tourism industry (WTTC, 2014).*

Government spending – *Government spending is defined as the spending by general government including national as well as regional and local government in support of tourism activities. It includes the tourism promotion, visitor information services, administrative services and other public services (WTTC, 2014).*

International tourism receipts – *International tourism receipts is defined as the expenditure of international inbound visitors including their payments to national carriers for international transport (Official Statistics of Finland, 2014).*

Foreign exchange rate – *Foreign exchange rate is defined as the value of a currency to another nation's currency (Husted and Melvin, 2013).*

Gross Domestic Product (GDP) - *Gross Domestic Product (GDP) refers to products in terms of goods or services that produce in a country, no matter the factors of production such as labors, land and capital are either domestics or foreign. The total value of Gross Domestic Product (GDP) of final goods or services produced within a country in a given year is equal to total consumer, total capital investment, total government spending and plus the value of exports minus the value of import (Husted and Melvin, 2013).*

1.7 Significance of the Study

This research seeks to investigate the importance of the number of international tourist arrivals, capital investment, government spending, international tourism receipts and foreign exchange rate contribute towards Gross Domestic Product (GDP) because it can help to stimulate on economic growth and tourism growth no matter

now and in the future. Hence, with this paper, hopefully it can encourage the tourism related industry to provide economic benefits in term of generating the foreign exchange revenues, creating the employments; strengthen the linkages among sub-sectors in order to enhance the economic growth and sustainability of a nation.

Theoretically, this study identifies the contribution of the factors such as the number of international tourist arrivals, capital investment, government spending, international tourism receipts and foreign exchange rate that enhance towards Gross Domestic Product (GDP). This study employed the applicability of the tourism-led economic growth theory, economic-driven tourism growth theory and reciprocal causal theory to describe the importance and the benefits of tourism industry to Gross Domestic Product (GDP) growth or vice versa. This research is also expected to enrich the current literature on Gross Domestic Product (GDP) growth among tourism related industry in Asia. The research is hoped to verify the application of the concept from tourism-led economic growth theory, economic-driven tourism growth theory and reciprocal causal theory in studying the direction of the causal relationship between the factors of contribution and Gross Domestic Product (GDP).

From the practical standpoint, this study provides insight to the tourism sectors' supply chain on the importance of factors of contribution. It is highly likely that the capital investment and the government spending in tourism industry are very crucial components to develop a sustainable tourism sector and also able to benefit the local businessman and create job opportunities to local residents. Investment in term of products, services or infrastructure is essential for business to support the tourism visitation and activities. Moreover, countries governments should invest more in this industry, improving public infrastructures, communication, water and energy supply and other public utilities. Government spending for training, business

support, and infrastructure creates a lot of opportunities for tourism expansion especially in tourism related sectors.

An opportune strategy may be to reinvest part of the tourism profits to attract new tourist through appropriate promotions and marketing strategies. Increasing in the number of international tourist arrivals also lead to the expansion of the accommodation's business. International tourism receipts have generated within a country that deal directly with international tourist arrivals also influence the development of a country's economy. International tourism receipts benefit the economy in many different ways such as generates the tax revenues, improves the recreation facilities and infrastructure, expands the cultural and social opportunities, and also plans new tourism attractions or facilities. In order to save money, some of the international tourist will make a decision to go for the destination that having a lower foreign exchange rate compared to their own mother country. However, if the country with a high foreign exchange rate compare to mother country, the living standard in a country is also a factor to be considered.

As a result, this research can provide a clear picture to the tourism related industry regarding the benefits of the factors of contribution. Embarking on the factors of contribution are beneficial in both short term and long term, besides bring the effects to generate the household incomes but also to provide the government's with revenues and improve the balance of payments. Therefore, the development of tourism sectors' supply chain will bring the positive and significant impact to economic growth.

1.8 Organization of Remaining Chapters

The first chapter gives an overview of the study in Asia tourism industry. This is followed by problem statements, research questions, and research objectives. The significance of the study is also discussed in this chapter to illustrate the importance of Asia tourism industry to their respective nation's Gross Domestic Product (GDP). A short definition of key terms used in this study is also included.

Chapter two reviews the various literatures and studies that related to tourism development. Besides that, the general theoretical framework that link between the independent variables and dependent variables which use to drive the empirical models of study are discussed. Based on the literature, hypotheses are formulated in order to explain the relationship between independent variables and dependent variables.

Chapter three introduces the research design and panel regression model employed in this study. The variables used and sources of collecting are explained. Finally, a brief description about the method of data analysis is provided.

Chapter four analyzes the empirical results of finding, focusing on statistical analysis such as descriptive statistics, correlation analysis and panel regression model analysis. This chapter is also including panel unit root test for stationary of variables, Hausman test and panel Granger causality test.

Chapter five presents the overall findings and implications of the research, limitation of the study as well as suggestion for future research and conclusions.

CHAPTER II

LITERATURE REVIEW

2.1 Introduction

This chapter covers the previous studies on the key variables that are focused in this study including the overview of literature review on independent variables (factors of contribution), dependent variable (Gross Domestic Product) and the underlying theory. Theoretical framework and hypotheses development are introduced in the end of this chapter.

2.2 Growth Theory

Growth theory is a part of the main theories in macroeconomic according to aggregate production function. Based on Paul (2005), the economic growth theory seeks to explain the rate of economy of a country will grow over time. It is usually measured as percentage rate of increase in the country's major national income, such as Gross National Product (GNP) or Gross Domestic Product (GDP).

Following the trade-economic growth relationship theory, three theories can be identified: tourism-led economic growth theory, economic-driven tourism growth theory and reciprocal causal theory (Oh, 2003). The tourism-led economic growth theory recognizes a unidirectional causal relationship from tourism expansion to economic growth. From the economic-driven tourism growth theory, a unidirectional causal relationship from economic growth to tourism expansion is evident. The reciprocal causal theory maintains that the causal relationship between economic growth and tourism expansion appears to be bi-directional, implying that a push in

both areas is beneficial. Oh (2003) stated that no causal relationship between tourism expansion and economic development may also be happen.

Recognition of the causal relationship between the tourism and economic growth is an important issue for the development of different country's tourism marketing and policy decisions. Thus, tourism-led economic growth, economic-driven tourism growth and reciprocal causal theories are applied in this paper in order to examine the direction of causal relationship (unidirectional causal, bi-directional causal or no causal relationship) between independent variables (factors of contribution) and dependent variable (Gross Domestic Product) in a panel data by using panel Granger causality test.

The empirical model developed from the tourism-led economic growth theory using the causality test between economic growth and tourism expansion is showed below (Oh, 2003):

$$Growth_t = \beta_0 + \sum_{i=1}^l \beta_{1i} Tourism_{t-i} + \sum_{i=1}^l \beta_{2i} Growth_{t-i} + \varepsilon_{1t}$$

The empirical model developed from the economic-driven tourism growth theory using the causality test between economic growth and tourism expansion is showed below (Oh, 2003):

$$Tourism_t = \delta_0 + \sum_{i=1}^l \delta_{1i} Growth_{t-i} + \sum_{i=1}^l \delta_{2i} Tourism_{t-i} + \varepsilon_{2t}$$

2.2.1 Tourism-led Economic Growth Theory.

The tourism industry generates substantial economic benefits to both host countries and tourists' home countries. It is an especially important industry to developing countries. The main benefits of tourism to a country are foreign exchange earnings, tax revenues, business opportunities for budding entrepreneurs, and employment for workers in the industry (Hojeghan and Esfangarah, 2011). According to the World Trade Organization (WTO, 1999, 406p), "Tourism is one of the top five export categories for as many as 83% of countries and is the main source of foreign exchange earnings for at least 38% of countries." Foreign exchange earnings from exports are used to purchase imports and augment reserves. They generate income in the host country and can stimulate consumer spending and investment in other sectors of the economy. Tax receipts as income from tourism are both direct and indirect. Direct tax receipts are generated from the incomes earned by businesses and workers. Indirect taxes are duties levied on goods and services purchased by tourists.

Tourism can be a mechanism to promoting economic growth and development. As an economic growth strategy, tourism is sought for generation of foreign exchange, increased employment, attraction of foreign capital investment, and promotion of economic independence. The success of a tourism policy has traditionally been evaluated by maintaining a growth in the number of tourist arrivals and associated expenditure, and obtaining an increasing percentage share of the total world tourism market (Matarrita-Cascanta, 2010).

Guyana (2007) suggested that increasing in tourism flows can bring many positive economic consequences to host countries, particularly in terms of income and employment opportunities, state revenues, investment, balance of payment, diversification of economy and foreign exchange earnings. For instance, tourism

industry leads to the increasing in government spending to support infrastructure improvement such as communication, transportation, water, energy supply and other public utilities. Tourism also stimulates the foreign capital investment to invest in a country and creates more employment opportunities. Foreign currencies help to reduce national debt or economic growth in other sectors. In this sense, tourism is such a multi-faceted sector that it certainly represents an excellent tool for economic growth and development.

According to the statistic from the United Nations World Tourism Organization (UNWTO, 2013), tourism industry is one of the most dynamic world industries, showing an annual growth rate in international arrivals of 6.5% over the last half-century, Asia grew at a rate of 13% on average a year. Table 2.1 shows the average annual growth of international tourist arrivals from 1950 to 2007.

Table 2.1

International tourist arrivals (1950 -- 2007) -- Average annual growth (%)

Periods	World	Africa	Americas	Asia	Europe
1950-1960	10.6	3.7	8.4	26.4	11.6
1960-1970	9.1	12.4	9.7	33.1	8.4
1970-1980	5.3	11.6	4.0	28.2	4.7
1980-1990	4.7	7.8	4.1	12.4	4.1
1990-2000	4.6	6.4	3.3	16.6	4.1
1950-2000	6.8	8.3	5.8	23.2	6.5
1950-2007	6.5	8.1	5.4	22.6	6.1

Source: United Nations World Tourism Organization (UNWTO)

The United Nations World Tourism Organization (UNWTO, 2013) estimates that international arrivals will reach nearly 1.6 billion by the year 2020; Asia is forecasted to record growth at five per cent year, compared to the world average of 4.1%. Figure 2.1 shows the international tourist arrivals from 1950 to 2020 in different region of countries.

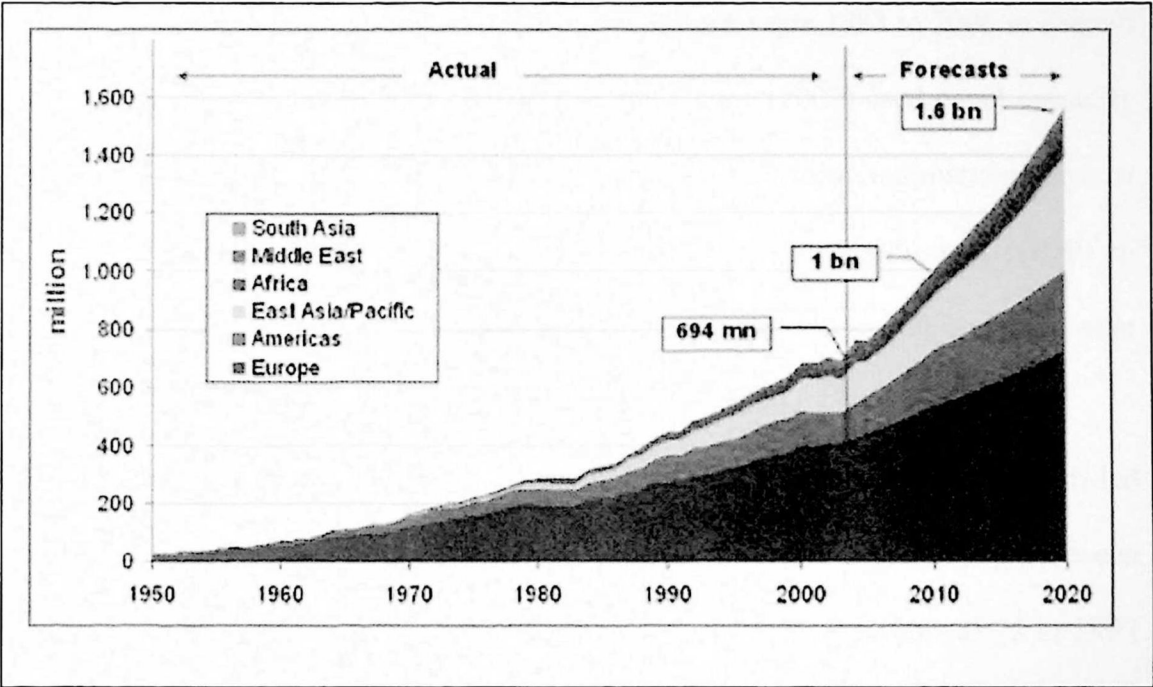


Figure 2.1: International tourist arrivals from 1950 to 2020
Source: United Nations World Tourism Organization (UNWTO)

From the previous studies, Song et al., (2012) proved that the tourism-led growth hypothesis is generally demonstrated by regressing Gross Domestic Product (GDP) on the tourism receipts or tourism arrivals and real exchange rates. Matarrita-Cascante (2010) also showed that the role of tourism business and other tourism suppliers leading on economic development. Sustainable tourism development intends to increase the economic welfare through the tourism sector's supply chain, while promoting social and environmental responsibility (Gezici, 2006). Proponents of the tourism-led growth hypotheses emphasis that international tourism can bring