

# **INTERNATIONAL TOURISM DEMAND AND ECONOMIC GROWTH IN MALAYSIA**

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**DOCTOR OF PHILOSOPHY  
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# **INTERNATIONAL TOURISM DEMAND AND ECONOMIC GROWTH IN MALAYSIA**

**By**

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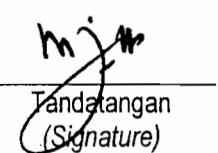
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## ABSTRAK

Sebagai salah satu sektor ekonomi yang lebih terbuka yang diberi perhatian menyeluruh oleh media antarabangsa, pelancongan telah muncul sebagai satu industri yang penting di Malaysia. Pada masa ini pelancongan merupakan penyumbang ketiga terbesar kepada hasil pertukaran asing negara. Sumbangan sektor pelancongan kepada ekonomi negara bergantung kepada tahap permintaan ke atas aktiviti dan perkhidmatan pelancongan di dalam dan di luar negara. Sepertimana yang diketahui umum kedatangan pelancong asing ke sesebuah negara secara dinamiknya adalah tidak stabil. Ini disebabkan ianya sensitif kepada beberapa faktor seperti sosioekonomi, sosio-politik, sosio-budaya dan geografi.

Tesis ini telah mengenalpasti faktor sosioekonomi yang signifikan yang mempengaruhi kedatangan pelancong dari negara ASEAN dan bukan ASEAN ke Malaysia. Di samping itu ianya juga mengkaji sama ada terdapat hubungan jangkamasa pendek dan jangkamasa panjang antara permintaan pelancongan dan faktor yang mempengaruhi permintaan tersebut dan seterusnya mengenalpasti hubungan kausal (*causal relationship*) antara pendapatan daripada pelancongan antarabangsa (*international tourism receipts*) dan pertumbuhan ekonomi benar (*real economic growth*) Malaysia.

Bagi mencapai objektif tersebut, kaedah ekonometrik data panel *fixed-/random-effects model* digunakan untuk mengenalpasti faktor yang mempengaruhi permintaan pelancongan di Malaysia oleh pelancong dari negara ASEAN dan bukan ASEAN, berdasarkan sampel dari tahun 1994 hingga 2004. Di samping itu, kaedah ujian kointegrasi (*cointegration*) dan model pembetulan ralat (*error-correction model*) juga digunakan di dalam kajian ini untuk mengenalpasti sama ada terdapat hubungan jangkamasa pendek dan jangkamasa panjang antara permintaan pelancongan dan faktor yang mempengaruhi permintaan tersebut. Seterusnya ujian kausaliti secara sirimasa dan panel (*time-series and panel causality test*) digunakan untuk mengenalpasti sama ada terdapat hubungan kausal antara permintaan pelancongan dan pertumbuhan ekonomi benar Malaysia.

Hasil kajian menunjukkan pendapatan di negara asal pelancong; harga relatif pelancongan di Malaysia; harga lepas; harga pelancongan di destinasi pelengkap (Singapura dan Indonesia); harga pelancongan di destinasi pengganti (Thailand dan Filipina); “the word-of-mouth effect”; kempen promosi “*Malaysia... Truly Asia*”; dan penularan wabak SARS di Asia adalah signifikan dalam mempengaruhi permintaan pelancongan di Malaysia. Di samping itu ujian kointegrasi dan model pembetulan ralat juga menunjukkan terdapatnya hubungan jangkamasa pendek dan jangkamasa panjang antara permintaan pelancongan dan penentunya. Seterusnya, keputusan ujian kausaliti menunjukkan terdapat hubungan yang kuat antara pendapatan daripada pelancongan antarabangsa dan pertumbuhan ekonomi benar. Ini menyokong hipotesis bahawa pelancongan menyumbang kepada pertumbuhan ekonomi Malaysia.

Keputusan kajian ini memberi petunjuk kepada beberapa implikasi polisi. Pertama, dalam usaha menarik lebih ramai pelancong asing ke Malaysia, harga pelancongan di Malaysia hendaklah kompetitif. Kedua, bagi mempromosi dan memperkenalkan Malaysia sebagai destinasi pelancongan utama di rantau ini, Malaysia hendaklah terus menjalankan kerjasama strategik dan perkongsian pintar antara kerajaan, organisasi pelancongan dan industri di peringkat antarabangsa dan serantau, terutama sekali dengan Singapura dan Indonesia yang menjadi destinasi pelengkap kepada Malaysia. Di samping itu, sektor swasta hendaklah digalakkan menghasilkan produk dan

perkhidmatan pelancongan yang berinovasi bagi memenuhi permintaan pelbagai peringkat pasaran di samping berusaha menembusi pasaran baru yang berpotensi. Ketiga, imej Malaysia sebagai destinasi pelancongan yang menarik hendaklah terus ditonjolkan di peringkat antarabangsa melalui kempen pemasaran dan promosi. Keempat, bagi menjamin keselamatan para pelancong, Malaysia hendaklah mempertingkatkan lagi kawalan keselamatan, terutama sekali di kawasan pedalaman yang menjadi tumpuan pelancong. Akhir sekali, sektor awam hendaklah berkerjasama dengan sektor swasta dalam mempertingkat dan memelihara kemudahan sedia ada yang menyokong sektor pelancongan.

## ABSTRACT

Being one of the more open economic sectors scrutinised by world media, the tourism industry has emerged as an important industry in Malaysia. At present, the industry is the country's third largest foreign exchange earner. The contribution of tourism industry to the economy depends on the level of demand for tourism related activities or tourism services by foreign and domestic tourists. However, the flow of foreign tourists to a particular country is believed to be dynamically unstable due to its sensitivity to various socioeconomic, socio-political, socio-cultural, and geographical factors.

This thesis has identified several socioeconomic factors that may significantly affect tourist arrival from ASEAN and non-ASEAN countries to Malaysia. In addition, this study also investigated the presence of short-run and long-run relationships between tourism demand and factors influencing tourism demand. Additionally, the causal relationship between international tourism receipts and real economic growth in Malaysia was also explored. In order to address these objectives, the study used the panel data econometric fixed-/random-effects model in determining the major factors influencing tourist arrival from ASEAN and non-ASEAN countries in Malaysia based on a sample period from 1994 to 2004. Cointegration test and error-correction model were employed in investigating the presence of short-run and long-run relationships between tourism demand and its determinants. In addition, both time-series and panel causality tests were used in determining the causal relationship between international tourism receipts and real economic growth.

Results indicated that income of tourist country of origin; the relative price of tourism in Malaysia; lagged prices; the prices of tourism in complementary destinations (for Singapore and Indonesia); the prices of tourism in substitute destinations (for Thailand and the Philippines); the *word-of-mouth* effect; the *Malaysia... Truly Asia* global campaign; and the spread of the SARS in Asia are significant in determining the demand for tourism in Malaysia. In addition, the results of cointegration test and error-correction model revealed the presence of short-run and long-run relationships between tourism demand and its determinants. Moreover, the causality test results indicated that there is a strong relationship between international tourism receipts and real economic growth, which supports the hypothesis that the tourism industry is a significant contributor to the economic growth of Malaysia.

The results of the study had revealed several policy implications. Firstly, Malaysia needs to maintain its price competitiveness in order to attract more tourist arrivals. Secondly, in order to continue promoting Malaysia as a preferred tourist destination in this region, Malaysia should continue to facilitate global and regional strategic alliances and smart partnerships among governments, tourist organisations and the industries, especially with Singapore and Indonesia, which were found to be complementary destinations for Malaysia. Besides, the private sector should also be encouraged to develop innovative tourism products and services to meet the demand of different market segments as well as develop potential niche markets. Thirdly, Malaysia's image as an attractive tourist destination should be further internationalised through marketing and promotion activities. Fourthly, Malaysia should step up security patrols, particularly in remote tourist resorts, to ensure the safety of tourists. Lastly, the public sector should supplement private sector efforts and concentrate on the upgrading and maintenance of existing facilities that supports the tourism sector.

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## LIST OF ABBREVIATIONS

OLS	- Ordinary Least Square
GLS	- General Least Square
FE	- Fixed-effects
RE	- Random-effects
FD	- First differences
GDP	- Gross Domestic Product
ALOS	- Average Length of Stay
VFR	- Visit Friends and Relatives
UNWTO	- United Nations World Tourism Organisation
WTO	- World Tourism Organisation
WTC	- World Tourism Conference
WTTC	- World Travel and Tourism Council
TSA	- Tourism Satellite Account
LLC test	- Levin, Lin, and Chu test
IPS test	- Im, Pesaran, and Shin test
MWF test	- Maddala and Wu Fisher test
DF	- Dickey-Fuller test
ADF test	- Augmented Dickey-Fuller test
PP test	- Phillips-Perron test
JJ test	- Johansen and Juselius test
LR	- Likelihood ratio
VAR	- Vector Autoregression
VECM	- Vector Error-Correction Model

## **DEFINITION OF TERMS**

**Average Length of Stay (ALOS):**

Computed by dividing the total duration of stay of all tourists by the total number of arrivals.

**Average Per-Capita Expenditure:**

Refers to expenditure per person, computed by dividing the total expenditure by the total number of tourists.

**Average Per-Diem Expenditure:**

Refers to expenditure per person per day. This is computed by dividing the average per capita expenditure by the average length of stay.

**Foreign Tourist:**

Foreigners travelling to Malaysia for reasons other than following an activity remunerated from within Malaysia and staying at least a night but not exceeding a year.

**Excursionist:**

Foreigners travelling to Malaysia for reasons other than following an activity remunerated from within Malaysia and staying less than 24 hours without an overnight stay.

**Visitor:**

Foreigners travelling to Malaysia for reasons other than following an activity remunerated from within Malaysia and staying not exceeding a year.

**Global Tourism:**

Refers to domestic and international tourism.

## **CHAPTER 1**

### **INTRODUCTION**

#### **1.1 Concepts of Tourism Industry**

Tourism is a concept defined in a narrow and broad sense. Sharpley (2002) for example, viewed tourism in the narrow concept. According to the author, tourism is “a social phenomenon which involves the movement of people to various destinations and their (temporary) stay there”. However, according to *Chamber's English Dictionary*, tourism involves activity of tourists and those who cater for them. Hence, tourism is an activity viewed from two perspectives: as a social activity and as an industry, which facilitates social activity relating to tourist travel (Graburn, 1983; Jafari, 1986; Smith, 1989).

Similarly, *Webster's Dictionary* viewed tourism in the broad concept. It involves not only the practice of travelling but also the related activities such as tourist's guidance management, promotion or encouragement of touring, and the accommodation of tourists (which also includes catering business). Nonetheless, the United Nations World Tourism Organisation (UNWTO) defined tourism in a more general way. According to this world organisation, tourism refers to any activity that occurs when the tourist travels, thus, the concept of tourism encompasses everything from planning of the trip, travelling to the place, the stay itself, returning home and reminiscing.

Based on the discussion about the concepts of tourism above, it is clear that tourism is not just a social activity and industry. It also involves everything related the socio-economics as well as socio-politics of a country such as: (i) culture, ethnicity, and entertainment; (ii) hotel and catering; (iii) transportation; (iv) security-related activities like police, immigration and custom; and (iv) government policy (Lundberg *et al.*, 1995;

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