

# CHAPTER I

## INTRODUCTION

### 1.1 Background

Tourism is one of the development sectors currently being promoted and become government concern. Tourism plays a significant role in the development of a country, particularly in expanding foreign exchange earnings. Nowadays, the tourism industrial volume identical or proportionate to oil exports, food products or automobiles industry even in the last few years surpassed. The tourism sector has been growing faster than the world trade for this past seven years.

Tourism sector categorizes as the top export industry in many developing countries. The tourism industry by means, the people, activities, and organizations involved in providing services for vacationers, such as hotel accommodations, restaurants and tour guides. An export industry sells a significant share of its goods or services outside of the country, thus bringing foreign currency into the domestic economy and tourism appears to comply these principles, money that tourist bringing into that countries contribute to foreign exchange earnings in that countries.

Tourism as international trade in services can increase overall economic activity especially in boosting export, creates jobs, thusly it increase the development and stimulate economic growth worldwide. Tourism and travel industries became one of the world's biggest industry contributing to a global economic, in the manners of direct, indirect, and induced way. The contributions of tourism to economic well-beings depend on the revenues and the quality of

tourism's offer. As long as the countries can specialize their tourism industry and able to explore and exploit their tourism potential, it still feasible for a country, despite its economic conditions, to have the good impact for the economic growth and development in the term of GDP per capita.

Inbound tourism able to stimulate economic growth in such manners. Firstly, tourism significantly could contribute to foreign exchange reserves which indirectly allowing to bring in new advanced technologies for the production process. Secondly, tourism could stimulate investments in new infrastructure, human capital and increase competition. Thirdly, inbound tourism promotes industrial development through spillover effects. Fourthly, tourism opens the new field of job opportunities hence stimulates earnings (Lee and Chang, 2008). And lastly, tourism yielded in positive economic externalities.

In its relation with foreign exchange reserves according to Sinclair and Stabler, the potential growth of tourism is based on its supplies of foreign currency earnings and the abatement of the balance of payments constraint. Considering the foreign exchange earnings from tourism could be used to import capital goods to produce and improve goods and services, leads to economic growth. The other benefits of tourism for the economy such as tax revenue and new employment opportunities, increase the state revenue with an additional source of funding. Additionally, the contributions of international tourism to economic growth could be from the enhancement of efficiency through rivalry between local firms and corresponding businesses with the other international tourist destinations and by facilitating the scale economies at a local level. Balaguer and Cantavella-Jorda also suggested that the elevation the number of

international tourism activities generates economic growth. The Tourism-Led Growth Hypothesis (TLGH) was directly derived from the widely known export-led growth hypothesis (ELGH). It suggests that economic growth could promote not only just by the expansion of human resources and technology inside the economy, but also by the increase of foreign exchange earnings.

Considering the other factors governing economic growth, financial development is also arising as an important driver. Ridderstaat and Croes designed a link between tourism demand cycles and money supply. Using unit root, co-integration, and causality testing, the studies on the effect of money supply cycles in Canada, the United Kingdom, and the United States for Aruba and Barbados indeed affected tourism demand. Their founding explained that money supply cycles could give a significant effect on the cyclical movements of tourism demand and the impacts were symmetric depending upon the stage of development cycles.

Indeed recently global tourism has severely been affected by the financial crisis. The fluctuation of the exchange rate affects the amount of international tourist trade and economic growth (Habibi and Ahmadzadeh, 2015). From our prior discussions, it appears that there is a reasonable relationship between tourism, trade openness, financial development, and economic growth.

According to United Nation World Tourism Organization (UNWTO) from January to April 2018, international arrivals was elevated in all regions, led by Asia and the Pacific (+8%), with South-East Asia (+10%) and South Asia (+9%) driving results. South East Asia is the fastest growing sub-region in the world with

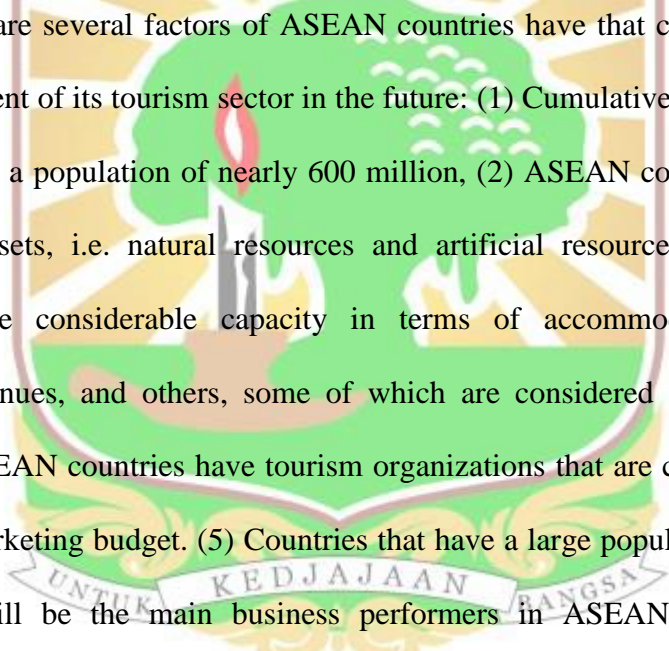
the arrivals increasing an average 8% per year respectively in the period 2005 to 2017 whose seen several straight years of consistently strong. In 2016 about 37% of all international tourist arrivals in Asia and the Pacific was in South East Asia or about 113 million. ASEAN (Association of South East Asia Nation) consists of ten countries which located in the Southeast Asia region. ASEAN has a purpose to boost economic growth for all member. Recorded the direct contribution of Travel & Tourism to GDP in 2016 was USD 119.7 billion (4.7% of GDP) and expected to grow by 5.7% pa to USD 222.8 billion (5.3% of GDP) by 2027.

This majorly shows the economic activity generated by tourism related industries such as, hotels, airlines, travel agents, and other passenger transportation services (excluding commuter services). But it also includes the activities of the leisure industries and restaurant directly supported by tourist. The total contribution of Travel & Tourism to GDP (including wider effects from investment, the supply chain and induced income impacts, was USD 301.1 billion in 2016 (11.8% of GDP) and is expected to grow by 6.9% to USD 322.0 billion (12.1% of GDP) in 2017. It is forecast to rise by 5.7% pa to USD 563.0 billion by 2027 (13.5% of GDP) based on World Travel and Tourism Council (WTTC, 2017).

According to The Statistics Portal on Travel, Tourism, and Hospitality, six out of ten members of ASEAN were included as the largest international tourism receipts in 2016. Thailand ranked first in Asia/Pacific region with 49.87 billion U.S. dollars in international tourism receipts, when Singapore and Malaysia compete for each other with the number of international tourism receipts were 18.39 and 18.07 billion US\$, follows by Indonesia about 11.35 billion US\$,

Vietnam with the number 8.25 billion US\$ and Philippines about 5.14 billion US\$.

Based on ASEAN secretariat 2017, the biggest number of tourist arrivals by selected partner country/ region in 2015 came about in Intra-ASEAN around 45,992 thousand and about 42.2 % contribution of share to total tourist arrival in ASEAN. Even though this number was decreased compared to the year prior about 6.6%, this sector was expected to grow for the next few years and give the largest contribution to economic development.



There are several factors of ASEAN countries have that could encourage the improvement of its tourism sector in the future: (1) Cumulatively, 10 members countries have a population of nearly 600 million, (2) ASEAN countries wealthy of tourism assets, i.e. natural resources and artificial resources. (3) ASEAN countries have considerable capacity in terms of accommodation, flights, convention venues, and others, some of which are considered the best in the world. (4) ASEAN countries have tourism organizations that are competitive and have a big marketing budget. (5) Countries that have a large population like India and China will be the main business performers in ASEAN countries. (6) Relatively cheap flight rates will encourage potential tourists to come to visit even for intra-ASEAN countries. (7) The emergence of Trans Asian Highway and Trans-Asian railway will increase the numbers of transportation to ASEAN.

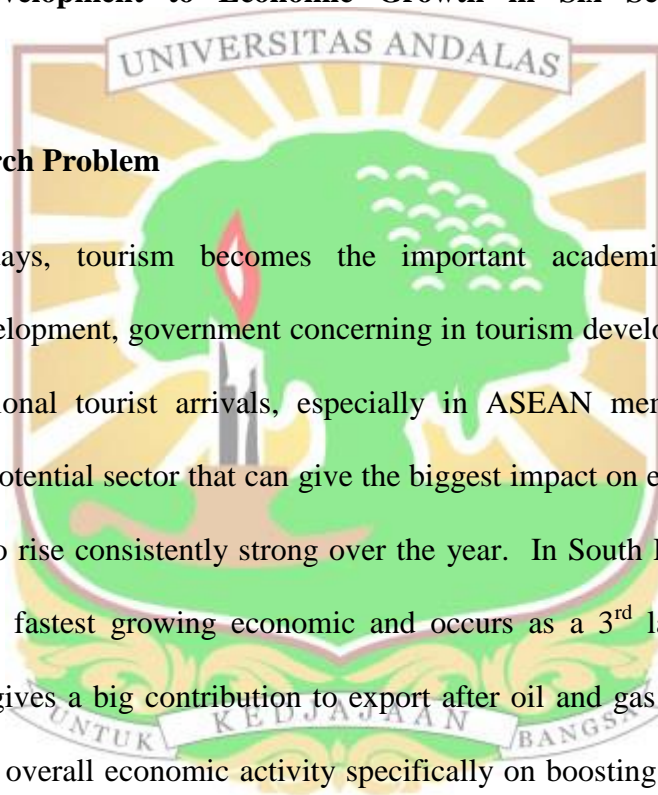
Thusly, this research will concern on six selected countries in ASEAN, which are Thailand, Malaysia, Indonesia, Singapore, Vietnam, and Philippines. These six countries are included in the top-ranked in Southeast Asia of tourist

arrivals (ASEAN Secretariat, 2017). The purpose of this research is to investigate the relationship among tourism development to economic growth in those ASEAN countries by considering other important factors such as trade openness, financial development, and exchange rate. Therefore, based on the research problems above, the writer is interested in analyzing the research with the title:

**“Investigating The Relationship Between Tourism, Trade Openness and Financial Development to Economic Growth in Six Selected ASEAN Countries”**

## **1.2 Research Problem**

Nowadays, tourism becomes the important academic literature on economic development, government concerning in tourism development to attract more international tourist arrivals, especially in ASEAN members countries. Tourism is a potential sector that can give the biggest impact on economic growth that predicts to rise consistently strong over the year. In South East Asia region tourism is the fastest growing economic and occurs as a 3<sup>rd</sup> largest economic sector which gives a big contribution to export after oil and gas sector. Tourism sector arouses overall economic activity specifically on boosting export, creating jobs for an increasing number of economies globally and expanding foreign exchange earnings. So, research problem in this study will investigate the relationship between tourism development and economic growth by considering other factors such as financial development, trade openness, and exchange rate, this variables also emerging as an important driver of economic growth.



Based on the description above, the aims of the present research are:

1. Is there a long-run relationship among tourism, trade openness, financial development, and exchange rate to economic growth in six selected ASEAN countries?

### **1.3 Research Objective**

Based on the research problem, the basic objectives of this study are:

1. To analyze the long-run relationship among tourism development, trade openness, financial development, and exchange rate on GDP per capita.

### **1.4 Research Advantages**

The advantages of this research are to know the condition of tourism in Indonesia, Thailand, Malaysia, Singapore, Vietnam, and Philippines by considering the relative importance of financial development, exchange rate and trade openness and what the impact to economic growth. The result from this study will provide some advantages for:

1. For readers are expected to understand and gain knowledge particularly in terms of the impact of tourism to international trade and economic growth.
2. The results of this study will give a consideration to government in generating appropriate regulation especially in tourism and stimulate economic growth.
3. To improve the ability of the researcher's writing and a scientific paper.
4. To be useful for other researchers to use the theory to research development about tourism to international trade and economic growth.

## 1.5 Limitation of Study

This study will take a specific topic about investigating the relationship between tourism, trade openness, and financial development to economic growth in six selected ASEAN countries such as Indonesia, Thailand, Malaysia, Singapore, Vietnam, and Philippines. First, the author will set the methodology and formula to solve the equation with Panel Co-integration in order to estimate the effect of international tourism receipts, trade openness, financial development, and exchange rate to economic growth by using software/system and manual approach to process the data. Then author will describe the relationship between tourism on economic growth by considering others important factors such as financial development, exchange rate, and trade openness. Second, the author will describe through modeling approach, it will be explained by some output of data processing. The data of this study is provided by World Bank Data, OECD national accounts data, International Monetary Fund, International Financial statistics, World Tourism Organization, United Nations Conference on Trade and Development and other resources that relevant to this study.

## 1.6 Systematic of Writing

Systematic writing use to give a description in this research, systematically is divided into three parts:

### Chapter I: Introduction

There are six parts of this first chapter, there is background which explains the current situation of tourism development in Indonesia, Thailand, Malaysia, Singapore, Vietnam, and



the Philippines. Then research problem that stated about investigating the relationship between tourism development, trade openness, financial development, and exchange rate to economic growth, and then objectives of research, advantages of research, limitation of study which concern in tourism and economic growth, and systematic of writing.

#### Chapter II: Literature Review

This chapter consists of theories and empirical studies which are related to the tourism, financial development, exchange rate, trade openness, and economic growth and also hypothesis for this study.

#### Chapter III: Research Methodology

This chapter will explain the theoretical framework, data, definition of variable and model of study that is Panel Co-integration.

#### Chapter IV: Empirical Result and Analysis

This chapter explains the output of the research and the analysis from the processed of data.

#### Chapter V: Conclusion and Recommendation

