

## An ECM Analysis of Thai Tourism Demand in Malaysia

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### Abstract

*Tourism industry is one of the important service industries that play a crucial role in the development of Malaysian economy. Thailand has been ranked among the top five tourist generating countries for Malaysia since the last decade. This paper intends to determine factors affecting Thai tourism demand in Malaysia from the macroeconomic perspective by utilizing quarterly data from 2000Q1 to 2013Q4. The Thai tourism demand model is estimated using the error-correction model and a battery of diagnostic tests were carried out to ensure the robustness of the model. The empirical results indicate that there is a long-run equilibrium relationship between Thai tourism demand and the specified explanatory variables, which are Thai real income, real travel cost and exchange rate. Specifically, higher Thai real income will reduce Thai tourist to Malaysia, while higher real travel cost and stronger currency attract more Thai visitor to Malaysia. As a conclusion, this paper has achieved its aim to determine the factors affecting Thai tourism demand in Malaysia.*

**Keywords:** *Tourism demand, error-correction model, macroeconomic*

### 1. Introduction

Malaysian government has given attention to its tourism industry following the poor performances of Malaysia's primary commodities and manufacturing industry, which were resulted by the oil price drop and economic recession in the mid-1980s. The Ministry of Culture, Arts and Tourism was established by Malaysian government in 1987, and was upgraded to Ministry of Tourism in 2004.

In order to promote Malaysia to tourists around the globe, a series of promotion campaign was implemented since 1990s. The famous Visit Malaysia Year programme was carried out in 1990, 1994, 2000 and 2007. At the same time, Malaysia also organizes annual events such as the World Amateur Inter-team Golf Championship, the Rainforest World Music Festival and the Borneo International Jazz Festival, which attract mass arrival of international tourist.

According to World Travel and Tourism Council (WTTC) (2014), Malaysia's tourism industry contributed 16.1 percent (RM 158.2 billion) to its GDP in 2013. WTTC (2014) forecasted this contribution to increase further to 16.4 percent of GDP (RM 168.9 billion) in 2014. Furthermore, Malaysian tourism industry contributed 14.1 percent (1.86 million jobs) of total employment in 2013 and is projected to contribute to 14.5 percent (1.95 million jobs) of total employment in 2014.

In addition, the role of tourism industry is highlighted in the Economic Transformation Programme (ETP), which is introduced to lead Malaysian economy towards achieving the status of high income nation by 2020. A successful ETP will