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Macroeconomic Determinants of Tourism Demand in Malaysia: A Markov Switching Regression Approach

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Abstract

A wave of studies has always surrounded the nexus of tourism development and economic growth in a nation. An assessment is provided in this study to examine the Malaysian tourism market dynamics. A series of macroeconomic variables has been utilised to model tourism demand and examine causal linkages among tourism and economic growth. Spanning from 2000 till 2018 on a monthly basis, the Markov regime switching regression provides an overview of tourism market performance and potential influences during recession and expansion periods of the Malaysian tourism cycle. Notably, the results present a reference chronology of the crises happening over the past two decades, the Granger causality of the variables, and different behavioural changes of the variables as well for both recession and expansion periods. Significant relationships have been revealed in this study that suggest that overall international tourism can drive economic growth and vice versa.

Keywords: Markov switching regression, sustainable development goals, Granger causality, tourism-led growth hypothesis, R language

1. Introduction

The economic prosperity of a nation is always associated with its manufacturing and agricultural sectors as well as inflows of foreign direct investment (Tang & Tan, 2015). Many developing countries also rely on the service sector for sustainable economic growth. In 2018, the international tourism revenue reached US$1.7 trillion for the first time, a threefold increase over the last two decades, while the number of international tourist arrivals doubled to 1.4 billion. The United Nations World Tourism Organization (UNWTO) highlighted in 2019 that the international tourism industry has become the third-largest export earnings on a global scale, valued at a staggering US$1,586 billion as of 2017. The industry is ahead of automotive products and food in valuation while lagging behind chemicals and fuels. Today, tourism is a major source of foreign exchange earnings for most countries in the Asia Pacific region and one of the most dynamic economic sectors globally (Kadir & Karim, 2012; Soh et al., 2021a).

Malaysia is the home to 32 million citizens that has attracted tourists worldwide due to its unique diversity in culture. For 18 years since 2000, the number of international tourist arrivals to Malaysia has increased from 10.2 million to 25.8 million, with tourism receipts growing fivefold to RM84.1 billion in 2018 alone (Tourism Malaysia, 2021). The top three market sources for Malaysia’s tourism accounted for 65.3% of total tourist arrivals, constituted of tourists from Singapore, Indonesia, and China. Disregarding the multiplier effect created on other industries such as accommodation, transportation and communication, the tourism sector itself occupies approximately 11.3% of total employment in Malaysia. The industry has also contributed 13.3% to the nation’s GDP in 2018. These simply highlight the important role of the tourism sector to the Malaysian economy. Thus, it becomes inevitable that the tourism sector has to adopt and sustain best practices for continuous growth.

A sustainable tourism requires perpetual monitoring coupled with imperative, corrective or precautionary measures to ensure its survivability. A sustainable tourism sector also ensures sustainable consumption and production patterns that align with the United Nation’s 12th Sustainable Development Goal (SDG) (United Nations, 2022). This is measurable through the modelling of the tourism demand to identify the significant factors that can aid in policy-making and promotion of public procurement practices that can further enhance the tourism sector’s sustainability. In this sense, the current study aims to examine the fundamental macroeconomic variables that can trigger tourism demand in Malaysia and contribute towards the SDG.