

The Impact of Tourism on the Local Economy in Malaysia

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Abstract

The local and international communities play an important role in the sustainable growth of the Malaysian tourism industry. The principle of sustainable growth in the tourism industry was proposed by the World Tourism Organization (WTO) in 1988. As the tourism industry is one of the largest and fastest growing industries in Malaysia, the government has poured considerable effort into promoting this industry consistent with the objective of the Economic Transformation Program (ETP) to transform from a resource-based economy to a service-based economy. This study aimed to test the hypothesis of tourism-led growth from Malaysia's perspective. The tourism revenue earned by the government can be used to invest in industry to further promote economic growth in Malaysia. Hence, tourist receipts and capital investment in the tourism industry are important factors that can affect the nation's economic growth. Utilizing Malaysian data from 1995 to 2016, the study employed the Autoregressive Distributed Lag (ARDL) approach to examine whether the tourism-led growth is valid in this study. Empirical findings indicated that both variables have a significant positive impact on economic growth and the hypothesis of tourism-led growth is accepted in Malaysia.

Keywords: sustainable growth, tourist receipts, capital investment, tourism-led growth

1. Introduction

The tourism industry is one of the leading service industries and is considered a pivotal source of economic growth in the world economy. A developed and established tourism industry serves as the catalyst for national and regional development, helps establish the foreign exchange rate, creates more employment opportunities, and contributes to social development that will benefit the local community and tourists. The Malaysian tourism industry has received serious attention from the government since the 1980s because Malaysia was overly dependent on the primary and secondary sectors after it achieved its independence in 1957. Thus, the Ministry of Culture and Tourism was established in 1987 to diversify the economic risk by emphasizing the comparative advantage of the tourism industry. In 2013, the Ministry of Culture and Tourism was transformed into the Ministry of Tourism and Culture (MOTAC), which aims to promote Malaysia as a top-of-mind tourist destination.

The Malaysian tourism industry was the sixth largest contributor to the national account in 2014 (Mohsen, 2015a). This is one of the industries the government emphasizes in the Economic Transformation Programme (ETP) to strengthen and diversify economic risk. According to World Travel and Tourism Council (WTTC, 2015), the total contribution of Malaysian tourism to its gross domestic product (GDP) was 14.9% in 2014. However, the total contribution of Malaysian tourism dropped to 9.8% of GDP in 2015 due to two airway incidents occurred in 2014 (Tourism Malaysia, 2016). Tourism industry showed the sign of recovery with an increase of 4.3% of tourist arrivals in 2016 after it slowed down in 2015 (Tourism Malaysia, 2017). It is believed that the Malaysian tourism has contributed significantly in generating national income. The total contribution of Malaysian tourism was RM182.4 billion or accounted 14.8% of national income (Department of Statistics Malaysia, 2017). Malaysian tourism is the third largest foreign income earner after manufacturing and palm oil industry in Malaysia which accounting for over 7.0% of the country economy in 2016 (Misachi, 2017).

The total tourist receipts earned by the government in 2013 was RM65.4 billion, exceeding the initial target of RM65.0 billion (Tourism Malaysia, 2014). Furthermore, Tourism Malaysia (2015) reported that tourist receipts increased by 10.0% to RM72.0 billion due to the strong promotion of Visit Malaysia Year (VMY) in 2014. On