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Dynamic Tourism in ASEAN Countries: Do Institutional Indicators Matter?

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Abstract
This study examines the effect of institutional indicators on tourism in ASEAN countries during 2000-2018 under dynamic panel estimation. The number of observation was about 180, namely: time series from 2000-2018 and cross-section of 10 countries. The six institutional indicators were employed such as voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption. Moreover, the dynamic panel estimation can be expressed by Pooled OLS and REM estimations. Interestingly, the findings show that political stability will compromise the number of tourist arrivals, while government effectiveness can stimulate tourist arrivals. Similarly, GDP per capita can hinder the number of tourist arrivals, while exchange rate lead increasing of tourism arrivals. Thus, the governments in ASEAN countries can promote and cooperate together to develop tourism in the region level. The GDP per capita of ASEAN countries should be increased and the level of exchange rate can be maintained at a stable range. Besides, the governments should also improve the quality of institutions.

Keywords: tourism, institutions, dynamic panel
JEL classification: O17, O43, Z32

Introduction

The development of tourism leads to the accelerated growth of the tourism business in accordance with the needs and expenses of modern society for travel and entertainment. Furthermore, tourism activities become one of the economic drivers and sources of foreign exchange reserves for a country. A country will provide tourist facilities and promote tourist uniqueness to attract both domestic and foreign tourists in significant numbers. For example, the 2019 Travel & Tourism Competitiveness Index (TTCI) showed that Singapore was ranked first in tourism competitiveness in Southeast Asia, followed by Malaysia, Thailand, Indonesia, Vietnam, Brunei Darussalam, and the Philippines. Meanwhile, the World Bank noted an increase in the number of tourists over the past 10 years in ASEAN, particularly Malaysia, Thailand, Singapore, and Indonesia. Ghani & Mohamad (2014) argued that tourism is one of the largest industries in the world that stimulates economic growth, income distribution, employment opportunities, and foreign currency transactions.

Demand or tourist arrivals in the tourism industry can be determined by the availability of facilities, a uniqueness and quality of services. Simply put, the better the service, the demand will increase. Several works of literature mentioned the importance of service quality as stated by Sa´ez, Fuentes, & Montes (2007) that infrastructure and excellent service attract subsequent visits and increase income. Mola & Jusoh (2011) and Padlee, et al. (2019) confirmed that service quality is a key element in the hospitality industry that supports the tourism industry. Moreover, Canny (2013) described service quality is a

competitiveness key in the tourism industry as well as a characteristic compared to other tourist attractions.

Furthermore, the tourism industry is also linked on various business and environmental challenges such as fluctuating economic conditions, weather changes, service quality, and business competition. A sustainable tourism industry requires good institutional support, such as infrastructure, telecommunications, security and political stability, and regulation. The institutional issues of tourism literatures are rarely studied so it opens a deeper discussion. Particularly, Vu (2015) identified three key elements of tourism industry, namely: (1) experiences offered such as cultural uniqueness, souvenirs, and security; (2) emotional intimacy such as cultural and historical values, and lodgings; and (3) materials such as nutritious food, lodging facilities, infrastructure, and natural resources. In addition, tourism can preserve culture, nature reserves, and historical heritages (Buzinde, Kalavar, & Melubo, 2014).

This study will contribute to the existing literatures in several ways. The first contribution is examining the impact of institutional indicators on dynamic tourism in ASEAN countries. Some previous empirical studies argues that institutions can promote tourism development (Kastenholz, et al., 2012; Rahajeng, 2016; Chatzigeorgiou & Simeli, 2017; Khan, et al., 2020; and Lee, Lee, & Har, 2020). However, the previous studies largely ignore to estimate the dynamic estimation of tourism under six institutional indicators published by the World Governance Indicators (WGI) of the World Bank. This study also selects some macroeconomic data as explanatory variables such as GDP per capita and exchange rate. These indicators are mostly utilized by previous studies to determine tourist arrivals analysis both in a country level and across country level.

Therefore, this study attempts to estimate the impact of institutional indicators on the number of tourist arrivals in ASEAN during 2000-2018. There are six institutional indicators were selected and several explanatory variables were specified such as GDP per capita and exchange rate. Besides, the dynamic panel data will be executed.

Empirically, the tourism development can be assessed by some indicators under sustainable tourism frameworks (Park & Yoon, 2011). They formulated four dimensions of tourism development framework, namely: service quality (accessibility and convenience), facilities (accommodations, subsidiary facilities, and environment), management systems (community planning, collaborated community business, community management, and tourism business), and outcome (satisfaction, income and total sales). Furthermore, tourism development can be adjusted by market segmentation. There are four market segments, namely: outdoor type, nature enthusiast, sightseer, and cultural (Pesonen, et al., 2011).

The World Bank publication showed that the number of tourists in ASEAN countries tended to increase during 2000-2018 (Figure 1). Malaysia and Thailand are able to attract tourists to visit over time. These countries provide various tourist attractions, facilities, and information that make it easy and interesting for tourist around the world. In contrast, countries such as Brunei Darussalam, Cambodia, Lao PDR and Myanmar have not been able to increase the number of tourists in significant numbers. This condition is likely related to the institutional quality of these countries. Indeed, the institutional quality becomes a critical issue in some ASEAN countries to attract tourist arrivals.

below 1. It means the level of institutional quality in these countries was relatively weak. Thus, governments in ASEAN can be more concerned about the quality of institutions. They can also collaborate to strengthen and improve institutional quality in order to attract tourist arrivals over time.

Table 1. Descriptive Statistics

	Variable	Mean	Std. Dev.	Min	Max	Observations
lta	overall	14.77895	2.317081	2.00000	17.00000	N = 190
	between		1.937751	10.05263	16.78947	n = 10
	within		1.404135	6.726316	17.72632	T = 19
gdpc	overall	9401.216	15152.92	137.00	64582	N = 190
	between		14787.05	729.4211	42610.63	n = 10
	within		5637.242	-11509.42	31372.58	T = 19
er	overall	4209.876	6128.395	1.25000	22602	N = 190
	between		6328.716	1.486632	18283.74	n = 10
	within		1148.531	94.13938	8528.139	T = 19
va	overall	-0.713711	0.6941555	-2.233	0.46800	N = 190
	between		0.6437491	-1.650737	0.0371579	n = 10
	within		0.326966	-1.348868	0.9370263	T = 19
pst	overall	-0.171158	0.9188677	-2.095	1.615	N = 190
	between		0.8763584	-1.263895	1.194789	n = 10
	within		0.3865967	-1.365947	1.136895	T = 19
ge	overall	0.0905	0.9848586	-1.618	2.437	N = 190
	between		0.994532	-1.303421	2.051158	n = 10
	within		0.2739562	-1.960658	1.393921	T = 19
rq	overall	-0.053642	1.003928	-2.344	2.261	N = 190
	between		1.002573	-1.694895	1.845579	n = 10
	within		0.3137652	-1.899221	1.641253	T = 19
rl	overall	-0.214932	0.8692271	-1.7400	1.845	N = 190
	between		0.8713229	-1.333105	1.572526	n = 10
	within		0.2620254	-1.787458	1.118174	T = 19
cc	overall	-0.264553	0.9808209	-1.673	2.326	N = 190
	Between		0.9830389	-1.197	2.062947	n = 10
	Within		0.2961062	-2.3275	0.9324474	T = 19

Source: Secondary data (processed)

This study estimates the impact of institutional indicators on the number of tourist arrivals in ASEAN countries during 2000-2018. It also selects some macroeconomic data as explanatory variables such as GDP per capita and exchange rate. The dynamic panel data was employed under three methods, namely: Pooled OLS (POLS), Fixed Effects Model (FEM), and Random Effects Model (REM). The POLS and REM estimation shows that the dynamic panel model of tourist arrivals in ASEAN during the study period occurs. However, the lagged of number of tourist arrivals was negatively impact on the current number of tourist arrivals. It has consequences that the low number of tourist arrivals in the past will stimulate the high number of tourist arrivals in the current period.

have a positive impact on tourist visits and generally increase the national income of Malaysia. Similarly, the institutional quality of institutions affects the number of tourist visits in Asia Pacific countries even though asymmetrically (Khan, et al., 2020). The findings of previous empirical studies exhibit a largely limited studies of the impact of institutions on dynamic tourism development. Thus, this study will focus on the dynamic analysis of tourism in ASEAN countries during 2000-2018.

Research Method

This study utilized secondary data published by the World Bank during 2000-2018. The dependent variable was the number of tourists (person). It will be converted into logarithm in the estimation model (lta). Meanwhile, the independent variables cover GDP per capita (gdpc, current USD), exchange rates (er, LCU per USD) and institutional indicators (index between -2.5 to 2.5). The value of -2.5 equals weak of institutional quality, while the value of 2.5 equals strong of institutional quality. Moreover, there are six institutional indicators were selected consist of voice and accountability (va), political stability and absence of violence (pst), government effectiveness (ge), regulatory quality (rq), rule of law (rl), and control of corruption (cc).

This study develops the empirical study conducted by Lee, Lee, & Har (2020) in the two form, namely: the number of institutional indicators consist of six indicators, and an empirical technique of dynamic panel data. The dynamic panel model developed by Pesaran (2015) explains that the lag of the dependent variable becomes one of the independent variables. Hence, this study formulates the dependent variable can be expressed by the logarithm of tourist arrivals (lta) that will be determined by GDP per capita (gdpc), exchange rate (er), and six institutional indicators (va, pst, ge, rq, rl and cc). The empirical model of dynamic panel data can be written as follows:

$$LTA_{it} = \alpha_0 + \beta_1 LTA_{it-1} + \beta_2 GDPC_{it} + \beta_3 ER_{it} + \sum_{j=1}^{6} \beta_4 X_{it} + \varepsilon_{it} \quad (1)$$

Equation (1) denotes a Pooled OLS or Common Effects Model (CEM) that can be developed into a Fixed Effect Model (FEM) and Random Effects Model (REM) equations. FEM is also called the Least-Squares Dummy Variable (LSDV) model. By following the panel modeling rules, the FEM (Equation 2) and REM (Equation 3) equations will be obtained.

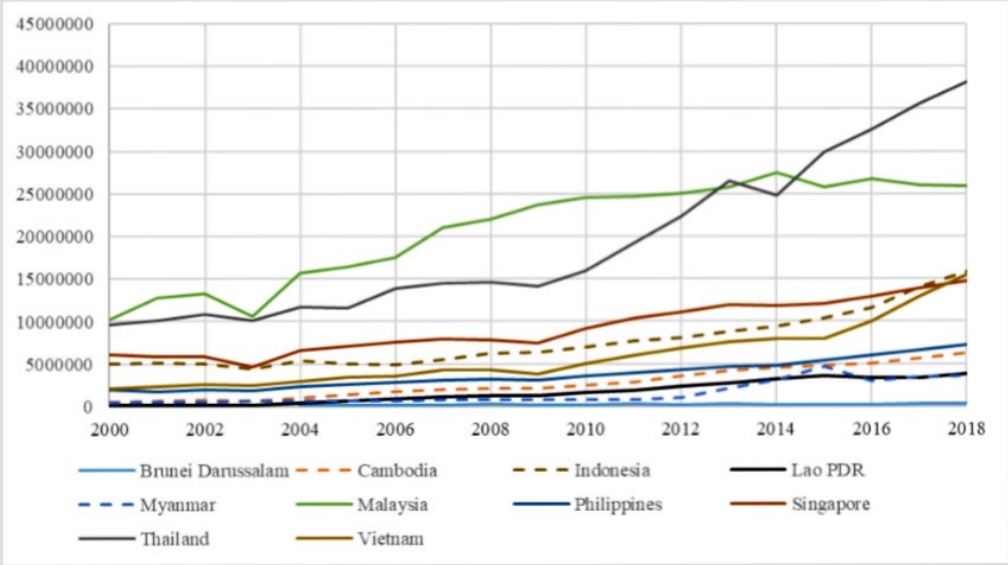
$$LTA_{it} = \alpha_0 + \alpha_1 D_{ni} + \beta_1 LTA_{it-1} + \beta_2 GDPC_{it} + \beta_3 ER_{it} + \sum_{j=1}^{6} \beta_4 X_{it} + \varepsilon_{it} \quad (2)$$

$$LTA_{it} = \alpha_0 + \beta_1 LTA_{it-1} + \beta_2 GDPC_{it} + \beta_3 ER_{it} + \sum_{j=1}^{6} \beta_4 X_{it} + w_{it} \quad (3)$$

The α_0 equals intercept while β_1, β_2, β_3, and β_4, are parameters/slope of the equation. Furthermore, the i denotes the cross-section of ASEAN 10 countries, t is the time series of 2000-2018, j is the number of institutional indicators, and X is six institutional indicators.

Result and Discussion

Descriptive statistics informs the distribution of study data. In general, there are several descriptive statistics indicators explained by Table 1 including the mean, standard deviation, minimum, and maximum. For example, the mean of institutional indicators in ASEAN countries during 2000-2018 was



Source: The World Bank

Figure 1. Number of Tourist in ASEAN Countries during 2000-2018 (person)

In the literatures, tourism is capable in driving economic performance of developing countries by increasing foreign currency transactions to opening up new employment opportunities (Samimi, Sadeghi, & Sadeghi, 2011). Moreover, tourism Led-Growth hypothesis explains international tourism as a source of national income, through exchange rate and export channels (Brida et al., 2013; Ohlan, 2017, Ribeiro & Wang, 2020; Samimi, Sadeghi, & Sadeghi, 2011). Tourism encourages the emergence of creative industries which does not only provide income for the community but also promotes local creative products. In practices, the tourism industry has micro and macro impacts. At micro level, it empowers informal sectors, raises the culture and potential of local tourism, promotes regional foods, encourages hotel and transportation sectors. The industry will drive national economy in the end. Therefore, tourism sector is able to have a positive impact on macro economy in a long term. It is reinforced by some evidence of the existence of several regions in Indonesia which are supported by tourism industry such as Bali, the Special Region of Yogyakarta, and Lombok. Hence, Selimi, Sadiku, & Sadiku (2017) and Habibi, Rahmati, & Karimi (2018) argued that tourism sector is one of the largest service transactions in the world.

Moreover, this study will bridge the empirical gap of institutions on tourism development. Indeed, institutional quality is a key factor in economic development (Khan, et al. 2020). Nort (1990) argues that excellent institutional quality plays pivotal roles in economic, politic, and social sectors. Meanwhile, poor institutional quality affects the performance of tourism sector since tourism industry is multi-sectoral and service-oriented. The findings discovered by Lee, Lee, & Ha[15]2020) in Malaysia show the importance of institutional issues such as government effectiveness and control of corruption which

Table 2. Dynamic Panel Estimation Result

Variable	Pooled OLS	Fixed Effects	Random Effects
LTA(-1)	-4.587034 [-2.01]**	-0.1502407 [-0.10]	-4.587034 [-2.01]**
GDPC	-0.0000519 [-2.55]**	0.0000825 [4.43]***	-0.0000519 [-2.55]**
ER	0.0000795 [2.96]*	0.0001447 [1.80]*	0.0000795 [2.96]***
VA	-0.4634384 [-1.13]	-0.8915507 [-2.11]**	-0.4634384 [-1.13]
PST	-1.221443 [-3.79]***	0.6218475 [2.07]**	-1.221443 [-3.79]***
GE	1.642963 [2.07]**	-0.124984 [-0.19]	1.642963 [2.07]**
RQ	0.1477759 [0.23]	0.9286382 [1.50]	0.1477759 [0.23]
RL	0.0289841 [0.03]	-1.760622 [-2.03]**	0.0289841 [0.03]
CC	0.2899743 [0.46]	1.052324 [1.57]	0.2899743 [0.46]
Constant	14.48495 [31.84]***	12.87627 [28.32]***	14.48495 [31.84]***
R-square:			
Within	0.0062	0.2507	0.0062
Between	0.6808	0.1143	0.6808
Overall	0.2912	0.0245	0.2912
Wald Chi-square (F-statistics)	69.83***	5.99***	69.83***
LM Test	0.00		
Hausman Test		40.51***	
Observations	180	180	180

Source: Authors estimation

Note: [] denotes Z statistics; ***, ** and * denote significant levels at 1%, 5% and 10%, respectively

FEM estimation describes that dynamic models of tourism in ASEAN countries does not occur. Surprisingly, some institutional indicators determine the number of tourist arrivals such as voice and accountability, political stability and absence of violence, and rule of law. Besides, the GDP per capita and exchange rate have a positive impact and significant on the number of tourist arrivals. Furthermore, the Hausman test confirmed that FEM was an appropriate static panel model.

Moreover, the REM estimation shows a dynamic panel model of tourist arrivals in ASEAN countries occurs. It means that the number of tourist arrivals in the current period will be determined by the number of tourist arrivals in the previous period. However, the finding expresses that the lagged of tourist arrivals has a negative impact on the current tourist arrivals. Besides, GDP per capita and political stability have a significant and negative impact on the number of tourist arrivals, while the exchange rate has a significant and positive impact.

The goodness of fit of the empirical model can be expressed by the within R-square of FEM was estimated higher than POLS and REM (0.2507>0.0062). Meanwhile, the between R-square of FEM

estimated lower than POLS and REM (0.1143<0.6808). It indicates that the within-group FEM estimation was more appropriate. Besides, the F-statistics of all estimation models were significant.

The findings of this study brings to the scholarly discussion of nowadays institutional framework was called as the New Institutional Economy (NIE). NIE offers balanced ideas between the government, business people, and even ordinary people. NIE offers important variables in economic activities that play a role in efforts to economic growth, such as the patent, ease of establishing a business, transaction costs, to administrative complexity that has not yet been "considered". Furthermore, Santosa (2008) explained that NIE is present because of frequent market failures, such as asymmetric market information conditions, externalities, to the existence of public goods. The NIE also focuses on studies of institutional failures that occur in many countries. According to NIE, there is a structured relationship between institutions and economics, that is, economic conditions will determine the shape of the institutional structure. Economic transactions can only occur because of the existence of an institution. The conclusion that this study can exhibit a significant contribution of institutions on tourism in ASEAN countries.

Some previous empirical studies found that tourism institutions such as social, emotional, and symbol were significant to realiz tourist satisfaction (Kastenholz, et al., 2012). It indicates a high level of institutions will indirectly significant impact on the number of tourist arrivals. Chatzigeorgiou & Simeli (2017) also argued that dynamic service quality will drive visitor satisfaction. The empirical study on the role of government in tourism development has been carried out by Rahajeng (2016). The findings showed that the local government contributed to the development of tourism facilities, marketing, and improvement of the institutional framework. Meanwhile, the findings of this study are macro in nature, emphasizing a number of macroeconomic indicators and six institutional indicators. Specifically, Lee, Lee, & Har (2020) show the significant impact of institutional indicators such as government effectiveness and control of corruption on tourist visits and the national income of Malaysia.

This study has employed some macroeconomic indicators to determine dynamic tourist arrivals in ASEAN countries. Some previous studies largely concern on the linkage between economic growth and tourism. Leana, Chong, & Wooi Hooy (2014) examined the correlation between economic growth and tourism sector in Malaysia and Singapore. Similar findings were reported by Zortuk (2009) and Atana & Arslanturk (2012) that there is a one-way correlation between tourism sector performance and economic growth in Turkey, a long-run relationship between economic growth and the number of tourist arrivals, and significant contribution of restaurants and hotels in tourism business. In addition, Kumar, Loganathan, Patel, & Kumar (2015) found that tourism has a negative impact on the economy of Malaysia in short-run, while a positive impact in long-run. Specifically, the tourism industry of Malaysia also drives productivity by increasing labor and stimulating investment.

Conclusion and Policy Implication

This study examines dynamic panel models of tourist arrivals in ASEAN countries during 2000-2018. The number of tourist arrivals was determined by some institutional indicators. Empirically, there are six institutional indicators were published by World Governance Indicators (WGI) under the World Bank. Moreover, there are two macroeconomic data were selected as explanatory variables such as GDP per capita and exchange rates. Besides, the Pooled OLS and Random Effects Model (REM) have exhibited the

dynamic panel model of tourist arrivals in ASEAN countries. However, FEM indicates the dynamic panel model of tourist arrivals does not occur. Interestingly, the Hausman test indicates that FEM was an appropriate model of static panel data.

The findings exhibit that under Pooled OLS and REM there are two institutional indicators can determine the number of tourist arrivals in ASEAN countries during the study period such as political stability and government effectiveness. In addition, the macroeconomic data also significantly contribute on the number of tourist arrivals consist of GDP per capita and exchange rate. This study summarizes that government effectiveness and exchange rate can underpin the number of tourist arrivals in ASEAN, while the political stability and GDP per capita will undermine the number of tourist arrivals.

Some policy implications can be formulated consist of the governments of ASEAN countries should improve the quality of institutions such as the provision of public goods, procedural simplifications, and conducive political stability. Moreover, they can collaborate intensively to formulate macroeconomic policies such as promote high level of GDP per capita and maintain the level of exchange rate at a stable range.

Result Vita dan Malik Tourism Februari 2021

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