An In-Depth Analytical Study on the Key Factors Influencing and Shaping Tourist Inflows into Malaysia's Growing Tourism Sector

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Abstract: - This study investigates the factors influencing tourist arrivals in Malaysia. It examines how price levels, measured by the Consumer Price Index (CPI), respond to changes in tourist inflows, income, and the exchange rate. Using quarterly time-series data from 2000 to 2017, the analysis employs the Autoregressive Distributed Lag (ARDL) approach to capture both short- and long-term interactions among variables. Findings reveal that inflation (CPI) does not significantly impact tourist arrivals. While short-run equilibrium is achieved among income, exchange rates, and prices, income remains relatively rigid in the short term, and exchange rates show no strong relationship with prices. The study highlights that economic recovery, particularly driven by global vaccination efforts, plays a crucial role in boosting tourism. By applying rigorous econometric methods, the research offers comprehensive insights into the economic determinants of tourism flows in Malaysia. The results provide valuable guidance for policymakers aiming to enhance tourism development amid global economic recovery.

Key-Words: - Tourism, Covid-19, Exchange rate, Income, Economy, Malaysia.

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1 Introduction

Tourism is now a very significant sector for most nations and is playing a vital role in economic growth and development. As a country with rich culture, spectacular scenery and great hospitality, Malaysia has become a popular tourist destination among international tourists. Knowing the forces that determine the level of inflows of tourists is imperative for maintaining and promoting the status of Malaysia in the world tourism industry, [1]. It has everything, including the spectacular natural scenery, and the multicultural fabric of Malaysia, and the Malaysian tourism industry has done much to ensure that it keeps providing new and unique experiences to the consumer. In the recent past, the country tourism industry has witnessed some monumental changes. Infrastructure development has also enabled the transport of commodities, making Malaysia more export-driven as it connects the country to the Asian region and beyond, [2]. This improved accessibility has been one of the factors attracting tourists from all over the world, [3].

Nevertheless, Malaysia has had a chance to embrace digitalization and technological innovation to build its tourism. In using social media platforms, online travel agencies and destination marketing campaigns extensively, Malaysia has gained a lot of exposure and reach in the entire global market. COVID-19 has radically increased the transition to digital platforms in marketing, booking, and virtual experiences, supporting the importance of digital strategies in attracting tourists, [4]. Finds its Vision Traveling is always better with a trusted bunch of new ideas that have surfaced in the travel space. Sustainable tourism practices have been growing in importance in recent years, with travelers becoming more and more demanding of locations that put a primary focus on environmental conservation, community involvement, and responsible tourism, [5]. Therefore, such evolving tendencies, along with the fact that Malaysia focuses on environmental sustainability and encourages the development of eco-tourism projects, are the actual motivation of environmentally friendly tourists, [5], [6].

Furthermore, the world economies are vigorously allocating COVID-19 injections. Economies with a high percentage of their population fully vaccinated were starting to unlock funds and trade for international travelers, [7]. The United States, Italy, Belgium, Singapore, the United Kingdom and Canada had the rates of 50.5, 55.5, 61.4, 62.3, 66.8 and 66.8 of the total population, respectively, in terms of vaccination levels. While these countries are getting ready for the endemic and opening their international borders, the tourism industry should be preparing for the new tourism normal for inbound international tourists, [8].

The tourism industry is one of the major businesses and has been an emerging economic activity across the world for several decades. The World Tourism Organization (UNWTO) estimates tourist arrivals to reach 1.6 billion by the year 2020. Moreover, tourism has played a significant role in increasing the GDP of most countries worldwide, [9]. Tourism may positively affect a nation in terms of its national GDP. In 2017, the World GDP in tourism was approximately 10 percent. In 2017, tourism in Malaysia was a key sector; it contributed the second-largest amount to foreign exchange earnings, [10].

However, Malaysia, which constantly strives to be an excellent ashtray tourist stop, promotes the unique wonders, attractions, and customs of Malaysia, thereby increasing Malaysia's share of the convention and exhibition market, [11]. The number of tourists that Malaysia is targeting to receive in 2018 is about 31.8 million visitors from across the world. The Ministry of Culture and Tourism Malaysia estimates the number of visitor arrivals to be 33.1 million in 2018. That said, the number of tourists going there, according to the statistics released by Tourism Malaysia, went to 25.038 million, 25.36 million and 26.47 million in 2014, 2015 and 2016, respectively. This is compared to 31.8 million that the target was in 2017, whereas the arrivals made were 25.95 million. Malaysia Budget Hotel Association (MyBHA) also recognized the reduction in the number of tourists coming to the country. This is evidenced by the fact that tourism exerts considerable pressure on Malaysia's industries and economy [12], and that tourist arrivals may also impact Malaysia.

During the first nine months of 2020, the number of tourists dropped by 78.6 percent to 4.29 million, which is compared to 20.1 million in the same period in 2020, [13]. This turned out to be an astronomical decline in the tourism receipts of 80.9 per cent to RM12.6 billion against RM66.1 billion during the same period last year. After the COVID-19 pandemic, the majority of international borders have been closed. All the tourism-related activities were forced to be halted and travel limitations were introduced. The COVID-19 pandemic affected many tourism-related economic activities, [14]. But as vaccination campaigns rolled out rigorously worldwide, some economies are beginning to see the light of recovery and are opening up to travelers at least partially. This research will be conducted as part of the endemic preparation by looking at the drivers of inflows of tourism into Malaysia, and by studying the correlation between price, exchange rate, and income and tourist inflows into the country, [15]. Discusses how the exchange rate, price and revenue influence the arrival of tourists in Malaysia.

By considering the current events and trends, this paper will examine a number of factors that might be influencing the tourist inflow to Malaysia. It will illustrate matters such as the effect of everyday adornments and legacy, the value of availability and availability enhancements, government strategies and backing, financial contemplations, wellbeing and security measures, advanced showcasing methodologies, socio-economic viewpoints, natural supportability endeavors, and rival examination. This research, therefore, seeks to provide an in-depth analysis of the factors contributing to changes in tourist inflows into Malaysia.

2 Literature Review

Using the variance decomposition method, a [16] study also substantiated the significance and contribution of CPI to inbound visitor numbers in

Malaysia. There is also a cause-and-effect relationship between price and the arrival of tourists. The authors stated that this outcome was not surprising, as the price has been a major factor in tourist arrivals in ASEAN in recent times. An additional study by [17] reported an intimate relationship between CPI and tourists' arrivals in Malaysia, as tested using the Gravity Model. According to one study using the econometric model & as measured by [18], the research found that the relationship between foreign tourist arrivals and relative prices in India is negatively correlated. In the outcome of the price-tourist arrivals relationship, they are, overall, a mixture. [19] states in a research study on Malaysia's direct investment policy after COVID that all large companies' hotels expect to cut hourly hotel employees by 70%, and airlines will also cut employee pay by 25-50% (OECD 2020). [20] found that demand for tourism in the short run is positively related to income and is insignificant. A shock to increasing income in Malaysia would thus trigger a significant outflow. This was confirmed in a pooled OLS by [21], which found substantial, positive income elasticities of tourist arrivals with respect to income in Malaysia. [22] further, it was found that, in the long term, income and tourist inflows are cointegrated, consistent with economic theory. [23] has introduced another dimension to this study by employing the panel structural vector autoregressive method to measure the potential impact of COVID-19 on the tourism industry in 185 countries, and concludes that COVID-19 has had severe effects on the tourism industry. The tourism industry will take more than 10 months to recover to a more stable situation.

Moreover, the [17] study in Malaysia found that there is a negative and significant relationship between tourism demand and the exchange rate. Also, [24] studied the real exchange rate and found a strong positive long-run interrelationship between the weak Ringgit Malaysia and tourist arrivals. According to [25], tourists are adversely affected by fluctuations in the US exchange rate. In the conceptual framework Figure 1 the relationships among variables are taken into account, with tourists' arrivals, price, income, and exchange rate logged according to [17] and presented as LT, LP, LI, and LER, respectively.

2.1 Conceptual Framework

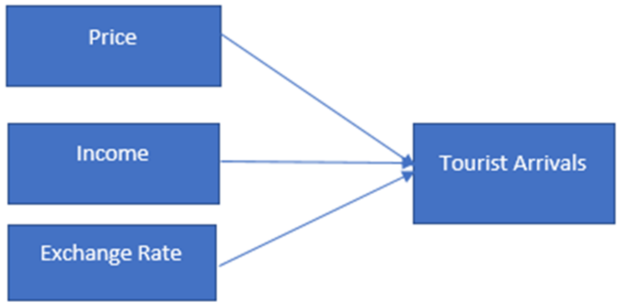

Fig. 1: Conceptual Framework
Source: Developed by Author

3 Result and Findings

According to the literature, the estimation model in log-linear form can be written as follows at time t Equation (1).

$$LTt = c + ά1\ LTt\text{-}1 + \ldots + άn\ LTt\text{-}n + β0\ LIt + γ0\ LPt + δ0\ LERt + β1\ LIt\text{-}1 + \ldots + βn\ LIt\text{-}n + γ1\ LPt\text{-}1 + \ldots + γn\ LPt\text{-}n + δ1\ LERt\text{-}n + \ldots + δn\ LERt\text{-}1 + Ɛt \quad (1)$$

The ά is the constant, LTt is the number of tourists that arrive in Malaysia, LIt is the income (GNI) of Malaysia, LPt is the price (CPI) of Malaysia, Ɛt is the exchange rate whose quoted currency is RM, earsont is the error term, and n is the lags. The unit root problem was estimated on all the series, which were transformed into log form. The stationarity of the variables is evaluated by the use of the unit root test. We use the Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) tests in this paper. Intercept and trend-based unit root tests at the 1st differences and level: the PP, ADF tests indicate that all the variables are stationary at the 1 st difference, except tourist arrivals (LTA), which is stationary at the level. It is given in Table 1 and Table 2.

Table 1. Unit Root Test Result (PP Test)

Variables	**Level**		**First Difference**	
	Intercept	**Intercept and Trend**	**Intercept**	**Intercept and Trend**
LTA -I(0)	-2.25	-3.84**	-12.13**	-14.94**
LER -I(1)	-2.31	-2.46	-7.91**	-7.84**
LGNI – I(1)	-1.73	-2.06	-8.43**	-9.61**
LCPI- I(1)	-1.17	-3.05	-7.73**	-7.87**

** denotes 5% level of significance
Source: Outcomes form EViews.

Table 2. Unit Root Test Result (ADF Test)

Variables	Level		First Difference	
	Intercept	Intercept and Trend	Intercept	Intercept and Trend
LTA- I(0)	-2.34	-3.74**	-8.52**	-8.62**
LER-I(1)	-2.14	-2.29	-7.92**	-7.86**
LGNI-I(1)	-2.42	-0.93	-4.62**	-5.46**
LCPI-I(1)	0.66	-3.47	-7.41**	-7.42**

** denotes 5% level of significance
Source: Outcomes form EViews.

The best lag length was decided with the help of Akaike Information Criteria (AIC). It was discovered that the AIC was more suitable for estimating the appropriate lag length in data of n=60. The lag selected as the AIC-optimal model had the lowest value among those listed, which was Table 1.

The ARDL Bounds Test has been conducted for the long-run relationship. F-statistics were used to perform the bound test. Table 2 are compares F-statistics for samples with a sample size of less than 100, which is relatively small, [26]. The outcome could be in three types: (a) F-statistics > upper critical value, cointegration or long-run association; (b) Lower critical value < F-statistics < upper critical value, inconclusive decision on any association, long-run relationship; and (c) F-statistics < critical value, no cointegration or no long-run relationship.

The simulated results in Table 3 showed that the F-statistic (6.908) was bigger than the upper bound (3.67) at 5% significance level. It means cointegration and the long-run relationship between variables. Refer to Table 3 for details.

Table 3. ARDL Bound Test Result

Test Statistics	Value
F-statistics	6.907679
5% significance level	I(0)- 2.79 I(1)- 3.67

Source: Outcomes form EViews.

The significance of variables in the long run can be assessed using the ARDL Long Run Test; if they are positive or negative, the results in Table 4 indicate that the exchange rate had a negative and significant relationship with tourist arrivals in the long run. The exchange rate had a long-lasting effect on the inflow of foreign tourists, according to a study [27], [28]. According to [29], the best indicator of income and a country's economic development is GNI. This leads to the impact that, as the country becomes more developed, the stronger the infrastructure and the more new tourism locations are created, the more individuals are attracted to visit the country. Price, on the other hand, is no longer significant and is damaging to long-term tourist arrivals.

Table 4. ARDL Long Run Test

Variables	Coefficient
LER	-0.450**
LGNI	0.747**
LCPI	-0.059
C	-3.027

** denotes 5% level of significance
Source: Outcomes form EViews.

The test of the short-run coefficient, CointEq (-1), has a negative value, and the p-value is less than the 5% critical value. It is a sign of an extensive short-run association. On the other hand, the short-run relationship between the exchange rate (ER) is negative and insignificant. Income shows a statistically significant, positive relationship with P in the short run. In contrast, P shows a statistically insignificant negative relationship with income in the short run Table 5 for details.

Table 5. ARDL Short Run Test

Variables	Coefficient
LTA(-1)	-0.7059**
LER	-0.3179
LGNI	0.527**
LCPI	-0.042
D(LTA(-1))	-0.32**
C	-2.137
CointEq(-1)	-0.7059**

** denotes 5% level of significance
Source: Outcomes form EViews.

4 Discussion

Tourist inflow conditions in Malaysia: the price (CPI), income, and exchange rate of Malaysia, using the Autoregressive Distributed Lag (ARDL) model. The results offer significant implications for the long- and short-run relationships between these variables in relation to tourism. Findings indicate that there is a very negative effect of the exchange rate on tourist arrivals, [30]. This is in line with earlier studies that have shown that depreciation of the Malaysian Ringgit (RM) will tend to boost the number of tourists visiting the country, since it will make it cheaper for tourists visiting the country. But this also focuses downside risk on currency volatility, which could distort long-run planning and stability in the tourism sector. On the other hand, income levels showed a significant positive correlation, affirming the notion that economic growth and higher disposable incomes in major tourist markets lead to student inflows, [31]. This supports some findings from other studies, which indicate that income elasticity is a determinant of tourist demand.

The price level (CPI) did not show a strong relationship with tourist arrivals. This indicates that tourists visiting Malaysia are less affected by price variations, possibly because the country offers a variety of attractions that provide value for money beyond the nominal value [32]. Tourism operators might find opportunities in this price insensitivity through the introduction of pricing strategies which, during these times of high demand, could actually increase revenue without driving visitors away, [33].

This was good news for the way energy demand behaved; it was still short-run, and income remained a positive, vital variable, suggesting inelasticity. This will make sure that tourists will travel to Malaysia even after the short-term economic changes. Conversely, the exchange rate proved to be a trivial factor within the short run, therefore indicating that tourists are not as susceptible to the currency changes within the short run. In the same vein, price changes did not indicate any short-term effects, consistent with the long-term results.

5 Implications for Policy and Practice

Enhancing the economic ties with countries whose middle and upper-middle-income groups are high will boost the number of tourists. The promotional campaigns in these markets can be very effective. The depreciated RM can attract tourists in the long-term, but the policymakers should pay attention to the stability of the exchange rate and prevent the negative attitudes or economic shocks that might make the potential visitors dislike the country. Without price sensitivity, the tourism operators will find alternative ways, which is value added services, instead of competing on price. This can involve the provision of infrastructure, better customer experiences and promotion of special cultural or eco- tourism packages. And as the world carries out these global vaccination programs, the world leaders will be charged with the responsibility of balancing the need to restart economic activity and at the same time be conscious of safety. Malaysia can stay on the radar through digital marketing and virtual engagement.

6 Contribution of the Study

Getting a better insight into the factors that actually attract tourists to Malaysia is very helpful, not only at the theoretical level, but also at the practical level, where specific measures will help the government implement policies or address related issues within the context of its strategic tourism plans.

6.1 Theoretical Contributions

Using the Autoregressive Distributed Lag (ARDL) model, this research adds to the existing tourism economics literature. The fact that income and exchange rates are the main driving factors behind tourism demand, while price fluctuations have little effect, provides a holistic view of the elasticity of demand and validates it. The paper distinguishes between short- and long-run relationships, showing that income is positively and consistently significant, whereas the exchange rate effect is essential only in the long run. This distinction enriches tourism demand models by suggesting that the required policy levers differ across temporal contexts. The research targets Malaysia as a rapidly growing travel destination, which will enable the capture of the relevant regional dynamics that would be compared and contrasted with outcomes in other countries. It identifies distinctive features, including economic strength and insensitivity to price, that can vary between markets.

6.2 Practical Contributions

According to the results, one of the aspects that policymakers ought to prioritize concerns economic partnerships and promotions in the markets with higher income levels, since travelers are less price sensitive and more sensitive to macroeconomic conditions. The management is aware that there is a close relationship between stability in the exchange rates and tourist arrivals, hence an explanation as to why the management has been putting in place economic policies balancing competitiveness and financial sustainability. One of the points to be considered is especially informative in terms of making both appeals to price-sensitive travelers. This price insensitivity shows that value-adding services can be given preference by tourism players rather than basing their competition on cost. Much more benefits would be received through improvement in tourist experiences, investment in infrastructure and promotion of eco-tourism rather than price changes. Following the prevailing international scenario, the results of the study can give an insight into the recovery efforts within the tourism industry in Malaysia. With the opening of international borders, low-cost strategies centered around the revival of the economy by controlling the exchange rates will be important.

7 Conclusion

As more countries actively immunize their citizens, they will liberalize their international borders for foreign visitors and commerce. This study offered some insights into the features that promote the commencement of tourist inflows in Malaysia, in anticipation of an endemic situation and the revival of the tourism sector. This study is focused on the impact on tourist arrivals to Malaysia. Using the ARDL method and data from 2000-2017, this study concluded that exchange rates and income are significant in explaining tourist arrivals in Malaysia, while prices are insignificant. The results of this research showed a positive relationship between income and tourist arrivals. Exchange rate, price, and tourist arrivals were inversely related. Tourist arrivals and prices did not have a long-run relationship. This means that tourists are sensitive to exchange rate and income, but prices in Malaysia don't affect them. According to the Malaysian Association of Hotels, international tourists will also not be able to benchmark prices (adapting to higher ADR), since all pre-COVID-19 prices would have been wiped out relative to local pricing. The exchange rate and price were not related in the short run. In the short term, income counts a lot, as demand is inelastic. Therefore, tourist arrivals to Malaysia would not pick up until economic activities resumed and more of the global population was vaccinated. The research provides a market to be analyzed on future performance and recovery of allied markets, such as travel, restaurants, clubs, bars, and catering services, also, which support a significant portion of the Malaysian population.

8 Limitations

The study is based on the data between 2000 and 2017, which may not reflect the dynamics in the world tourism environment in recent years, especially after the COVID-19 pandemic. The pandemic has transformed traveling significantly and the figures might lack new patterns. More recent studies should be done to take into account the more recent data to capture the emergent forms of global tourism. The research cites three economic ones, namely, price (the consumer price index, or CPI), income, and the exchange rate, though not the only ones. Such factors as political stability, perceptions of safety, e-marketing and cultural/environmental effects were not there, though they are critical. These variables might be included in order to have a more comprehensive picture of tourist inflows. The findings are narrowed down to Malaysia and cannot be applied directly to other nations with different economical structure, tourism policies and cultural factors. Therefore, these results need comparative research to be confirmed by the geographical scale of the study. Although the ARDL model is strong, it does have a limitation of not being in a position to represent non-linear relations and structural breaks that could be present in periods of economic crisis or global shocks. These issues can be addressed by limiting such problems in future studies, using sophisticated econometric models, or machine learning techniques.

9 Future Research

Data collected after 2020 will provide a basis for further research that investigates the long-term impact of the pandemic on the tourist behaviour and patterns of inflow. Knowing how recovery will transpire and the involvement of health and safety measures in the recovery process, it will then be necessary to figure out future tourism policy. Other aspects, such as environmental sustainability, cultural attractions, efficiency of digital marketing, and perceived safety of visitors, will be of great need in both destinations. This could give a better holistic view of the drivers that affect the demand in tourism. Competitive advantages and day-to-day challenges are possible to be brought out in the comparative studies on neighboring countries or other emerging tourism markets. This would help policymakers to assess the performance of the tourism industry in Malaysia relative to other countries in the region. To shed some light on how modern tourists make their decisions, it would be beneficial to research non-economic factors, such as the effect of social media, political stability, and environmental conservation activities. One of them is to use advanced econometric methods or machine learning models to capture non-linear relationships that capture new economic realities and predict future tourist inflows with more precision. This may also be tactical indications of potential structural changes and shocks in the tourism industry.

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Conflict of Interest

No potential conflict of interest was reported by the author(s)