

Economic Determinants of Long-Term Equilibrium in Malaysian Tourist Arrivals to Thailand: Implications for Tourism Policy^{*}

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ABSTRACT

This paper analyzes the nature and determinants of long-term equilibrium in the number of tourist arrivals from Malaysia to Thailand. Most previous studies on international tourism demand have used annual data and ordinary least squares estimation to examine tourist arrivals from a particular country of origin. However, those studies included some exogenous variables on the right-hand side of the equation; and hence may have incorrectly applied Johansen's co-integration methodology. In this paper, univariate time series Engle-Granger [3] co-integration analysis is applied to 1991-2005 quarterly data on Malay real gross domestic product per capita, Malay real private consumption expenditures per capita, and the real exchange rate index of the Thai baht to the Malaysian ringgit. We use the Augmented Dickey-Fuller Test (ADF Test) to perform a unit root test; the Engle and Granger Method [3] to validate the long-run equilibrium relationship; and finally an Ordinary Least Square (OLS) equation to estimate coefficients. All hypothesized economic determinants were found to bear a significant long-run equilibrium relationship, with the expected sign, to the number of Malaysian tourist arrivals to Thailand. The Thai government should therefore (a) maintain the real exchange rate close to parity and (b) advertise heavily in the Malay media, during the ascendant phase of GDP and per capita spending of the Malaysian business cycle.

Keywords: Long-term equilibrium; Tourist

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