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THE IMPACT OF TOURISM INDUSTRY ON LOCAL ECONOMY: CASE OF MALAYSIA

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Abstract: *The purpose of this study is to study the impact of tourism industry on Malaysia economy using time series data of 30 years from 1991 until 2021. Additionally, four independent variables: tourism receipt, tourism expenditure, capital investment and exchange rate have been chosen. Using DOLS framework, tests like correlation, unit root test and cointegration test are conducted to get meaningful results. Tourism receipt, tourism expenditure, capital investment and exchange rate as independent variable have significant relationship on Malaysia economic growth. Moreover, the most significant independent variable is exchange rate, followed by tourism expenditure, capital investment and tourism receipts. The findings also show that tourism receipts, tourism expenditure, capital investment and exchange rate have long-run relationship and significantly affecting the economic growth.*

Keywords: *Tourism, Tourism Receipt, Tourism Expenditure, Capital Investment, Exchange Rate*

Introduction

Tourism industry is one of the fastest growing industries and regarded as the primary source of economic growth in the world economy. A developed and established tourism industry serves as a catalyst for national and regional development, assists in the establishment of the foreign exchange rate, produces additional job possibilities, and contributes to social development that will benefits both the local community and tourists. The tourism industry also changing rapidly and become increasingly competitive as more tourism destinations are emerging worldwide and travellers have greater number of places to travel. In the modern globalized world, tourism industry has become primary source of revenue and a prime contributor to the socio-economic development of the nation. In Malaysia, tourism sectors very important because it contributes to Malaysia’s economy in many ways. In addition, Malaysia is well known for its diverse natural resources and variety of attractions that attract domestic and international tourists.

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Malaysia Tourism Promotion Board also known as Tourism Malaysia recently has launched its Strategic and Marketing Plan for 2022-2026, a new five-year organizational strategy to boost the tourism industry, a timely move to aligns with the full reopening of Malaysian borders. Tourism Malaysia Strategic and Marketing Plan was created in accordance to the National Tourism Policy 2020-2030, National Ecotourism Plan 2016-2025, National Cultural Policy (DAKEN) 2021, and UNWTO Sustainable Development Goals (SDGs). According to Department of Statistics Malaysia Official Portal (DOSM), the plan was launched to focuses on domestic tourist promotion as well as international tourism recovery and places greater emphasis on digital adoption, innovation, health, and safety. There are six pillars of the strategic plan include are boosting domestic tourism, forge smart partnerships, enhancing online and offline tourism promotion, optimize the strategic communication and media engagement, implement travel bubble, and undertaking strategic transformation.

A growth in tourism activities has multiplier effects on other economic sectors like the hotel industry, retail industries, restaurants, and transportation because the tourism industry has grown to be one of Malaysia's main economic drivers. Therefore, tourism industries in Malaysia are becoming increasingly important in order to boost the Malaysian economy while also increasing popularity and awareness through publicity.

Contribution of Tourism Industry in Malaysia

Tourism industry is one the important contributor to Malaysia economy. Other than abundance of natural resources, Malaysia offers some of the incredible places for both local and international tourist. From beaches in Terengganu to tropical rainforest in Pahang, or even modern building like KL tower, these places promise different experiences which will not be lack of visitors. This can be proved with data provided by the Department of Statistics Malaysia (DOSM) where tourism industry contributed 15.9 percent of the Gross Domestic Product (GDP) and generated RM240.2 billion in Gross Value-Added Tourism Industries (GVATI) in 2019. In addition, the Ministry of Tourism, Arts and Culture (MOTAC) predicted an increase in tourist arrival to reach 9.2 million in 2022 since the past two years Malaysia has been tremendously challenged by the pandemic that has been affecting the world.

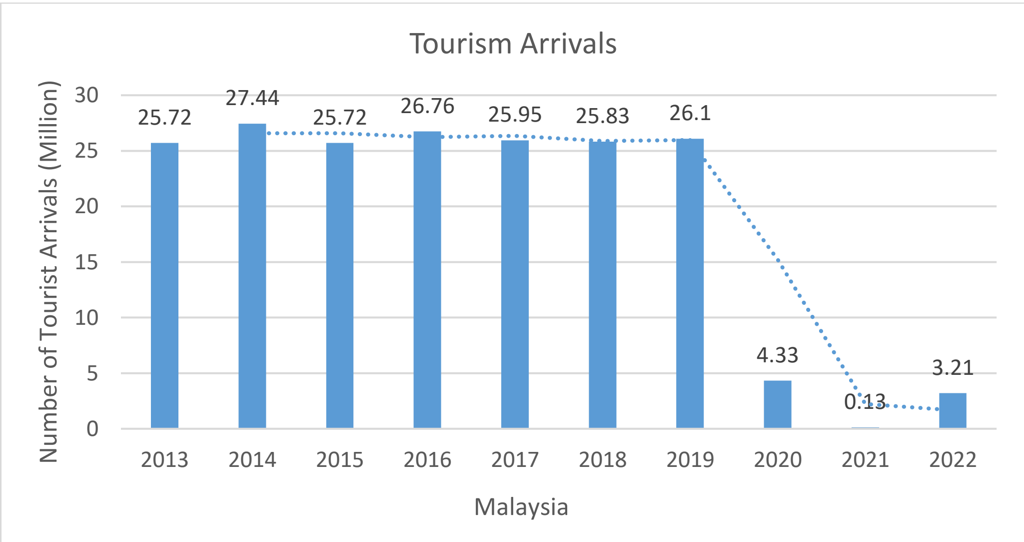

Figure 1. The number of Tourist Arrivals in Malaysia 2013-2022

Source: Tourism Malaysia (https://www.tourism.gov.my/statistics)

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Figure 1 shows the number of tourist arrivals in Malaysia from 2013 to 2022. Tourism industry was the sixth largest contributor to the economy moving up one spot and able to welcome 25.72 million tourists in 2013. In the same year, government took the initiative to focus on National Key Economic Area (NKEA) specifically on tourism such as duty-free and reasonably priced destination for luxury shopping; establishing Malaysia as a global biodiversity hub as well as the coordinated efforts through the strategic public-private partnership attributed to the growth in tourist arrivals and spending (Tourism Malaysia, 2014). Moreover, Malaysia also welcomed 27.4 million tourists in 2014, recording a 6.7 percent increase over the previous year. The campaign "Visit Malaysia Year" in 2014 alongside the investments made on publicity and promotions contributed to more tourist arrivals. Meanwhile, the following year, Malaysia recorded a drop in tourist arrival at 25.7 million compared to last year. This is due to a big flood that occurred in early 2015, affecting almost every state and killing 21 people. Apart from that, there were also an air pollution haze crisis in Southeast Asia that affecting several countries such as Indonesia, Singapore, Malaysia, Brunei, Thailand, Vietnam, Cambodia and Philippines. However, Malaysia tourism industry showed signs of recovery in 2016 by a slight increase to 26.7 million that is by 4 percent tourist after a slowdown in previous year. Positive indicators include an increase in visa applications from India and China, as well as forward flight bookings. Improved visa facilities in China and India make it easier for more visitors to visit Malaysia (Tourism Malaysia Annual Report, 2017). The following two consecutive years depicted a decline in tourist arrivals. Nevertheless, 2019 was an important year for Tourism Malaysia to step up the promotional efforts for Visit Malaysia 2020 and bring a landmark campaign target to attract 30 million international tourists around the world. The campaign also based on the Vision 2020 objective which are concerned with the long-term sustainability of tourism, arts, and culture in order to reduce the negative effects of tourism development and provide direct benefits to the community through the tourism industry (Ramli, 2019). Unfortunately, in 2020 the world was shocked with a rapid spread of COVID-19 virus that eventually declared a pandemic. The international tourist arrivals show a sharp drop in 2020 and 2021 to only 4.3 million and 0.13 million respectively due to borders closure in March 2020 until 2021 after the COVID-19 was declared as pandemic by World Health Organization (WHO). The suspension of tourism stakeholders like airlines, hotels and tourism activities give a significant impact to a lot of sectors and contributed to increasing unemployment rate in Malaysia. In 2022, a positive recovery was seen as borders have been re-opened on 1st April.

Problem Statement

Tourism is seen as a regional development tool to assist in the creation of new local economic activities (Richardson, 2010). Recognizing this importance, Malaysia has worked its way into one of the major participants in the world tourism industry. Hence, Malaysia has made significant investments in its tourism industry, which has elevated it to a world-class level and become one of the major revenues for country's wealth. The wide range of local and foreign tourists to the development of the tourism industry also has become a major contributor of the country's economy. Tourism is the most important industries in Malaysia since it employs not only tourism industry has grown to be one of the largest industries in Malaysia, it also employs nearly a quarter from the total workforce. Although not acting as the main contributor to gross domestic product (GDP), but its contribution is undeniably significant.

The prosperity experienced in tourism industry comes with some challenges which have impacted Malaysia in many ways. Some of them were extreme issues like terrorism, kidnappings, and airlines incident while other common threats like political instability, crime, natural disaster, false reporting by international media and most recent; a pandemic that shut down the world economy in general. Although some of the impact may be short-term, nevertheless it still managed to tarnish the image of Malaysia. In year 2019; pre-covid-19 period, the performance in tourism industry was impressive with the contribution of 6.7 percent to the GDP, however dropped to only 2 percent in 2020. However, the rapid spread of the covid-19 caught the majority of the world unprepared. Countries also have to close the borders to foreign visitors, causing the tourism industry need to bear the brunt of the impact. Therefore, the international tourist arrivals recorded a sharp decline following the closure of the borders in March 2020 after the COVID-19 was declared a pandemic by World Health Organization (WHO). Closure of airlines, hotels, transportation and tourism activities give a significant drop in tourists and the survival of complementary sectors in tourism industry have a major setback. According to Tourism Malaysia Marketing Plan 2022-2026 report, Malaysia's tourist receipts plunged 85.3 percent from RM 86.1 billion in 2019 to RM 12.7 billion in 2020 with the average per capita expenditure (Tourism Malaysia Strategic Plan 2022-2026).

Having said that, this research is conducted to study the impact of tourism industry on Malaysia economy for an annual data of 30 years from 1991 until 2021. Additionally, four independent variables; tourism receipt, tourism expenditure, capital investment and exchange rate have been chosen to get the meaningful results.

Literature Review

Extensive empirical research has been studies into the relationship between the tourism industry and economic growth. The outcomes of investigations indicate that there are differences between countries. According to previous studies, the importance that countries place on tourism is determined by factors such geopolitical locations, climates, historical structures, travel regulations, and economic frameworks. Investments in the tourism industry also lead to an increase in the number of tourists, and as a result, the foreign exchange helps the economic growth in the country (Gövdeli and Direkci, 2017). As a result, various studies have been conducted by other researcher to examine the impact of the tourism industry on economic growth.

Economic Growth

Economic growth is defined as an increase in the production of economic goods and services over a given time period when compared to a previous period. Economic growth also one of the driving forces behind all economic policies, as well as the most powerful tool for reducing poverty and improving living conditions in developing countries (Manzoor et. al., 2019). Aggregate economic growth has been measured in terms of gross national product (GNP) or gross domestic product (GDP). GDP growth also have been defined the change in GDP by comparing it to previous years (Abdul-Rashid et. al., 2017). According to Dritsakis and Stamatiou (2018), GDP also influences exchange rates, unemployment, and labor forces, all of which have a direct impact on a country's standard of living. The researcher also found that a lot of variables has been determined to formulate and related to the economic growth. Besides that, an empirical study on the relationship between tourism and economic expansion has produced a range of findings (Manzoor et. al., 2019).

Tourism Receipts

According to World Bank Data, international tourism receipts are including the payments made to national carriers for international transportation as well as expenses incurred by outbound tourists from other countries. Any additional payments paid in advance for goods or services obtained in the country of destination are included in these receipts. According to Wijesekara

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et al. (2022), a global study of countries worldwide showed significant result where an increase in tourism receipts will raise the GDP of all countries from period of 2033 to 2020. Then, a study based on Saudi Arabia using annual time series data from 2003 to 2019 found that tourism receipts have a significant and positive relationship with economic growth (Naseem, 2021). Other than that, a panel study for BRICS (Brazil, Russia, India, China, and South Africa) using annual data from 1995 to 2015, also found a significant and positive relationship between total tourism receipts and economic growth (Rasool et. al., 2021). This is consistent with Tugcu (2014) who investigated the association between tourism and economic growth for European, African, and Asian nations with Mediterranean coasts between 1998 until 2011. The findings of this study found that tourism has a positive and significant impact on economic growth. In addition, Ozturk and Acaravci (2009) confirmed that there is short- run relationship between tourism receipt and real GDP for Turkey from 1987-2007. Tabash (2017) also discovered a long-term relationship between tourism receipts and economic growth in the state of Palestine during the period 1995-2014. He also stated that the Palestinian government develop dynamic policies to promote tourism, which that can leads to generating employment opportunities, poverty alleviation, and generate economic growth.

Moreover, another research observed relationship between tourism and economic growth in India over the period of 1960-2014. It was discovered the existence of long-run one way causation running from tourism to economic growth (Ohlan, 2017). It was affirmed that there is a long-term relationship between tourism receipt and economic growth and further study explained that tourism receipt led to an increase in Pakistan's economic growth, except for 2006–2008. Meanwhile, from 2006 -2008, tourism did not lead to economic growth in Pakistan due to the earthquake and war on terrorism in northern areas of Pakistan (Adnan and Khan, 2013). Meanwhile, a study that using database 171 countries for the period of 1995-2013, found there are negative and significant relationship between tourism receipts and economic growth. This could be negative and not only positive because of certain effect that happen in the country for example the earthquake, flood, natural disaster, industrial accidents, storms and many more (Rosello et. al., 2020).

Tourism Expenditure

Tourism expenditure refers to the total consumption expenditure made by a visitor, or on behalf of a visitor for goods and services during travel (Laimer et al. 2006). According to International Recommendation for Tourism Statistic Report, 2008, tourism expenditure does not only focus on payments made during a visit. It also includes outlays for trip preparation and execution, as well as travel-related purchases made in the place of residence after arriving back. These categories include payments for travel insurance, transportation, and the purchase of travel guides and among other things. Based on an empirical result using data from 1995 until 2018 by Khan (2020) found that there is short-run and significantly positive association among tourism expenditure and economic growth. He also emphasized the significance of tourism in the growth of developing economies. Besides that, previous studies using data from 1995 to 2016, found that tourist expenditure has a significant and positive influence on economic growth in four developing countries; Brazil, Russia, India, and China (Usmani, et. al., 2020). This is found true by Brida et al. (2009) where a positive and significant impact of tourism expenditure on GDP per capita in Uruguay was detected by using quarterly data from 1987 to 2006 and Pramaningtyas et al. (2022) in their study on 9 ASEAN countries from 2014 until 2018. Meanwhile, according to Naseem (2021) in his study from 2003 to 2019, there is a long-run and strong significant relationship between tourism expenditure and economic growth in Saudi Arabia. Additionally, Ahad (2016) study conducted from 1988 to 2014 agreed with the

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existence of a long-run and significant relationship in promoted Pakistan's tourism-led growth between tourism expenditure and economic growth.

Capital Investment

The investment of physical assets by a business or sector for the purpose of achieving its long-term commercial aims and objectives is known as capital investment. Capital investments in the tourism industry are another important factor in boosting economic growth. Capital investment means that the industries invested in human capital, land, and technology to further increase the productivity and profit maximization. According to Liu and Chen (2016), increasing the government budget for fixed capital investment is the one way to stimulate the economy. While, according to Kneller et al. (1999), an increase in productive expenditure can significantly boost growth and the government investment in transportation and communication will produce positive outcome in growth. Discovered that the tourism industry is conducive to economic growth in medium- and low-income countries but it is not necessarily in developed countries such Latin America (Eugenio-Martin et al. 2004). This is because the developing-country tourism, goods and services are able to meet tourists' demand in terms of price and quality.

Empirical findings indicated that a study on the influence of international tourism and foreign direct investment on economic growth in Morocco within period 1983 until 2018 shows there is no significant relationship between foreign direct investment (FDI) in tourism and economic growth (Menyari, 2021). This is consistent with previous study findings on seven Mediterranean countries like Croatia, Greece, Italy, France, Slovenia, Spain and Turkey from 1996 until 2014; no relationship exists between tourism development and economic growth. They argued that since tourism is not a significant component of economic activity, therefore tourism development policies encouraging tourism investment would have no effect on economic growth (Dogru and Bulut, 2018). On the contrary, Guo et al. (2023) proved that capital investment can effectively promote economic growth in China, using 31 Chinese provinces from 1993–2017. Besides, Han (2020) conducted a study by using a large amount of data from 125 countries from 1997 to 2017 and found that foreign direct investment has a significant positive impact on economic growth. This is confirmed by Puah et. al., (2018) where capital investment was found to have a significant positive impact on economic growth and the hypothesis of tourism-led growth is accepted in Malaysia by using yearly data from 1995 to 2016. Meanwhile, according to Do et. al., (2021), a study conducted by using panel data from 63 Vietnam provinces between 2000 and 2020 postulated foreign direct investment and domestic private investment have positive significant long-run relationship on economic growth.

Exchange Rate

A currency's relative value expressed in terms of another currency is called an exchange rate or a group of currencies. The exchange rate is a significant economic variable for nations with active international trade, like Australia (Samirkas and Samirkas, 2016). If the destination country's exchange rates increase, tourism production and services will become more affordable for foreign visitors. In other words, at a certain exchange rate, foreign visitors can get more goods and services for the same price as before. As a result, it can motivate visitors from abroad to visit the country. In addition, the exchange rate volatility might also reflect the social instability of the destination country, which may frighten foreign tourists (Niazi and Rezaei, 2015). According to previous research findings on Asian countries over the period of 1981–2016, exchange rate enhances economic growth significantly (Zhu et al. 2022). In addition, researchers using data from 1981 to 2018 found that the exchange rate has a significant positive impact on Iran's tourism economy growth. (Sarchami et al. 2021). Meanwhile, another empirical study from 1990-2015 found a significant and negative relationship between exchange rate and Malaysia economic growth (Razzaque et al. 2017). In addition, a study in Turkish economy by using the quarterly data between 2002-Q1 until 2019-Q1, confirmed there is short-run and negative relationship between the foreign exchange rate and economic growth (Karahan, 2020). Meanwhile, a study conducted empirically in Nigeria from 1981 to 2016, stated exchange rate affects economic growth in long-run and had significantly negative effect on the growth (Akinbode et al. 2019).

Research Design and Methodology

Data Collection

To carry out this study, the annual time series data from 1991–2021 is used. Moreover, all secondary data are collected from sources such as World Bank Data, and Department of Statistic Malaysia. The dependent variable is economic growth, while tourism receipts, tourism expenditure, capital investment, and exchange rate are chosen as independent variables. Gross Domestic Product, international tourism receipt, international tourism expenditure, foreign direct investment and real effective exchange rate are proxies for variables according to the order stated above. The following are hypotheses for the study:

H_1 : There is no significant relationship between tourism receipts and economic growth.
H_2 : There is no significant relationship between tourism expenditure and economic growth.
H_3 : There is no significant relationship between capital investment and economic growth.
H_4 : There is no significant relationship between exchange rate and economic growth.

Methodology

In order to achieve fruitful outcome, Dynamic Ordinary Least Squares (DOLS) is chosen as the method of analysis. The data of every variable also be extracted from the World Development Indicators obtained from the Data World Bank website. Besides, the test that will be conducted are correlation test, unit root test as preliminary tests. If the results are accepted, then cointegration test and long-run estimates will take their places. Correlation analysis is used to determine how closely two variables are related. It is used to detect multicollinearity problem. Meanwhile, unit root test will determine whether a time series variable is non-stationary or has unit root (trend). Next, cointegration test is conducted to determine the existence of long-run equilibrium that implies the variables in this model have meaningful relationship and validates the model in this study.

The model for this study is as follows:

$$InGDPt = \alpha + \beta 1\ InTOURt + \beta 2\ InTEt + \beta 3InCIt + \beta 4InERt + \varepsilon t$$

where GDP is Gross Domestic Product, TOUR is tourism receipts, TE is tourism expenditure, CI is capital investment, ER is exchange rate, β1, β2, β3, β4 are coefficients, ε is error and t is time.

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Results and Findings

Correlation Test

Table 1 shows the result from correlation test.

Table 1: Correlation Test

	LGDP	LTR	LTE	LFDI	LER
LGDP	1.000000	0.752124*	0.802734*	0.784085*	-0.855210*
LTR	0.752124*	1.000000	0.700293*	0.771003*	-0.496128*
LTE	0.802734*	0.700293*	1.000000	0.741072*	-0.689197*
LFDI	0.784085*	0.771003*	0.741072*	1.000000	-0.499226*
LER	-0.855210*	-0.496128*	-0.689197*	-0.499226*	1.000000

*Notes: The asterisks * imply significance at 5%*

Based on the table 1, there is no multicollinearity problem detected and strong correlation does not exist between any of the independent variables as all values pointing to below than 0.8. The result that shows the positive and negative correlation coefficient can be seen on the table above. Moreover, there is positive relationship between tourism expenditure and tourism receipts at 0.7003; capital investment and tourism receipts at 0.7710 and capital investment with tourism expenditure at 0.7411. Meanwhile, for negative correlation coefficient can be seen between exchange rate and tourism receipts at -0.4961; exchange rate and tourism expenditure at -0.6910 and exchange rate with capital investment at -0.4992.

Unit Root Test

Referring to table 2, values for both ADF and PP at level are lower than critical value which null hypotheses is failed to be rejected. Hence, all variables at level have unit root and it is non-stationary. As required by Dynamic Ordinary Lease Squares (DOLS), these variables are test further at first difference. The results show all variables for both ADF and PP are stationary and significant at 1 percent significance level. For ADF, at first difference the value is -6.7060 for economic growth; -6.5595 for tourism receipts; -5.7220 for tourism expenditure; -6.956) for capital investment and -4.8423 for exchange rate. Besides, for PP at first difference exhibits the significant value at -6.7443 for economic growth; -6.6498 for tourism receipts; -7.0876 for tourism expenditure; -6.9047 for capital investment and -0.8009 for exchange rate. Thus, the null hypothesis for all variables is rejected, leading to economic growth, tourism receipts, tourism expenditure, capital investment and exchange rate to have no unit root and stationery.

Table 2: Unit Root Test

Series	Level		First Difference	
	ADF	PP	ADF	PP
LGDP	-1.414751	-1.414751	-6.705964***	-6.744328***
LTR	-1.336077	-1.336077	-6.559526***	-6.649821***
LTE	-2.051338	-1.729485	-5.721951***	-7.087631***
LFDI	-2.973206	-2.951328	-6.956295***	-6.904664***
LER	-2.481221	-2.516341	-4.842270***	-8.009165***

*Notes: The asterisks ***, **, and * imply significance at the 1%, 5%, and 10% levels, respectively.*

Cointegration Test

Table 3 shows the computed Lc statistic is 0.4799 that is greater than 0.2. Therefore, the null hypotheses are failed be rejected, indicating the existence of cointegration in the model of this study and confirms the existence of a long-run equilibrium between economic growth and its determinants. Thus, this study proceeds with long run estimation.

Table 3: Long-run Estimation

Cointegration Test - Hansen Parameter Instability
Equation: UNTITLED
Series: LGDP LTR LTE LFDI LER
Null hypothesis: Series are cointegrated
Cointegrating equation deterministic: CHAC score variance

Lc statistic	Stochastic Trends (m)	Deterministic Trends (k)	Excluded Trends (p2)	Prob.*
0.479980	4	0	0	> 0.2

*Hansen (1992b) Lc (m2=4, k=0) p-values, where m2=m-p2 is the numberof stochastic trends in the asymptotic distribution

Long-Run Estimation

Based on table 4, all independent variables are found to be significant at 1 percent except exchange rate significant at 5 percent. Tourism receipts shows that it has negative relationship with economic growth where a 1 percent increase in tourism receipts will decrease economic growth by 2.21 percent. Therefore, the null hypothesis is rejected, which means there is a significant relationship between tourism receipts and economic growth.

Table 4: Cointegration Test

Dependent Variable: LGDP
Method: Dynamic Least Squares (DOLS)
Sample (adjusted): 1994 2019
Included observations: 26 after adjustments
Cointegrating equation deterministic: C
Fixed leads and lags specification (lead=2, lag=2)
HAC standard errors & covariance (Bartlett kernel, Newey-West fixedbandwidth = 3.0000)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LTR	-2.210590	0.292264	-7.563667	0.0837***
LTE	2.295941	0.258056	8.897052	0.0713***
LFDI	0.240197	0.022286	10.77799	0.0589***
LER	-4.507834	0.204676	-22.02427	0.0289**
C	34.21364	1.712073	19.98375	0.0318
R-squared	0.999995	Mean dependent var		20.19512
Adjusted R-squared	0.999885	S.D. dependent var		0.635847
S.E. of regression	0.006829	Sum squared resid		4.66E-05

*Notes: The asterisks ***, **, and * imply significance at the 1%, 5%, and 10% levels, respectively*

Next, for tourism expenditure it has positive relationship indicating 1 percent increase in tourism expenditure will increase economic growth by 2.30 percent. Therefore, the null hypothesis is rejected, suggesting there is a significant relationship between tourism expenditure and economic growth.

Besides, capital investment also shows positive coefficient indicating 1 percent increase in capital investment will increase by 0.24 percent. Therefore, the null hypothesis is rejected, suggesting there is a significant relationship between capital investment and economic growth.

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Meanwhile, exchange rate has negative coefficient indicating 1 percent increase in exchange rate will decrease by 4.51 percent. Therefore, the null hypothesis is rejected, which means there is a significant relationship between exchange rate and economic growth.

Furthermore, adjusted R-squared value is recorded at 0.9999 which means that 99 percent of economic growth can be explained by tourism receipts, tourism expenditure, capital investment and exchange rate while the remaining of 1 percent can be explained by other variables which are not included in the model. The long-run equation can be written as follows due to the existence of cointegration found in previous test:

$$\text{InGDP}_t = 34.2136 - \underset{(-7.5636)}{2.2106} InTOUR_t^{***} + \underset{(8.8971)}{2.2959} InTE_t^{***} + \underset{(10.7780)}{0.2402} InCI_t^{***} - \underset{(-22.0242)}{4.5078} \text{InER}_t^{**} + \varepsilon_t$$

Discussion

Based on the estimated result, tourism receipts have been found to have negative and significant impact on economic growth in Malaysia. This result is consistent with previous research by Rosello et. al, (2020) that explains the relationship between tourism receipts and economic growth could be negative and not only positive because of certain effect that happen in the country for example the earthquake, flood, natural disaster, industrial accidents, storms and many more. When all types of disasters are considered, a negative and significant relationship is discovered. In other words, the economic consequences of these events, such as damage to infrastructure, transportation and accommodation are likely to reduce tourism arrivals and tourism receipts. Other than that, tourism can lead to overuse of natural resources and increase in pollution. A lot of money needed to be spent in order to correct the problem created by this industry, which explains the inverse relationship between tourism receipts and economic growth.

Meanwhile, tourism expenditure has been found to have a positive and significant relationship on economic growth in Malaysia. This outcome is supported with the findings by past researchers like Naseem (2021), Usmani, et. al. (2020) and Brida et al. (2009). This is due to tourism expenditure contributes to increase in economic revenue, create thousands of employments, improve a country's infrastructure, and fosters a sense of cultural interaction between visitors and locals. Hence, a higher tourism expenditure causes increase in economic growth through multiplier effect as expected.

Besides, capital investment also has a positive and significant relationship on economic growth in Malaysia. Past researchers like Han (2020) and Puah et., al. (2018) backed this finding. According to the latter, capital investment in the tourism sector is crucial to ensuring that the industry's growth is sustainable, and the resources are exploited to the maximum potential. A country's economy can be developed through encouraging more capital investment, which can assist in creating more employment in the country and bring prosper to the economic growth.

Finally, the exchange rate has negative and significant relationship on economic growth in Malaysia. This is accordant to findings by past researchers Razzaque et. al., (2017) and Akinbode et. al., (2019). According to both, currency exchange rate has a very significant impact on travel and tourism. Especially in developing countries, currency appreciation might cause domestic travel and tourism spending to stagnate leading to slow economic growth. On the other hand, a weaker currency often has the effect of attracting people from around the world to the country and contributing to a better economy.

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Conclusion

In conclusion, this study is an effort to study the impact of tourism industry on Malaysia local economy. To carry out this study, the annual time series data from the years 1991–2021 were used. Moreover, all secondary data are collected from sources such as World Bank Data and Department of Statistic Malaysia. This study has achieved the objective of study where tourism receipt, tourism expenditure, capital investment and exchange rate as independent variable have significant relationship on Malaysia economic growth. Moreover, the most significant independent variable is exchange rate, followed by tourism expenditure, capital investment and tourism receipts. The findings also show that tourism receipts, tourism expenditure, capital investment and exchange rate have long-run relationship and significantly affecting the economic growth.

Recommendation

Tourism sector plays an important role to economic growth by attracting foreign tourists to achieve a new target for tourist arrivals as well as tourism receipts in Malaysia. Therefore, the government and Malaysia Tourism Promotion Board need to work hard in hand to attract tourists to the country by spending and providing good infrastructures, focus more on creating tourism-related activities and well-develop in attraction places. In order to increase the accessibility of tourism, well-developed and infrastructures with a high-quality transportation system, higher spending on hotel, airlines, immense airport, visa application and tax incentives are needed to attract tourist to the country. Thus, if the government and related authorities able to capitalize on this spending, the tourism sector can continue to be a significant contributor to the growth of the country's economy. Finally, the importance of economic stability is not to be neglected to have a stable currency. Stable currency will give advantage to the country in terms of attracting foreign investor to invest in the country especially in the airline, hotel and tourism industries; attracting more foreign tourists and increase foreign exchange rate into the country, which will help to improve country's economy. It is suggested that future researchers include other variables such as tourism arrival and tourism development in order to discover more impact on economic growth. Besides that, secondary data were used in the current study. Furthermore, using different method such as panel data would allow a different outcome for the research.

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