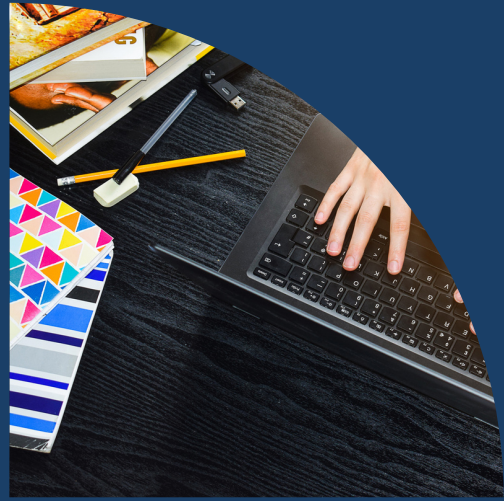


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THE ECONOMICS OF TOURISM

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Tourism economics involves the allocation of scarce resources to meet the tourism demand. On the supply side, tourism encompasses a variety of goods and services, including travel agency services, food and beverages, accommodation, transport and logistics, and retail goods (Mohd Rosli, 2022; Department of Statistics Malaysia, 2022; Othman, 2019).

Tourism demand can manifest in different forms, such as from groups of countries, states, regions, or specific areas. Additionally, it can be categorised by visits or tourists and extend to specific products like attractions, accommodation, sightseeing, sports, and transportation (Tourism Malaysia, 2020). Malaysia's Tourism Satellite Account (TSA) classifies visitors into tourists (i.e., those with overnight stays) and excursionists (i.e., individuals with trips lasting less than 24 hours) (Department of Statistics Malaysia, 2022). According to TSA, the primary purposes for visits include:

1. Business and professionals
2. Holiday, recreation, and leisure
3. Visiting friends and relatives
4. Education and training
5. Medical healthcare
6. Religion purposes or pilgrimage
7. Shopping
8. Transit

Tourism expenditures also consist of various categories:

1. Inbound tourism expenditure: Tourism expenditures of a non-resident tourist within the economy of reference.
2. Domestic tourism expenditure: Tourism expenditures of a resident tourist within the economy of reference.
3. Outbound tourism expenditure: Tourism expenditures of a resident tourist outside the economy of reference.
4. Internal tourism consumption: Comprises all tourism expenditure of tourists, both resident and non-resident, within the economy of reference. In other words, it combines inbound and domestic tourism expenditures.

Many studies considered tourism demand at the national level, either through tourist arrivals, departures, expenditures, and length of stay (Mohd Rosli, 2022; Othman, 2019). Determinants of tourism demand are primarily tourists' income, relative price between the origin and destination or cross-price difference, exchange rate, travel costs, and political stability (Puah et al., 2019; Shafiullah et al., 2019; Ibragimov et al., 2021). Higher tourists' income, lower price level of the destination country, stronger exchange rate, and lower travel costs entice foreign tourists to visit the country. Nevertheless, political instability discourages inbound tourism activities.

The tourism supply covers a wide range of industries, namely hotel and accommodation, air transport, land transport, water transport, and retail. Tourism products differ from other products in a way that they cannot be stored or examined before the purchase; however, it involves travel elements. Therefore, it is essential to not consider tourism as an industry but as a collection of interrelated industries and commodity markets. These industries sell products to tourists, private households, firms, and the government (Sinclair et al., 2003).

In Malaysia, TSA classifies the tourism industry based on the Malaysia Standard Industrial Classification (MSIC) 2008 across a wide range of industries (Department of Statistics Malaysia, 2022). Nine industries are grouped:

1. Accommodation services
 - a. Short-term accommodation activities
 - b. Camping grounds, recreational vehicle parks, and trailer parks
 - c. Other accommodation
2. Food and beverage serving services
 - a. Restaurants and mobile food service activities
 - b. Beverage serving activities
 - c. Other food service activities
3. Passenger transport services
 - a. Railway passenger transport
 - b. Road passenger transport
 - c. Water passenger transport
 - d. Air passenger transport
 - e. Transport equipment rental
4. Travel agencies and other reservation services
 - a. Tourism agencies activities
 - b. Tour operator activities
 - c. Other reservation services and related activities
5. Cultural services
 - a. Motion picture projection activities
 - b. Creative, arts, and entertainment activities
 - c. Botanical and museum activities
6. Sports and recreational services
 - a. Gambling and betting activities
 - b. Activities of sports clubs
 - c. Activities of amusement parks and theme parks
7. Retail sale of automotive fuel
 - a. Retail sale of automotive fuel in specialised
8. Retail trade of country-specific tourism characteristic goods (shopping)
 - a. Retail trade, except for motor vehicles and motorcycles
9. Country-specific tourism characteristic services
 - a. General insurance
 - b. Education

Various factors determine the aggregate tourism supply, including the host country's Gross Domestic Product (GDP), production capacity, price of tourism products, domestic consumption, the strength of industrial linkages, national tourism policy, and economic stability. The level of GDP influences the level of tourism supply in a country. From a slightly different angle, a country-specific economic crisis increases tourism activities, especially inbound tourist arrivals and expenditures, due to local currency depreciation (Santi et al., 2014). Government support also proves significant in promoting tourism activities. In Italy, the government support for cultural activities attracted more tourist arrivals (Massidda & Etzo, 2012) while a lack of trust and information sharing among medical industries in Thailand affected production capacities, thus limiting huge potential revenue streams from tourists (Fongtanakit et al., 2019). On the contrary, a strong linkage and information sharing between hoteliers in Indonesia enables the industry to maintain supply chain performance and remain competitive in a rapidly changing environment (Roespinoedji et al., 2019).

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