Tourism Growth Strategy and Its Impact in Indonesia Economy

Thoby Mutis
Master of Management Program, Trisakti University, Jakarta, Indonesia

Willy Arafah
Master of Management Program, Trisakti University, Jakarta, Indonesia
E-mail: willy.arafah@trisakti.ac.id

Abstract

Tourism in Indonesia has emerged as an enormous branch of industry with tourism revenue approximately US$ 8,4 billion annual (2011) foreign exchange earnings and direct and indirect employment opportunities it provides for more than 11 million people in Indonesia (2011), also contributed nearly five per cent (4.95%) to Indonesia's GDP in 2011. This paper show that tourism has a demand side and a supply side, and that the latter is defined by the former. Also, the supply side of tourism involves many industries in the economy and cannot be defined as a single industry. Therefore, we argue that aggregate measures of tourism should be built from the demand side. We also argue that the measure of the size of tourism and the measure of the contribution of tourism to GDP should be separated. While initial tourism demand is the best measure of the size of tourism, tourism driven GDP is the best measure of the contribution of tourism. There are two strategic for maintain tourist growth, They are: (1). existing consumer, with strategically thinking: (a). Retain uses by exiting consumers to maintain current purchasing pattern by existing travelers and segment; (b). Stimulates current uses with existing consumers to stimulate current consumers to come here more often and for longer duration; (c). Generate new uses by existing consumers to stimulate current consumers to come here for new purpose, experience and offering. (2). New consumer with strategically thinking: (a). Attract new to you consumer to convert consumer and segment from competitor to Indonesia; (b). Attract new to category consumer to convert low frequency or non travelers into frequent travelers, or short haul travelers to long haul travelers.

***Keywords**: Indonesia economy setting, tourism growth strategy.*

INTRODUCTION

Some of the challenges Indonesia's tourism industry has to face include the development of infrastructure to support tourism across the sprawling archipelago, incursions of the industry into local traditions, and the impact of tourism development on the life of local people. In 2010, based on World Economic Forum survey, Indonesia got Tourism Competitiveness Index at number 74 (up from number 81) from 139 countries. The tourism industry in Indonesia has also faced setbacks due to problems related to security. Since 2002, warnings have been issued by some countries over terrorist threats and ethnic as well as religious conflicts in some areas, significantly reducing the number of foreign visitors for a few years. However, the number of international tourists has bounced back positively since 2007, and reached a new record in 2008. Tourism is a major industry globally and a major sector in many economies, according to the United Nations World Tourism (UNWTO), over the past six decades, tourism has experienced continued growth and diversification to become one and largest and fastest growing economic sector in the world. The World Travel and Tourism Council (WTTC) estimates that tourism contributed 9.2 per cent per annum during the next ten years to account for some 9.4 per cent of Gross Domestic Product (GDP) (WTTC 2010).

Figure 1. Average Expenditure and Foreign Exchange Earning 2010 - 2011

No	YEAR	2010	2011	Growth (%)
1.	Tourist Arrivals (Million)	7.00	7.65	9.24
2.	Average Expenditure per Visit (USD)	1,085.75	1,118.26	2.99
3.	Foreign Exchange Earning (Billion USD)	7.60	8.55	12.51

Source: Statistic Indonesia, MTCE, 2012

Based on the Tourism Satellite Account 2011 Indonesia, tourism has a strategic contribution for Indonesia Economy, namely: (1). contribution to National GDP: 4,06%; (2). Contribution to employment: 6,87% of total national workforce or 7.44 million people, the magnitude of this contribution can be an effective manner to alleviate poverty; (3). Contribution to indirect taxes with 9,35 trillion rupiah.

Figure 2. Average Expenditure and Foreign Exchange Earning 2010 - 2011

No	Economic Impact	Tourism Sector			National	
		Nominal		Percentage		
1	Output	565.15	IDR Trillion	4.73	11,956.62	IDR Trillion
2	GDP	261.06	IDR Trillion	4.06	6,422.92	IDR Trillion
3	Employment Opportunities	7.44	Million People	6.87	108.21	Million People
4	Salaries	84.80	IDR Trillion	4.63	1,831.09	IDR Trillion
5	Indirect Taxes	9.35	IDR Trillion	4.16	225.09	IDR Trillion

Sources: Tourism Satellite account 2011

Major markets of international arrivals to Indonesia 2001, the top 4 countries are Singapore (16.32% share of Indonesia total tourist arrival), Malaysia (13.56%), Australia (11,59%), and China (6,60%). In 2011, Indonesia experience significant growth from the Saudi Arabia visitors (21.69%), Australia (21.28%), Philippines (20.24%), China (19.75%), and India (15.80%). Due to the most significant number of growth from China and Australia, it will help in increasing the total number of International Tourist arrivals.

TOURISM

Tourism means different things to different people, because it is an abstraction of a wide range of consumption activities which demands products and services from a wide range of industries in the economy. According to Webster's Ninth New Collegiate Dictionary, tourism means: (1). the practice of traveling for recreation; (2). the guidance or management of tourists; (3). the promotion or encouragement of touring and the accommodation of tourists. OECD observes that tourism is a concept that can be interpreted differently depending on the context. Similarly, WTO also defines tourism as the activities of persons traveling to and staying in places outside their usual environment for no more than one consecutive year for leisure, business and other purposes, while at the same time WTO states that tourism is thus a rather general term, which can refer to the consumption of tourists, to the production units supplying goods and services particularly to tourists, or even to a set of legal units or of geographical areas related in a way or other to tourists. To summarize in more concise terms, tourism can be defined as a set of socioeconomic activities carried out either by or for tourists. Those carried out by tourists correspond to what tourists do, while those carried out for tourists correspond to what other socio-economic institutions do to support the needs of tourists.

DEMAND AND SUPPLY SIDE OF TOURISM

The size of an economy is usually represented by GDP, which can be measured either from the demand side or from the supply side. From the demand side, it is the total value of the goods and services produced by the economy and delivered to final demand. From the supply side, it is the sum of all industries' value added generated in the production of goods and services. Tourism also has a demand side and a supply side but differs from the whole economy in two important ways.

1. Tourism can not be defined and measured from supply side independent of its demand side. Since tourism is primarily a consumption phenomenon, its supply is defined by its demand, in the sense that tourism demand is always defined first and then used as a guide for identifying its suppliers.
2. Tourism final demand does not equal the value added generated by tourism suppliers in the process of supplying to tourism final demand. Since tourism suppliers have to produce their products with inputs from other industries, the value of these products contains the value added created in other industries.

Despite these differences, tourism can be measured from both the demand and supply side, as proposed by WTO. From the demand side, tourism is measured by tourism expenditures on goods and services. As WTO defines it, tourism expenditure is the total consumption expenditure made by a visitor or on behalf of a visitor for and during his trip and stay at destination. According to this definition, tourism expenditure includes all goods and services consumed by a tourist. It encompasses a wide variety of items ranging from the purchase of consumer goods and services inherent in travel to the purchase of small durable goods for personal use, souvenirs and gifts to family and friends. WTO also proposes a supply side approach. Based on this approach, "tourism is defined as a characteristic of establishments principally oriented towards the supply of goods and services to tourists. Tourism would then be determined by what and how much the tourist establishments produce. The criterion used in WTO's manual to classify establishments into tourism is that customers of these establishments are mainly tourists. This criterion is most likely to be satisfied if at least one of the following two conditions holds.

1. An establishment sells goods or provides services for final consumption, which, by nature, are principally demanded by tourists, such as hotels, long distance passenger transportation, and travel agencies, etc.
2. An establishment sells goods or provides services for final consumption in tourist zones in which the majority of customers are tourists, such as food and beverage services, taxi services, cleaners, and barber shops, etc.

AN INPUT – OUTPUT APPROACH TO MEASURE TOURISM GROWTH AND ITS IMPACT

In order to do so, we introduce a direct requirement matrix for business tourism, U. U is a matrix which has the same dimension as A, but only m non-zero rows. These m rows represent the industries which are directly involved in supporting business tourism, or industries whose products are demanded for the consumption of business tourists. A coefficient in U represents the input requirement of the corresponding row industry's output by the column industry for business tourism purposes in the production of a unit of output. In reality, however, tourism always involves more than one industry. And the composition of business tourism demand is different from the composition of personal tourism demand. Usually, business expenditures for tourism purposes concentrate on the products of a few industries such as air transportation, hotel, restaurant, car rental, and telecommunication, etc. Some of these industries, such as hotel and passenger air transportation, are purely tourism oriented in the sense that their products are demanded almost exclusively by tourists. Other industries, such as restaurant, may serve both tourists and non-tourists. For those pure tourism industries, their rows in U are the same as their corresponding rows in the direct requirement matrix A of IO account. For those serving both tourists and non-tourists, their rows in U represent the tourism portion of their outputs required by each industry in the production of a unit of its output. One in order to deliver food and beverages to workers at construction sites. The other in order to provide food and beverages to business travelers of the industry while they are on trips. A coefficient at the intersection between the row of the restaurant industry and the column of the construction industry in U represents the restaurant services needed to support business tourism activities of the construction industry in the production of a unit of construction output. Since coefficients in the direct requirement matrix A represent the direct requirements of the row industries' outputs by column industries for all purposes in the production of a unit output of the column industries, coefficients in U are always smaller than their corresponding coefficients in A for those industries serving both tourists and non-tourists. The ratio between a coefficient in U and its counterpart in A, however, varies from industry to industry across both columns and rows. With U and A, the initial business tourism demand in a round-after-round production process to support a given final demand (F). The sum of the initial business tourism demand in the whole production process to support the given final demand can be expressed as:

$$B = B_1 + B_2 + B_{3\sim} + ... + B + B_n + B_{n+1} + ...n$$

$$B = U \times F + U \times A \times F + U \times A^2 \times F + ... + U \times A^{n-1} \times F + U \times A \times F$$

$$B = U \times (I+A+A^2 + ... + A^{n-1} + A^n + ...) \times F$$

$$B = U \times (I-A) \times F$$

In equation, A and F are readily available from the input-output account of an economy. The only additional information needed to implement equation is U, the input requirements of each industry for business tourism to support the production of a unit output of that industry. The primary mechanism to obtain data needed to construct U is surveys of business travel and tourism expenditures. What needs to be pointed out here is that although our method still requires surveys, it reduces the difficulties and cost of the surveys required and at the same time improves the reliability of survey results. This is so because the required survey is user- rather than producer-based. The typical question asked would be how much an establishment has spent on travel and tourism and what are the goods and services purchased with that expenditure. In contrast, the typical questions in a supplier-based survey regarding tourism would be who are the customers of an establishment and what proportion of them are tourists. However, to most establishments it makes no difference whether a customer is a tourist or a non-tourist. Even if they care about the difference, it is difficult for them to find the answer. On the other hand, the question in an user-based survey would be much easier to answer and the answer would be much more reliable, because it can usually be found in the accounting records. The size of tourism in the economy and its impact Once U is constructed, the initial business tourism demand driven by final demand can be calculated using equation. Since total final demand (F) includes tourism final demand (f), part of the initial business tourism demand in B is driven by f. Therefore, its value is already counted in f. To avoid double counting, the initial business tourism demand driven by f should be excluded in the calculation of the size of tourism in the economy. Equation (yields a measure of the size of tourism in an economy that is comparable to GDP. $T = U \times (I-A)^{-1} \times (F-f) + f$, Total output required to support tourism in the economy can then be calculated as: $X = (I-A)^{-1} \times S \times (I-A)^{-1} \times (F-f) + (I-A)^{-1} \times f$. This total tourism output vector provides a conceptually correct and statistically consistent basis for analyzing the supply side of tourism in an economy. Since output is the linkage between production factors and final demand, the method we developed above can be easily extended to analyze the dependency of an economy on tourism, the impact of tourism on employment, and impact of tourism on infrastructure needs and investment, etc. A simple matrix multiplication of X generated by equation with the value added coefficient vector of the economy yields the value added generated by all industries of the economy in their production to support tourism. This tourism driven GDP is the best measure of the contribution of tourism to the economy. Usually, a certain amount of final demand drives an equal amount of value added. In an economy with non-comparable imports as inputs in its production, the former is larger than the latter. In that case tourism driven GDP would always be smaller than the sum of tourism final demand and initial business tourism demand (call it initial tourism demand) in the economy. This is because the value of non-comparable imports used as inputs in the tourism supporting productions is embodied in goods and services purchased by tourists or for tourism purposes, but can not be traced back to GDP or counted as tourism imports. It is not difficult to imagine that non-comparable imports make up a significant portion of the total input used in an economy's tourism supporting production. This may be particularly true for a small economy with a large tourism market. Since the size of tourism in an economy and the contribution of tourism to the economy may differ from each other significantly in the presence of non-comparable imports, initial tourism demand offers the best measure of the size of tourism in an economy, while tourism driven GDP provides the best measure of the contribution of tourism to the economy. This separation is important because estimating the contribution of tourism to GDP is only one of many uses of tourism statistics.

CONCLUSION AND RECOMMENDATION

Defining and measuring the supply side of tourism as an industry is conceptually inconsistent with the definition of industry in SNA and has little analytical utility. Moreover, it results in the incomparability across industries and a misleading inter-industry relationship. To correctly measure the size of tourism and estimate tourism's contribution to GDP, a new concept called initial business tourism demand. The measure of business tourism demand based on this concept avoids double counting and hence is comparable to GDP. Tourism GDP and the size of tourism generated by our method differ from each other but are consistent with each other at the same time. Tourism driven output generated by the method provides a conceptually correct and statistically consistent basis for analyzing the supply side of tourism. More importantly, these alternative approaches would not generate the statistics we are able to provide, because total tourism expenditure from the demand side causes double counting, while tourism GDP from the supply side introduces inconsistency. In contrast, our initial tourism demand measure and tourism driven GDP measure are both internally consistent and consistent with the current industry classification system and national account system. This consistency is indispensable to the credibility and usefulness of the emerging tourism statistics. There are two strategic for maintain tourist growth, They are: (1). Existing consumer, with strategically thinking: (a). Retain uses by exiting consumers to maintain current purchasing pattern by existing travelers and segment; (b). Stimulates current uses with existing consumers to stimulate current consumers to come here more often and for longer duration; (c). Generate new uses by existing consumers to stimulate current consumers to come here for new purpose, experience and offering. (2). New consumer with strategically thinking: (a). Attract new to you consumer to convert consumer and segment from competitor to Indonesia; (b). Attract new to category consumer to convert low frequency or non travelers into frequent travelers, or short haul travelers to long haul travelers.

REFERENCES

American Express Travel Related Services (1992): *The American Express Survey of Business Travel Management, 10th Anniversary, Sixth Biennial Edition*, American Tower, World Financial Center, New York, NY 10285-3900.

David L. Edgell (1993): *World Tourism at the Millennium*, Published by the U.S. Department of Commerce.

Jocelyn Lapierre (1994): The Tourism Satellite Account, *National Income and Expenditure Accounts, Quarterly Estimates, Second Quarter 1994,* Statistics Canada.

OECD (1991): *Manual on Tourism Economic Accounts*, Paris.

United Nation, World Bank, OECD, IMF, and C.E.C.E (1993): *System of National Accounts 1993*.

United Nation and World Tourism Organization (1993): Recommendations on Tourism Statistics, *Statistical Papers Series M No. 83*, New York.

World Tourism Organization (1996): *Draft Manual of A Satellite Account for Tourism*.

World Travel and Tourism Council (1995 a): Travel & Tourism: A New Economic Perspective, the 1995 *WTTC Report - Research Edition*.

World Travel and Tourism Council (2010). Tourism Economic Research 2010, World Travel & Tourism Council, London, Retrieved from:

http://www.wttc.org/eng/Tourism Research/Economic Research/