

More Discussion on Local Tourism Development and Government Expenditure - Evidence in Vietnam

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ABSTRACT

The study present related previous studies and also provides empirical evidence on the mechanism of impact of government expenditure on local tourism revenue, that is, through increasing rotating tourists and the willingness to pay per visitor.

This paper aims to show More Discussion on local tourism development and government expenditure - Evidence in Vietnam

Results show that every percentage increase in government spending for social belief will increase 0.676% of local tourism revenue and 0.790%, 2.106%, and 0.355% in the North, Central, and South regions Vietnam, respectively.

Keyword: Local tourism development, Government expenditure, GMM estimator

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I. INTRODUCTION

Yang et al. (2008) noted that this strategy's success has helped mediate the conflicts between ethics identity and the industrialization of tourism development. In Costa Rica, (Coffey, 1993) reports that the government incentives in tourism at the early stages have brought positive consequences in the tourism industry's development, especially in infrastructure construction (e.g., hotels, restaurants, and buildings).

In Kenya, the government supports such as improving national tourism services, training tourism management professionals, promoting connections between domestic and international tourism businesses, ensuring a system of exchange rates has contributed significantly to the country's international tourism (Akama, 2002). A long-term plan in tourism combined with the steadfast growth of the private sector is the key to the success of Guangxi, China (Qin et al., 2011). Other cases in

developing countries have also been reported in previous studies, such as the Philippines (Javier & Elazigue, 2011); Malaysia (Mosbah & Saleh, 2014); Ghana (Adu-Ampong, 2019); Mexico (Clancy, 1999); Turkey (Göymen, 2000).

Economic factors, language and communication, infrastructure/superstructure, government interventions (i.e., new investments, public-private partnership, connection with local-community), promotion in the new context (e.g., multinational institutions, Internet explosion, and the rise of an international payment system need), demographics, and market demand change also significantly influence tourism development (Heung, Kucukusta, & Song, 2011; Z. Liu, 2003); therefore, empirical studies must control these factors. Furthermore, there is a lack of evidence explaining the mechanism underlying the impact of government spending on local tourism development (e.g., through increased tourist numbers and related-tourism service use intensity of visitors (Colin Michael Hall, 2008).

Hence authors conduct this study

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II. PREVIOUS STUDIES

Ruhanen (2013) also emphasizes the leading role in eco-environmental protection in tourism activities of the local government. The study also argues that local authorities are often reputable and effective in supporting tourism industry because of their understanding of local culture and know-how on tourism management. Local traditions are often a tourist advantage over large cities and are often elusive in central government governance; therefore, ill-considered interventions can destroy local values.

Specifically, Wong (1996) found that the local tourism development situation can influence the government's budget expenditure decisions. When the outcome may be determined by the size of tourism revenue, simultaneity is enviable. Furthermore, in the presence of a dynamic potential endogeneity issue – that current government expenditure is determined by the local tourism revenue in the past – fixed-effects estimator will yield bias and inconsistent results. To deal with the first problem, the study uses two-stage least squares (2SLS/XT-IV) and generalized method of moments (GMM) estimators; Accordingly, two instrumental variables used to ensure the consistency of the result are (i) a dummy variable representing the political cycle and (ii) an average of regional expenditure by year. Meanwhile, given a strong balance panel and the dynamic potential endogeneity issue, the GMM estimator is dominant over the 2SLS estimator discussed at Roodman (2009); Wintoki et al. (2012).

III. Methodology

The discrepancy of this nexus depends on (i) the capacity of the local tourism industry (Z. Liu, 2003), (ii) the level of private sector engagement in each area (Hall, 2008; Tosun, 2000; Petrescu, 2011), and (iii) the various influence of historical factors among localities (Hildebrandt & Isaac, 2015).

Database

The study utilizes data collected from General Statistics Office, presented in Table 2. It should be noted that total tourism revenue includes many types such as cultural tourism, eco-tourism, medical tourism, and wildlife tourism. However, the Vietnamese statistical system has not yet classified these categories in detail at the sub-nation level.

Table 1. Descriptive data

	unit/notes	2010		2019		2010-2019	
		MEAN	SD	MEAN	SD	MEAN	SD
Dependent variable							
Tourism revenue	Billion VND	246.656	1,288.500	709.046	3,587.250	457.676	2,453.280
Number of rotating tourists	Million people	1,091.700	1,457.790	2,286.690	3,976.200	1,625.670	2,661.540
Volume of goods transported	Thousand tons	8,912.940	11,383.900	20,950.100	27,064.900	14,142.200	18,548.600
Volume of goods in transit	Million tons.km	536.929	877.920	1,214.750	1,933.360	833.283	1,361.070
Main interest variable							
Government expenditure for social belief	Billion VND	185.066	208.190	685.104	646.760	466.527	497.290
Instrument variables							
Dummy variable measuring political business cycle	Republican cycle	0.000	0.000	1.000	0.000	0.600	0.490
Average government investment in the region by year	Billion VND	185.066	84.530	685.104	280.640	466.527	236.760
Control variable							
Urbanization rate	[0,1]	0.254	0.160	0.297	0.180	0.277	0.170
Number of passengers	Million people	33.543	99.790	70.275	237.440	49.160	162.180
GRDP	Thousand billion VND	40.590	72.180	81.497	142.290	59.026	106.860
Population	Thousand people	1,381.810	1,179.330	1,516.230	1,444.240	1,450.850	1,303.860
Number of shopping mall	1 unit	1.730	3.820	3.825	7.120	2.613	5.350
Average rainfall	mm	1,822.690	573.080	1,683.830	575.020	1,843.470	541.040
Average temperature	1 Celsius	25.383	2.020	25.916	1.890	25.319	2.080
Costs for social trusts	Billion VND	2,181.420	3,437.090	5,886.270	5,217.440	3,512.870	4,430.320
Private sector development	[0,1]	0.839	0.110	0.937	0.070	0.892	0.100
Observation		63		63		630	

Source: Authors. Note: Nominal values have been converted to the base year 2010

Table 2. Variables, explanation, expectation and source

Variables	Explanation and definition	Expected sign	Source
Dependent variables			
Tourism revenue	Maximizing benefits for the province (i); Standardization of different forms of tourism (ii); and (iii) Avoid further academic controversies (e.g., recreation vs. tourism vs. leisure) (Colin Michael Hall, 2008; C. Liu et al., 2020)		General Office Statistics
Independent variables			
Variable of interest			
Government expenditure	Local government spending on social belief (detail in Section 2.2)	+	General Office Statistics
Instrumental variables			

Dummy variable measuring political business cycle	With the republican party cycle, the government will increase spending in the second, third, and fourth years of the election term (Mueller, 2003).			<i>Author's calculation</i>
Average government investment in the region by year	The local government spending size depends on the central government's regional budget allocation plan (Fisman & Svensson, 2007).			<i>Author's calculation</i>
Control variables				
Urbanization rate	Although rapid urbanization negatively affects the living environment and reduces local tourism's attractiveness, it creates the flexibility and dynamism of the tourism industry (Z. Liu, 2003; Wesley & Pforr, 2010).	-/+	<i>General Office</i>	<i>Statistics</i>
Number of passengers	Reflect local tourism demand (Z. Liu, 2003)	+	<i>General Office</i>	<i>Statistics</i>
Gross regional domestic product (GRDP) per capital	There exists a relationship between economic growth, people's living standards, and local tourism development; In which the higher the standard of living, the greater the demand for tourism (Z. Liu, 2003).	+	<i>General Office</i>	<i>Statistics</i>
Number of shopping mall	Increase the capacity to supply local tourism-related goods and services to tourists (Javier & Elazigue, 2011; Mosbah & Saleh, 2014).	+	<i>General Office</i>	<i>Statistics</i>
Average rainfall	Environmental factors control	-/+	<i>General Office</i>	<i>Statistics</i>
Average temperature	Environmental factors control	-/+	<i>General Office</i>	<i>Statistics</i>
Costs for social trusts	Control for differences in the political power structure in Vietnam and the variety of government spending on socio-economic development at localities, as reflected by long-term expenditures for development (e.g., infrastructure, long-term investments) (Gainsborough, 2007).	-/+	<i>General Office</i>	<i>Statistics</i>
Private sector development	Consider the development of private sector (Bramwell & Sharman, 1999; Qin et al., 2011).	+	<i>Author's calculation followed</i>	<i>(Jaax, 2020)</i>
Time-trend (t)	Unobserved factors that affect tourism revenue and its change over time.	-		Dummy variable
δ_i	Control for differences in landscape, climate, culture, ethnic identity, and historical context of provinces/cities (C Michael Hall & Page, 2014; Henderson, 2000)	-/+		Calculation from fixed-effect model

Source: Authors

IV. MAIN FINDINGS

While too much intervention drives locals dependent on the workable partnership network – key to community-based tourism development – that the government controls (Tosun, 2000). Given the necessity of many stakeholders’ participation, local governments’ top-down planning and their undue power are barriers to creating an effective and stable cooperation mechanism (Ruhanen, 2013). Furthermore, in developing countries, local governments “*seems to be too bureaucratic to respond to public needs effectively and efficiently*” (Tosun, 2000, p. 619). Agreeing with this view, Göymen (2000) added that the role of the public sector, during later stages, would be to assist and support activities rather than steer.

Table 1. Robust checkness

VARIABLES	Tourism revenue		Number of	Volume of goods	Volume of
	OLS	GMM	rotating tourists	transported	goods in transit
			Mechanism 1	Mechanism 2	
	OLS	GMM	OLS	OLS	OLS
Lagged dependent variable	0.983*** (0.013)	0.896*** (0.049)			
Government investment in log	0.059*** (0.019)	0.104** (0.042)	0.118*** (0.041)	0.277*** (0.048)	0.219*** (0.062)
Urbanization rate	-0.108 (0.127)	-0.094 (0.444)	1.019*** (0.206)	1.354*** (0.259)	2.297*** (0.251)
Number of passengers in log	0.011 (0.020)	0.137* (0.076)			
GRDP per capita in log	0.022 (0.028)	-0.023 (0.186)			
Number of shopping mall	-0.000 (0.002)	0.001 (0.006)	-0.017*** (0.006)	-0.015** (0.006)	-0.016** (0.006)
Average rainfall in log	0.060 (0.038)	0.242** (0.121)	0.028 (0.082)	0.026 (0.106)	0.282** (0.113)
Average temperature in log	0.038 (0.163)	-0.065 (0.636)	2.668*** (0.334)	-4.355*** (0.486)	-2.317*** (0.570)
Costs for social belief	-0.013 (0.015)	-0.015 (0.028)	0.002 (0.025)	0.212*** (0.033)	0.069** (0.030)
Private sector development	-0.245 (0.202)	-1.093 (0.890)	-0.773*** (0.213)	0.537* (0.285)	-0.688 (0.473)
GRDP in log			0.255*** (0.052)	0.187** (0.074)	0.160* (0.097)
Population in log			0.967*** (0.082)	0.717*** (0.103)	0.956*** (0.130)
Year Dummies	YES	YES	YES	YES	YES
Constant	-0.466 (0.656)	-0.984 (2.236)	-10.116*** (1.141)	13.102*** (1.700)	2.094 (1.900)
Observations	565	565	628	628	628
R-squared	0.982		0.786	0.596	0.578
Number of panels		63			
AR (1) test (p-value)		0.000			
AR (2) test (p-value)		0.468			

Source: Authors. Note: Robust standard errors in parentheses*** p<0.01, ** p<0.05, * p<0.1. The number of observations in columns (1) and (2) is 565, not 630 because there is a lagged variable of the dependent variable in the model.

V. DISCUSSION AND CONCLUSION

This study provides quantitative evidence of the causal effect of government expenditure on local tourism development in a transitional country (i.e., Vietnam). Its impact mechanism is partly explained

via (i) an increase in the number of rotating tourists and (ii) an increase in visitors' willingness to pay. Accordingly, each percentage increase in government spending will improve 0.118% of rotating tourists, 0.277% of the volume of goods transported, 0.219% of the volume of goods in transit.

Regarding heterogeneous effects among regions, the study confirms that for an increase in local expenditure, there will be 0.790%, 2.106%, and 0.355% of tourism revenue in North, Central, and South Vietnam.

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Conflicts of interest

There is no conflict of interest

VI. REFERENCES

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