

ABSTRACT

The main objective of this study is to examine the contribution of tourism to the long run economic development in Malaysia. The Malaysian quarterly tourism receipts, the real effective exchange rate and GDP growth from the 1988 to 2002 are used in this study. While tourism is widely regarded to contribute positively to the economic development of Malaysia, there have been relatively few empirical studies establishing the long run and causal relationship between tourism and economic growth. Accordingly, this study attempts to address this need using the Johansen cointegration and Granger causality tests.

The results of the study show that there exists a long-run relationship between tourism and economic growth in Malaysia during the period 1988 to 2002, suggesting tourism is one of the determinants of economic growth in the long run. We can infer from the empirical results the positive effects of the expansion of international tourism in Malaysia on the economy. Also, there is strong evidence that tourism and the real effective exchange rate unidirectionally affect Malaysian economic growth in the long run, thus providing support for the tourism-led growth hypothesis.