

Regional Integration and Its Impact on Tourism Industry: with special reference to Indonesia

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Abstract

Regional integration has been identified as one of the main strategies which are often used to solve common political, economic, scientific and socio-cultural issues faced by countries in a particular geographical area. Regional economic cooperation occurs in various forms and degrees and is in general aimed at increasing cross border linkages and deepening interpenetration of economic activity for the mutual benefit of economies within a geographic region. Looking at the world tourism industry, according to the World Tourism Organization, 2016 was a momentous year for tourism where international tourist arrivals continued their upward trajectory in their seventh straight year of above-average growth. Against this backdrop, the main objective of the study would be to understand the relationship and impact of regional integration on the tourism industry of a given state with special reference to Indonesia. Here the study has focused on the progress and status of intra-regional tourism in ASEAN and its impact on Indonesia. This study is an exploratory case study of Indonesia's tourism sector. The data is collected through secondary sources including annual reports, magazines, journal articles etc. The study has found, over the last 5-10 years the tourism industry in Indonesia has shown an upward trend and that continued success was mainly due to tourist arrivals from the ASEAN region. Intra-regional tourism has made a significant contribution to the tourism sector of Indonesia. Strengthened regional ties have given Indonesia the advantage of diversifying its tourism industry as well. The study finds an interdependent relationship between regionalism and tourism sector.

Keywords: ASEAN, Indonesia, regional integration, tourism

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1. Introduction and Research Problem

Regional cooperation and integration have occupied greater prominence in contemporary world politics. Especially since 1945, the number of regional groupings or organizations grew significantly. During the cold war period, most of the regional groupings were formed as security or defense alliances, but with the passage of time, particularly during the post-cold war period, economic interests began to define the scope and direction of these regional groupings. According to the United Nations Development Programme (UNDP), the term “integration” signals a process that is considerably broader than simply eliminating barriers to trade in goods and services between countries. Integration can also encompass harmonizing standards and regulatory frameworks; reducing restrictions on financial capital and labour mobility; adopting common approaches to fiscal and monetary policy; promoting peace and conflict prevention; and pooling investment in cross border infrastructure for transport, power and communication (UNDP, 2011, p.09). Regional cooperation has been identified as one of the main strategies which have been often used to solve common political, economic, and socio-cultural issues faced by countries in a particular geographical area. According to Chowdhury & Mamta (2005, p.24) cooperation among neighbours not only strengthen the economic and financial sectors via optimal utilization of natural and human resources but also enhances greater political stability and social-cultural cooperation between member nations.

On the other hand, over the years, the tourism industry has grown in an unprecedented manner.

According to the World Tourism Organization, in 2016 international tourist arrivals grew for the seventh consecutive year to reach 1.2 billion, a sequence of uninterrupted growth not recorded since the 1960s (UNWTO, 2016, p.11). Association of Southeast Asian Nations (ASEAN) created initially for security (Guan, 2004, p.04), is arguably the most durable and successful regional association in the developing world (Hill & Mennon, 2010, p. 01). Looking at the current status of ASEAN, it is obvious that it has come a long way since its inception in 1967. Today, ASEAN has become a powerhouse in world politics.

From an economic perspective, the rapid growth of regionalism has paved way for improved intra-regional trade, investment and tourism. When it comes to travel and tourism, regionalism encourages people to travel more to their neighbouring countries.

As far as Southeast is concerned, Southeast Asia has a rich and diverse set of natural and tangible and intangible cultural tourism resources located in both rural and urban areas under the ASEAN Economic community pillar, tourism is one of the priority sectors for integration (ASEAN, 2015, p.01). Looking at Indonesia in ASEAN, it is generally accepted as the de facto leader of ASEAN regardless of where the chairmanship may lie (Haan, 2017). Given its geographical location and size and economic strength, Indonesia, since the inception of ASEAN, continued to play a vital role in promoting regional cooperation and integration.

Despite a large number of studies undertaken on regional cooperation and tourism industry, not much research has been done with regard to understanding the impact of regional integration on the tourism industry. Thus, this research attempts to contribute to filling this vacuum. Given the inadequacy of research on importance of regional integration in promoting tourism industry for a country, this particular study shall attempt to figure out how important regional integration is in promoting the tourism industry of a country, with special reference to Indonesia. The main rationale behind choosing Indonesia is multidimensional. First, as foretold, Indonesia, being one of the founding fathers of ASEAN, has been playing an important role within the ASEAN since its inception. Secondly, the tourism industry remains one of the main contributors to the national economy of Indonesia, and finally, Indonesia gives so much importance to promoting intra-regional tourism.

1.1 Objectives of the study

The main objective of this study is to examine the role of regional integration in promoting the tourism industry, with special reference to Indonesia. Apart from this, the study also has two sub-themes given as follows.

- Understand the nature and scope of Tourism in Indonesia.
- To evaluate the importance of promoting intra-regional tourism.

1.2 Scope and Significance of the Study

As explained earlier, despite the overwhelming success countries have able to achieve through regional cooperation and looking at the progress world tourism industry has able to achieve, there is a clear inadequacy in research on the significance of intra-regional tourism. Taking as a whole, while, so much of studies have been carried out on regional integration, most of those studies have focused on intra-regional trade and investment. However, tourism certainly plays a vital role in almost all economies. Thus, it is so important to study this aspect of regional cooperation. This particular study focuses on ASEAN integration and how integration affects the tourism industry of Indonesia. What ASEAN has achieved so far is a very good example to show what regionalism can do for the developing world. As noted before, today ASEAN remains the most successful regional grouping in the developing world. Looking at some statistics, the volume of intra-regional trade as a percentage of total trade in Southeast Asia in 2017 stood 22.92%, while intra-ASEAN investments in the same year achieved a staggering number of US\$ 26,975 million (ASEAN Secretariat,2017). Moreover, ASEAN has already launched several programmes to promote tourism in Southeast Asia. Against this backdrop, this study looks into the impact of the growing level of regionalism on the tourism industry of Indonesia. As explained earlier, given Indonesia's role in ASEAN, and importance given by the country in promoting its tourism industry, a case study of Indonesia would better capture the impact of regional cooperation and integration intra-regional tourism. The study will focus on the nature of tourist arrivals to Indonesia, the importance of intra-regional tourism to Indonesia and how Indonesia accommodate intra-regional tourism in their tourism industry.

2. Literature Review

Today regional cooperation is no longer a new phenomenon. While forms of the regional theory were already in existence, a specific study of the phenomenon began with a focus on Europe in the early 1950s, shortly after the end of the World War 2 (Kolovos, 2001, p.03). During the post Second World War era, countries began to comprehend the importance of regionalism and began to work collectively as a region. This gave birth to several regional organizations, which includes the European Union, ASEAN,

South Asian Association for Regional Cooperation (SAARC), African Union etc. According to the UNDP, the process of regional economic integration can have significant effects on human development (UNDP, 2011, p.09). The term “integration” signals a process that is considerably broader than simply eliminating barriers to trade in goods and services between countries. Integration can also encompass harmonizing standards and regulatory frameworks; reducing restrictions on financial capital and labour mobility; adopting common approaches to fiscal and monetary policy; promoting peace and conflict prevention; and pooling investment in cross border infrastructure for transport, power and communication (ibid). As far as ASEAN is concerned, ASEAN’s creation was initially for security (Guan, 2004, p.70). In a region that had been plagued by conflict and divided by a diverse colonial past, ASEAN has first and foremost forged diplomatic cohesion among its population (Hill & Menon, 2010, p.01). With regard to Indonesia's role in ASEAN's formation, there are contradictions in the literature. According to Guan (2004), ASEAN was formed to constraint Indonesia. As *Konfrontasi* (confrontation) was a clear indication of Indonesia's powerful military might that stands to destabilize the region, the establishment of ASEAN was a direct response to the intra-regional stimulus of Sukarno's *Konfrontasi*. However, as Smith (1999) notes, Indonesia took a leading role in the composition of the organization at its inception. As he noted, Indonesia's original motivation to establish a regional organization with its immediate neighbours was characterized by three main reasons as; (1) Desire for normalcy in its relations with the non-communist nations of Southeast Asia, (2) the need for domestic stability and (3) less reliance on external powers for regional security. He further noted that Indonesia has been committed to the expansion of ASEAN to include the entire region of Southeast Asia since ASEAN's inception (ibid). Considering the modern role of Indonesia within ASEAN, according to Haan (2017), while Indonesia is generally accepted as the de-facto leader of ASEAN regardless of where the chairmanship may lie, Indonesia has yet to completely embrace that role. When it comes to the relationship between regionalism and tourism industry, according to Chheang (2013, p.44) cross-border cooperation can promote tourist destinations and travel corridors with complementary locations. As he notes tourism is part of the regional integration process in Southeast Asia (ibid, p. 47).

3. Research Methodology

This particular study is exploratory. Exploratory studies are particularly useful when not enough information is known or even available (Valente, 2016,p.86). This study looks into and critically evaluates the impact of regionalism on the tourism industry of Indonesia. Thus this case study of Indonesian will look into its role in the regional integration process of ASEAN and how its tourism industry has been influenced by the enhanced regional cooperation. With regard to the data collection technique, it would be mainly through secondary sources including annual reports, magazines, journal reports etc.

4. Results and Discussion

Considering where Southeast Asia was and what it has able to achieve today, the progress is impressive. Both as individual states, as well as a regional grouping, today ASEAN has a strong say in the international affairs. Looking at the trade, during the period 1993-2003, intra-ASEAN trade increased at an average annual rate of 10.5% compared with overall ASEAN trade at 9.2% and ASEAN's trade with non-ASEAN countries at 8.9% (Pangestu & Ing, 2017, p.02). Table 01 gives a clear indication of how success ASEAN has been in promoting regional cooperation and integration.

Table 01: Intra-ASEAN Trade in goods, FDI inward inflows and visitor Arrivals

	Intra-ASEAN Trade in Goods (US\$ million) [% total ASEAN trade]	Intra-ASEAN FDI inward flows (US\$ million)	Intra-ASEAN visitor arrivals (in thousands)
2012	605,640 [24.4%]	23,391.3	39,845.5
2013	617,752 [24.28%]	18,483.6	46,154.4
2014	608,114 [23.98%]	22,343.6	49,223.0
2015	535,380 [23.55%]	20,819.9	45,991.8
2016	516,575 [23.07%]	25,891.7	46,570.2
2017	590,225 [22.92%]	26,975.0	48,492.8

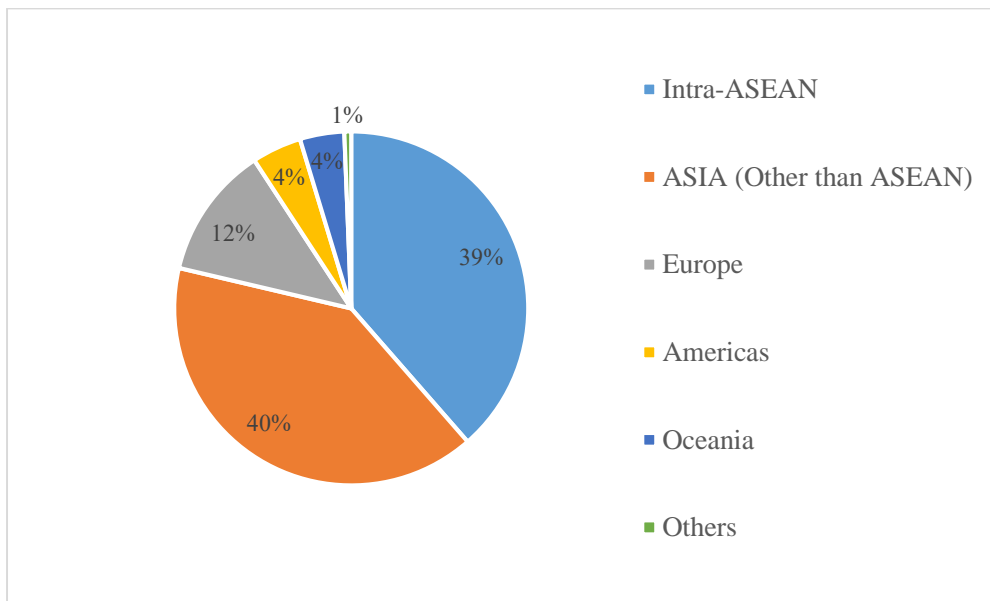
Source: Asean Statistical Yearbook 2019 (Rep.).

The level of intra-regional tourism, trade and investments are some of the key indicators among many to understand the success of regional

cooperation and integration. Looking at ASEAN, as given in Table 01, while intra-regional investments and tourism have shown significant growth, intra-regional trade too has shown steady progress. When it comes to tourism, ASEAN has given greater priority in promoting ASEAN region in other parts of the world while encouraging intra-regional tourism. Looking at the total number of international tourist arrivals to ASEAN, it has increased from 39,845,500 in 2012 to 48,492,800 in 2017 (Table 01).

Here the most important fact in Intra-ASEAN tourism is out of the total tourist arrivals to ASEAN countries, 39% has been intra-regional (Figure 01). This is a classic example to indicate the importance and impact of regional cooperation on tourism.

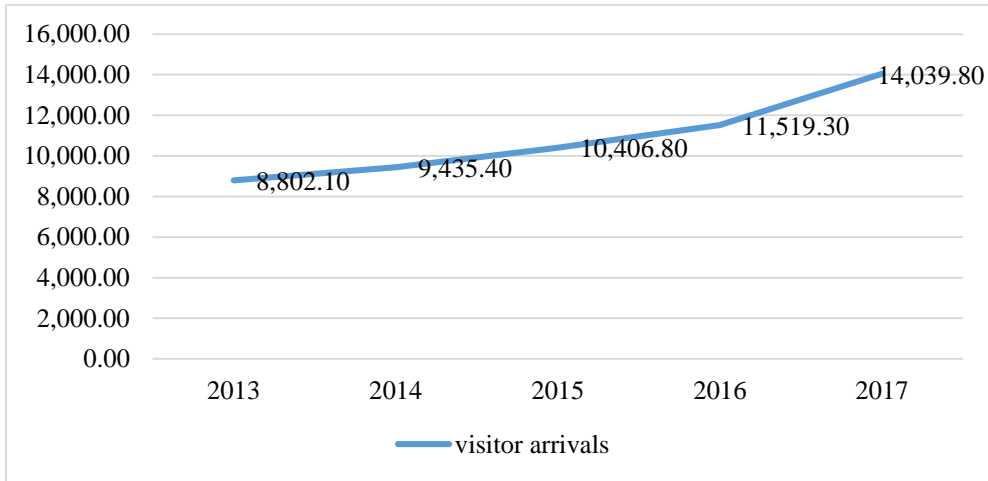
Figure 01: Share of International Visitor Arrivals to Southeast Asia (2017)



Source: ASEAN Statistical Yearbook 2019 (Rep.).

As far as Indonesia is considered, it is certainly a well-known tourist destination across the world. Huge increase in the number of tourist arrivals to Indonesia indicates the popularity it has able to occupy among international tourists. As given in Figure 02, in 2017, the country was successful in attracting more than 14 million tourists from all around the world.

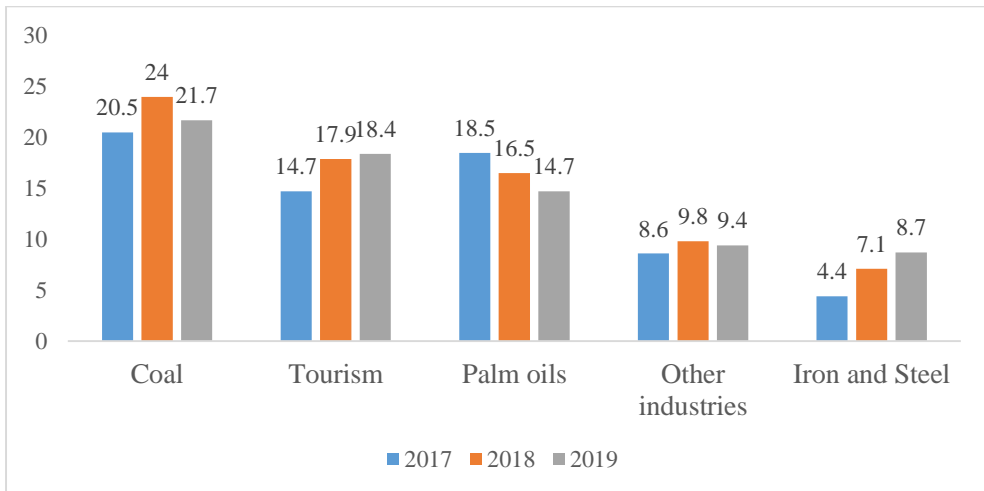
Figure 02: Visitor arrivals to Indonesia (2013-2017) (thousand)



Source: ASEAN Statistical Yearbook 2019 (Rep.).

Tourism plays a significant role in Indonesia’s economic growth. It is one of the highest contributors to foreign currency earnings (Figure 03).

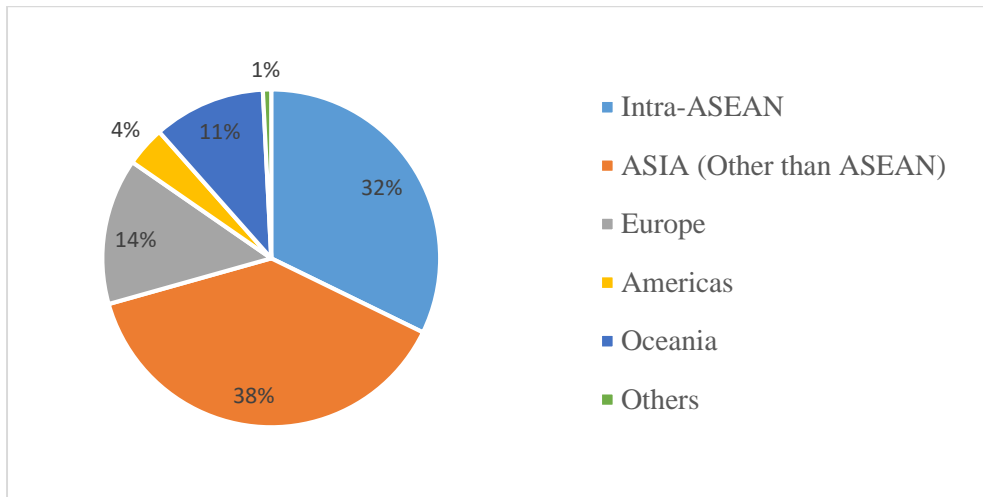
Figure 03: Highest contributors to foreign currency earnings by commodities (US\$ Billion)



Source: Bank Indonesia. (2019). 2019 Economic Report On Indonesia (Rep.). Bank of Indonesia.

As given in Figure 03, after coal, the tourism industry remains the highest contributor foreign currency earning.

Figure 04: Visitor Arrivals to Indonesia-Region wise 2017



Source: Created by Author based on ASEAN Statistical Yearbook 2019 (Rep.).

Looking at the composition of tourist arrivals to Indonesia in 2017, 32% has been intra-ASEAN. Looking at the numbers, there has been a steady increase in the number of tourist arrivals to Indonesia from the ASEAN region (Table 02)

Table 02: Visitor arrivals to Indonesia-Region wise (In Thousand)

Region of origin	2013	2014	2015	2016	2017
Intra-ASEAN	3,516.1	3,683.8	3,860.7	3,817.5	4,524.6
ASIA (Other than ASEAN)	2,580.7	2,782.6	3,224.7	3,791.6	5,392.8
Europe	1,243.0	1,332.6	1,462.4	1,767.1	1,965.9
Americas	333.2	358.7	411.6	476.0	537.0
Oceania	1,071.8	1212.7	1377.4	1571.9	1507.9
Others	57.5	65.0	69.9	95.1	111.5
Total	8,802.1	9,435.4	10,406.8	11,519.3	14,039.8

Source: ASEAN Statistical Yearbook 2019 (Rep.).

Looking at the average expenditure of the tourists from Southeast Asian countries a significant increase can be observed (Table 03).

Table 03: Average expenditure of international visitor per visit by country of residence (US\$)

Country of Residence	Average Expenditure of International Visitor per Visit by Country of Residence (US \$)	
	2018	2016
Brunei Darussalam	1 059,37	986,05
Malaysia	843,34	719,69
The Philippines	1 164,65	766,79
Singapore	1 049,22	588,53
Thailand	1 490,58	910,19

Source: Statistics of Indonesia

This Intra-ASEAN tourism has strengthened Indonesia's tourism industry significantly. In 2017, the tourism's total contribution to Indonesia's economy stood at US\$58.9 Billion which is far above the region's average. Moreover, in 2017, the travel and tourism sector attracted investments worth of US\$ 12 billion which is far above both Southeast Asia and world average.

Table 05: Contribution of the tourism sector to the national economy

Travel and Tourism's direct contribution to GDP		2017(US\$ Billion)
22	Indonesia	19.4
	World Average	21.5
	Southeast Asia Average	13.6
Travel and Tourism's total contribution to GDP		2017 (US\$ Billion)
23	Indonesia	58.9
	World Average	62.9
	Southeast Asia Average	33.0
Travel and tourism investments		2017 (US\$ Billion)
16	Indonesia	12.0
	Southeast Asia average	4.9
	World average	4.8

Source: Travel and Tourism Economic Impact 2018-Indonesia (World Travel and Tourism Council)

Here, intra-regional tourism brings many benefits to a country which goes beyond the mere number of tourist arrivals. The most important aspect of this study is to examine the nature of the relationship between regional integration and the tourism industry. Looking at the findings it is clear that there is an interdependent relationship between regional integration and the tourism industry. On one hand, a country's tourism industry can be greatly benefitted by strong and visionary regional cooperation and on the other hand regional integration too would be strengthened by travel and tourism. In Indonesia's case, regionalism has helped Indonesia boost its tourism industry and at the same time travel and tourism has also enhanced regional integration in Southeast Asia. Intra-regional tourism provides a country's tourism industry with great stability. In 2002, Indonesia became a victim of brutal terrorism, when one of its major tourist destinations, Bali was attacked by a group of terrorists. Even today, this attack is considered as the deadliest terrorist attack in the history of Indonesia. Bali is renowned as a major tourist attraction in the world.

Bali island attracted approximately 2.5 million tourists in 2001 and generated US\$ 1.4 billion of Indonesia's total tourism revenue of US\$ 5.4 billion (The Straits Times, 2002, cited in Henderson, 2003). The tourism industry in Indonesia was adversely affected by this terrorist attack in an unprecedented manner. Both the number of international tourist arrivals (Table 06) as well as revenue from the tourism industry (Figure 05) dropped significantly.

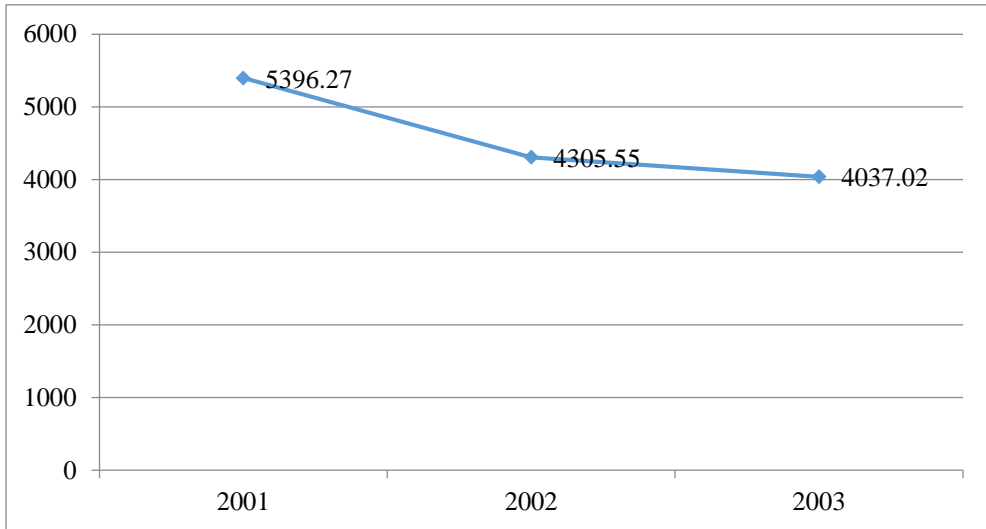
Table 06: Number of Foreign Visitor Arrivals to Indonesia 2002-2003 (Region wise)

Region	2002	2003	Change (%)
Total America	222 052	175 546	-20.9
Total Europe	833 004	605 904	-27.2
Africa	36 503	30 244	-17.1
Middle East	37 987	31 371	-17.4
Total ASEAN*	2 085 736	2 083 320	-0.1
Total Asia Pacific	1 818 118	1 540 636	-15.2
Total	5 033 400	4 467 021	-11.2

*Visitors from Vietnam not available

Source: Statistics of Indonesia

Figure 04: Revenue from International visitor arrivals (2001-2004) (US\$ million)



Source: Created by the author based on Statistics Indonesia

Table 06 indicates the drop in international tourist arrivals from 2002 to 2003. Looking at the Table, the visitor arrivals from the Americas dropped by 20.9%, Europe by 27.2% while the total number of tourist arrivals dropped by over 11%. However, while international tourist arrivals to Indonesia from various regions dropped by a significant percentage; the drop in the arrivals from the ASEAN region was less than 1%. This reflects the significance of regionalism and intra-regional tourism. During the hardest times, regionalism has made it possible for Indonesia to keep its tourism industry stable. In this case, intra-regional tourism has given the rest of the world with an assurance to visit Indonesia.

5. Conclusion

As a regional organization, what ASEAN has able to achieve so far is impressive and exceptional. Greater regional cooperation and desire to work on a common platform have made ASEAN a true example of regionalism. ASEAN has able to bring together Countries which were at a different level of economic strength, power capabilities and contradictory political ideologies. The achievements made by ASEAN as a regional grouping have paved the way for individual states to achieve unprecedented economic growth, political stability and social integrity.

Looking at tourism, both as individual countries and also as a region, ASEAN is successful in promoting the tourism industry in the region. Intra-regional tourism has given countries not only the increased number in the tourist arrivals but also the stability and diversity to the tourism industry of the country. In the case of Indonesia, intra-regional tourism has given the Indonesian tourism industry an extra boost. Most importantly, while regionalism strengthens tourism industry, tourism industry fortifies regionalism. In this sense, ASEAN is a great example to show this interdependence.

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