

## The Role of Investment, Tourism Industry and Tourist Visits in Improving the Tourism Sector in Indonesia

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**Abstract:** This study looks at how investment, the travel and tourism sector, and visitor numbers affect Indonesia's tourism business. Panel data comprising 41 districts/cities in the provinces of West Java, Yogyakarta, and Bali from 2014 to 2023 is analyzed using the Pooled Least Squares approach. The fixed effect model used to ascertain the impact of investment, the tourism industry, and tourist visits on Indonesia's tourism sector is displayed via linear regression analysis of panel data. The study's findings show that traditional hotels currently get the majority of investments in the tourism sector, while sustainable tourism wants environmentally friendly hotels and expects environmentally friendly tourism practices and regenerative concepts. The tourism sector in Indonesia needs to improve the quality of infrastructure, information technology, and non-leisure resources. Utilizing the wealth of natural resources, setting new standards for tourism excellence, contributing to economic growth, as well as preserving Indonesia's natural and cultural heritage are strategies that can be carried out to attract a lot of investment aimed at addressing the gap in tourism infrastructure.

**Keywords:** Investment, Tourism Industry, Tourist Visits, Tourism Sector

### INTRODUCTION

The tourism sector has become an important part of the parameters driving the Indonesian economy. In addition to generating foreign exchange for the country, the tourism and creative economy sectors also play a role as sectors that can absorb large amounts of labor. Indonesia's beautiful landscape consisting of rows of islands and cultural, ethnic, and linguistic diversity is a great potential for tourism development, as well as being a special attraction for tourists to visit Indonesia. The success of the management of Tourism and the Creative Economy in Indonesia is influenced by several supporting factors, both those related to natural resources, human resources, and the effectiveness of government policies and programs.

Tourism is one of the strategic sectors that has an important role and contribution to national and regional economic development. The increasing Tourism is becoming a fundamental aspect of human needs and lives due to advancements and economic prosperity. Millions of people have even been moved to learn about the cultures and nature of other countries. After millions of people move through the interconnected economic chain, the service sector develops and contributes significantly to both the global economy and the economies of other nations, boosting local economic prosperity, particularly for those living in

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Received Juni 06, 2024; Accepted Juni 24 2025; Published Juni 30, 2025

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tourist destinations. Together with other economic sectors, the tourist industry helps to create millions of employment and generate income globally (Brilhante & Rocha, 2023).

The limited infrastructure of the tourism sector is a problem that must be resolved in an integrated manner, such as Infrastructure for air travel, land transportation and ports, and tourism. Environmental sustainability, health and hygiene, safety and security, and ICT readiness are additional issues that are directly tied to the tourism industry, business environment, and human resources & labor market. Consistent and sustainable infrastructure development needs to be carried out help make the tourism industry more competitive. The pillars of tourist development are used to address issues related to tourism development. Tourism development encompasses the tourism business, tourism destinations, marketing, and institutions, as per Law Number 10 of 2009 concerning Tourism.

The Covid-19 pandemic in 2020 caused the tourism industry to perform worse. The drop in foreign visitor arrivals as a result of trip cancellations and fewer reservations demonstrates the strain on the tourism industry. The global spread of COVID-19 has resulted in other countries implementing travel restrictions, travel bans, closing entry and exit access, and mandatory quarantine after traveling. It caused several drastic declines in tourist visits and the aviation industry worldwide.

The Covid-19 pandemic's effects have raised visitor expectations, particularly for a clean and healthy environment at tourist attractions. The Cleanliness, Health, Safety, and Environment Sustainability (CHSE) certification process has been implemented by the Ministry of Tourism and Creative Economy/Tourism and Creative Economy Agency. This process certifies tourism businesses, tourism destinations, and other tourism products that use CHSE to give travelers assurances about the application of environmental sustainability, health, safety, and cleanliness at tourist destinations. This was then supported by the National Standardization Agency by establishing the Indonesian National Standard (SNI) 9042:2021 Cleanliness, Sustainability of the environment, health, and safety in locations that host and encourage tourists.

However, The Ministry of Tourism and Creative Economy has benefited from new prospects brought up by the COVID-19 epidemic/Tourism and Creative Economy Agency. Changing the business model from traditional to digital tourism management will be an opportunity to maintain and restore the national tourism sector.

Domestic tourism in Indonesia is still dominated by the flow of tourist trips on the island of Java. Up to 76.54% of domestic travel originates on the island of Java. Similarly, the island of Java is home to tourism spots that account for 75.49 percent of all domestic travel. Domestic travel has increased nationally, which is a favorable development when compared to pre-Covid-19 conditions. Only a few areas, including East Java, have seen a resurgence in domestic travel, though. East Java is now the starting point for more travels than it was in 2019 (145.16 percent). Furthermore, the destination province with the biggest rise in domestic visitor arrivals in 2022 is East Java, which is 134.61 percent compared to 2019.

In recipient nations, international tourism boosts industrial production, attracts new investment, increases foreign exchange reserves, and lowers unemployment, among other beneficial economic effects (Aboagye & Paul, 2023). The presence of numerous companies vying for the same tourist market makes Southeast Asia's tourism industry unique. There are many different kinds of enterprises in the travel and tourism industry, from those that concentrate on resorts that are artificially constructed to those that concentrate on natural tourism (Camilleri, 2018).

The performance of the tourism industry can be impacted by economic growth. Over time, financial development is stimulated by trade liberalization, international tourism, and renewable energy. Even with a somewhat undeveloped financial sector, a nation can

nonetheless maximize the advantages of growing economic openness, international tourism, and the use of renewable energy (Aboagye & Paul, 2023). The growth of the tourism industry supports the economy in a number of ways, including employment, tax income, foreign exchange profits, and the attraction of foreign investment. Interesting answers to other societal issues, such as gender inequality, can be found in the function of tourism development (Nguyen et al, 2023).

According to Paramati, Alam, and Chen (2017), tourist-driven economic growth is supported by the fact that tourism businesses have a favorable effect on economic growth in both developed and developing nations. Global socioeconomic development may be significantly influenced by the tourism industry (Akron, 2019). By increasing awareness of the value of preserving nature, tourism is also seen to benefit the environment by preserving historic structures and monuments as well as wildlife and landscapes (Su, Lian, & Huang, 2020).

However, the tourism industry has a number of detrimental social effects, such as worsening traffic and parking issues, a rise in crime (such as drug trafficking and robbery), vandalism, the creation of seasonal or low-paying jobs, higher local prices and living expenses, a loss or alteration of identity, anger, and abundant values, and the relocation of local settlements for tourism development (Sirima & Backman, 2013).

The economy's tourist industry is significantly fueled by foreign direct investment (Qamruzzaman, 2023). Investment in tourism is significantly harmed by economic policy uncertainty. Tourism investment benefits from commerce, financial development, and economic development (Demir et al., 2020). The economy's tourist industry is significantly fueled by foreign direct investment. Depending on varying degrees of public opinion and political/economic pressures, government investment in promoting greater social engagement in tourism can be viewed as a political act (Diekmann, McCabe, & Ferreira, 2018).

Tourism can boost a nation's economy, but this is dependent on funding for the expansion of lodging and transportation options (Proenca & Soukiazis, 2008; Sokhanvar, 2019). To maximize the economic benefits of tourism expansion, investment in the industry is crucial. As indicated by visitor arrivals, tourism development rises by 0.982% for every 1% increase in tourism investment. Similarly, trade openness and rise in per capita wealth have a favorable impact on the expansion of tourism (Alam & Paramati, 2017). The relationship between foreign direct investment and tourism is not limited to tourism-related investment alone. The increase in foreign tourist visits shows an overflow of Foreign Direct Investment outside of tourism-related sectors (Tomohara, 2015).

In the last five years, namely 2017-2021, investment in the tourism sector only reached IDR 106.3 trillion. Investment incentives in the tourism sector are needed to attract more investors. Investment in the tourism sector creates many jobs. Tourism sector investment incentives such as tax allowances, import duties super deduction taxes, and other incentives can encourage economic growth in the tourism sector. Providing incentives can attract investors while providing positive competition space and interest in investing in the tourism sector. The total realization of tourism sector investment, as much as 39 percent is spread across Bali and West Nusa Tenggara (NTB); 36.3 percent entered Java; 17 percent entered Sumatra; 4 percent in Sulawesi and 2 percent in Kalimantan.

By enhancing travel destinations and lodging options like hotels and airports, foreign investors can assist a nation in drawing in more visitors (Craigwell & Moore, 2007; Tang et al., 2007). Considering how fiercely competitive the travel and hospitality industries are becoming, maximizing economic efficiency in hotel performance across countries is important.

Traditional management policy elements like costs and products need to be tracked in order to optimize production efficiency and, in turn, raise returns on investment (Cro, 2020). Foreign Direct Investment impacts negatively economic growth and surprisingly stimulates the tourism industry (Sokhanvar, 2019).

In order to suit the demands of travelers and organize travel, the tourism sector is made up of a number of interconnected businesses. Although the tourism industry depends heavily on visitor flows, the expansion of Chinese tourism has been significantly impeded by protracted lockdowns and travel restrictions (Wang et al, 2022). The global spread of the new coronavirus and environmental changes in 2020 caused a significant fall in the tourism sector. The number of foreign visitors globally fell by 43% as a result of this reduction in comparison to the year before, which was 2019 (Ding et al, 2024). As an experience-based industry, tourism has a special ability to draw in foreign direct investment. The number of visitors and the size of the tourism industry are significant determinants of the selection of state-owned businesses in the tourism industry, in addition to the investment (Li et al, 2017; Stauvermann & Kumar, 2017).

The degree to which Indonesia's diverse cultural and ethnic attractions are preserved has a direct impact on the country's tourism industry's success. Its distinct culture contributes to the creation of intangible assets that companies in the travel and tourism sector can purchase and utilize. Cultural heritage can be preserved through historical artifacts, prehistoric settlements, and native plants and animals (Ratten, 2022). Construction and restoration projects like costume manufacturing, handcraft marketing, and packaging can benefit from the growth of regional industrial goods, and local populations can become actively involved (Agarwal et al, 2016; Chen et al, 2023). In order to increase foreign exchange reserves, create jobs, generate tax income, and promote socioeconomic development, the tourism sector is essential (Alam & Paramati, 2017).

This article examines investment, the tourism industry, and tourist visits as determining factors that can drive economic expansion in the travel and tourism industry. It is anticipated that the government will take this article into account when deciding on policies pertaining to Indonesia's tourism industry. One industry that has the potential to significantly impact Indonesia's economy and development is tourism. The tourism sector is not only influenced by natural resources which are the mainstay in attracting both domestic and foreign tourists to increase economic growth and sustainable development. However, the tourism sector is also influenced by investment, the tourism industry, and tourist visits. Improving the performance of the tourism sector is expected to be able to increase labor absorption so that it can improve community welfare.

## **LITERATURE REVIEW**

### **The Impact of Investment on the Tourism Sector**

Tourism can boost a nation's economy, but this is dependent on funding for the expansion of lodging and transportation options (Proenca & Soukiazis, 2008; Sokhanvar, 2019). To maximize the economic benefits of tourism expansion, investment in the industry is required. As indicated by visitor arrivals, tourism development rises by 0.982% for every 1% increase in tourism investment. Similarly, trade openness and rise in per capita wealth have a favorable impact on the expansion of tourism (Alam & Paramati, 2017). In actuality, the relationship between tourism and foreign direct investment extends beyond just investment in the travel industry. The rise in foreign visitor numbers suggests that there is an excess of foreign direct investment outside of the tourism industry (Tomohara, 2015).

The primary avenue for economic growth is thought to be investment in the tourism industry. Thus, even though policies pertaining to promoting foreign investment and tourism are frequently developed, carried out, and assessed separately under various governmental

jurisdictions, coordination is still advised because these policies work together to accomplish the objectives of economic development (Selvanathan et al, 2012). Not just in less developed nations that focus on tourism, but also in other nations, tourism promotion contributes to economic growth, as international tourism positively influences Foreign Direct Investment outside the traditional tourism sector.

Because tourism is a luxury commodity, people tend to travel less or stay closer to home during economic downturns, like the one that followed the global financial crisis. In a similar vein, investors decide to balance their domestic assets against their net international assets. In essence, this dynamic escalates vulnerability, which is then passed on to small business owners, hotel staff, and inhabitants on the region's periphery who have not seen significant reengineering to suit global hotel chains (Bernard & Cook, 2014). Surprisingly, foreign direct investment boosts the tourism sector while hindering economic growth (Sokhanvar, 2019). Enhancing a nation's tourist attractions, transportation, and lodging options, including hotels and airports, can help draw in more foreign investors (Craigwell & Moore, 2007; Tang et al., 2007).

In order to draw in foreign investment and promote economic expansion, well-constructed infrastructure is crucial. By making it simple for investors to communicate with their suppliers and customers, a strong infrastructure lowers transaction costs. Good infrastructure is crucial for international enterprises, who are typically drawn to large markets, as it enhances market access and, consequently, the size of the real market that is available (Cro, 2020). The economy's tourist industry is significantly fueled by foreign direct investment (Qamruzzaman, 2023). Investment in tourism is significantly harmed by economic policy uncertainty. Trade, financial development, and economic development all favorably impact tourism investment (Demir et al., 2020).

### **The Impact of Tourism Industry toward Tourism Sector**

The coastal tourist sector has a comparative advantage because of its opulent sandy beaches and stunning coastlines. The tourism business is a significant source of employment and national wealth. Reliance on tourism, however, puts pressure on governments to offer incentives to investors so they will undertake construction projects that may increase the risk exposure of locals (Bernard & Cook, 2014). In certain nations, the growth of industrial tourism has been linked to higher rates of crime and violence, as well as expenses for enhancing public safety and reducing criminal activity (Dunn & Dunn, 2002). In addition to helping to boost urban areas and cultural activities, the tourism sector is becoming more and more valued for its role in economic growth, employment, poverty alleviation, export earnings, consumer demand, capital formation, tax revenues, and the promotion of economic diversification and a more service-oriented economy (Endo, 2006).

Nguyen et al (2023) claimed that one of the industries that makes the biggest contributions to the economy in terms of welfare, export stimulation, and employment is the tourism sector. It is interesting to note that in the past ten years, one in five net jobs and 10.4% of the global GDP have been attributed to the tourist sector in these nations. This tendency has been impacted by the COVID-19 epidemic, but the economy is slowly returning to its pre-Covid-19 condition to expect the importance of tourism to be relatively the same.

A diverse industry that provides a multiplier impact to activities across multiple economic sectors, tourism is a representation of services. History, organic, entertainment, and so on are all part of the tourism sector. Therefore, in addition to positive ties with the government, industry participants and tourism-related data, figures, pictures, systems, and programs are crucial to guaranteeing the industry's growth (Liang, 2022). Businesses in this industry are

always innovating to keep ahead of the competition. Numerous research have examined how social capital affects the tourism industry (Zhong et al., 2022).

### **The Impact of Tourist Visits on the Tourism Sector**

One factor propelling economic expansion is tourism. It demonstrates on its own that tourism and economic expansion are positively correlated. Due to its capacity to create revenue and boost economic expansion, tourism is categorized as a non-traditional export good. Similarly, tourism promotes economic expansion (Adeleye, 2023).

Both developed and developing nations benefit economically from the tourism industry. In rich nations, tourism lowers CO2 emissions significantly more quickly than in underdeveloped nations. Developed nations are far more successful than developing nations at implementing sustainable tourism policies (Paramati et al., 2017). Policies that promote the growth of the tourism industry, support the use of renewable energy, and increase economic openness can be significant stimulants to support more financial development (Aboagye & Paul, 2023).

The growth of the tourism industry supports the economy in a number of ways, including employment, tax income, foreign exchange profits, and the attraction of foreign investment. Although tourism can boost the economy, it can also have a negative effect by distorting resource allocation to non-tradable industries due to the Dutch disease effect (Nguyen et al, 2023). By boosting employment, opening up new business opportunities, supporting local companies, and increasing investment in public infrastructure and facilities, tourism can have a positive social impact on local communities' quality of life, standard of living, and social standing (Sirima & Backman, 2013). Increasing innovation as a tool for regional development and boosting the economy are two ways to increase tourism. The interplay between several forms of social capital and innovations in the expansion of tourism is strengthening and uniting people (Annamalaha et al, 2023).

## **RESEARCH METHODOLOGY**

This study uses a quantitative approach using secondary data, namely research that relies on statistical analysis to accept or reject the hypothesis. Research methods using a quantitative approach establish the connection between a situation's cause and consequence. People can see how independent variables affect dependent variables in this causal design. Secondary data supplied by Indonesia's Ministry of Tourism and Central Bureau of Statistics served as the study's data sources. The variables of investment, tourism industry, and tourist visits were selected as independent variables to determine their effect on the tourism sector. The sample in this study used data from regencies/cities in the provinces of West Java, the Special Region of Yogyakarta, and Bali, totaling 41 regencies/cities and time series data over the 2014–2023 timeframe, resulting in 410-panel data used to assess the impact of tourism and investment on Indonesia's tourism industry. Gujarati (2012), Biorn (2017), and Greene (2018) claim that using panel data can boost the amount of observations and, thus, more estimation degrees of freedom and can contribute to reducing collinearity between explanatory variables and allow for more extensive testing of competing model specifications. The correlation between explanatory variables in a regression equation is often stronger over time than between individuals.

The Pooled Least Square method is used for stationarity test analysis using the unit root test, panel data regression analysis using the Redundant Fixed Effect test (Chow test) and Hausman test, hypothesis testing using significance tests (F test and t test), and model feasibility tests. The entire data processing and analysis process in this study was carried out using the panel data linear regression method through the e-views for a Windows computer program (Eviews 13).

## RESULT AND DISCUSSIONS

### Stationery Unit Root Test

The results of the stationary unit root test using the Augmented Dickey Fuller (ADF) test method. The criteria are if the ADF-Fisher Chi-square probability value  $< \alpha$  0.05 or 5 percent then the data is considered stationary, but if the ADF-Fisher Chi-square value  $> \alpha$  0.05 or 5 percent then the data is considered non-stationary.

Table 1. Stationary Test Results Unit Root Test

Variable	Tingkat Level		First Difference	
	ADF-Fisher Chi-square	Statistic	ADF-Fisher Chi-square	Statistic
Tourism Sector	0,0000	236,6600	0,0000	346,1800
Investment	0,1705	89,7798	0,0000	194,7920
Tourism Industry	1,0000	32,2086	0,0000	226,6790
Tourist Visits	0,1989	92,5933	0,0000	205,2770

Source: Data Processed by Eviews 13

From the results of the unit root test with ADF-Fisher, it was found that at the Tourism Sector variable level, the variables are stationary. While the Investment, Industry and Tourist Visits variables are not stationary, so it is necessary to conduct a stationary first difference level unit root test. The model can proceed since all variables are stationary at the first difference level with data processing using the panel data linear regression method.

### Results of the Redundant Fixed Effect Test and the Hausman Test

Table 2. Results of the Redundant Fixed Effect Test and the Hausman Test

Estimation Test	Redundant Fixed Effect		Hausman Test	
	Statistics	Probability	Chi-square	Probability
Cross-section Chi-square	69,2219	0,0028		
Cross-section random			16,2047	0,0063

Source: Eviews 13 processed data

The Fixed Effect Model, which is superior to the Common Effect Model, was chosen based on the Redundant Fixed Effect Test results, which indicate a likelihood of the Cross-section Chi-square of 0.0028  $< \alpha = 0.05$ . The Hausman Test is the next step in the process to find the best Fixed Effect or Random Effect model to employ. According to the Hausman Test results, the Fixed Effect Model is a better choice for estimating panel data than the Random Effect Model, with the probability value of the Cross-section Random being 0.0063  $< \alpha = 0.05$ .

The Fixed Effect Model was chosen for this investigation based on the findings of the Hausman and Redundant Fixed Effect Tests. The impact of each independent variable on the dependent variable in Indonesia can be explained by the findings of the panel data linear regression test using the Fixed Effect Model. A positive t-statistic value denotes a unidirectional association, and the investment variable's t-statistic value is 5.125670  $>$  t-table of 1.658. Since the p-value (probability value) is 0.0000  $< 0.05$ , the significant effect ( $H_a$ ) is accepted and the insignificant effect ( $H_0$ ) is discarded. Therefore, it has been demonstrated that investment significantly and favorably impacts Indonesia's tourism industry.

A positive t-statistic value denotes a unidirectional link, and the tourism industry's t-statistic value is 4.633114  $>$  t-table of 1.658. Since the p-value (probability value) is 0.0000  $< 0.05$ , the significant effect ( $H_a$ ) is accepted and the insignificant effect ( $H_0$ ) is discarded.

Therefore, it has been demonstrated that industry significantly and favorably impacts Indonesia's tourism sector.

A positive t-statistic value denotes a unidirectional association, and the t-statistic value of tourist visits is  $2.742849 > t\text{-table of } 1.658$ .  $H_a$  (significant effect) is accepted and  $H_0$  (insignificant impact) is rejected since the probability value (p-value) is  $0.0064 < 0.05$ . Therefore, it has been demonstrated that tourist visits significantly and favorably impact Indonesia's tourism industry.

### **Model Feasibility Test**

Theoretical Plausibility results show a positive relationship between variables between pre-estimation and post-estimation. This is by the post-estimation or post-test hypotheses with the expectations of the pre-estimation hypothesis supported by relevant theories so that the theoretical plausibility requirements of the study are met. The investment, tourism industry, and tourist visits variables have a significant effect on the Tourism Sector with a probability value (F-statistic) of 0.0000 which is smaller than the research error rate of 0.05. Because the p-value of the fixed effect model  $\leq 0.05$ , it can be said that the accuracy of the estimates of the parameters requirements are met. This research model has a high ability to explain the relationship between the economic phenomena studied, this is indicated by the explanatory ability test on the fixed effect model showing a standard error smaller than  $\frac{1}{2} \beta$ . The post-estimation model can predict which is marked by a high coefficient of determination, where Adjusted  $R^2 > 0.5$ . In this study Adjusted  $R^2 > 0.5$ , it can be said that the forecasting ability requirements are met.

### **The influence of investment on the tourism sector in Indonesia**

Development in the tourism sector is a leading sector because its influence can increase the national and regional economy if it is developed and improved properly. Efforts to develop tourism require a lot of support from various parties so that the direction of tourism development in Indonesia is well-directed, these supporting factors are in the form of competent and quality human resource competencies, supporting infrastructure, adequate funds, and government policies that are pro-development of the tourism sector.

Indonesia's tourism industry needs greater funding. According to the Ministry of Tourism and Creative Economy (2024), IDR 58.64 trillion was realized in 2023 from investments made in the tourism industry. 80 percent of the investment was only concentrated in starred hotels, restaurants and cafes, and fitness centers. Indonesia needs more investment in the ecosystem, including the development of sustainable tourism products and inclusive community-based tourism. There are three business sectors that received the most foreign direct investment during the first three months of 2024, namely starred hotels, restaurants, and apartment hotels. To support sustainable tourism, Indonesia needs an investment of more than 15 to \$US. 20 billion.

Investment is capital investment from both domestic and foreign investors. Many factors influence the development of tourism investment (Wahyuni et al, 2021), including (1) Investment policy; (2) Improvement of rules and regulations; (3) Preparation of investment masterplan; (4) Development of investment masterplan system; (5) One-roof system and one-stop-shop services; (6) Partnership development. Current tourism sector investments are mostly in conventional hotels, while sustainable tourism wants environmentally friendly hotels (green tourism) and expects environmentally friendly tourism practices and regenerative concepts. Regenerative tourism focuses on the restoration and regeneration of the environment and local communities. The main goal is to make a tourist destination better than its original condition.

Investment in tourism has been significantly impacted by the COVID-19 pandemic. During January through September 2020, there were only 3.56 million international visitors to



Indonesia, a 70.57% drop from pre-Covid-19 levels, according to the 2021 Indonesian tourism outlook webinar and variants that threaten all countries in the world will greatly suppress the growth of tourism recovery in Indonesia. Investors find it more difficult to invest considering that tourists cannot visit tourist destinations due to flight restrictions and strict health protocol procedures/quarantine. Investors only move to save assets and employees by carrying out minimal maintenance and as many discounts as possible for local tourists.

The Indonesian economy is growing sustainably, supported by a stable investment climate, a strong manufacturing sector, and rapid economic growth and recovery in tourism. The strong recovery is driven by foreign tourist arrivals and records the highest number of domestic tourist trips in history, and is also driven by the demographic bonus and growth of the middle-income population. To continue to improve the quality of tourism in Indonesia, it must be recognized that there are still several areas that need improvement. Areas that need to be improved include infrastructure, information technology, and non-leisure resources. In the process of improving these areas, large investments are demanded. Utilizing the wealth of natural resources setting new standards for tourism excellence and contributing to economic growth, as well as preserving Indonesia's natural and cultural heritage are strategies that can be carried out to attract a lot of investment aimed at addressing the gap in tourism infrastructure.

Due to its significant impact on employment, production, and the balance of payments, tourism's contribution to national economic growth has been extensively researched. A major contributor to tourism receipts and foreign direct investment in the economy, Sokhanvar (2019) investigated the direct and indirect effects of foreign investment on economic growth. Foreign direct investment and tourism revenue are viewed by policymakers as important drivers of economic expansion. One factor propelling economic expansion is tourism. independently demonstrates that tourism and economic expansion are positively correlated (Adeleye, 2023). Without analyzing the connection between tourism development and economic development, it is impossible to comprehend the advantages of tourism investment. (Demir and others, 2020). One of the development tactics used to hasten the West's convergence is tourism (Mihalic 2017, in Croes et al 2021). Tourism demand leads to lower savings requirements, allowing locals to consume now rather than later (Hazari & Sgro, 2015). The tourism sector is one of the strategic sectors in driving economic development. Not only is it a trigger for production and consumption, but tourism is also able to improve the investment climate of a region (Page & Connell, 2020).

### **The Influence of the Tourism Industry on the Tourism Sector in Indonesia**

The tourism industry can be thought of as a group of commercial sectors that create different products and services that travelers require. The tourism industry is an economic sector that is closely related to various other sectors because tourism involves various phenomena and reciprocal interactions between tourists, business suppliers, governments, tourist destinations, and local communities at tourist destinations (Anggarini, 2021). The tourism industry plays a central role in the service sector that drives economic growth. This happens because tourism activities by foreign tourists who visit to enjoy various tourism commodities at their destinations have a significant impact on the economy of the destination country (Yakup & Haryanto, 2019). Tourism as an industry is difficult to define firmly and does not have a consistent measure, because its existence is highly dependent on tourist visits (Suwena & Widyatmaja, 2010).

The tourism industry is one of the main drivers of the Indonesian economy. The tourism industry is a collaboration of tourist destinations or tourist attractions, local tourist visit infrastructure, hotels, and restaurants. All of which contribute to increasing regional income

taxes, and levies. The tourism industry can provide significant foreign exchange for the country, the largest contributor to GRDP, increase regional income and expand employment opportunities, overcome unemployment, and overcome poverty.

The tourism industry tends to be oriented towards analyzing ways to market and promote tourism industry products. The tourism industry is not a stand-alone industry but is an industry consisting of a series of companies that produce services or products that are different from one another. The difference is not only in the services produced but also in the company size, location or domicile, geographical location, function, form of organization that manages, and the method of the problem (Yoeti, 2015). The prosperity of a country does not grow from natural contributions, interest rates, or exchange rates but depends on the capacity of its tourism industry to innovate and renew (Porter, 2018)

Indonesia has great potential in the tourism industry. With its natural beauty, cultural richness, and diverse tourist destinations, this industry continues to grow. The prospects for the Indonesian tourism industry are very bright, with sustainable economic growth and increased investment in tourism infrastructure. 2020 was a tough year for the tourism industry. Indonesian tourism has been significantly impacted by the COVID-19 outbreak. The tourism industry has suffered as a result of the closing of international access from numerous countries and the adoption of large-scale social restrictions (PSBB) in several locations, which have reduced the number of both domestic and foreign tourists. The tourism industry has seen significant changes as a result of the COVID-19 pandemic, and customers and travelers have adapted to the new normal. The tourism industry is adjusting to the disruption of the new normal in order to endure and bounce back from the downturn.

Tourism plays an important role in the economy and livelihoods of the Indonesian people. This sector contributes 4.1% to GDP and employs more than 22 million people. Besides, this sector is also closely related to the creative economy. There are four main things related to the development of the Indonesian tourism sector. First, through diversification. The tourism sector needs to continue to innovate through diversification. There are two important aspects in diversification, namely: diversification of tourism destinations and customer base. The first element, Indonesia still has several potential areas for tourism development, For instance, Lake Toba in North Sumatra and Borobudur Temple in Central Java are two of the top five tourist destinations outside of Bali. Likupang (North Sulawesi), Mandalika (NTB), and Labuan Bajo (NTT). The second aspect is the importance of expanding the tourist customer base to traditional market shares such as South and Central Asian countries, and Eastern Europe. Diversification of tourist destinations is not only important to expand the customer base and market share, but also to ensure regional development.

Second, connectivity is important to improve tourism connectivity. The construction of 50 airports in the last 10 years and the development of the Bali Maritime Tourism Hub which will operate in 2025 will be the anchor for the development of tourism connectivity in Indonesia, both for domestic and international tourist routes. Third, customer experience. There is a shift in the trend towards experience-based tourism that makes tourists emotionally connected to culture and nature. In addition, tourists are now more interested in sustainable tourism. The development of Tourism Villages must be carried out for sustainable tourism so that residents can directly benefit from tourism activities. Fourth, digital technology. Digital technology has revolutionized the tourism industry by improving customer experiences, operational efficiency, and sustainable tourism practices. The development of a digital ecosystem needs to be carried out to support the tourism industry through investment in digital infrastructure (5G and fiber optic networks), the use of social media platforms, digital payments, digital applications, and the capacity of tourism workers. The development can be

done by establishing partnerships with various stakeholders, including technology companies, and software developers, and requires large investments from the private sector.

### **The Influence of Tourist Visits on the Tourism Sector in Indonesia**

There are two ways in which increased demand from more visitors is linked to economic expansion. First, travel expenses include accommodation, meals, entertainment, shopping, transportation, and mementos. Businesses (investment, profits), households (wages, tips, and services), and the government (fees, taxes, goods, and services) all directly benefit from this expenditure. Second, demand from tourists generates indirect benefits on GDP through productivity spillovers, like when multinational hotel chains open in a location, bringing with them highly qualified employees, expertise, and fresh ideas. These novel concepts may pertain to new market niches, new goods or services, or managerial procedures to increase productivity. Additionally, they can push local business owners to provide goods and services that satisfy the same standards and quality that big, global corporations and chains need to strive for and uphold.

In 2022, 84 million international tourist visits were recorded to the Asia and Pacific region, an increase of 241% compared to the 2021 period. This condition is in line with the achievement of foreign tourists to Indonesia throughout 2022, which was only 5.89 million visits or an increase of 278.10% compared to the same period in the previous year, but this figure is still better than the growth of foreign tourists in 2021, which fell by 61.57%.

The quantity of foreign visitors that Indonesia received in 2022 was dominated by foreign tourists entering Indonesia through the Immigration Checkpoint (TPI) area, which was 70.42 percent. The recovery in the proportion of foreign tourist visits entering through TPI as in the years before the Covid-19 pandemic was due to the relaxation of travel policies for foreign nationals who wanted to visit Indonesia, such as The Immigration Director General's Circular Letter Number IMI-0186. GR.01.01 of 2023 Concerning Immigration Policy Regarding Visa Services and Visit Stay Permits, Limited Visas and Stay Permits, and Visa-Free Visits during the Transition Period of the Corona Virus Disease 2019 (Covid-19) Endemic and Instruction of the Minister of Home Affairs Number 53 of 2022 concerning Prevention and Control of Corona Virus Disease 2019 during the Transition Period Towards Endemic.

The peak of foreign tourist arrivals occurred in December with a total of 952.47 thousand visits or 16.17% of all foreign tourists during 2022. This pattern is in line with the previous year, where the peak of foreign tourist visits occurred in December. This pattern is similar to the years before the Covid-19 pandemic where the peak of foreign tourist visits to Indonesia in December was due to foreign tourists wanting to spend the long end-of-year holiday. Meanwhile, the lowest number of foreign tourist arrivals occurred in February 2022 with a total of 117.51 thousand visits.

In addition to foreign tourists, domestic tourist visits (domestic tourists) are also quite significant in improving the performance of the tourism sector. The mobility of people in their daily residential areas and in recreational areas has decreased significantly during the Covid-19 pandemic. People tend to postpone traveling, in 2020 the number of domestic tourist trips fell by 27.36 compared to 2019.

In 2022, domestic tourism has exceeded the conditions before the Covid-19 pandemic with the number of trips reaching 734.86 million trips, or 1.76 percent higher than in 2019. Therefore, it is only right that domestic tourism is seen as a driving force for the recovery of the tourism sector in Indonesia. In 2022, the highest number of domestic tourist trips occurred in March, which was 80.23 million. Based on the results of a digital survey of domestic tourists in 2022, it can be seen that 69.70 percent of domestic tourist trips were made by tourists in the

25-44-year age group. Domestic tourist trips are also dominated by vacation or recreation purposes, amounting to 28.87 percent. Land transportation is still the most favorite mode used by tourists. As much as 84.96 percent of the total domestic tourist trips in 2022 were made using land transportation. Domestic tourism in Indonesia is generally still dominated by tourist travel flows on the island of Java. Domestic tourist trips in 2022 were made by tourists domiciled on the island of Java, as much as 76.54 percent of the total trips. East Java is the largest contributor to the number of domestic tourist trips, followed by tourists from West Java and Central Java. Java Island is still the most favorite destination in 2022, domestic tourist trips to Java Island reached 75.49 percent of the total domestic tourist trips in Indonesia. In line with the province of origin, East Java is also recorded as the main destination province in 2022 with the highest number of trips, namely 200.55 million or 27.29 percent of the total domestic tourist trips.

Nationally, the number of domestic tourist trips in 2022 increased compared to conditions before the Covid-19 pandemic in 2019, namely from 722.16 million trips to 734.86 million trips, or an increase of 1.76 percent. However, the recovery of domestic tourists has only been seen in nine destination provinces, including East Java, Central Java, DI Yogyakarta, and all provinces on the island of Sulawesi. DI Yogyakarta is the most favorite destination for vacation/recreation purposes with the highest percentage compared to other provinces, reaching 53.09 percent.

Post-Covid-19 pandemic, the 2024 tourism trend is believed to be a momentum for revival for the entire tourism sector. There are four 2024 tourism trends that are predicted to attract tourist visits and movements, namely Bleisure, Wellness Experience, Deep and Meaningful, and Set-Jetting. Tourists tend to choose to travel mindfully, impressively and meaningfully, and with quality. In other words, the 2024 tourism trend is expected to encourage tourists to seek new experiences and abandon conventional travel concepts. Many Indonesian companies have allowed their staff to work from any location since the COVID-19 pandemic. Employee flexibility to still take brief breaks between work hours may be enhanced by this freedom. Bleisure (business and leisure) is one of the 2024 tourism trends that travelers are most interested in because of this opportunity.

The priority steps must be focused on developing infrastructure and supporting facilities for tourist destinations to improve the quality of service and safety for tourists. The preservation and development of local culture must be considered so that the tourist experience becomes more authentic and meaningful. Encourage sustainability and environmental responsibility in every aspect of tourism development and activities, as well as increase land, sea, and air accessibility to tourist destinations that have superior potential.

A country's economy tends to grow when tourism activities increase (Croes, 2013; Schubert, Brida, and Risso (2011); Ridderstaat et al. (2016)). For instance, countries that rely on tourism have high average economic development, according to Holzner (2011), who surveyed 130 countries over nearly 40 years. The Tourism-Led Growth Hypothesis (TLGH), which is based on two key tenets, is supported by this beneficial association. According to the first, tourist profits create jobs, money, and investment across the economy, impacting industries that are either directly or indirectly associated with the travel experience. Second, the broad effects of tourism encourage business ventures that support economic expansion (Figini & Vici, 2010; Lin, Yang & Li, 2019; Pablo-Romero & Molina, 2013).

## CONCLUSION

The purpose of this study was to investigate how investment, the travel and tourism sector, and visitor numbers affect Indonesia's tourism business. Indonesia needs more investment in the ecosystem, including the development of sustainable tourism products and

inclusive community-based tourism. Current tourism sector investment is mostly in conventional hotels, while sustainable tourism wants environmentally friendly hotels (green tourism) and expects environmentally friendly tourism practices and regenerative concepts. Regenerative tourism focuses on the restoration and regeneration of the environment and local communities.

Indonesia has great potential in the tourism industry. With its natural beauty, cultural richness, and diverse tourist destinations, this industry continues to grow. The prospects for the Indonesian tourism industry are very bright, with sustainable economic growth and increased investment in tourism infrastructure. The tourism industry's landscape has been altered by the COVID-19 epidemic, and travelers' behavior has changed as they have adapted to the new normal. To survive and recover from the tourism downturn, the tourism industry adapts to the disruption of the new normal. Diversification of tourist destinations is not only critical to expanding the customer base and market share but also to ensure regional development. Digital technology has revolutionized the tourism industry by improving customer experiences, operational efficiency, and sustainable tourism practices. The development of digital technology can be done by establishing partnerships with various stakeholders, including technology companies, and software developers, and requires large investments from the private sector. Tourists tend to choose to travel mindfully, memorable, and meaningfully, and with quality. The 2024 tourism trend encourages tourists to seek new experiences and abandon conventional travel concepts.

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