

## COMPLETION REPORT

### **The Effect of Easing Visa Application on Tourism: Case Study Japanese-Indonesia**

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Since June 2015, Indonesia has issued visa-free policy for 45 countries pursuant according to Presidential Decree No.69 Year 2015. The number of visa-free countries has been increased further to 90 countries since September 2015, and Japan is one of the countries granted visa-free. The aim of policy does not only to boost the tourist inflows, but also to serve as reciprocal action and to strengthen the political relationship with partner countries as well. The facts above prompted us to conduct a study whether Indonesia visa-free policy have an impact on the arrival of Japanese tourist in Indonesia. We further compare the results with the impact at global level. To our knowledge, this is the first study to provide the estimates of the effect of visa exemption policy in Indonesia.

The study will evaluate and give feedback to the policy makers since tourism sector is one of the main sectors promoted to boost Indonesian economy after the decline of agriculture and extractive sectors. The impact will be evaluated by examining tourist entrance in particular immigration check point via airports/seaports and other relevant indicators. In addition, we will also conduct cost and benefit analysis of the policy since on one hand this policy has potential to increase foreign citizen arrivals, but on the other hand there will be a lost in visa revenue suffered by the government. The effect of policy might be relatively small, relative to other policy packages, as associated cost of applying the visa might be small relative to the tourists' average expenditure. Nevertheless, our results are potential in providing the quantitative measurement of the effectiveness of the visa exemption program or other similar programs. To examine the average effect of visa exemption on international tourist arrivals in Indonesia, we use three-dimensional panel regression method and employ monthly foreign tourist arrival dataset that cover 45 countries entering 19 entry-ports from January 2014 to December 2016 which are provided by National Bureau of Statistics of Indonesia. We analyze the short-run and long-run responses as well as the region-specific impact. Hence, we will be able to provide a clear picture of strategic and potential area for tourism development of Indonesia.

The main findings are as follow: (1) The visa-free policy series have significantly increased the average number of monthly foreign tourist arrival in Indonesia by a 4 - 6 percent range; (2) One-day extra for holidays in respective month of tourists' country of origin is associated with 0.7% increase in the number of foreign tourist arrivals in Indonesia; (3) The foreign real effective exchange rates's appreciation has a positive association with the tourist arrivals, which might represent local political stability and unstable political condition within an origin country; (4) The long-run effect of visa exemption policy is approximately 8% and appears significantly between two and five months after the policy and is relatively constant in six months after the policy launched; (5) In the region-level, the policy implementation implies an increasing number of foreign visitors from America, Australia, Europe, Africa, Southeast Asia, and Other Asia by 9.5%, 7.3%, 6.2%, 4.4%, 1.3%, and 0.1%, respectively; (6) The visa exemption provides heterogenous impact across destinations where the tourist arrivals to Sumatera and Bali increase by 13.7% and 4.1%, respectively, which implicitly shows that Sumatera and Bali are much more attractive compared to other regions and thus leaving some foreign tourists to switch their destination to those regions.

Nevertheless, the impact is relatively limited to invite more Japanese tourists. Using the same dataset and model, we argue that the limited impact is driven by slow pace of Japan's economic growth along with tourism competition offered by other countries. Our investigation further suggests the need of alternative strategies, such as wider tourism promotion, in order to attract more Japanese tourists to visit to Indonesia.

To conclude, our study has shown that despite various empirical evidence of positive impact of visa exemption on foreign tourist arrivals on average, the effect can be heterogeneous across time frame, country origin, and even tourist destination. The visa-free policy series have significantly increased the average number of monthly foreign tourist arrival in Indonesia with the long-run response will appear about 9 months after the policy introduced, which indicates that the foreign tourists need time to adjust their travel plan by considering the policy and thus the maximum impact of policy can be popular in a shorter period only if it is well-communicated. Nevertheless, the visa-free policy series has a little impact to invite more Japanese tourists due to a slow pace of Japan's economic growth along with tourism competition offered by other countries. In order to attract more out-of-market Japanese tourists to visit to Indonesia, we recommend to promote alternative tourism marketing strategies. For example, to introduce the digital tourism to support the tourist experience and to increase the co-operative marketing campaigns between the government and industry partners (e.g. accommodation providers and air carriers).

#### Publication of the Results of Research Project:

Verbal Presentation (Date, Venue, Name of Conference, Title of Presentation, Presenter, etc.)

1. June 6-7<sup>th</sup> 2018, Canberra, Australasian Development Economics Workshop 2018, *Can the visa-waiver program promote foreign tourist arrivals? Empirical evidence from Indonesia*. Presenter: M H Yudhistira
2. July 23-24<sup>th</sup> 2018, Surakarta (Indonesia), Indonesian Regional Science Association (IRSA) Conference 2018. *Can the visa-waiver program promote foreign tourist arrivals? Empirical evidence from Indonesia*. Presenter: M H Yudhistira

Thesis (Name of Journal and its Date, Title and Author of Thesis, etc.)

Annals of Tourism Research (under review)

Book (Publisher and Date of the Book, Title and Author of the Book, etc.)

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