

**THE IMPACT OF HORIZONTAL STRATEGY,
RESOURCE EFFICIENCY AND BUSINESS
FACILITATION IN TOURISM FOREIGN DIRECT
INVESTMENT TOWARDS LOCAL ECONOMIC
GROWTH IN NORTH SUMATRA, INDONESIA**



PARHIMPUNAN SIMATUPANG

UMS
UNIVERSITI MALAYSIA SABAH

**FACULTY OF BUSINESS, ECONOMICS AND
ACCOUNTANCY**

UNIVERSITI MALAYSIA SABAH

2022

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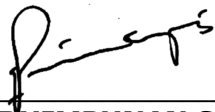
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**ANITA BINTI ARSAD
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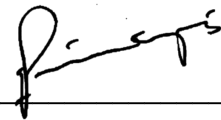


(Prof Dr Jennifer Chan Kim Lian)
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DECLARATION

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CERTIFICATION

NAME : **PARHIMPUNAN SIMATUPANG**

MATRIK : **DB1821228T**
NUM.

TITLE : **THE IMPACT OF HORIZONTAL STRATEGY, RESOURCE
EFFICIENCY AND BUSINESS FACILITATION IN TOURISM
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VIVA DATE : **15 OCTOBER 2021**



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CERTIFIED BY;

Signature

1. MAIN SUPERVISOR

Prof. Dr. Jennifer Chan Kim Lian

A handwritten signature in black ink, appearing to read 'Jennifer Chan Kim Lian', positioned above a horizontal line.

2. CO- SUPERVISOR

Dr Mori Kogid

A handwritten signature in black ink, appearing to read 'Mori Kogid', positioned above a horizontal line.

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ABSTRACT

This research investigates tourism foreign direct investment in North Sumatra, Indonesia. The key factors influence the investment decision in the tourism sector by use of horizontal strategy (also called a market-seeking), resource and efficiency strategy and business facilitation (also called a vertical strategy). It also examines how the existing investment in North Sumatra tourism has an impact on economic growth in North Sumatra which can still be said to be far from the enormous tourism potential. The research used multy methods with qualitative and quantitative approaches. Quantitative data obtained by surveying 250 respondents who are tourism services providers including tourism and hospitality business sector-accommodation and restaurants (178 respondents), travel agents and tours operators (62 respondents) and tourist guide services (10 respondents). Quantitative data analysis method used in this research is multiple regression. It also added the interview from 4 key informants, to get data from the government's point of view and can be verification of quantitative data findings from agencies/institutions related to tourism in North Sumatra. The results of this research show that the three variables, namely horizontal strategy, resource efficiency strategy, also business facilitation have a positive and significant effect on tourism foreign direct investment. This research also proves that the economic growth factor influenced by the presence of tourism foreign direct investment. Meanwhile, the results of the survey and the interview, show that the increase in the quality of human resources and the quality of company management is an indicator of economic growth that is most affected by the existence of tourism foreign direct investment. This research shows that the results support or strengthen the theory of investment, mainly foreign direct investment which has an impact on economic growth. For the government of North Sumatra, this research can be used as a consideration for evaluating policies on investment in tourism. Future research would be better if we add comparators for two regions that have different conditions of tourism potential and other per capita income. It will provide an overview of the weaknesses and strengths in the development of tourism in the area and its impact on economic growth.

ABSTRAK

KESAN STRATEGI MENDATAR, KEBERKESANAN SUMBER DAN FASILITASI PERNIAGAAN DALAM PELABURAN LANGSUNG ASING PELANCONGAN TERHADAP PERTUMBUHAN EKONOMI TEMPATAN DI SUMATRA UTARA – INDONESIA

Penyelidikan ini meneliti pelaburan langsung asing pelancongan di Sumatera Utara, Indonesia. Faktor utama mempengaruhi keputusan pelaburan di sektor pelancongan dengan menggunakan strategi mendatar (juga dipanggil pencarian pasaran), strategi sumber dan kecekapan, dan fasilitasi perniagaan (juga dipanggil strategi menegak). Penyelidikan ini juga mengkaji sejauh mana pelaburan yang ada mempengaruhi pertumbuhan ekonomi di Sumatera Utara yang masih boleh dikatakan jauh daripada potensi pelancongan yang amat besar. Penyelidikan ini menggunakan pelbagai kaedah pendekatan kualitatif dan kuantitatif. Data kuantitatif yang diperoleh dengan meninjau 250 responden yang merupakan penyedia perkhidmatan pelancongan termasuk sektor pelancongan dan perniagaan perhotelan-penginapan dan restoran (178 responden), ejen pelancongan dan pengendali pelancongan (62 responden) dan perkhidmatan pemandu pelancong (10 responden). Kaedah analisis data kuantitatif yang digunakan dalam penyelidikan ini adalah regresi berbilang. Ia juga menambahkan temubual dari 4 informan utama untuk mendapatkan data dari sudut pandang kerajaan dan dapat menjadi verifikasi penemuan data kuantitatif dari agensi / institusi yang berkaitan dengan pelancongan di Sumatera Utara. Hasil penyelidikan ini menunjukkan bahawa ketiga-tiga pemboleh ubah, iaitu strategi mendatar, strategi kecekapan sumber dan fasilitasi perniagaan memiliki pengaruh positif dan signifikan terhadap pelaburan langsung asing pelancongan. Penyelidikan ini juga membuktikan bahawa faktor pertumbuhan ekonomi dipengaruhi oleh kehadiran pelaburan langsung asing pelancongan. Sementara itu, hasil tinjauan dan temubual, menunjukkan bahawa peningkatan kualiti sumber manusia dan kualiti pengurusan perusahaan merupakan indikator pertumbuhan ekonomi yang paling banyak dipengaruhi oleh adanya pelaburan langsung asing pelancongan. Penyelidikan ini menunjukkan bahawa hasilnya menyokong atau memperkuat teori pelaburan, terutama pelaburan langsung asing yang memberi kesan kepada pertumbuhan ekonomi. Bagi kerajaan Sumatera Utara, penyelidikan ini dapat digunakan sebagai pertimbangan untuk menilai dasar pelaburan dalam pelancongan. Penyelidikan masa depan akan lebih baik jika kita menambahkan perbandingan untuk dua wilayah yang memiliki keadaan potensi pelancongan yang berbeza dan pendapatan per kapita yang lain. Ini akan memberikan gambaran umum mengenai kelemahan dan kekuatan dalam pembangunan pelancongan di kawasan tersebut dan kesannya terhadap pertumbuhan ekonomi.

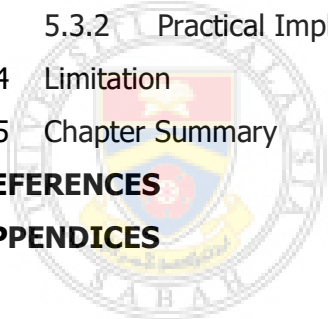
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LIST OF ABBREVIATIONS

ASEAN	- Association of Southeast Asian Nations
ARDL	- AutoRegressive Distributed Lag
BI	- Bank of Indonesia
BPS	- Badan Pusat Statistik (Indonesian Central Bureau of Statistics)
BKPM	- Badan Kordinasi Penanaman Modal
CTI	- Computrade Technology International
ECLC	- Energy Conservation & Loss Control
FDI	- Foreign Direct Investment
GDP	- Gross Domestic Product
GRDP	- Gross Regional Domestic Product
GATT	- General Agreement on Trade and Tariffs
GATS	- General Agreement on Trade in Services
OLI	- Ownership, Location, Internalization
R & D	- Research and Development
SPSS	- Statistical Product and Service Solutions
TNGL	- Taman Nasional Gunung Leuser (Gunung Leuser National Park)
UNCTAD	- United Nations Conference on Trade and Development
USD	- US Dolar
WTO	- World Trade Organization

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CHAPTER 1

INTRODUCTION

The chapter presents the background, problem statement along with the issues, the objective of the research, significance, and scope of the study. In addition, this chapter concludes the follow with chapter conclusion.

1.1 Background

Tourism in Indonesia assumed to be a substantial role with an average 5% growth since 2009 and ended with 5.17% in 2018, as shown in Figure 1.1.

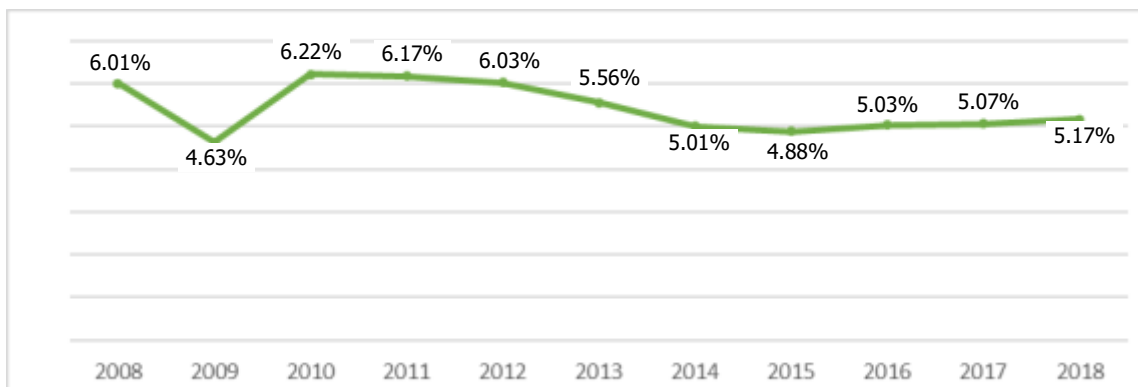


Figure 1. 1 : Indonesia GDP growth 2008 – 2018 (%)

Source : BPSIndonesia, 2021

The economic fluctuation continues to face difficulties over a previous couple of years, gross national product (GDP) growth declining for the second time in 2014 (from 6.03% in 2012 to 5.56% in 2013 and 5.01% in 2014). Many factors are causing economic development in a country, one of which is the tourism sector. Tourism is a potentially promising path for economic and people development in developing countries (UNCTAD, 2007). Tourism is one of the world's largest industries, as big as one-third of the total global service trade (Endo, 2006).

Looking at the growth of tourism in Southeast Asian (ASEAN) countries, from the 2008-2018 range in total Malaysia and Thailand became the countries that had the largest number of tourist visits. Tourist destinations in Thailand in 2018 managed to bring in 38.3 million foreign tourists. This number is the highest compared to nine other countries or equivalent to 28% of the total foreign tourist visits to ASEAN. In total, the number of tourist arrivals to countries in the Southeast Asia (ASEAN) region throughout 2018 reached 136.2 million visits (growing 8.34% from 2017).

In the midst of the trade war between the United States (US) and China, ASEAN countries are trying to gain foreign exchange from foreign tourists visiting tourist destinations in their respective countries. Meanwhile, Indonesia is in 4th place after Singapore. The Indonesian government targets the arrival of foreign tourists to increase every year because of the large tourism potential in Indonesia. In the January-June 2019 period, foreign tourist arrivals reached 7.83 million visits, growing 4.01% from the same period last year.

The tourism industry is one of the incredibly important sectors in economic development in Indonesia. The importance of the tourism industry for the economy was also conveyed by the Governor of Bank Indonesia (BI) Perry Warjiyo. There is an optimism that tourism should be the most significant foreign exchange producer, after oil palm. He emphasized that tourism plays a vital role in the Indonesian economy. Furthermore, BI Governor Perry Warjiyo outlined foreign exchange earnings of 16.1 billion USD in 2018 and 17.6 billion USD in 2019 (BankIndonesia, 2020). The tourism sector could be the second largest foreign exchange producer after palm oil.

So far, it can be said that state revenues from tourism have not maximized all tourism potential in Indonesia. Data from the Ministry of Tourism and Creative Economy recorded that the realization of investment in the tourism sector before the pandemic (in 2019) only reached US \$ 1.6 billion or 80.43 percent of the target proclaimed by the government that year, which was US \$ 2 billion (Kemenparekraf, 2021). So the contribution of state revenue through the tourism sector can certainly still grow every year.

Income from the tourism industry has an incredibly significant effect on government achievement regarding revenue. Tourism development in Indonesia is the main root of foreign income as well as job creation company growth. Revenue generated from foreign tourists exceeded 20.9971 million USD during 2018 or increased by 5% over the past year. An increase follows the growing number of international travellers in Indonesia in their average spending. Indonesia recognized 12.23 billion USD in foreign exchange earnings from the tourism industry in 2015 (BPSIndonesia, 2021).

It must be recognized that tourism's contribution to 2010-2018 had been dropping (Figure 1.2). On the other side, tourism income had a multiplier effect on other industries (BPSIndonesia, 2021). Total travel and tourism contributions are including revenue from hotels, airlines, airports, travel agents, numerous facilities that cope directly with visitors, investments in the tourism industry (such as new hotel buildings), public projects (such as tourism and travel marketing), and tourism supply chain (Kemenparekraf, 2021).



Figure 1. 2 : Tourism Contribution 2010-2018 to Indonesia GDP (Million USD)

Source : BPSIndonesia, 2021

Improving the contribution is one of the government’s efforts to boost economic growth and welfare; thus, tourism investment growth aligned with the favourable Indonesia economic growth since the beginning. Governments, particularly in developing countries, encourage tourism investment because of the assumption that it will contribute to the economic development in their countries (Hall, 1995; Reid, 2003). Nonetheless, the tourism industry agglomerates many different activities that come together in the production and consumption of tourism (UNCTAD, 2008).

Apart from the background above, to have an impact on the economy, tourism, like any other sector, requires enormous investment. Investment is needed to provide all supporting tourism infrastructure. Hence, investment in the tourism industry is exceptionally capital-intensive because of the high cost of supra structures (resorts, hotels, motels, restaurants, shopping centres, places of amusement, and guesthouses) and equipment (Snyman & Saayman, 2009). In other words, the development in the tourism industry requires investment in infrastructure, including transport, utilities, and telecommunications, while developing countries are having inadequacy of the necessary capital, technology, or knowledge. Therefore, investment is considered as a solution to fill their inadequacy.

Currently, Indonesia is trying to loosen its investment policies to attract foreign investment in the business and tourism sectors. The government commits to attract investors and preserves a business climate enhanced with opportunities for growth and

profit. The approach is implemented through cooperation between the two sides or more company operators based on equality, openness, and mutual benefit to reinforce connections between entrepreneurs in different company scales (KemenInvestasi/BKPM, 2019).

The exciting part is that the current data shows (Figure 1.3) that domestic investors are not too interested in investing in the tourism sector.



Figure 1.3 : Tourism Investment Based on Capital Investment (Million USD)

Source : KemenInvestasi/BKPM, 2019

As reflected in Figure 1.3, it reveals that revenue from foreign tourism investment is higher than domestic; it assumed that foreign income and investor has trust in tourism sectors significantly. Although in 2012, it encountered degradation from 768.2 million USD while domestic tourism investment increased to 100.1 million USD in 2013. Later after that year, foreign tourism investment had experienced a remarkable improvement and reached 991 million USD in 2017. Income contribution from domestic tourism investment achieved 869.5 million USD aggregately (yearly average 108.2 million USD between 2010-2017); therefore, both together reached 5728.4 million US dollars. Based on Figure 1.3, most investors still came from abroad. By amount, there is a huge gap compared with domestic tourism investment 991.9 million foreign investment, 120.3 million came from domestic investment.

Nevertheless, such an incredible amount will have an impact on the development of various things in the tourism sector. The investment brings a significant role and an

essential source of private capital and foreign currency which will push economic growth in developing countries (Te Velde and Morrissey, 2002; Peric and Maja, 2010). Nowadays, investment is considered as an instrument to integrate economy at a production level with the world economy by bringing a package of assets, including the capital, technology, managerial capacities and skills, and access to foreign markets (UNCTAD, 2006a).

The exciting part regarding tourism investment in North Sumatra, several things become a research focus. The first thing is about the potential and development of the tourism sector in North Sumatra. In 2016, the Indonesian Ministry of Tourism launched a program to increase its potential by introducing ten tourist destinations in Indonesia, one of which is in North Sumatra, the Lake Toba tourist destination.

North Sumatra currently is focusing on several leading tourist destinations such as Lake Toba and Samosir Island in Toba and Samosir Districts (Tobasa). Another example, Gunung Leuser National Park (TNGL) is a natural preservation area covering 1,094,692 hectares located in Aceh and North Sumatra province (namely Dairi, Karo, and Langkat district). Sipiso-Piso waterfall which is one of the highest waterfalls (with 120 metres height) located in Karo Regency, and Maimun Palace as one of the famous buildings in Medan. Another district such as Simalungun, its potential is also considerably massive because of the natural resources located in the region; there are Tanjung Onta and Lake Toba, Puncak Simajuranjung, Aek Nauli Protected Forest, and Tigaras which the first port in Sumatra with stunning natural scenery. Besides its natural resource potential and fascinating culture; Medan City, Karo, Simalungun, and Tobasa are some of the tourism development points in North Sumatra. In 2020, the Governor of North Sumatra will develop another potential tourist destination in three locations, one of which is in Karo District (Disbudpar-Sumut, 2019).

Second, with the extraordinary tourism potential: natural beauty, culture, great historical heritage, and other resources make North Sumatra's economy improving every year. One signal to discover the financial conditions in a district/locale in a given period is the Gross Regional Domestic Product (GRDP) information, both at current price and at constant price. BPS Indonesia (2021) defines Gross Regional Domestic Product based on market prices as the amount of gross value added arising from all