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The role of economic freedom in the development of international tourism in Asian countries

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Abstract

Purpose — This paper aims to investigate the influence of economic freedom and its components, namely business freedom and trade freedom, on international tourist arrivals in Asian countries. Additionally, it examines the effect of important macroeconomic factors, such as foreign direct investment, exchange rates, political stability, GDP per capita, and inflation on international tourist arrivals in Asian countries.

Methods — The GMM two-step estimation system is used to analyze data from 25 Asian countries from 1995 to 2020.

Findings — The results show that economic and trade freedom positively influence tourism, while business freedom has a less distinct impact. Inflation positively contributes to tourist arrivals. Exchange rates and political stability show inconclusive effects.

Implications — The study recommends that governments prioritize expanding economic freedom to boost international tourism.

Originality — This is the first study on the impact of economic freedom on developing international tourism in Asian countries.

Keyword — Economic freedom; business freedom; trade freedom; international tourism; Asian countries.

Introduction

Over the recent decades, the tourism industry has experienced robust development, propelled by the economic globalization process, and has played a significant role in contributing to the economic growth of numerous countries (Bulut et al., 2020; Das & Dirienzo, 2010). The tourism sector offers considerable benefits to many nations, including (i) increased foreign exchange earnings, (ii) poverty reduction, (iii) creation of employment and job opportunities, (iv) significant tax revenues for countries, and (v) development of physical infrastructure and human capital (Tang, 2018). The tourism industry has displayed more impressive growth rates than other key industries, such as manufacturing and financial services (Lee, 2015). International tourist arrivals surged from 278 million in 1980 to about 1.5 billion by 2019 (Demir & Gozgor, 2017; World Tourism Organization (UNWTO), 2020). However, due to the impact of the COVID-19 pandemic and related health policies, there was a severe decline in international tourist arrivals globally during 2020 and 2021, with a recovery commencing post-2022. According to statistics UNWTO (2024), international tourist arrivals globally recovered to approximately 30% in 2021, 66% in 2022, and 88% in 2023 (Figure 1), with tourism revenues 2023 estimated at 1.4 trillion USD. Interestingly, the Asia-Pacific tourism sector, which attracted 361 million international tourist arrivals,

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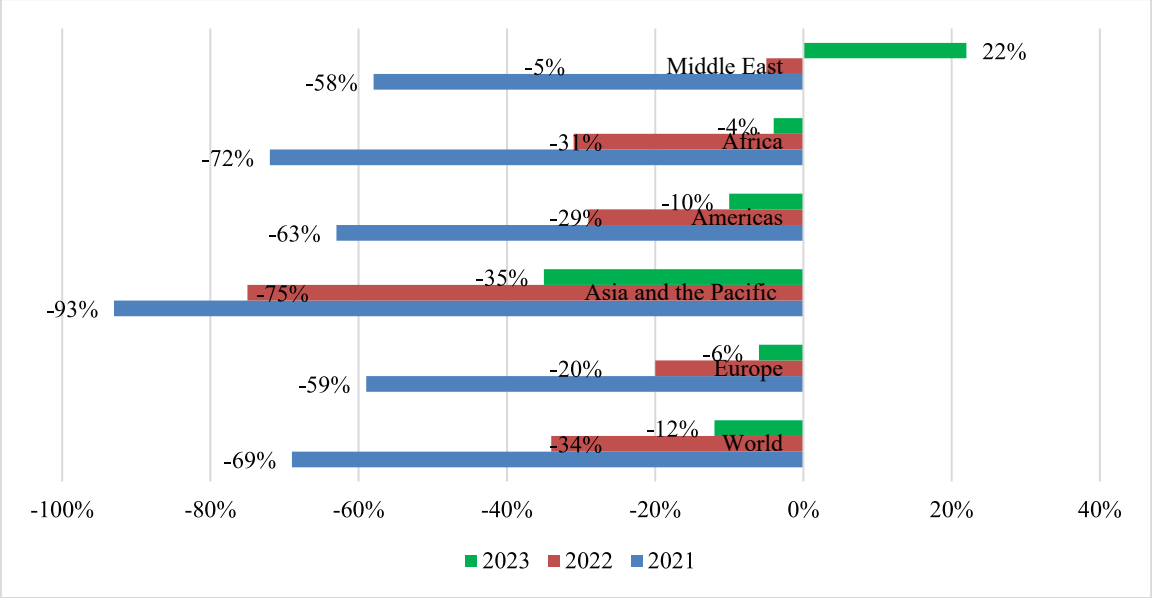
accounting for approximately 24% of the global total in 2019, experienced a slower recovery than other regions worldwide. According to the data, in 2021, the number of tourist arrivals recovered to only 7%; in 2022, it recovered to 25%; and by 2023, it reached 65% of the 2019 tourist numbers (Figure 1).



Source: UNWTO (2024).

Figure 1. International Tourist Arrivals (% change over 2019).

Meanwhile, recent years have seen high economic integration in Asia, contributing significantly to global economic growth. According to data Asian Development Bank (ADB) (2022), trade within the Asia-Pacific region peaked over the past 30 years, surpassing global trade growth rates, with 29.6% compared to 27.8% in the first three quarters of 2021. Notably, intra-regional trade among these countries accounted for 58.5% of the total trade in 2020, the highest since 1990. International Monetary Fund (IMF), (2023) reported that economic activity in Asia and the Pacific contributed nearly 70% to global growth in 2023. The driving forces behind this trade growth stem from economic liberalization. Key initiatives that enhance trade and international investment include the Regional Comprehensive Economic Partnership (RCEP), accounting for about 30% of the global GDP, and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), with most member countries from Asia, comprising about 15% of the worldwide GDP. This indicates that nations in the Asia region are increasingly economically liberalized (Park et al., 2021).

In this context, is there an impact of economic freedom on tourism in the Asian region? The scope of literature on tourism economics may not be complete if the tourism industry is not considered in the context of complete economic liberalization. However, no prior empirical studies have definitively illuminated this area.

Economic freedom, defined as the right of every individual to control their labor and property, is pivotal in a free economy where individuals are free to work, produce, consume, and invest as they choose. This freedom involves a governmental approach that minimizes interference in the marketplace, facilitating the free movement of labor, capital, and goods. Essential policies include protecting private property rights, promoting business freedom, and fostering open competition (Miller & Kim, 2013). Contributing to the theoretical framework on the impact of economic integration on tourism development Cardoso and Ferreira (2000) suggests that economic integration forces countries to become more interdependent, forging stronger connections and diminishing barriers such as physical, technical, and tax obstacles to cross-border trade. Consequently, economic freedom has a clear impact on tourism. Altinay et al. (2002) argue that economic freedom makes promoting tourism more effective. Additionally, economic integration

offers a broader potential market for the tourism industry of these countries. Simultaneously, these nations can easily leverage their competitive advantages from available strengths to dominate tourism development. Debates by Stabler et al. (2009), McGrew (2020), Song et al. (2018) and Tribe (2015) also assert that economic liberalization promotes the flow of capital, trade, and human movement. These three factors have a profound impact on the tourism sector. Furthermore, Gholipour et al. (2014) and Bulut et al. (2020) suggests that if individual freedoms are restricted in a country, people tend to value it more, leading to a higher demand for personal freedom. Consequently, they seek to realize their freedom in other countries through travel. This results in more economically liberal countries attracting more international tourists. Additionally, tourists accustomed to living in a free environment tend to vacation in countries with similar levels of freedom.

Despite this, some recent empirical studies investigating the relationship between economic freedom and tourism have shown inconsistent results. Saha et al. (2017) evaluated the role of economic freedom in the tourism development of 110 countries between 1995 and 2012, revealing that a lack of economic freedom could negatively impact tourist experiences. Economic freedom drives a competitive environment for businesses to offer better services and respect customers. Additionally, an economically free environment provides a stable legal and monetary system, efficient labor and product markets, and opens opportunities for trade and investment, thereby attracting more tourists. The authors conclude that countries with strong economic freedom, in one way or another, are better at attracting tourists than those without. Satrovic (2019) assessed the relationship between economic freedom, economic growth, and tourism for 100 countries from 2002 to 2015 using estimation models via the Generalized Method of Moments (GMM). This study found that economic freedom has a significantly positive impact on tourism. Furthermore, the authors suggest that governments should implement necessary changes to enhance economic freedom, which is a crucial factor in attracting international tourists.

Jiang (2022) used dynamic panel data estimation techniques to assess economic freedom's short-term and long-term impacts on global tourism, focusing on the least developed countries. Jiang (2022) examined economic freedom in three aspects: property rights enforcement, regulatory efficiency, and market openness. The study covered 154 countries from 2002 to 2019, finding that economic freedom's impact on tourism varies. In less developed countries, tourism responds more quickly to improvements in regulatory efficiency. Specifically, more efficient labor markets and stable local prices attract more domestic tourists. Conversely, in developed countries, tourism responds faster to improvements in property rights enforcement. Coban (2021) found a statistically significant and positive relationship between economic freedom and tourism competitiveness, showing that increased economic freedom significantly boosts tourist attraction. The study surveyed 18 Latin American countries from 2007 to 2019. Similarly, other studies support a positive correlation between economic freedom and tourism development. Lu et al. (2021) used economic freedom as a control variable in their model assessing the impact of preferences under uncertainty on tourism development, finding that economic freedom contributes to the industry's growth through increased revenue. Contrasting these viewpoints Aslan et al. (2020) showed that economic freedom does not always benefit tourism attraction. Their study included 17 Mediterranean countries from 1996 to 2016, revealing that the increased economic freedom index negatively affected tourist entries. Aslan et al. (2020) concluded that the role of economic freedom in promoting tourism development requires government policy support; without it, economic freedom could negatively impact tourism development. Kubickova (2016) investigated how government intervention in the economy affects the development of the tourism industry in seven Central American countries from 1995 to 2007. The study found an inverse relationship between economic freedom and tourism competitiveness, though this relationship was not statistically clear.

Thus, it is evident that the impact of economic freedom on tourism development varies and is not consistent. Previous studies have covered a wide range of countries globally or in different regions, but none specifically in Asia. Therefore, this study aims to add empirical evidence on the impact of economic freedom on tourism development in Asian countries, hoping the findings will provide valuable information for policymakers and stakeholders in these countries.

In addition to the crucial factor of economic freedom, the authors also assess the impact of foreign direct investment, exchange rate policy, the stability of the political system, per capita income (GDP per capita), and inflation on tourism development. Foreign direct investment (FDI) has been a focus in studies exploring factors influencing tourism development. The eclectic theory of international production by Dunning (2003) suggests that FDI often stimulates infrastructure development and is linked with growth in supply chains and global marketing, thus promoting tourism in recipient countries. Adeola et al. (2020) also consider FDI vital for tourism development due to infrastructure improvement. Numerous studies support a positive relationship between FDI and tourist numbers (Adeola et al., 2020; Fauzel, 2020; Osinubi et al., 2022; Sheng Yin & Hussain, 2021). However, Brohman (1996) highlights FDI's downside in exacerbating income inequality and poverty, potentially deterring international tourists. Other studies also find negative impacts of FDI on tourism development (Clancy, 1999; Oppermann, 1993).

Exchange rates are also commonly used as variables in research models that assess factors influencing tourism. As the exchange rate reflects the strength of one currency against another, its fluctuations affect the purchasing power for goods and services, impacting tourism development (Ming Cheng et al., 2013; Sharma et al., 2022). Most studies support a positive correlation between exchange rates and tourist numbers, as tourists feel more satisfied and willing to spend when their currency has more purchasing power due to the depreciation of the local currency (Adeola et al., 2020; Chang & Mcaleer, 2012; De Vita & Kyaw, 2013; Hwandee & Phumchusri, 2020; Karimi et al., 2015; Karimi et al., 2019; Martins et al., 2017; Meo et al., 2018; Munir & Iftikhar, 2021; Pokharel et al., 2018; Saha et al., 2017; Sharma & Pal, 2020; Yang et al., 2022; Zhang et al., 2009). Tourists pay more attention to exchange rates than inflation or prices in their destination country Cheng (2012). However, studies Tang et al. (2016) suggest that exchange rate volatility does not play a role in tourism development. Athari et al. (2021) found that a decreasing exchange rate (local currency appreciation) drives an increase in tourist numbers in 76 countries between 1985–2018. Agiomirgianakis et al. (2015) discovered an inverse relationship between exchange rate volatility and tourist numbers in the UK and Sweden from 1990 -2012, advising against using exchange rate adjustments to attract tourists. Similarly, Surugiu et al. (2011) found an inverse relationship between exchange rates and international tourist numbers in Romania from 1997 - 2008.

Additionally, international tourists are concerned with the political stability of the countries they wish to visit. Most studies agree that political stability in a country enhances and increases tourist numbers. Tourists feel safer and more protected in a secure, non-violent country with a strong government (Saha et al., 2017), and political institution stability plays a crucial role in increasing tourist numbers (Naudé & Saayman, 2005). This positive relationship is supported by other studies (Adeola et al., 2020; Altaf, 2021; Habibi, 2017; Naudé & Saayman, 2005; Saha et al., 2017).

Per capita income is also a factor in tourism development. Most previous research indicates a positive correlation between per capita income and tourism development. Countries with increasing per capita income usually represent a better quality of life, developed infrastructure, and superior tourism services, important in tourists' destination decisions (Saha et al., 2017). This argument is supported by many studies (Agiomirgianakis et al., 2015; Altaf, 2021; Hwandee & Phumchusri, 2020; Martins et al., 2017; Muryani et al., 2020; Puah et al., 2019; Saha et al., 2017; Sharma et al., 2022; Yang et al., 2022). However, a few studies like Fauzel (2020) indicate an inverse relationship between GDP per capita and tourism development.

Lastly, the inflation rate of the destination country is also a factor of concern for international tourists. Research on the relationship between inflation and tourism development is inconsistent. High inflation in some countries often indicates a weaker local currency compared to foreign currencies (Dritsakis, 2004; Lim et al., 2008; Nicolau, 2008), allowing international tourists to buy more goods and services. However, Hanafiah and Harun (2010) and Fauzel (2020) argue that even if high inflation increases costs, as long as it remains lower than the tourists' countries of origin, it can still attract international tourists. Some studies support a positive relationship between inflation and tourist numbers (Fauzel, 2020; Muryani et al., 2020; Puah et al., 2019). On the contrary, Gounopoulos et al. (2012) argue that high inflation can pose potential risks to tourists, reducing tourist numbers. Meo et al. (2018) suggest that high inflation leads to increased living and

tourism costs, reducing both domestic and international tourist flows. Athari et al. (2021) found an inverse relationship between inflation and tourism arrivals, as did Barman and Nath (2019) for international tourist numbers in India.

Methods

Data Sources

In this study, the authors collected data for 25 Asian countries from 1995 to 2020. The countries in the sample include Armenia, Bangladesh, China, Cyprus, Georgia, India, Indonesia, Israel, Japan, Jordan, Kazakhstan, Kuwait, Lebanon, Malaysia, Oman, Pakistan, Palestine, Philippines, Qatar, Saudi Arabia, Singapore, Thailand, Turkey, United Arab Emirates, and Vietnam. Data on the economic freedom index, business freedom, and trade freedom were gathered from The Heritage Foundation. Data for all other variables in the model were collected from the World Bank.

The Model

Based on ideas from several studies, including Yang et al. (2022), Athari et al. (2021), Adeola et al. (2020), Nepal et al. (2019) and Saha et al. (2017), the research team proposes a model to investigate the impact of economic freedom and several key macroeconomic factors on tourist arrivals in Asian countries as follows:

$$lnNOA_{it} = \alpha_0 + \alpha_1 \ln\text{NOA}_{it-1} + \alpha_2 \ln\text{ECOF}_{it} + \alpha_3 \ln\text{FDI}_{it} + \alpha_4 \ln\text{EXG}_{it} + \alpha_5 \ln\text{PS}_{it} + \alpha_6 \ln\text{GDPCG}_{it} + \alpha_7 \ln\text{INF}_{it} + \varepsilon_{it} \quad (1)$$

$$lnNOA_{it} = \beta_0 + \beta_1 \ln\text{NOA}_{it-1} + \beta_2 \ln\text{BUSF}_{it} + \beta_3 \ln\text{FDI}_{it} + \beta_4 \ln\text{EXG}_{it} + \beta_5 \ln\text{PS}_{it} + \beta_6 \ln\text{GDPCG}_{it} + \beta_7 \ln\text{INF}_{it} + \varepsilon_{it} \quad (2)$$

$$lnNOA_{it} = \gamma_0 + \gamma_1 \ln\text{NOA}_{it-1} + \gamma_2 \ln\text{TRAF}_{it} + \gamma_3 \ln\text{FDI}_{it} + \gamma_4 \ln\text{EXG}_{it} + \gamma_5 \ln\text{PS}_{it} + \gamma_6 \ln\text{GDPCG}_{it} + \gamma_7 \ln\text{INF}_{it} + \varepsilon_{it} \quad (3)$$

Table 1 presents more details on the definitions of these variables, their measurement methods, the basis of reference from previous studies, and data collection sources.

Table 1. Definitions, symbol and data collection sources

Variables	Definition	Symbol	Unit	Source	Reference
Dependent variable					
International tourist arrivals	International tourism, number of arrivals	NOA	Ln	World Bank	Saha et al. (2017); Payne et al. (2023); Osinubi et al. (2022)
Independent variables					
Economic freedom	Economic freedom as the right to control one's labor and property, measured across twelve factors grouped into four categories: Rule of Law, Government Size, Regulatory Efficiency, and Open Markets, with scored from 0 to 100.	ECOF	Ln	The Heritage Foundation	Saha et al. (2017)
Business freedom	The ease of starting, operating, and closing a business, scoring each country, with scores from 0 to 100	BUSF	Ln	The Heritage Foundation	Jiang (2021)
Trade freedom	The absence of tariff and non-tariff barriers that affect imports and exports, with scores from 0 to 100	TRAF	Ln	The Heritage Foundation	Jiang (2021)
Foreign direct investment	Foreign direct investment, net inflows (BoP, current US$)	FDI	Ln	World Bank	Adeola et al. (2020); Fauzel (2020); Osinubi et al. (2022)

Variables	Definition	Symbol	Unit	Source	Reference
Exchange rate	Official exchange rate (LCU per US$, period average)	EXG	Ln	World Bank	Saha et al. (2017); Yang et al. (2022); Adeola et al. (2020)
Political Stability	Political Stability and Absence of Violence or Terrorism, Percentile Rank	PS	Ln	World Bank	Altaf (2021); Adeola et al. (2020); Saha et al. (2017)
GDP per capita growth	GDP per capita growth (annual %)	GDPCG	Ln	World Bank	Altaf (2021); Saha et al. (2017); Yang et al. (2022)
Inflation rate	Inflation, consumer prices (annual %)	INF	Ln	World Bank	Fauzel (2020)

Source: The authors compiled.

The Methodology Estimation

Saha et al. (2017) and Nepal et al. (2019) identified endogeneity issues with GDP per capita. High GDP per capita impacts the number of tourists, and conversely, a large number of tourists contributes to improving GDP per capita. Additionally, Adeola et al. (2020) also suggest a bidirectional relationship between FDI and tourism development. FDI can promote a greater number of tourist arrivals in the countries where they invest. Conversely, international tourism allows potential investors to gather direct information about the investment environment and opportunities in the countries they visit. Furthermore, the authors use a lagged dependent variable as an explanatory variable in the research model. Therefore, the bidirectional interaction between the explanatory and dependent variables will cause biases in the research results due to endogeneity. This paper uses the Generalized Method of Moments (GMM) to address endogeneity for model estimation (Arellano & Bond, 1991; Arellano & Bover, 1995; Roodman, 2009). Specifically, the system GMM two-step method is used in this study due to the long sample period from 1995 to 2020, while the number of observations is relatively small due to a lack of data in some countries. Instrumental variables include lagged values of the dependent variables, FDI, and GDP per capita. The remaining variables act as exogenous in the model. Additionally, the system GMM two-step method has also been used in previous studies (Athari et al., 2021).

Results and Discussion

Table 2 presents descriptive statistics about the study sample. All variables in the research model have been transformed using the natural logarithm. The research data is panel data and unbalanced as some observations are incomplete according to World Bank statistics. The statistics indicate that the sample data is normal, with no significant anomalies, and the differences between the mean and median are not too large. Therefore, the study sample follows a normal distribution and is suitable for model estimation.

Table 2. Descriptive statistics of variables

Variable	Obs	Mean	S.D.	Min	Median	Max
NOA	533	15.1	1.55	9.39	15.21	18.91
ECOF	489	4.15	0.15	3.65	4.17	4.49
BUSF	489	4.20	0.21	3.57	4.24	4.61
TRAF	488	4.28	0.27	2.58	4.36	4.55
FDI	592	0.82	1.48	-7.20	1.04	5.63
EXG	598	2.97	3.01	-1.31	1.98	10.05
PS	528	3.37	0.95	-0.75	3.52	4.6
GDPCG	469	1.23	0.87	-2.42	1.41	2.73
INF	528	1.25	1.15	-4.09	1.34	5.17

Table 3 presents the correlation matrix between the independent variables in the research model. All pairs of coefficients have values less than 0.8 (except for the BUSF and ECOF pair),

ensuring no severe multicollinearity in the research model (Gujarati & Porter, 2009). In the case of BUSF and ECOF, since BUSF is a sub-component of ECOF, it has a high correlation coefficient. The approach taken is that in the regression models, ECOF and its sub-components are not included simultaneously to avoid severe multicollinearity affecting the research results.

Table 3. Correlation matrix of variables

	NOA	ECOF	BUSF	TRAF	FDI	EXG	PS	GDPCG	INF
NOA	1.000								
ECOF	0.066	1.000							
BUSF	0.010	0.819	1.000						
TRAF	-0.028	0.539	0.410	1.000					
FDI	0.085	0.087	0.017	0.069	1.000				
EXG	-0.146	-0.505	-0.435	-0.173	-0.032	1.000			
PS	0.272	0.436	0.424	0.183	0.159	-0.332	1.000		
GDPCG	-0.045	-0.309	-0.316	-0.135	0.227	0.181	-0.039	1	
INF	-0.305	-0.418	-0.332	-0.148	-0.058	0.324	-0.369	0.1409	1

Table 4 presents the research results on the impact of economic freedom and several important macroeconomic factors on international tourist arrivals. Models (1), (2), and (3) correspond to the variables representing economic freedom as economic freedom (ECOF), business freedom (BUSF), and trade freedom (TRAF), respectively.

Table 4. Impact of Economic Freedom and Macroeconomic factors on international tourist arrivals

Variables	Model (1)		Model (2)		Model (3)	
	Coef.	P value	Coef.	P value	Coef.	P value
NOA (lag 1)	0.917***	0.000	0.914***	0.000	0.921***	0.000
ECOF	0.294*	0.076				
BUSF			0.224	0.120		
TRAF					0.069*	0.054
FDI	-0.071**	0.020	-0.071**	0.020	-0.076**	0.011
EXG	0.003	0.604	0.003	0.689	-0.003	0.458
PS	0.012	0.672	0.004	0.905	0.031	0.287
GDPCG	0.069***	0.010	0.071	0.008*	0.070***	0.008
INF	0.022*	0.086	0.022	0.107	0.017*	0.062
Sample period:	1995 - 2020		1995 - 2020		1995 - 2020	
Observations:	226		226		226	
Hansen test (2nd step; p-value)	0.511		0.457		0.630	
AB test AR(1) p value	0.018		0.019		0.017	
AB test AR(2) p value	0.182		0.113		0.127	

Note: Models 1, 2, and 3 correspond to variables representing economic freedom as the economic freedom index (ECOF), business freedom (BUSF), and trade freedom (TRAF), respectively. The models are regressed using the system GMM two-step method; *, **, and *** represent statistical significance levels of 10%, 5%, and 1%, respectively.

The regression results in Table 4 show statistical evidence of a positive impact of economic freedom on the growth of international tourist arrivals. The regression coefficients of ECOF and TRAF in models (1) and (3) are statistically significant at the 10% level, and the regression coefficient of BUSF in model (2), although not statistically significant, is positive. These results imply that economic, trade, and business freedom contribute to increasing international tourist arrivals. This indicates that active participation in multilateral and bilateral trade agreements is beneficial, and the removal of trade barriers (trade freedom) and ease of establishing and operating new businesses (business freedom) promote economic development and greatly benefit the growth

of the tourism industry. From the results of our study, we support the previous arguments that extensive economic freedom contributes to stronger connections between countries (Cardoso & Ferreira, 2000), facilitates more effective tourism promotion by nations, and allows them to leverage competitive advantages to exploit a broad potential market better (Altinay et al., 2002). Countries with economic freedom can positively impact tourist experiences, fostering a competitive environment for better service provision (Saha et al., 2017). Thus, core economic freedoms (including trade and business freedom) are essential pillars in developing countries' tourism (McGrew, 2020; Song et al., 2018; Tribe, 2015). These findings are consistent with previous studies, supporting the positive relationship between economic freedom and tourism development (Coban, 2021; Jiang, 2022; Lu et al., 2021; Saha et al., 2017; Satrovic, 2019). In summary, based on these results, governments may consider relaxing economic freedom issues to contribute to the development of international tourism, which is also a channel for attracting foreign currency.

Unlike economic freedom, foreign direct investment negatively impacts the increase in international tourist arrivals, indicated by the negative and statistically significant regression coefficients in all models in Table 4. This suggests that (i) the positive aspects of FDI as theorized by the eclectic theory of international production proposed by Dunning (2003), such as creating a foundation for good infrastructure development and integration in supply chains and international marketing, are not sufficiently convincing, while (ii) the negative aspects of attracting FDI, such as income inequality and poverty that make it less attractive to international tourists (Brohman, 1996) are relatively straightforward. These findings contrast with most previous studies but are similar to Oppermann (1993) and Clancy (1999).

The exchange rate (EXG) does not show significant evidence of impact on international tourist arrivals. This result aligns with Athari et al. (2021) and Tang et al. (2016). Similarly, the factor of political stability (PS) also does not show clear evidence of impact on international tourist arrivals. However, the positive regression coefficients of PS in all models suggest a positive effect of a good political environment on attracting foreign tourists. In other words, tourists feel safer and more protected in countries with high political stability (Saha et al., 2017). This result is somewhat similar to findings from previous studies (Adeola et al., 2020; Altaf, 2021; Habibi, 2017; Naudé & Saayman, 2005; Saha et al., 2017).

GDP per capita growth (GDPCG) shows a positive relationship with international tourist arrivals and is statistically significant. This implies that increased per capita income typically represents a country with a better quality of life, developed infrastructure, and improved tourism services, thereby attracting more tourists (Saha et al., 2017). The findings of this research are consistent with several previous studies (Agiomirgianakis et al., 2015; Altaf, 2021; Gupta & Solanky, 2022; Hwandee & Phumchusri, 2020; Martins et al., 2017; Muryani et al., 2020; Puah et al., 2019; Saha et al., 2017; Yang et al., 2022).

Finally, the inflation rate (INF), shows evidence of a positive relationship with international tourist arrivals and is statistically significant in models (1) and (3) in Table 4. This indicates that inflation is not always a negative factor for the economy. From the perspective of the tourism industry, inflation encourages more international tourists to visit and contributes to foreign currency earnings for the country. This result implies that inflation can create advantages for foreign tourists when their currency becomes more valuable in a high-inflation country (Dritsakis, 2004; Lim et al., 2008; Nicolau, 2008), stimulating greater spending on tourism services. Additionally, in correlation, when inflation in the countries tourists visit is lower than in their home countries, the decision to spend on tourism remains appropriate (Fauzel, 2020; Hanafiah & Harun, 2010). These findings are consistent with some previous studies (Fauzel, 2020; Muryani et al., 2020; Puah et al., 2019).

Conclusion and policy implications

This study investigates the role of economic freedom and its components, including business and trade freedom, in attracting international tourist arrivals in Asian countries. It also examines significant macroeconomic factors within its model, such as foreign direct investment, exchange rates, political stability, GDP per capita, and inflation. The data sample encompasses 25 Asian

countries from 1995 to 2020. The authors employ the system GMM two-step estimation method to regress the research models. The results indicate that economic and trade freedom clearly and positively impact international tourist arrivals. However, while business freedom positively influences international tourist arrivals, its impact is not as distinct. Foreign direct investment is found to affect international tourism development negatively. GDP per capita and inflation positively increase international tourist arrivals, whereas the impacts of exchange rate and political stability are not yet distinct. Based on these findings, the authors suggest that national governments should pay more attention to the role of expanding economic freedom in their strategies for developing international tourism. Furthermore, governments should also reassess the role of foreign direct investment in developing international tourism.

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