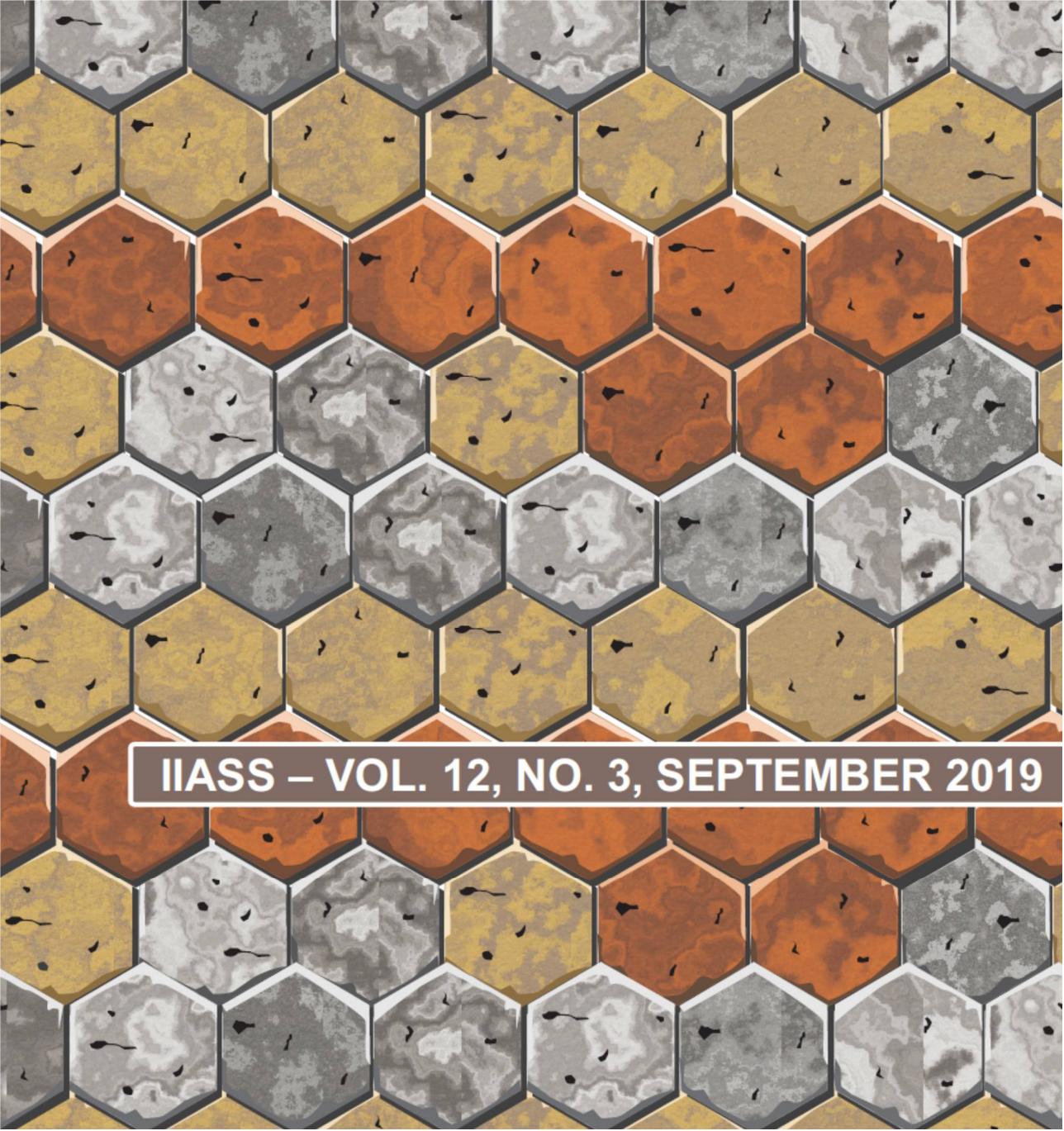


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MACRO-ENVIRONMENT ANALYSIS OF THE TOURISM INDUSTRY IN INDONESIA: FINDINGS FROM THE PEST ANALYSIS

Rosdiana Sijabat¹

Abstract

This paper examines the macro environment of the Indonesian tourism sector using methods and frameworks based on PEST analysis (Political, Economic, Social, and Technological). The results of this analysis offers insights of the current state of the tourism sector in Indonesia. From political factors, findings demonstrate that various policies have been carried out by the Indonesian government in encouraging the growth of the tourism sector. For example, by setting rules on the ease of investment in the tourism sector, and the ease of obtaining entry permits through visa exemptions for foreign tourists for several countries. The role of the tourism sector in the economy can be seen from the increasing contribution of the tourism sector to Indonesia's GDP and also employment. While from the social aspect it was found that the shift in domestic consumption patterns from goods based consumption to leisure based consumption also led to increased consumption in the tourism sector. Technological developments complement the advancement of the tourism sector because the existence of technology facilitates and accelerates transactions in the tourism sector in Indonesia.

Keywords: Tourism, PEST Analysis, Macro Environment Factors.

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Introduction

The tourism sector has become a rapidly developing industry that contributes significantly to national economies (Nene & Taivan, 2017; Soggi, et al. 2016). According to World Travel & Tourism Council (2019), the tourism sector has seen exponential growth over the past decade, even exceeding global economic growth. Globally, the tourism sector has created jobs, driven exports, and had numerous other economic benefits. In Indonesia, the tourism sector has enjoyed relatively stable growth over the past decade and become a major driver of the Indonesian economy. According to the World Travel & Tourism Council, Indonesia's tourism industry is the twentieth largest in the world, smaller than those of Australia, Thailand, and the Philippines, but larger than average for Southeast Asia. Indonesia's tourism sector is expected to continue to grow, with the direct and indirect expenditures involved reaching US\$141.3 billion per annum by 2027 (World Travel & Tourism Council, 2017:8). According to the World Travel & Tourism Council (2019), the tourism sector contributes approximately 10.4% of the global gross domestic product (GDP) and provides some 319 million jobs (10% of all jobs in 2018). Given this global significance, the tourism industry is a very important one to be studied and developed.

The tourism sector is likewise important in Indonesia, a situation supported by Indonesia's natural environment. The country consists of some 17,000 islands, with each island having its own unique beauty and tourism potential. The natural beauty of Indonesia is complemented by a wealth of local cultures. As such, Indonesia is highly attractive to tourists, particularly foreign ones. The tourism sector is the second largest contributor to Indonesia's foreign exchange.

Recognising the importance of the tourism sector, the Indonesian government has created numerous policies and programs to increase foreign exchange. Take, for example, the "Wonderful Indonesia" tourism campaign of 2016, through which the Indonesian government was able to increase its tourism revenue (which contributed some 25% of Indonesia's foreign exchange). Recognising the importance of the tourism sector for Indonesia's economy, this study seeks to comprehensively evaluate the sector's contributions. This article is intended to examine the macro environment of the Indonesian tourism industry and answer the following question: how have political, economic, social, and technological factors influenced Indonesia's tourism sector?

Tourism is a social, cultural, and economic phenomenon that involves the travel of persons to a place or country other than their usual one for

business/professional or personal needs (UNWTO, n.d.). According to Pearce (1995), tourism is a phenomenon involving one's travel and temporary stay in an area, while tourists are persons who undertake such trips primarily for recreation; the author distinguishes between tourists and persons who travel for business, health, or education, and as such argues that it is necessary to recognise tourism as existing at the end of a broad spectrum of recreation. According to the definition offered by Goeldner and Ritchie (2011), tourism refers to the processes, activities, and products that result from the connections and interactions between tourists, the tourism industry, local governments, local communities, and the environment (Goeldner & Ritchie, 2011). Another definition of tourism emphasises that tourism is a journey away from home for recreational purposes. Such a definition, which underscores the importance of recreation as tourism's main activity, is used by Cooper et al. (2008:343), who understand tourism as activities outside one's routine work and social commitments, as well as travel and transportation to one's destination, activities at the destination, and the facilities provided to fulfil tourists' needs. A similar definition is provided by Shaw and Williams (2012), who argue that tourism has different meanings for different classes of consumers, and may be intended to fulfil personal desires or provide spiritual refreshment.

The link between tourism and politics has been examined by several studies. Ingram, Taberi, and Watthanakhomprathip (2013) have examined the effect of Thailand's political instability on its tourism sector and found that said instability had a negative effect on the tourism sector. However, because of Thailand's attractiveness to tourists, the deleterious effects of political instability did not last long. Although some tourist attractions in Thailand were disturbed by protests and political demonstrations, such disturbances were short-term, while the attractions themselves had been renowned for years. Numerous studies, similarly, have examined the close connection between the economy and the tourism sector. For example, Petrevska (2013) found that the tourism sector is influenced by various domestic and global variables. For example, in Macedonia, Petrevska found that the global economic crisis had a deleterious effect on the Macedonian tourism sector, and this in turn negatively affected the GDP, creation of jobs, and Macedonian economy in general. Owing to the global financial crisis, international and domestic tourists reduced their travels.

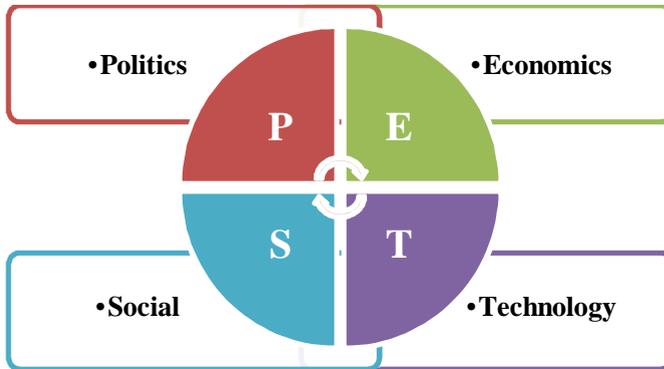
Similarly, the tourism sector has a significant effect on social change within a country. Zhuang, Yao and Li (2019), in their study of China's tourism industry, found that it was one of the most vital sectors of the economy and a major driver of local communities (including in such

villages as Zili, Majianglong, and Jinjiangli). The tourism sector has significantly informed the sociocultural transformations in these areas, providing an external force that could influence the traditional values and lifestyles of these communities. In recent years, the tourism sector has been significantly influenced by technological developments (Atembe, 2015; Sastry & Sushil, 2018; Januszewska, Jaremen & Nawrocka, 2015). For example, Januszewska, Jaremen, and Nawrocka (2015) found that the use of information and communication technology can increase the quality of service at hotels and travel agencies, using Lower Silesia—a popular tourist destination in Poland—as their case study.

Research has also shown that the tourism sector has an important role in state development, and that the development of the tourism sector is influenced by numerous factors (Nene & Taivan, 2017; Meyer, Bruyn, & Meyer, 2017; Munien, Phungula, & Bob, 2018). The development of the tourism sector may be analysed using a macro environment perspective to understand other sectors' roles in its development. Such a macro environment analysis can be conducted using a PEST (Politics, Economy, Society, and Technology) approach. Such a PEST analysis eases the understanding of important environmental factors (Sammut-Bonnici & Galea, 2014). PEST is a strategic management approach that can be used to ascertain how environmental factors—political, economic, social, and technological—influence the performance of a company, business, or industry (Stoyanova & Harizanova, 2017).

A PEST analysis considers political, economic, social, and technological factors. Political factors are those related to government activities as well as legal situations that influence the macro environment of the tourism industry. In the case of Indonesia, these factors include government policies that influence the industry's development. Economic factors, meanwhile, are trends in relevant economic indicators, including GDP, investment climate, inflation rate, currency stability, supply and demand, and labour absorption. Social factors include such social demographic conditions as population, age profile, employment patterns, education, religious values, communication facilities, language, customs, and behavioural norms. Finally, technological factors involve the availability and level of technology, absorption of new technologies, and infrastructure that may affect the tourism industry. PEST analysis may be used to analyse policy shifts and decisions that have the potential to shape the development of the analysed tourism industry. It can thus show how political, economic, social, and technological factors influence the Indonesian tourism industry, as below.

Figure 1. PEST Analysis Framework



Method

This article was written using data from various secondary sources, including the tourism sector's contribution to GDP, number of foreign tourists, labour absorption rate, investment in the tourism sector, and involvement of tourism in Indonesian trade. Analysis of relevant political, economic, social, and technological factors was conducted using a descriptive approach. According to Babbie (2010:4), descriptive analysis is intended to answer the questions "what", "where", "when", and "how"; as such, it is explanatory. Such research is conducted to "present a picture or story" of the topic being investigated (Zikmund & Babin, 2013). In this study, a descriptive analysis of the Indonesian tourism sector will be conducted by analysing political, economic, social, and technological factors that are relevant to the industry (Shtal, et al. 2018; Stoyanova & Harizanova, 2017).

Result and Discussion

Political Factors

One political factor that has driven the development of the tourism sector in Indonesia is the government's commitment to its development through various policies. The Indonesian government has implemented several policies to promote the development of the tourism industry. This includes, for example, the passage of Presidential Regulation No. 21 of 2016 regarding Visa-Free Visits, a replacement for Presidential Regulation No. 69 of 2015 regarding Visa-Free Visits which is intended to increase the number of foreign tourists in Indonesia. Through this regulation, the government has allowed nationals of 169 countries to

enter Indonesia without a visa. Another policy is the development of ten priority tourism destinations (DPP) and national strategic territories (KSPN) through Presidential Regulation No. 3 of 2016. These ten priority destinations were Lake Toba, Kelayang Cape, Lesung Cape, the Thousand Islands, Borobudur Temple Tourist Park, Bromo–Tengger–Semeru National Park, Mandalika, Labuan Bajo, Morotai Island, and Wakatobi National Park. Meanwhile, according to the Presidential Regulation, the ten KSPN are Kelayang Cape (Bangka Belitung), Borobudur Temple (Central Java), Morotai (North Maluku), Komodo Island–Labuan Bajo (East Nusa Tenggara), Wakatobi National Park (Southeast Sulawesi), Thousand Islands (Jakarta Capital Region), Lake Toba (North Sumatra), Bromo–Tengger–Semeru (East Java), Mandalika Lombok (West Nusa Tenggara), and Lesung Cape (Banten).

To accelerate the development of the tourism sector, the Indonesian Government, Bank Indonesia, and the Financial Services Authority have worked to promote institutional coordination and policy synergy. Nine policy strategies have been made priorities by these institutions, namely (Bank Indonesia, 2018):

1. Increasing the performance of the tourism industry by increasing attraction accessibility and diversity as well as amenity quality, while also strengthening promotion efforts and improving the capacity of tourism sector actors. This is intended to increase the number of foreign tourists and thereby increase foreign exchange revenues from priority tourism destinations such as Lake Toba, Borobudur–Joglosemar (Jogjakarta–Solo–Semarang), Mandalika, Labuan Bajo, Bali, Jakarta, Banyuwangi, Bromo, and Riau Islands.
2. Improving tourism data and information by determining a specific nomenclature for classifying the specific types of businesses involved in tourism for use in policy formulation. Foreign tourists are surveyed to ascertain their travel tendencies, expenses, and feedback regarding tourism destinations.
3. Increasing funding to support businesses in the tourism sector by providing credit through People's Business Credit (*Kredit Usaha Rakyat*, KUR).
4. Intensifying the application of digital payment and economic systems at all tourism destinations, with Bali becoming the programme champion at the 2018 IMF–World Bank Annual Meeting.
5. Increasing synergy between the central government, regional governments, and Bank Indonesia in promoting tourism.
6. Improving land and air access to tourism destinations by:

- a. Accelerating the development of *Blimbingsari* Airport, Banyuwangi, as an international airport.
 - b. Increasing the passenger capacity and navigation facilities to increase the frequency of air travel, including in Silangit Airport.
 - c. Accelerating the development of the New Yogyakarta International Airport (NYIA) and building a rail transport system from NYIA to Yogyakarta City.
7. Developing attractions that are integrated with tourism destinations, including Borobudur–Joglosemar and Bali–Banyuwangi tourist packages.
 8. Improving the amenities at tourism destinations by:
 - a. Accelerating the completion of the Kampung Ujung area of Labuan Bajo.
 - b. Accelerating the land certification process for developing infrastructure around Lake Toba.
 - c. Improving garbage and waste management, as well as providing clean water at tourism attractions.
 9. Improving the quality of human resources and tourism activities by providing vocational training to tourism sector workers.

Several further policies have also provided a political basis for developing the tourism sector in Indonesia. The Indonesian government has shown political and institutional commitment to developing the tourism industry. It has created policies for promoting the growth of the tourism sector, emphasised the need to develop local enterprises, and prioritised the certification of local human resources (LPEM FEUI, 2018). The government's commitment to accelerating the growth of the tourism sector can be seen in the National Medium-Term Development plan for 2020–2024:

Table 1: Strategic Goals of the Tourism Sector, 2020–2024

Strategic Goal	Targets
1	<ul style="list-style-type: none"> • Increasing the number of foreign tourists from 20 million (2019) to 30 million (2024). • Increasing foreign exchange revenue to USD 40 million. • Optimising the tourism potential of the archipelago.
2	<ul style="list-style-type: none"> • Developing ten priority tourism destinations of international quality and realising the principles of sustainable development. • Creating an international-standard management organisation and using the brand "Wonderful Indonesia". • Improving the quality of tourism infrastructure as well as the innovativeness of tourism products. • Increasing Indonesia's Tour and Travel Competitiveness Index (TTCI) from 30th (2019) to 20th (2024).
3	<ul style="list-style-type: none"> • Tripling MICE events and special-interest tourism activities over the next five years. • Making Indonesia the best destination for MICE activities in ASEAN. • Seizing the opportunities presented by special-interest tourism, including ecotourism, halal tourism, underwater sports, senior tourism, cruise ship tourism, and sailing.
4	<ul style="list-style-type: none"> • Developing human resources in the tourism sector.

Source: LPEM FEB UI (2018:4).

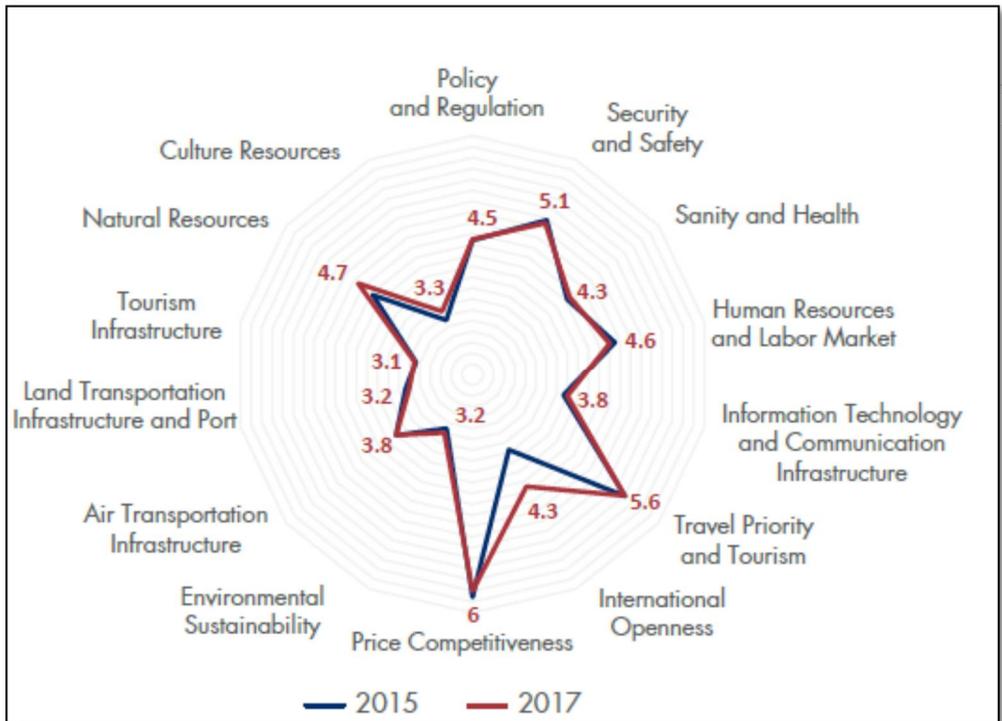
The Indonesian government has also shown its commitment to developing the tourism sector through Government Regulation No. 50 of 2011 regarding the Blueprint for National Tourism Development (RIPPARNAS), which identifies the vision, missions, goals, and directions of national tourism development for the 2010–2025 period. In this legal document, the government set four missions for the development of the tourism sector: (1) creating safe, comfortable, interesting, and acceptable tourist attractions that are environmentally minded and increase national revenue; (2) using synergetic, exemplary, and responsible tourism promotion to attract domestic and foreign tourists; (3) ensuring the tourism industry remains competitive and credible, is able to mobilise business partnerships, and is environmentally, socially, and culturally responsible; and (4) ensuring the

effective and efficient operations of the central government, regional governments, private sector, community organisations, human resources, and other mechanisms.

Guild (2018) writes that one factor driving the development of Indonesia's tourism industry is the government's coordinated and strategic efforts to promote its growth. Furthermore, according to Guild, the government has used clear benchmarks for its achievements in the tourism sector, while the restructuring of the Ministry of Tourism has been followed by reforms intended to attract tourists and increase investment. Legally, tourism has been facilitated by easing the entry of foreign tourists in Indonesia. In accordance with Presidential Regulation No. 21 of 2016, tourists from 169 countries may enter Indonesia for 30 days; this cannot be extended, and foreigners seeking to remain in Indonesia for more than 30 days must seek a visa. Ease of entering has also been promoted through several regulations (Thaib, 2019). For example, the government has sought to simplify yacht arrivals through its Clearance Approval for Indonesia Territory (CAIT) policy, which has reduced the time necessary for clearance approval from three weeks to three hours. Similarly, the Indonesian government has abolished the cruise cabotage principle and allowed the passengers of foreign cruise ships to embark and disembark at Indonesia's five main ports.

The government has also sought to attract investors through various means, including through deregulations that have increased the ease of doing business (EODB). This has included Economic Policy Package, Volume XII, which simplified procedures, reduced fees, and accelerated business establishment, permit issuance, property registration, and credit access. According to a World Bank report, between 2016 and 2017 Indonesia improved its global EODB ranking from 91st to 72nd, as determined by several indicators (including ease of business establishment, permit issuance process, and taxation). Bank Indonesia (2017), citing the World Economic Forum's Travel and Tourism Competitiveness Index, indicated that the Indonesian tourism sector had improved its performance, rising eight ranks on the Tourism Competitiveness Index between 2017 and 2018. This has occurred, in part, as a result of developments in tourism policy and ecotourism.

Figure 2. Indonesia's Tourism Competitiveness



Sumber: Bank Indonesia (2017).

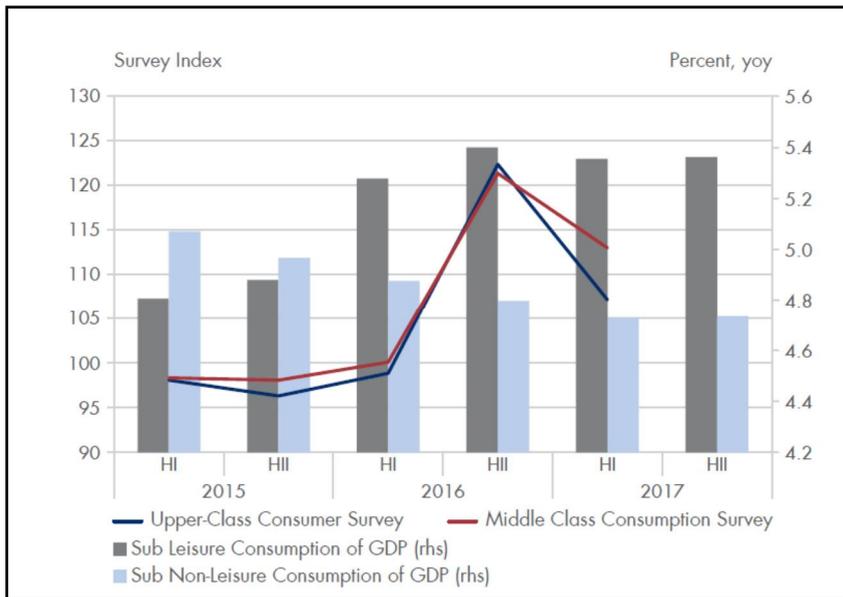
The Indonesian government, it can be certain, seeks to further ease entry and investment in Indonesia without harming the environment or the nation. This will include, for example, improving applicable policies, easing the issuance of hotel construction permits, expanding the visa-free policy to cover more countries, and further facilitating international travel to Indonesia. Drawing on the experiences of other countries that have revised their tourism policies, this is hoped to ensure the rapid development of the tourism sector.

Economic Factors

Economic factors that have contributed to the growth of the tourism sector exist at both the domestic and global level. At the domestic level, Indonesia's economy has shown positive trends promoting the growth of the tourism sector. For example, there has been a shift—particularly among millennials—from goods-based consumption to experience-based consumption since 2015, a shift in consumption patterns that can be attributed to increased access to technology and improved purchasing power (Bank Indonesia, 2017). This tendency has driven recent developments in Indonesia's tourism sector, particularly in the

accommodation and food and drink industries. As a result, leisure activities have significantly contributed to the national economy. Meanwhile, at the global level, millennials have become the dominant actors in e-commerce transactions—particularly the global tourism industry. For example, in 2017, 30.5% of persons who conducted e-commerce transactions were between the ages of 25 and 34; for comparison, 24.3% were aged 35–44; 18.8% were 18–24, 17.2% were aged 45–54; and 9.2% were aged 55–64 (Statista, 2018a).

Figure 3. Leisure Consumption in Indonesia

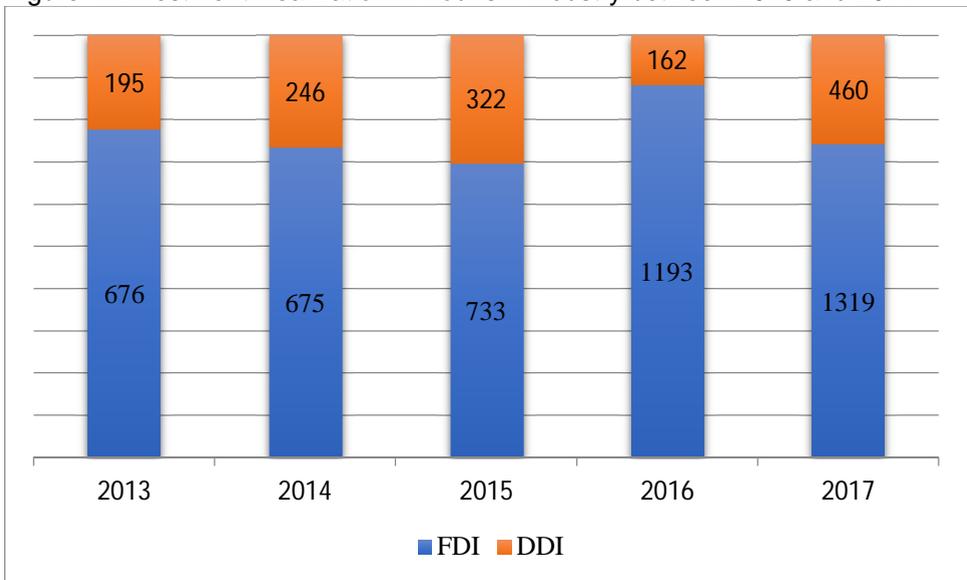


Source: Bank Indonesia (2017: 3).

Several other economic factors at the global level have also positively affected the development of Indonesia's tourism industry. The performance of the global economy has increased demand for tourism, which has in turn contributed to the growth of Indonesia's tourism industry and its GDP. Global tourism has also been driven by the increased accessibility of international travel through the establishment of low-cost airlines, openness of international travel laws, widespread availability of cultural and art festivals, improvements in transportation infrastructure (even in the smallest villages), and rapid growth of industries supporting tourism such as hotels and restaurants. The growth of Indonesia's tourism industry has also promoted economic growth at the regional level, and tourists have become increasingly aware of attractions in these areas.

Another global factor is the World Travel and Tourism Council (2017), particularly its recommendation of Indonesia as an investment location. This has enticed foreign investors to invest in Indonesia’s tourism industry. This investment, in turn, has become an economic multiplier that has driven further development and growth in the sector. Between 2013 and 2017, investment in Indonesia’s tourism sector remained dominated by foreign nationals (77%), with foreign investments valued at US\$4.5 billion. Foreign investors were involved in some 10,654 projects; domestic investors, meanwhile, accounted for only 1,356 projects. Average annual growth in domestic investment, however, was higher (at 48% per annum) than in foreign investment (20% per annum).

Figure 4. Investment Realization in Tourism Industry between 2013 and 2017



Sumber: adapted from Lembong (2018:6).

The United Nations declared 2017 to be the International Year of Tourism, recognising the importance of the sector in the economic development of many countries—including Indonesia. This declaration contributed to increased international tourism, including in Indonesia. As seen in Table 2, the number of international tourists entering Indonesia increased between 2013 and 2018, positively affecting the country’s foreign exchange revenue. The Indonesian government has sought to increase the number of foreign tourists to 21.6 million by 2020, 31.8 million by 2025, 42.8 million by 2030, 57.5 million by 2035, 65.1 million by 2040, and 73.6 million by 2045 (Bappenas, in LPEM FEB UI, 2018:29).

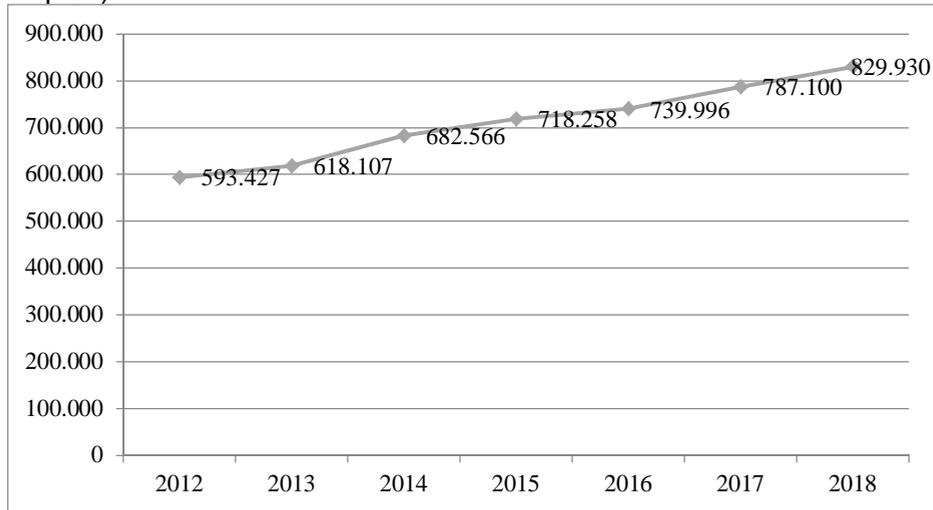
Table 2. Foreign Tourist Visits to Indonesia

Month	2013	2014	2015	2016	2017	2018
January	614,328	753,079	723,039	814,303	1,107,968	1,100,677
February	678,415	702,666	786,653	888,309	1,023,388	1,201,059
March	725,316	765,607	789,596	915,019	1,066,588	1,363,339
April	646,117	726,332	749,882	901,095	1,142,180	1,300,277
May	700,708	752,363	793,499	915,206	1,150,067	1,242,588
June	789,594	851,475	815,148	857,651	1,111,616	1,318,094
July	717,784	777,210	814,233	1,032,741	1,379,961	1,540,549
August	771,009	826,821	850,542	1,031,986	1,404,664	1,511,342
Sept	770,878	791,296	869,179	1,006,653	1,213,640	1,370,842
Oct	719,900	808,767	825,818	1,040,651	1,158,599	1,294,463
Nov	807,422	764,461	777,976	1,002,333	1,062,030	1,157,483
Dec	766,966	915,334	913,828	1,113,328	1,147,031	1,405,536
Total	8,802,129	9,435,411	9,729,350	11,519,275	14,039,799	15,806,249

Source: BPS (2019).

The tourism sector's contribution to Indonesia's GDP has increased over time. In 2012, Indonesia's tourism sector contributed Rp. 593.4 billion to the country's GDP. This increased by 4.16% in 2013, reaching Rp. 618.1 billion; it reached Rp. 682.5 billion in 2014, and Rp. 829.9 billion in 2018. According to the World Travel and Tourism Council, the tourism sector is expected to directly contribute 6.6% of Indonesia's GDP by 2028.

Figure 5. Contribution of the Tourism Sector to Indonesia's GDP (Billion Rupiah)



Source: BPS (2017) and LPM FEB UI (2018).

The contribution of the tourism sector to Indonesia's economy can also be seen in its absorption of labour. As shown in Table 3 below, the tourism sector employs between 8% and 10% of Indonesia's total workforce.

Table 3. Labor Absorption in the Indonesian Tourism Sector

Year	Labor in the Tourism Sector	Number of Indonesian Workers	%
2012	9,350,000	112,504,868	8.31
2013	9,610,000	112,761,072	8.52
2014	10,152,900	114,628,026	8.86
2015	10,363,657	114,819,199	9.03
2016	12,279,000	118,411,973	10.37

Source: BPS (2019).

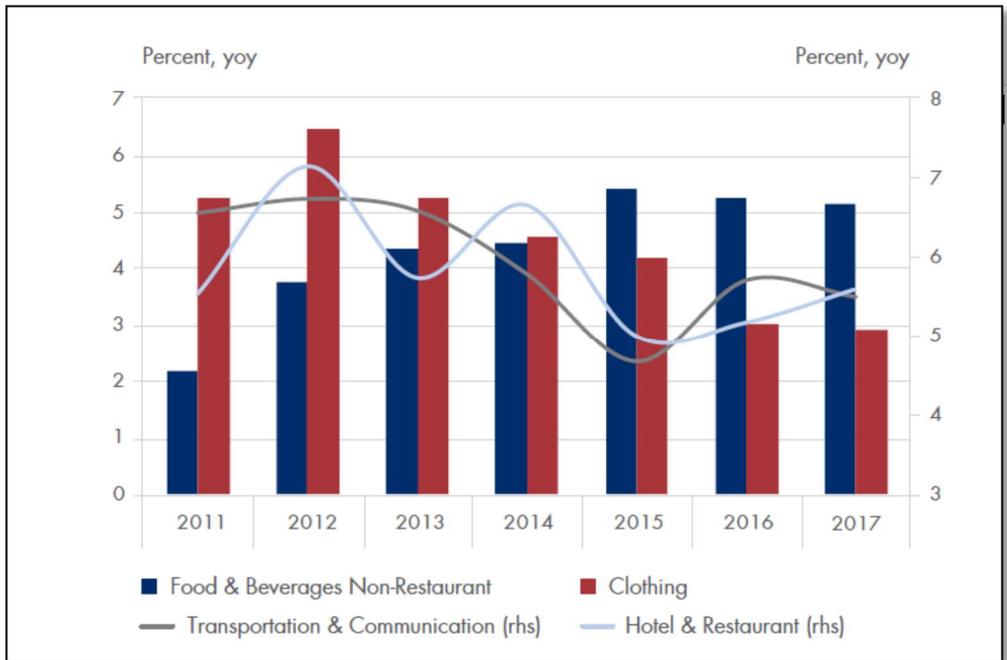
Social Factors

Every country has different social conditions; the same is true for Indonesia, which has hundreds of ethnic and cultural groups. This ethnic and cultural diversity can be used to attract tourists, both international and domestic, and thereby support the tourism industry (Bacsi, 2017). This ethnic and cultural diversity cannot be separated from Indonesia's geographic diversity. The archipelagic country consists of more than 17,000 countries, which are inhabited by some 300 ethnic groups that

are divided into four major cultural groups. Each of Indonesia's 34 provinces have its own languages, ethnic groups, religions, and history. Indonesians can trace their roots to China, Europe, India, and the Malay Peninsula. Despite being the world's largest Muslim-majority country, Indonesia also has large Protestant, Catholic, Hindu, and Buddhist populations. This demographic diversity has, in turn, driven diversity in the tourism sector. Take, for example, dance; East Java is famed for its *Reog Ponorogo*, while Bali is known for the *Kecak* dance. Traditional cultural practices, passed from generation to generation, can also attract tourists to different parts of the archipelago.

Another social factor that has supported the Indonesian tourism industry is its age demographic. The country's population is predominantly of productive age (15–64 years old). Furthermore, data from Statista (2018a) shows that—in 2017—most persons (46.3%) who used online travel booking services in Indonesia were between the ages of 25 and 34. The dominance of persons of productive age helps drive the tourism sector, as it drives consumption and promotes labour absorption. Meanwhile, there has been a shift in consumption patterns within Indonesian society. Millennials' consumption is dominated by experience- and leisure-based activities such as tourism. Tourism in Indonesia has also been driven by the growth of the middle class, who tend to have more time and money to spend on entertainment (Bank Indonesia, 2017). The growth of the middle class in Indonesia is reflected in shifts in the country's consumption patterns. Since 2015, the amount of money spent on clothing and expenses has decreased; at the same time, spending on entertainment and lifestyle activities has increased. In 2017, for example, spending on restaurants and hotels increased by 5.6% over the previous year, while spending on communication increased by 5.2% (Bank Indonesia, 2017:7).

Figure 6. Types of Household Consumption



Source: Bank Indonesia (2017:7).

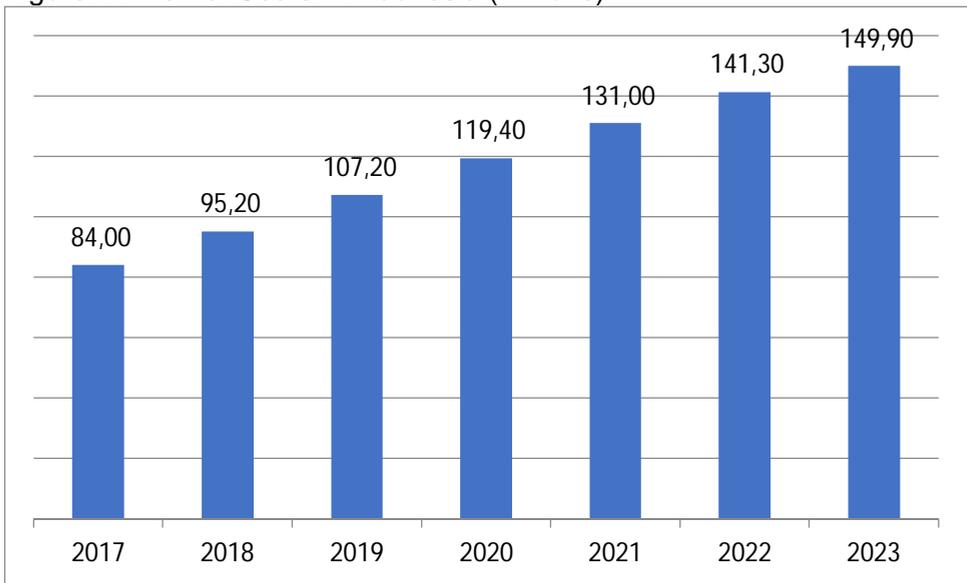
Technological Factors

Technological advances have also contributed significantly to the tourism sector (Atembe, 2015), including supply and demand. These advances—particularly the increased access to technology and connectivity they have brought—have also accelerated the shift towards increased consumption in the leisure sector (Bank Indonesia, 2017). The presence of new technologies has directly transformed the entire concept of travel and tourism, both from a supply and a demand perspective, and the use of these new technologies has made tourism increasingly accessible (Januszewska, Jaremen, & Nawrocka, 2015). **Today, travel agencies can easily reach global audiences, while consumers no longer have to visit agents’ offices. Technology has enabled the integration of tourism business operations and increased the value chain of the tourism industry (Sastry & Sushil, 2018; OECD, 2018).**

The Indonesian government has also utilised technology to develop and promote the tourism sector through social media, as seen (for example) in the “Wonderful Indonesia” advertisements that have been uploaded to YouTube and other websites. Through the use of social media, the

promotion of Indonesia as a destination for tourism has become increasingly effective. Technology, particularly social media and other internet-based media, has enabled the government to effectively reach global and domestic markets; this has become particularly true as internet penetration rates have increased both in Indonesia and around the world. In Indonesia, the use of social media—particularly Facebook and Twitter—has become increasingly common as internet penetration rates have increased. Indeed, there remains significant room for growth; in March 2017, Indonesia only had an internet penetration rate of 50%. As seen in Figure 7, the number of internet users in Indonesia has increased from 84 million in 2017 to 95.2 million in 2018 and 107.2 million in early 2019; the number of internet users in the country is predicted to increase to 119.4 million by 2020 and 149.9 million by 2023. This trend has driven an exponential increase in online business activities, including in the tourism sector.

Figure 7. Internet Users in Indonesia (Millions)



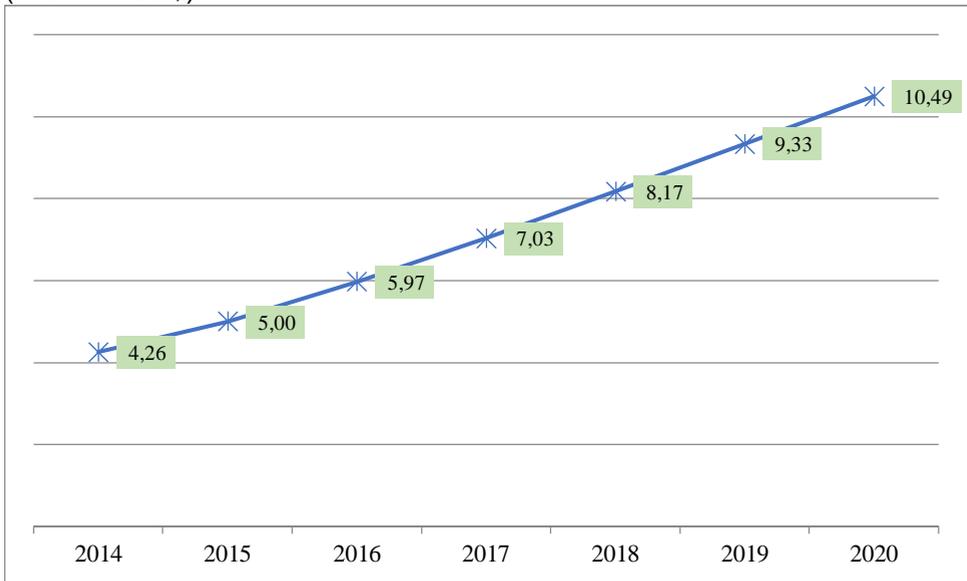
* 2019-2023 is a forecast number.

Source: Statista (2019a).

Today, consumers can purchase travel products such as flights, hotels, and car rentals directly from company websites (such as Lufthansa) or through online travel agents. Indeed, according to Prieto (2018), **an increasingly large percentage of fully independent travellers (FITs) use online travel agents** such as Booking.com, Expedia, Hotwire, Kayak, Ctrip, eDreams Odigeo, Despegar, On The Beach, Lastminute, MakeMyTrip, TripAdvisor, Trivago, etc. Meanwhile, websites such as

TripAdvisor permit tourists to post about their experiences with hotels, restaurants, and other travel products. Such companies generally earn money through the advertisements on their websites. According to Statista (2018b), online travel product sales have increased over the past few years. In 2016, online travel was a USD 564.9 billion industry; this figure is expected to reach USD 817.5 billion by 2020. In Indonesia, the online travel industry was worth USD 5 billion in 2015, and it is expected to reach USD 9.33 billion in 2019 (Statista, 2019b).

Figure 8. Digital travel sales in Indonesia from 2014 to 2020 (in billion US\$)



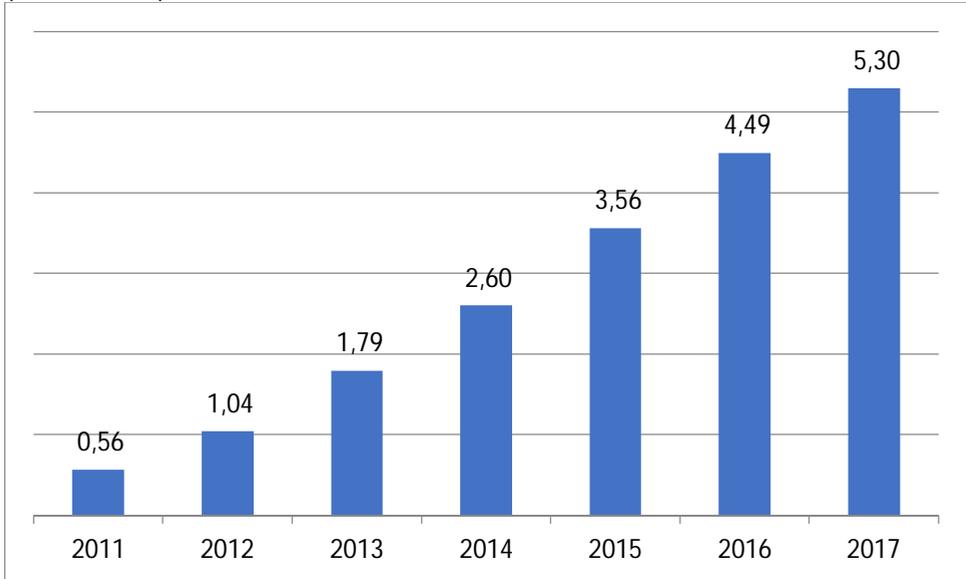
* 2019-2020 is a forecast number.

Source: Statista (2019a).

Technological advances have also had a positive effect on the economy, primarily by improving efficiency and innovation (thereby reducing the cost of economic and social transactions). Despite their large initial costs, digital economic platforms enable production to be upscaled rapidly with lower direct cost margins (Bank Indonesia, 2017). Given this efficiency, the number of online transactions involving goods and services has increased rapidly. As seen in Figure 9, there has been a clear growth in online B2C transactions over the past few years. The value of these e-sales has increased rapidly, from only USD 0.56 billion in 2011 to an estimated USD 4.49 billion in 2016. In 2017, some 41% of Indonesians purchased at least one product or service online—up from 26% of Indonesians in 2016. That year, online sales were worth a

cumulative USD 5.3 billion. This shows that Indonesia has considerable potential for future growth.

Figure 9. Trends of Online Goods and Services Transactions (US\$ Billion)



Source: Statista (2019a).

However, Indonesia does face considerable obstacles in developing its internet technologies and infrastructure. One of these is connection speed. According to the Ookla Speedtest Global Index (2017), Indonesia has the slowest cellular internet connections in the Asia-Pacific region, ranking 106th globally. As such, it ranked significantly behind Singapore (4th), Vietnam (61st), Malaysia (74th), Cambodia (78th), and the Philippines. Similarly, Indonesia ranked 93rd globally in broadband speed, behind Singapore (1st), Vietnam (56th), Malaysia (62nd), and the Philippines (91st) (Rastogi, 2019).

Conclusion

The tourism industry has grown rapidly in Indonesia and contributed significantly to the country's tourism industry. The importance of this industry cannot be separated from several factors that have driven its growth, including its geographical situation as an archipelagic country with numerous islands that attract tourists, including such internationally renowned destinations as Bali. However, the presence of such popular destinations does not in and of itself guarantee the significance of the tourism sector. As such, this study has examined the macro environment

of the Indonesian tourism sector using a PEST (Political, Economic, Society, and Technological) approach.

Analysis has shown that, over the past few years, the Indonesian government has shown a considerable commitment to developing the tourism sector. This commitment is found, for example, in its long-term development plans as well as the various policies intended to promote international and domestic tourism. Meanwhile, the tourism sector has contributed importantly to Indonesia's GDP. Socially, demographic factors—especially the shift in Indonesia's population structure as well as the growth of the middle class—has increased demand for tourism activities as well as experience- and leisure-based activities. Furthermore, rapid technological advances have eased transactions in the tourism sector.

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