

Provincial government spending on socio-cultural issues and tourism development in Vietnam

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Abstract

While the relationship between government spending and economic development is well established, few have examined government investment in socio-cultural issues related to the development of local tourism. The gap in the literature and the importance of this topic have motivated the researchers to conduct this study. Given this fact, the main aim of the study is to examine how government spending on socio-cultural issues affected local tourism revenue in 63 provinces and cities in Vietnam over the period from 2010 to 2019. The study uses panel data for 63 provinces and cities, spanning from 2010 to 2019, and employs a generalised method of moments (GMM) estimator, which takes into account the issues with simultaneity, omitted unobserved time-invariant variables, and potential dynamic endogeneity in the econometric model. The study shows that for a one percentage point increase in local government spending on socio-cultural issues, revenue from local tourism increases by 0.676%, and overall revenue by 0.790%, 2.106%, and 0.355% in the northern, central, and southern regions of Vietnam respectively. The study helps to explain the mechanism whereby local government expenditure influences the development of tourism via (i) an increase in the number of returning tourists; and (ii) an increase in local tourism-related services and goods transactions, reflected in the number of goods transported across the locality.

Key words

local tourism development, government expenditure, GMM estimator

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Introduction

The development of tourism offers numerous opportunities for economic growth, contributing to the national budget and to residents' lives, especially those of the disadvantaged

(e.g. ethnic minorities, the elderly, and the rural population) (Su et al., 2018). The rapid increase in the demand for tourism services is also reflected (and increasingly accurately predicted) in previous studies (Law et al., 2019). Meanwhile, poorly targeted, inadequate support from local government can prevent the tourism industry from reaching its potential, especially in developing countries, which lack the presence and engagement of the private tourism sector (Clancy, 1999; Göymen, 2000; Tosun and Jenkins, 1998; Weaver, 2007). Therefore, efforts should be made to promote the role of local authorities in investing, building infrastructure, and linking stakeholders in the development of the tourism industry.

Proponents of increased government investment in local tourism point out that (i) tourism is a high-risk venture with high fixed costs; (ii) in the early developmental stages, with limited involvement from private enterprise, government investment serves to increase linkages among stakeholders and encourage private investment (Clancy, 1999; Göymen, 2000; Tosun and Jenkins, 1998; Weaver, 2007); (iii) moreover, sustainable tourism is fostered by a legitimate local government, not motivated by the desire for short-term profit, and with a rich understanding of local management, ecology and culture (Ruhanen, 2013). In contrast, intensive interventions by governments in the tourism industry have produced numerous negative results due to (i) slowness in adapting to the new context compared to the private sector; (ii) the rigidity of the structure that limits the participation of residents in the planning process and in implementing plans (Tosun, 2000); (iii) impediments to effective, stable cooperation under top-down planning, and the excessive power of local governments (Ruhanen, 2013), especially in developing countries (Göymen, 2000).

Although rich in theoretical studies, quantitative analyses that clearly confirm a causal effect between government expenditure and

tourism development are relatively limited, especially in transitional countries. Liu (2003) asserts that there is a significant gap in the assessment of the heterogeneous effects of government investment in local tourism development among stakeholder groups and economic regions. The development of tourism is also significantly influenced by economic factors, language and communication, infrastructure/superstructure, government interventions (e.g. new investments, public-private partnerships, connections with local communities), promotion in the new context (e.g. multinational institutions, the explosion of the Internet, and the rise of the necessary international payment systems), demographics, and changes in market demand (Heung et al., 2011; Liu, 2003). Therefore, empirical studies must control for these factors. Furthermore, there is a lack of evidence explaining the mechanism underlying the effect of government spending on the development of local tourism (e.g. through increased tourist numbers and the related growing burden on tourism services (Hall, 2008)).

Given the discussion above, this study makes several key contributions. First, drawing on panel data from 63 Vietnamese provinces and cities during 2010-2019, it provides empirical evidence of government spending on socio-cultural issues aimed at enhancing local tourism revenue. Vietnam is an interesting case study because (i) it is in the process of transforming from a centrally-planned economy to a free-market one, and (ii) the relative independence that localities have in policy decision-making allows for independent and identically distributed (i.i.d.) socio-economic variables (Schmitz et al., 2015). Second, the study considers heterogeneous effects in three economic regions of Vietnam, thereby affirming the necessity of improving the efficient allocation of capital among regions (e.g. the budget allocation process from central to local government). Third, the study provides empirical evidence for the mechanism whereby government ex-

penditure boosts local tourist revenue, that is, by increasing the number of returning tourists and the willingness of visitors to pay.

Our research provides the first evidence that a one percentage point increase in government spending on socio-cultural issues increases overall revenue from local tourism by 0.676%, specifically by 0.790%, 2.106%, and 0.355% in the northern, central, and southern regions of Vietnam respectively. It has also been calculated that a one percentage point increase in government expenditure boosts returning tourist numbers by 0.118%, the volume of goods transported by 0.277%, and the volume of goods in transit by 0.219% respectively. The study contributes to an understanding of how local government spending influences tourism development through an increase in local tourism-related services and goods transactions, as reflected in the number of goods transported across the locality

The rest of the article is as follows. Section 2 presents a literature review of theoretical studies on the nexus between government spending and tourism development in the Vietnamese context. Sections 3 and 4 present the econometric model, robustness check strategy, database, and results. Finally, the last section presents the conclusions.

1. Literature review

1.1. Role of local authorities in tourism development

Tourism is an industry that requires the participation of many stakeholders. This is because it requires high fixed costs and many types of public goods (e.g. historical zones, public spaces – pristine beaches, scenic landscapes, and natural heritage sites). Consequently, tourism development requires like-mindedness, cooperation, support from and even promotion by governments, especially in the early stages where there is an absence of private sector engagement (Clancy, 1999; Göymen, 2000; Hall, 2008; Tosun and Jenkins, 1998; Weaver, 2007; Garcia-

Machado et al., 2020). Governments not only have to create a sound policy framework to promote communication networks, enact regulations for sustainable tourism, and build infrastructure (e.g. roads, parks, hospitals) but also directly invest in and nurture local tourism services (Clancy, 1999; Göymen, 2000; Hall, 2008; Melese and Belda, 2021; Montes-Rojas and Barroso, 2020; Tosun and Jenkins, 1998; Weaver, 2007). There are many arguments in favour of this view. Accordingly, Tosun (1998) affirms the decisive role of the state in local tourism development because it is empowered to pass legislation to implement change, such as setting limits on heritage exploitation and sanctioning various types of unsustainable tourism. Ruhanen (2013) also emphasises the leading role of local government in ensuring eco-environmental protection covering tourism activities. The study argues that reputable local authorities are often effective in supporting the tourism industry because of their understanding of local culture and their know-how in tourism management. Local traditions, which are lacking in large cities, are often an advantage for tourism and frequently elude central government bureaucrats. Consequently, ill-considered interventions can destroy local values (Ruhanen, 2013).

Tourism is a high-risk economic venture from which private enterprise is largely absent in developing countries. Therefore, steady investment and a permanent organisational structure set up for the tourism industry by local governments are expected to contribute to building and strongly expanding infrastructure platforms, promoting the image of local tourism, and coordinating a wide range of diverging concerns (Jenkins and Henry, 1982; Tosun, 2000). Petrescu (2011) adds that local government spending in the tourism industry encourages private investment in hotels, resorts, and other services. In some developing countries, such as Costa Rica, government incentives for the private sector, which lacks experience in tourism,

have significantly improved the local tourism industry (Coffey, 1993). Akama (2002) argues that in an era of rapid digital transformation, the rise of international payments in tourism requires essential, consistent government support (e.g. an international payment system and its standards).

The impact of government expenditure on tourism revenue can be explained through several mechanisms: (i) increasing numbers of travellers in transit and returning tourists; (ii) an increase in the willingness of tourists to pay. Accordingly, early-stage government spending strongly promotes economic opportunities, employment, and the diversity of “regional economic activities and ... various indirect effects of expenditures by tourists” (Hall, 2008, 183). Given the diversity of local tourism services and activities, reflected in the number of transactions of goods connected with tourism, localities capture the attention of tourists and stimulate their spending, which, in turn, sends an economic signal attracting private investment. At this time, public-private coordination is considered the key to the long-term development of the local tourism industry, especially in developing countries (Hall, 2008; Tosun, 2000; Petrescu, 2011).

However, extensive government intervention in the tourism industry can have many adverse consequences. Tosun (2000) claims that the slow adaptation of local governments limits the influence of community-level groups on the planning process and plan implementation. Sustainable tourism requires the committed engagement of residents, who have a vested interest in preserving local culture and the living environment and know best what is good for developing local tourism. Excessive intervention makes locals dependent on a workable partnership network that the government controls, and which is key to community-based tourism development (Tosun, 2000). Given the necessity of the participation of many stakeholders, local government top-down planning and excessive power are barriers to creating an

effective, stable mechanism for cooperation (Ruhanen, 2013). Furthermore, in developing countries, local governments “*seem to be too bureaucratic to respond to public needs effectively and efficiently*” (Tosun, 2000, 619). Agreeing with this view, Göymen (2000) adds that during the later stages, the role of the public sector is to assist and support rather than steer activities.

The above arguments imply that the influence of government expenditure on local tourism depends not only on efficient administrative governance and the scope of intervention, but also on the state of development of local tourism. This finding was also affirmed in a study by Liu (2003), who emphasised the heterogeneous effects of government spending on tourism development, alluding to the differences and fairness in benefit and cost distribution among (i) stakeholder groups and (ii) economic regions. The study adds that the factors of tourism demands, demographics, and urbanisation also profoundly affect the development of local tourism. In particular, passenger behaviour and changes in economic structure can significantly alter the tourism industry (e.g. an ageing population can promote ecotourism).

In these theoretical discussions, case studies in developing countries can confirm the positive impact of government spending on local tourism development. Studies in China, such as those by Liu et al. (2020a), Qin et al. (2011), and Yang et al. (2008), illustrate the influence of government intervention in dramatically growing local tourism via the New Public Service (NPS) paradigm, which defines the role of the government as serving instead of steering. The NPS is “*to attempt to control the society or merely establish rules and incentives through which people will be guided towards certain directions*”. The aim is for government to increase its role of facilitating and encouraging citizen engagement (Liu et al., 2020b; Qin et al., 2011).

Yang et al. (2008) noted that the success of this strategy has helped mediate conflicts

between ethics, identity and the industrialisation of tourism development. In Costa Rica, Coffey (1993) reported that government incentives in tourism in the early stages have brought positive consequences in the development of the tourism industry, especially in infrastructure construction (e.g. hotels, restaurants, and buildings). In Kenya, government support such as improving national tourism services, training tourism management professionals, promoting connections between domestic and international tourism businesses, and ensuring a system of exchange rates, has contributed significantly to international tourism in the country (Akama, 2002). A long-term plan for tourism combined with the steady growth of the private sector is the key to the success of Guangxi in China (Qin et al., 2011). Previous studies have confirmed the positive role of the government in tourism development in developing countries, such as Malaysia (Mosbah and Saleh, 2014), Ghana (Adu-Ampong, 2019), Mexico (Clancy, 1999), and Turkey (Göymen, 2000). Regional government expenditure was also found to promote the efficiency of tourism development in Croatia (Hodžić and Alibegović, 2019).

Liu et al. (2020a) found that central and local government work together in rural China to support rural tourism development. The central government plays a guiding role while local government plays a supporting role in encouraging the development of local tourism. Government interventions can help shape a positive outlook for the recovery of the tourism industry from the effects of the coronavirus (COVID-19) pandemic in urban China (Fong et al., 2020).

1.2. Local tourism and Vietnamese government spending on socio-cultural issues

Tourism is one of the most significant drivers of Vietnam's economic development, contributing roughly 6% of the country's GDP each year (Nguyen, 2022). The tourism industry in Vietnam is on the rise, offer-

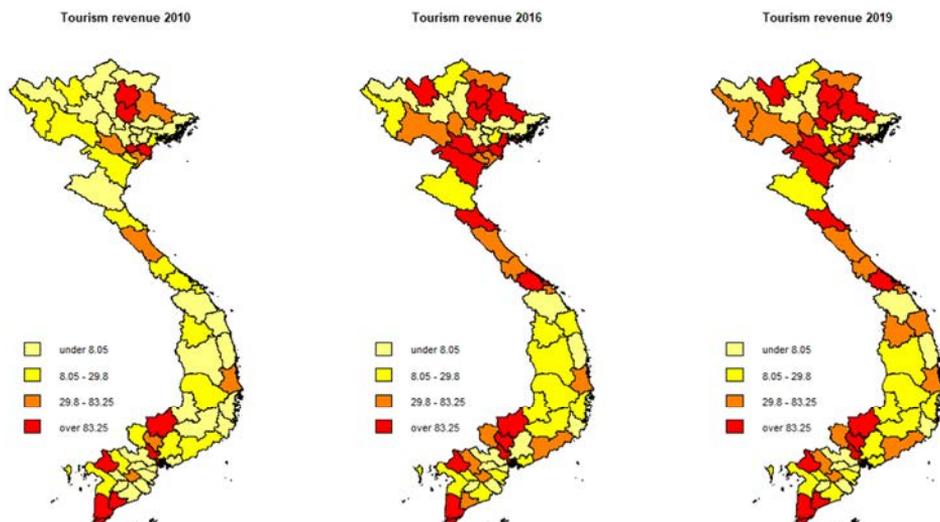
ing the richness of 54 ethnic groups, unique cuisine, and many remarkable tourist attractions. Vietnam's total tourism revenue has increased from VND 15,539.30 billion (2010) to VND 44,669.90 billion (2019), before falling to VND 16,263.40 billion (2020) due to the impact of the COVID-19 pandemic. As a result, the contribution of the public sector to tourism revenue decreased sharply, from 31.86% (2010) to 12.6% (2018). By contrast, the contribution of the private sector increased, from 60.26% (2010) to 75.6% (2018) (General Statistics Office (GSO), 2022). During 2010-2019, the annual growth in the number of international tourists was 13.45%, with revenue growth of 6.93%. The northern provinces and cities, such as Bac Kan, Lang Son, Quang Ninh, and Hai Phong, benefit from relatively large numbers of tourists, due to a favourable climate, location, and historical heritage sites. Some central provinces (e.g. Thua Thien Hue, Da Nang) and the southern provinces (e.g. Ca Mau, Bac Lieu, An Giang) also have advantages in local tourism (Figure 1) (Mura and Wijesinghe, 2019).

Local tourism in Vietnam is under strict management by central and local government. Specifically, the Ministry of Culture, Sports and Tourism (MCST) is responsible for Vietnam's tourism sector, managing and promoting the industry, including conducting all tourism-related activities, licensing tour operators, classifying and licensing three- to five-star hotels, covering all issues of quality control, and is in charge of domestic and international marketing through the Vietnam Tourism Master Plan (VNAT). MCST is also accountable for managing regional and local Departments of Culture, Sports and Tourism (DCST), which administer local tourism (Hildebrandt and Isaac, 2015). Although the master plan sets out clear economic goals, it lacks the ambition to attract the participation of residents and the cooperation of public and private stakeholders (Hildebrandt and Isaac, 2015). For

example, the government's five-year tourism strategy (e.g. decision 147/QĐ-TTĐ) sets targets up to 2025. According to this strategy, Vietnam's tourism industry will strive to achieve total revenue of 1,700–1,800 tril-

lion VND (equivalent to 77–80 billion USD), with annual growth of 13–14%, directly contributing 12–14% of GDP, and generating approximately 2 million jobs.

Figure 1. Total tourism revenue of provinces/cities in Vietnam, 2010–2019



Note: Nominal values have been converted to the base year 2010 (billion VND)

Source: own elaboration

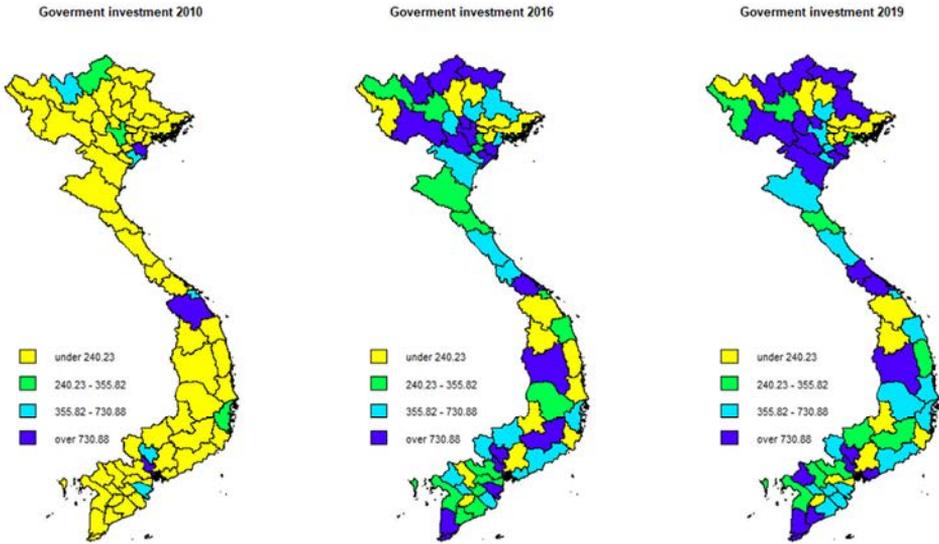
The budget for local government expenditure includes (i) expenditure on investment in development; (ii) recurrent expenditures; (iii) additions to the financial reserves fund; (iv) sources of transfer expenditures; and (v) payments to the central budget. Central government spending on development, recurrent expenditures, and additions to the financial reserves fund in 2019 came to 25.08%, 59.95%, and 0.01% of the total budget, respectively (General Statistical Office (GSO), 2020).

Following the insights afforded by the literature review, government expenditure must: (i) ensure stability in spending (Tosun, 2000; Jenkins and Henry, 1982); (ii) consider the nature of social consumption; and (iii) ensure the supply of public goods (Hall, 2008). Thus, recurrent expenditures satisfying these

requirements are suitable proxies (National Budget Law 2015 – No. 83/2015/QĐ13). There are many components in recurrent expenses, e.g. spending on health and population, scientific incentives, and socio-cultural issues. Accordingly, this study uses recurrent expenditures on socio-cultural issues¹ to assess the impact of government expenditure on the development of local tourism. Total government spending for socio-cultural issues in Vietnam increased from VND 64,218 billion (2010) to VND 131,104 billion (2017); its distribution among localities is shown in Figure 2.

¹ e.g. expenditures on maintaining and developing local cultural values, subsidising vulnerable residents, encouraging private investment in cultural projects, and maintaining cultural heritage management administrative teams.

Figure 2. Local government expenditure on socio-cultural issues in Vietnam, 2010-2019



Note: Nominal values have been converted to the base year 2010 (billion VND)

Source: own elaboration

To illustrate the correlation between government expenditure on socio-cultural issues and total revenue from local tourism, the study presents an overlapping figure between

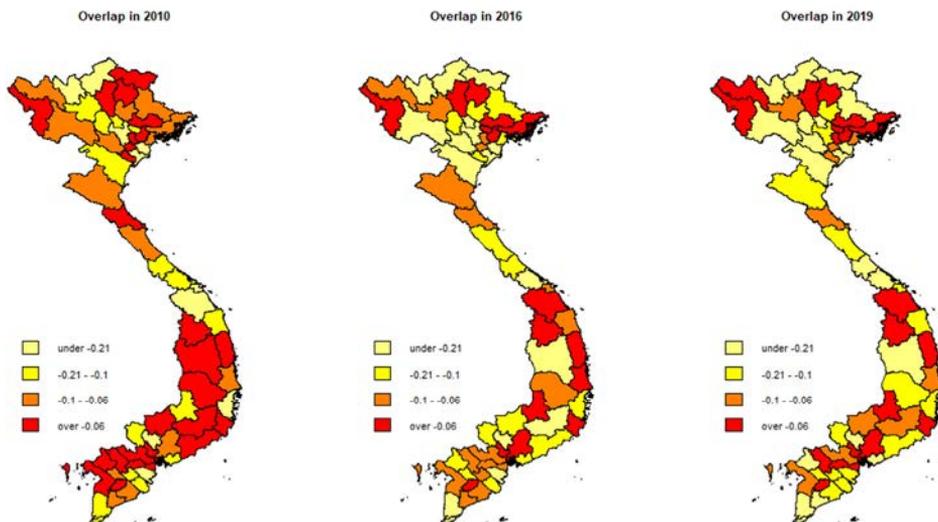
Figures 1 and 2. In other words, the study rescales the total local tourism revenue according to the formula:

$$\sigma = \frac{\mu_1 - \min_1}{\max_1 - \min_1} - \frac{\mu_2 - \min_2}{\max_2 - \min_2} \quad (1)$$

where μ_1 and μ_2 indicate revenue from tourism and government spending on socio-cultural issues, respectively. The colour change in Figure 3 (compared to Figure 1) reflects

trends in the development of local tourism (by revenue) after removing the influence of government spending.

Figure 3. Trends in tourism revenue growth after subtracting the influence of government spending



Source: own elaboration

2. Methodology and data

2.1. Econometric model

The *econometric* model is constructed according to the following formula:

$$Y_{it} = \beta X_{it} + \sum_{j=1}^J \delta_j Z_{it} + \lambda t + \theta_i + \varepsilon_{it} \quad (2)$$

where Y represents total revenue from local tourism; X represents local government spending on socio-cultural issues; Z is the control factor described in detail in Table 1; λ , θ represent time-trends and fixed effects; and ε represents the error term, with $i = 1, 2, \dots, 63$ and $t = 2010, 2011, \dots, 2019$. For several reasons, the study utilises panel data at Vietnam's subnational level during 2010-2019: (i) the independence of deci-

sion-making policy in localities – referred to as laboratories (Schmitz et al., 2015); (ii) moreover, this panel makes it possible to control for other critical factors (e.g. local economic growth, passenger numbers, private sector development), examine appropriate instrumental variables (e.g. budgeted regional expenditure for socio-cultural issues), and consider Vietnam's significant policy changes since 2010 (Table 1).

Table 1. Variables, explanation, expectation and source

Variables	Explanation and definition	Expected sign	Source
Dependent variables			
Tourism revenue	Maximising benefits for the province (i): Standardisation of different forms of tourism; (ii) and (iii): Avoidance of further academic controversy (e.g. recreation vs. tourism vs. leisure) (Hall, 2008; Liu et al., 2020 a)		General Statistics Office
Independent variables			
Variable of interest			
Government expenditure	Local government spending on socio-cultural issues (detail in Section 2.2)	+	General Statistics Office
Instrumental variables			
Dummy variable measuring the political business cycle	With the Republican party cycle, the government will increase spending in the second, third, and fourth years of its elected term (Mueller, 2003).		Author's calculation
Average government investment in the region by year	The amount of local government spending depends on the central government's regional budget allocation plan (Fisman and Svensson, 2007).		Author's calculation
Control variables			
Urbanisation rate	Although rapid urbanisation negatively affects the living environment and reduces the attractiveness of local tourism, it creates the flexibility and dynamism needed by the tourism industry (Liu, 2003; Wesley and Pfarr, 2010).	-/+	General Statistics Office
Number of tourists	Reflects demand for local tourism (Liu, 2003)	+	General Statistics Office
Gross regional domestic product (GRDP) per capita	In the relationship between economic growth, people's living standards, and local tourism development, the higher the standard of living, the greater the demand for tourism (Liu, 2003).	+	General Statistics Office
Number of shopping malls	Increases the capacity to supply local tourism-related goods and services to tourists (Mosbah and Saleh, 2014).	+	General Statistics Office
Average rainfall	Environmental factors	-/+	General Statistics Office
Average temperature	Environmental factors	-/+	General Statistics Office
Local government spending on development	Controls for differences in the political power structure in Vietnam and the variations in government spending on socio-economic development in localities, as reflected by long-term expenditure for development (e.g. infrastructure, long-term investments) (Gainsborough, 2007).	-/+	General Statistics Office
Private sector development	Considers the development of the private sector (Bramwell and Sharman, 1999; Qin et al., 2011).	+	Author's calculation following (Jaax, 2020)
Time-trend (t)	Unobserved factors that affect tourism revenue and its development over time.	-	Dummy variable
δ_i	Controls for differences in landscape, climate, culture, ethnic identity, and the historical context of provinces/cities (Hall and Page, 2014; Henderson, 2000)	-/+	Calculation from fixed-effects model

Source: own elaboration

2.2. Endogeneity

The coefficients in Equation (2) estimated by ordinary least squares (OLS) and fixed effects estimators may be biased and inconsistent due to simultaneity issues (Wintoki et al., 2012). Specifically, Wong (1996) found that the developmental status of local tourism may influence the government's budget expenditure decisions. When the outcome can be determined by the amount of tourism revenue, simultaneity is inevitable. Furthermore, in the presence of a potential dynamic endogeneity issue – that current government expenditure is determined by past revenue from local tourism – a fixed-effects estimator will yield biased, inconsistent results. To deal with the first problem, the study uses two-stage least squares (2SLS/XT-IV) and generalised method of moments (GMM) estimators. Accordingly, two instrumental variables used to ensure the consistency of the result are (i) a dummy variable representing the political

cycle and (ii) average regional expenditure by year. Meanwhile, given a strongly balanced panel and the potential dynamic endogeneity issue, the GMM estimator is dominant over the 2SLS estimator (Roodman, 2009; Wintoki et al., 2012).

Government expenditure on the socio-cultural issues of province i ($= 1, 2, \dots, 63$) in period t ($= 2010, 2011, \dots, 2019$) (X_{it}) is affected by (i) the central government's regional budget allocation plan ($X_{jt} \mid j = 1, 2, \dots, 7$), which depends mainly on the socio-economic situation of the country. This assumption implies that $cov(X_{jt}, \varepsilon | Z) = 0$; (ii) the political (Republican) cycle; in particular, local government spending will increase in the second, third and fourth years following the election D_t . Similarly, the political cycle can be considered an exogenous factor of Model (2), or mathematically $cov(D_t, \varepsilon | Z) = 0$; (iii) other confounding factors that $cov(\eta_{it}, \varepsilon) \neq 0$.

$$X_{it} = X_{jt} + D_t + \eta_{it} \quad (3)$$

Thus, the first stage regression in Equation (2) follows the formula:

$$X_{it} = f(X_{jt}, D_t, X_{it-1}, Z_{Kit}) \quad (2)'$$

2.3 Robustness check

To check the robustness of the econometric model, the study performs certain tests. First, as Liu (2003) found, government expenditure on tourism development has heterogeneous effects on stakeholders and regions. The differences among them depend on (i) the capacity of the local tourism industry (Liu, 2003), (ii) the level of private sector engagement in each area (Hall, 2008; Tosun, 2000; Petrescu, 2011), and (iii) the varying influence of historical factors among localities (Hildebrandt and Isaac, 2015). Accordingly, this study considers these heterogeneous causal effects in three economic regions in Vietnam, i.e. the northern, central, and

southern regions. In addition to the reasons cited above, the heterogeneous effects are highlighted by (iv) Vietnam's topography stretching along a meridian line, creating significant climate differences and forming local communities and disadvantaged social groups according to the composition of the terrain; and (v) the fact that varying poverty rates can affect local tourism. The poor tend to seek quick returns to meet immediate needs (Liu, 2003). The multidimensional poverty rates in North, Central, and South Vietnam are 20%, 17%, and 9% respectively.

Second, the study analyses the effectiveness of government spending to determine whether increased expenditure (e.g. through tourism advertising, infrastructure support,

and credit incentives for tourism businesses): (i) boosts the number of returning tourists; and (ii) increases the use of tourism-related services/goods per visitor (reflected e.g. in the volume of goods transported/goods in transit). As Hall (2008) predicted, government spending will stimulate local tourism development through these mechanisms. In addition, we examine this nexus with a dynamic model that controls for the one-year lagged outcome.

2.4 Database

The study utilises data collected from the General Statistics Office, presented in Table 2. It should be noted that total tourism revenue includes many types of income, such as that from cultural tourism, eco-tourism, medical tourism, and wildlife tourism. However, the Vietnamese statistical system has not yet classified these categories in detail at the sub-national level.

Table 2. Descriptive data

	unit/notes	2010		2019		2010-2019	
		MEAN	SD	MEAN	SD	MEAN	SD
Dependent variable							
Tourism revenue	Billion VND	246.656	1,288.500	709.046	3,587.250	457.676	2,453.280
Number of returning tourists	Million people	1,091.700	1,457.790	2,286.690	3,976.200	1,625.670	2,661.540
Volume of goods transported	Thousand tonnes	8,912.940	11,383.900	20,950.100	27,064.900	14,142.200	18,548.600
Volume of goods in transit	Million tonnes/km	536.929	877.920	1,214.750	1,933.360	833.283	1,361.070
Main variable of interest							
Government expenditure on socio-cultural issues	Billion VND	185.066	208.190	685.104	646.760	466.527	497.290
Instrumental variables							
Dummy variable measuring the political business cycle	Republican cycle	0.000	0.000	1.000	0.000	0.600	0.490
Average government investment in the region by year	Billion VND	185.066	84.530	685.104	280.640	466.527	236.760
Control variable							
Urbanisation rate	[0,1]	0.254	0.160	0.297	0.180	0.277	0.170
Number of tourists	Million people	33.543	99.790	70.275	237.440	49.160	162.180
GRDP	Billion VND	40.590	72.180	81.497	142.290	59.026	106.860

	unit/notes	2010		2019		2010-2019	
		MEAN	SD	MEAN	SD	MEAN	SD
Population	Thousand people	1,381.810	1,179.330	1,516.230	1,444.240	1,450.850	1,303.860
Number of shopping malls	1 unit	1.730	3.820	3.825	7.120	2.613	5.350
Average rainfall	mm	1,822.690	573.080	1,683.830	575.020	1,843.470	541.040
Average temperature	1 degree Celsius	25.383	2.020	25.916	1.890	25.319	2.080
Development investment	Billion VND	2,181.420	3,437.090	5,886.270	5,217.440	3,512.870	4,430.320
Private sector development	[0,1]	0.839	0.110	0.937	0.070	0.892	0.100
Observation		63		63		630	

Note: Nominal values have been converted to the base year 2010.

Source: own elaboration

3. Results and Discussion

The results of the investigation into the impact of government spending on tourism revenue are gauged through the OLS estimator in column 1 of Table 4. Its coefficients may be biased because they ignore the omitted unobserved invariant variables (e.g. location, climate (Hall and Page, 2014), and the influence of historical factors (Henderson, 2000; Hildebrandt and Isaac, 2015)). The fixed-effects estimator is reported in Table 4, column 2. However, the results of the fixed-effects model may generate biased coefficients if the simultaneity issue reported by Wong (1996) is present. In this case, the 2SLS and GMM estimators presented in Table 4, columns (3) and (4), will ensure the consistency of coefficients given appropriate instrumental variables. Furthermore, with balanced panels (with large N and short T) and the raised dynamic potential endogeneity, the GMM estimator is superior to 2SLS (Blundell and Bond, 1998; Wintoki et al., 2012).

The instrumental variable fit is verified by the AR (1) and AR (2) tests, and the Hansen

over-identification and difference-in-Hansen tests of exogeneity. Accordingly, the null hypothesis of AR (1) shows no autocorrelation among error terms in the first difference. The AR(2) serial correlation test gives p-values of 0.869 (Table 3) and 0.856 (Table 4), which means the level regression error terms are not linked. The insignificant p-value of the Hansen and difference-in-Hansen tests show that GMM is correctly specified with no identification issues. The results in Table 4 show that every percentage point increase in government spending on socio-cultural issues – e.g. maintaining and developing local cultural values, subsidising vulnerable residents, encouraging private investment in cultural projects, and maintaining cultural heritage management administrative teams – contributed to an increase of 0.676% in local tourism revenue. The resulting coefficients of control factors are as expected (Table 1). For example, each percentage point increase in GRDP per capita and in the number of tourists will enhance total revenue by approximately 0.946% and 0.463%, respectively.

Table 3. Regression results

VARIABLES	(1) OLS	(2) FEM	(3) XT-IV	(4) GMM
Spending for socio-cultural issues in log	0.066* (0.037)	0.469*** (0.099)	0.138** (0.064)	0.676*** (0.230)
Urbanisation rate	-1.352** (0.547)	3.020*** (0.365)	-1.563*** (0.527)	2.429* (1.340)
Number of tourists in log	0.443** (0.179)	0.509*** (0.064)	0.569*** (0.141)	0.463* (0.232)
GRDP per capita in log	1.180*** (0.170)	0.391*** (0.119)	1.317*** (0.147)	0.946* (0.501)
Number of shopping malls	0.009 (0.010)	0.054*** (0.010)	0.008 (0.010)	0.039 (0.025)
Average rainfall in log	-0.138 (0.085)	0.501*** (0.168)	-0.046 (0.078)	0.134 (0.581)
Average temperature in log	-0.164 (0.698)	-1.187 (0.738)	-0.100 (0.604)	1.636 (2.996)
Development investment in log	-0.065** (0.028)	0.097 (0.120)	-0.073*** (0.028)	-0.031 (0.291)
Private sector development	-0.594 (0.452)	-1.264** (0.529)	-0.545 (0.451)	-6.158* (3.570)
Year dummies	YES	YES	YES	YES
Constant	0.452 (2.436)	-2.523 (2.713)		-6.333 (9.325)
Observations	627	627	627	627
R-squared	0.590	0.675	0.579	
Number of panels	63		63	63
Sanderson-Windmeijer (SW) under-identification tests (p-value)			0.000	
Sanderson-Windmeijer (SW) weak identification (F-value)			97.4162	
AR (1) test (p-value)				0.049
AR (2) test (p-value)				0.869
Hansen test of over-identification (p-value)				1.000
Difference-in-Hansen tests of exogeneity				1.000

Note: Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1. The two instrumental variables are (i) a dummy variable that reflects the Republican political cycle (Mueller, 2003) and (ii) average government spending on socio-cultural issues in seven economic regions in Vietnam (Fisman and Svensson, 2007).

Source: own elaboration

² Stock-Yogo weak ID F test critical values for a single endogenous regressor: 10% maximal IV size is 19.93.

The study estimates heterogeneous effects in three regions – North, Central, and South Vietnam, reported in Table 4. Accordingly, each percentage increase in government spending on socio-cultural issues increases local tourism revenue by 0.790%, 2.106%, and 0.355% in the northern, central, and

southern regions respectively. Combined with large government expenditure favouring the North (Figure 2), these empirical results imply that Vietnam can improve tourism outcomes by reallocating its expenditure among economic regions (e.g. the central budget allocation for local government).

Table 4. Heterogeneous effects

VARIABLES	North		Central		South	
	OLS	GMM	OLS	GMM	OLS	GMM
Government investment in log	0.100 (0.114)	0.790** (0.304)	0.318* (0.168)	2.106* (1.044)	0.569*** (0.172)	0.355* (0.198)
Urbanisation rate	3.360*** (0.895)	7.475 (6.695)	3.276*** (0.575)	-77.864* (43.221)	0.029 (0.549)	-0.104 (4.277)
Number of tourists in log	0.722*** (0.117)	-0.013 (1.160)	0.842*** (0.095)	-0.548 (2.766)	-0.021 (0.129)	1.794 (1.870)
GRDP per capita in log	0.000 (0.204)	-0.222 (1.804)	0.522 (0.470)	-21.805 (22.227)	1.488*** (0.161)	
Number of shopping malls	0.021 (0.023)	0.039 (0.039)	0.004 (0.040)	-1.287* (0.737)	0.134*** (0.021)	-0.032 (0.173)
Average rainfall in log	0.983*** (0.311)	0.510 (0.490)	0.534** (0.238)	3.236 (2.022)	-1.307*** (0.368)	
Average temperature in log	-6.042*** (1.951)	1.421 (5.234)	2.158 (1.412)	193.861 (144.318)	10.904** (5.514)	
Costs for socio-cultural issues	0.631*** (0.141)	0.266 (0.523)	0.608*** (0.200)	3.713 (3.584)	-0.291*** (0.073)	
Private sector development	-0.867 (0.710)	-4.889 (3.167)	-0.979 (0.942)	54.921 (33.016)	3.447* (2.002)	
Year dummies	YES	YES	YES	YES	YES	YES
Constant	7.695 (6.267)	-8.908 (17.300)	-18.018*** (5.206)	-643.531 (452.886)	-31.975 (20.458)	-4.517 (6.093)
Observations	247	247	190	190	190	190
R-squared	0.800		0.669		0.750	
Number of panels		25		19		19
AR (1) test (p-value)		0.016		0.576		0.417
AR (2) test (p-value)		0.391		0.761		0.856

Note: Robust standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1. The number of provinces/cities in the North, Central, and South regions are 25, 19, and 19, respectively.

Source: own elaboration

In addition, the study assesses the impact of government spending via (i) growth in the number of returning tourists (Table 5, column 3) and (ii) an increase in local tourism-related goods/services transactions, indicated by the volume of goods transported (Table 5, column 4) and goods in transit (Table 5, column 5). One-year lagged tourism revenue is also controlled for, reported in columns 1 and 2 of Table 5, showing that the R-squared of the OLS estimator is 0.982. Consistent with Hall's (2008) expectations, the results in Table 5 con-

firm the impact of government expenditure on local tourism development. Accordingly, a one percentage point increase in expenditure on socio-cultural issues leads to a rise of 0.118% in returning tourists, 0.277% in the volume of goods transported, and 0.219% in the volume of goods in transit. Our research findings partially support previous findings from rural China that local government plays a significant role in promoting the development of local tourism (Liu et al., 2020b; Suhel and Bashir, 2018).

Table 5. Robustness check

VARIABLES	Tourism revenue		Number of returning tourists	Volume of goods transported	Volume of goods in transit
	OLS	GMM	Mechanism 1	Mechanism 2	
			OLS	OLS	OLS
Lagged dependent variable	0.983*** (0.013)	0.896*** (0.049)			
Government investment in log	0.059*** (0.019)	0.104** (0.042)	0.118*** (0.041)	0.277*** (0.048)	0.219*** (0.062)
Urbanisation rate	-0.108 (0.127)	-0.094 (0.444)	1.019*** (0.206)	1.354*** (0.259)	2.297*** (0.251)
Number of tourists in log	0.011 (0.020)	0.137* (0.076)			
GRDP per capita in log	0.022 (0.028)	-0.023 (0.186)			
Number of shopping malls	-0.000 (0.002)	0.001 (0.006)	-0.017*** (0.006)	-0.015** (0.006)	-0.016** (0.006)
Average rainfall in log	0.060 (0.038)	0.242** (0.121)	0.028 (0.082)	0.026 (0.106)	0.282** (0.113)
Average temperature in log	0.038 (0.163)	-0.065 (0.636)	2.668*** (0.334)	-4.355*** (0.486)	-2.317*** (0.570)
Expenditure for socio-cultural issues	-0.013 (0.015)	-0.015 (0.028)	0.002 (0.025)	0.212*** (0.033)	0.069** (0.030)
Private sector development	-0.245 (0.202)	-1.093 (0.890)	-0.773*** (0.213)	0.537* (0.285)	-0.688 (0.473)
GRDP in log			0.255*** (0.052)	0.187** (0.074)	0.160* (0.097)
Population in log			0.967*** (0.082)	0.717*** (0.103)	0.956*** (0.130)

VARIABLES	Tourism revenue		Number of returning tourists	Volume of goods transported	Volume of goods in transit
	OLS	GMM	Mechanism 1	Mechanism 2	
			OLS	OLS	OLS
Year dummies	YES	YES	YES	YES	YES
Constant	-0.466 (0.656)	-0.984 (2.236)	-10.116*** (1.141)	13.102*** (1.700)	2.094 (1.900)
Observations	565	565	628	628	628
R-squared	0.982		0.786	0.596	0.578
Number of panels		63			
AR (1) test (p-value)		0.000			
AR (2) test (p-value)		0.468			

Note: Robust standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1. The number of observations in columns (1) and (2) is 565, not 630 because there is a lagged variable of the dependent variable in the model.

Source: own elaboration

Conclusions

This study provides quantitative evidence of the impetus given by government expenditure to the development of local tourism in a transitional country (namely Vietnam). Given the advantages of the balanced panel data (63 Vietnamese provinces/cities in 2010-2019), by using the GMM estimator the study takes simultaneity, omitted unobserved invariant variables, and potential dynamic endogeneity into account, thereby allowing this nexus to yield a consistent coefficient.

Our study confirms the positive role of provincial governments in tourism development in Vietnam. Specifically, we offer the first evidence that a one percentage point increase in government spending on socio-cultural issues contributes to an increase of 0.676% in local tourism revenue. Our findings are robust, even after controlling for unobservable time-invariant variables and potential dynamic endogeneity in the econometric model. Notably, this result is partly explained by (i) an increase in the number of returning tourists and (ii) an increase in visitors' will-

ingness to pay. Accordingly, each percentage point increase in government spending leads to an increase of 0.118% in returning tourists, 0.277% in the volume of goods transported, and 0.219% in the volume of goods in transit. Regarding the heterogeneous effects among regions, the study confirms that with an increase in local expenditure, tourism revenue will rise by 0.790%, 2.106%, and 0.355% in North, Central, and South Vietnam respectively. Given the large amount of government expenditure favouring the North (Figure 2), this result also implies that Vietnam can improve the efficiency of tourism activities, government expenditure, and its economy through the effective allocation of government spending among economic regions and localities. In particular, our findings imply that by increasing local government expenditure on socio-cultural issues, local tourism can be expected to recover quickly from the COVID-19 pandemic.

We recognise that our research has certain limitations. As Roodman (2009) points out, the two-step system GMM estimator has some limitations. Firstly, it requires the extra assumption that instrument modifications are

unrelated to fixed effects. Secondly, external instrumental variables are required to confirm the consistency of the coefficient in the model. It suggests that future work should employ an external instrument to validate the results. Furthermore, assessments of the role of local governments in tourism development based on expenditures on socio-cultural issues may overlook other aspects of its role. In further studies, the investments in tourism development made by other governments should be investigated further.

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