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## Article

# Good governance and tourism development in Vietnam: looking back at the past three decades (1990–2023)

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# Good governance and tourism development in Vietnam: looking back at the past three decades (1990–2023)

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## ABSTRACT

Vietnam has become a popular international tourist destination since the 2010s, thanks to the successful implementation of the government's comprehensive innovative policies and the country's abundant resources. The interest of powerful nations in Vietnam has increased due to political stability and a preference for economic openness. This has resulted in the signing of numerous trade agreements across various countries and regions. As a result, the tourism sector has taken advantage of these opportunities and has become a crucial part of economic agendas, earning a strategic investment priority. This study aims to determine the impact of good governance on the development of the tourism industry. To achieve this, an Autoregressive Distributed Lag (ARDL) model was used with data from 1990 to 2023. The results indicate that variables such as the human development index, the rule of law, and tourism revenue have a positive long-term association. Contrary to expectations, the study found that the higher value of government effectiveness scores, foreign direct investment, and the export-to-GDP ratio have adverse effects on tourism revenue. The study aims to bridge the gap in understanding the relationship between the tourism industry and government efforts to build effective institutions and good governance. The main findings have significant policy implications and warrant further discussion.

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## JEL

E02; N45; Z30

## 1. Introduction

In an age of great changes, effective institutions and good governance are crucial for sustainable development (Mansoor, 2021; Omri & Ben Mabrouk, 2020). Governments need to strike a balance between taking advantage of globalization and integration on the one hand and ensuring a safe and stable domestic economic and social environment on the other. However, both globalization and sustainability necessitate that governments introduce more effective economic development policies which in turn requires them to improve their governance apparatus and to follow developments in the world economy (Avdulaj et al., 2021).

Good governance is an essential complement to sound economic policies and is central to creating and sustaining an environment which fosters strong and equitable development – World Bank, Governance and Development (1992)

Good governance has increased the efficiency of economic activity in many countries. Government efficiency, rule of law and reduction of corruption led to an increase in GDP per capita in 22 Eastern European countries with economics in transition from 1996 to 2018 (Avdulaj et al., 2021). Political stability and government effectiveness both had a positive impact on the economic growth of 14 countries in the Latin America and Caribbean region in the long term from 2002 to 2018 (Azam, 2022). Likewise, the significant direct impact of the rule of law, control of corruption, voice and accountability, and the indirect impact of government effectiveness and political stability contributed to the growth of the world's 31 most developed economies (Zhuo et al., 2021).

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The tourism industry across nations also takes advantage of good governance. Good governance had a positive and significant impact on total tourism revenue and the number of visitors in 30 developing countries and 30 members from OECD countries in the period 1996–2009 (Daryaei et al., 2012), and in South Asian countries in the period 1996–2018 (Ullah et al., 2024). The participation of all stakeholders in making plans and setting long-term targets, and better coordination at all levels of governance promoted innovation and development in rural tourism in Ontario, Canada (Joppe et al., 2014). Using governance indicators and tourism-industry statistics from 158 countries, from the period 2007–2014, (Steyn & Jansen van Vuuren, 2016) demonstrated that destinations with good governance attracted 18.7% more tourists than destinations with bad governance. Good governance played a vital role in increasing foreign tourist inflows and raising the tourism competitiveness index of the United States and India in the period 2008–2019 (Swamy & Lagesh, 2023).

Since the launching of the Doi Moi policy 1986 in Vietnam, the tourism sector, alongside other economic domains, has undergone substantial reforms to align with the global trajectory of development. Presently, the tourism industry stands as a progressively pivotal catalyst in propelling Vietnam's comprehensive economic advancement. In contrast, less efficient governance, including incomplete and unclear planning, hindered sustainable development, thereby reducing the sharing of local benefits and obstructing the conservation of the ecosystem in Phong Nha-Ke Bang in Vietnam, which is a UNESCO World Heritage site (Hübner et al., 2014). This necessitates an insightful investigation into government intervention in the tourism industry's development over the past three decades.

The main aim of this study is to describe the relationship between government intervention and changes in the tourism industry in the short and long term through an Autoregressive Distributed Lag (ARDL) regression model, thereby becoming a valuable reference for policymakers to improve future development policies. The preliminary stages of this research identified research gaps in the domain of public sector institutional quality. In addition, it revealed a dearth of studies applying time series methodologies to analyse governance practices in Vietnam. Thus, while the primary aim of the present study is to investigate the relationship between government intervention and changes in Vietnam's tourism industry 34 years (1990–2023) and hence, provide input for policymakers, it also introduces novel analytical methods that, to the best of the author's knowledge, have not yet been applied in this field.

The study is structured as follows. The background theories for conducting this research are discussed in Section 2. This qualitative discussion forms the basis for formulating the research hypothesis and the formal research model. Section 3 explains the research methodology and data collection. Section 4 presents the process and results of the quantitative analysis. Section 5 includes discussions of the theoretical, practical and policy implications of the regression results. Limitations of the present study and directions for future research are presented in the closing section.

## 2. Good governance and the performance of the tourism sector

### 2.1. Institutional theory

Institutional theory is introduced in order to better understand how organisations and nations interact with, react to and are shaped by their societal, national and international contexts. As discussed by Meyer and Rowan (1977) 'Institutionalized products, services, techniques, policies, and programs function as powerful myths, and many organizations adopt them ceremonially' and then a multitude of formal organisational structures emerge as a consequence of rationalised institutional rules. This theory focuses on explaining the roles of social, political and economic systems that support nations to operate legitimately and effectively. Scott (2008) characterises institutions as comprising three principal elements: regulative, normative, and cultural cognitive. Collectively, these elements, in conjunction with the activities and resources associated with them, provide stability and meaning to social life. Institutions provide the rules of the game and make adjustments/interventions by discouraging, constraining, or encouraging to follow given behavioural patterns (Chang, 2011; Fligstein, 1997; Willmott, 2015).

The institutional approach emphasizes the importance of building an institutional environment that leads to a favourable and attractive economic environment for stakeholders, supporting organizations to join the network and develop in an environment characterised by political and legal stability (Bhat et al.,

2022; Nunkoo & Gursoy, 2017). Thus, the institutional theory posits that the institutional environment greatly contributes to productivity by facilitating firms/organizations' activities and helping them achieve greater efficiency and ultimately, success.

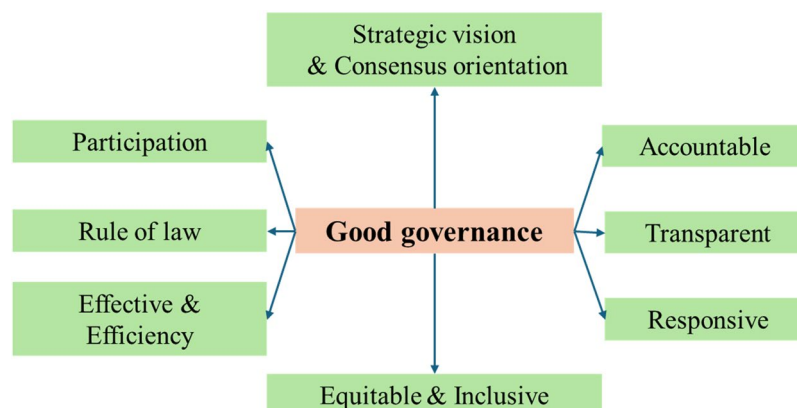
## 2.2. Theories related to good governance

Governance is the process of operating organizational activities through decision-making, rule-setting and enforcement mechanisms. Governance, as the United Nations discusses, is 'the system of values, policies and institutions by which a society manages its economic, political and social affairs through interactions within and among the state, civil society and private sector' (United Nations, 2015).

The European Union, the World Bank, the OECD, the United Nations, as well as a number of academic papers provide normative guidance to good governance (Figure 1 and 2) (van Doeveren, 2011). More and more governments are taking steps to adopt good governance practices in order to improve the efficiency of the state apparatus and the qualifications of public employees. Popularly, 'good governance is participatory, consensus-oriented, accountable, transparent, responsive, effective and efficient, equitable and inclusive, and respects the rule of law' (United Nations, 2015).



**Figure 1.** Good Governance and its Role in Sustainable Development. Source: World Economic Forum (2022).



**Figure 2.** Indicators of good governance. Source: UNDP (1997).

Practicing good state governance is a long path with a great internal effort in each nation, which includes the encouragement of scientific activities and taking advantage of resources and international experience to ensure the effectiveness of the set goals (Bramwell & Lane, 2012). Nations practicing good governance rely on local resources and international experience for effective goal-setting, invest in human capital, make great efforts to encourage scientific activities, promote economic growth and strengthen social cohesion (Talmaciu, 2014). Figure 3 below also emphasizes the strong relationship between institutional qualities and governance principles. Effective institutions i.e. high-performing, adaptable, stable and good governance i.e. that is participatory, equitable, respecting the rule of law, etc. are crucial for the success or full development of nations.

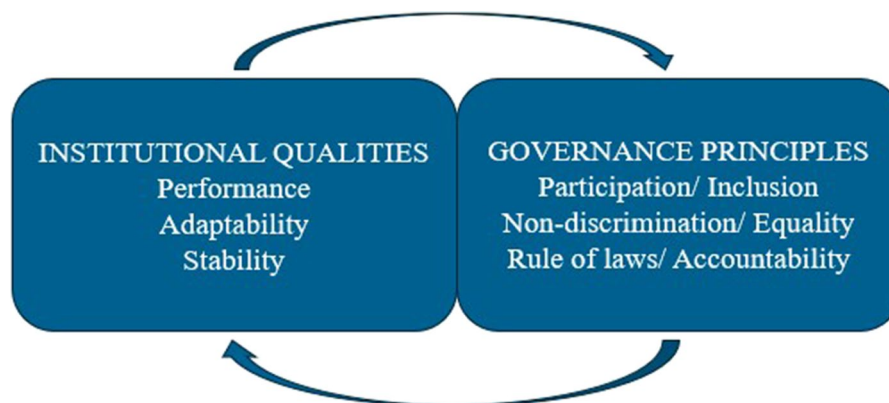
### 2.3. The vital role of good governance in tourism development

Tourism is currently being praised as a catalyst for economic and social development in various regions. However, sustainable tourism development has certain prerequisites, namely, a highly reliable institutional environment with great leadership and effective governance capacity (Jamal & Higham, 2021; Restrepo & Anton Clavé, 2023). There is a dearth of research on the relationship between good governance and the performance of the tourism sector worldwide (Detotto et al., 2021; Ofori et al., 2023). Certain aspects of good governance indicators include: 'government effectiveness, political stability, regulatory quality, rule of law, voice/stakeholder involvement and accountability' positively influence tourism development. Whereas, terrorism, environmental degradation and high levels of corruption hindered the development of the tourism industry (Ejaz et al., 2021). This limited body of extant research substantiates the significance of sound governance in fostering the advancement of the tourism sector, though.

Detotto et al. (2021) emphasized the role of good governance in the observed differences in tourism performance among 100 countries between 2002 and 2012, with its impact being even higher in countries with low openness. Using data from 48 African countries, Ofori et al. (2023) show that enhancing government governance capacity in controlling corruption and maintaining political stability impressively reduced income inequality in the region between 1996 and 2020. In addition, the tourism industry experienced significant growth as a result of the region's economic development and political and institutional stability (Ofori et al., 2023). Topcu et al. (2023) confirmed that tourism demand in the US significantly increased due to the high government effectiveness in maintaining political stability and the absence of violence in the period 1999 to 2020.

### 2.4. Overview of Vietnam's economy and tourism industry from 1990 to 2023

Vietnam's economy has changed positively due to the Doi Moi Policy 1986. Since then, the government has focused on improving the government apparatus, introducing sound policies and gradually increasing openness via cooperation and integration. Over the years, the openness of Vietnam's economy has



**Figure 3.** Linkages between institutional qualities and key governance principles. Source: Governance Principles, Institutional Capacity and Quality, United Nations Development Program, (Mckulka & Sudan, 2011).



increased considerably, reflected not only in the ratio of exports and imports to GDP but also in foreign investment, which has become an important part of the economic sectors.

According to data from the International Monetary Fund (IMF), in 1990, Vietnam's GDP reached 8.22 billion USD, ranking seventh out of ten in ASEAN (only above Brunei, Myanmar and Laos) and 80/140 globally. By 2023, Vietnam's GDP reached 435 billion USD, ranking 3rd in ASEAN (behind Indonesia and Thailand) and 35th in the world. Furthermore, the poverty rate has decreased to 5.7%.

The factors that have contributed to economic growth and the attraction of investors to Vietnam include political and social stability, the ability to adapt to technological advances and a young workforce that is increasingly highly educated and highly competitive. Vietnam has focused on improving governance and developing a skilled workforce to meet the needs of a growing economy. Promoting digitisation and digital transformation in the economy also contributes to maintaining and even accelerating growth. The logistics sector and the export of goods and services are the main driving forces for Vietnam's impressive economic performance over the past time and in the future.

Looking at tourism development, it can be seen that Vietnam's tourism industry has achieved impressive growth. Compared to 1990, tourism revenue increased eightfold by 1995. It nearly doubled between 2000 and 2005. It was 3 times higher in 2010 than in 2005 and it was four times higher in 2015 than in 2010. Based on this rapid growth in revenue in 2017, the government decided to develop the tourism sector as a key economic sector. The period 2015–2019 is considered to be the peak of the tourism industry. By 2019, its contribution to Vietnam's GDP was 9.2% and that was forecast to increase to over 10% the following year. However, in 2020, the industry went into decline as a consequence of the Covid-19 pandemic. The recovery of Vietnam's tourism industry began at the end of 2021, and in 2022, this sector already produced quite impressive results with remarkable growth in the number of domestic visitors and revenue reaching 70% compared to 2019 (Table 1).

The factors currently determining tourism demand include promotional media technology, destination attractiveness, cost and transportation convenience. Furthermore, in order to assess the performance of tourism, literature reviews frequently utilise data pertaining to the growth in the number of visitors, the growth in tourism revenue and international competitive rankings.

## 2.5. Hypotheses

To recognize whether the government's strategic vision supported the development of the tourism sector over the past three decades, it calls for in-depth research. In addition, as discussed in the previous section, the government can also promote tourism development via sound development policies and by maintaining peace, security and political stability. In general, to have a better understanding of the impact of good governance on the tourism industry in Vietnam, the main research question of this study is posed: *To what extent have the Vietnamese government's efforts to practice good governance (strategic vision, effectiveness & efficiency and rule of law) affected tourism revenue over the past three decades?* Therefore, aiming for a sufficient answer, a complex hypothesis is laid out:

*H: A higher exports-to-GDP ratio, the share of FDI in total annual investments in the economy, Human Development Index, Government Effectiveness Index, score of 'Political stability and absence of violence/terrorism' indicator and score of 'Rule of Law' indicator had a positive influence on Vietnam's tourism revenue for the period 1990 to 2023.*

In this hypothesis, the exports-to-GDP ratio and the share of FDI in total annual investments in the economy are used as proxies for the strategic vision of the government (which related to economic openness). The Human Development Index (HDI) is used as a proxy for equitable and inclusive governance. The Government Effectiveness Index is used as a proxy for government effectiveness.

**Table 1.** Tourism development from 1990 to 2023.

Year	1990	1995	2000	2005	2010	2015	2017	2019	2022	2023
Domestic tourists (thousands)	1000	6000	11,200	16,100	28,000	57,000	74,000	85,000	101,300	108,100
International tourists (thousands)	250	1400	2200	3500	5050	7944	12,920	18,000	3500	12,6
Contribution to GDP (%)	0,5	3,2	3,3	4,2	5,0	6,3	7,9	9,2	2,1	7,0
TR (thousand billion VND)	1,34	8,73	17,4	30	96	356	515	755	495	700

Source: Statistical office of Vietnam, <https://www.gso.gov.vn/en>.

Due to the nature of tourism, political stability and a stable institutional environment are key to building a destination. Therefore, two of the World Bank's Worldwide Governance Indicators, namely, 'Rule of Law' and 'Political Stability and Absence of Violence/Terrorism' are also included in the analysis.

### 3. Methodology

#### 3.1. The ARDL model

In econometrics, auto-regressive distributed lag (ARDL) models are linear time series models, in which, the dependent variable is assumed to be a function of both the past values of itself and the current and the lagged values of other independent variables. The ARDL procedure can be used to test for cointegration and for making dynamic inferences regarding short-term and long-term relationships between variables.

In the present study, tourism revenue is considered to be a function of the exports-to-GDP ratio, the share of foreign direct investment in total annual investments in economic activity, the Human Development Index, the Government Effectiveness Index, the 'Political Stability and Absence of Violence/Terrorism' indicator and the 'Rule of Law' indicator:

$$TR = f(Export, FDI, HDI, GovEff, PS, RL)$$

where

- $TR$  = tourism revenue (in billion VND)
- $Export$  = exports- to- GDP ratio (%)
- $FDI$  = the share of foreign direct investment in total annual investments in economic activity in Vietnam (%)
- $HDI$  = Human Development Index
- $GovEff$  = Government Effectiveness Index
- $PS$  = 'Political Stability and Absence of violence/Terrorism' indicator
- $RL$  = 'Rule of law' indicator

Thus, the following ARDL model is constructed for the purposes of this analysis:

$$\begin{aligned} \Delta TR_t = & \alpha_0 + \sum_{i=1}^n \beta_i \Delta Export_{t-i} + \sum_{i=1}^n \gamma_i \Delta FDI_{t-i} \\ & + \sum_{i=1}^n \delta_i \Delta HDI_{t-i} + \sum_{i=1}^n \varepsilon_i \Delta GovEff_{t-i} + \sum_{i=1}^n \theta_i \Delta PS_{t-i} + \sum_{i=1}^n \mu_i \Delta RL_{t-i} \\ & + \phi_1 Export_{t-i} + \phi_2 FDI_{t-i} + \phi_3 HDI_{t-i} + \phi_4 GovEff_{t-i} + \phi_5 PS_{t-i} + \phi_6 RL_{t-i} + \partial_t \end{aligned}$$

where

- $\Delta$  is the difference operator
- $\beta_i, \gamma_i, \delta_i, \varepsilon_i, \theta_i, \mu_i$  are long-term coefficient
- $\alpha_0$  is a constant
- $\phi_{1,2,3...6}$  are the short-term coefficients
- $\partial_t$  is the white noise error term
- $t$  indicates time
- $n$  is the maximum number of lags

To ensure reliability, the ARDL model needs to meet certain criteria, including, stationarity of time series data, optimal lag length, no autocorrelation and no heteroscedasticity. The extended Dickey-Fuller



test (ADF) was used to test for the stationarity of variables. The optimal lag length was chosen by minimizing either the Bayes Information Criterion (BIC) or the Akaike Information Criterion (AIC).

The present analysis builds on previous studies in applying the ARDL procedure to investigate the relationships among factors that have positive and even negative to the economy (Aydin, 2022; Hussain, 2023; Khoshnevis Yazdi et al., 2017; Liu et al., 2022; Mushtaq et al., 2020; Ohlan, 2017; Rivera, 2017; Shahbaz et al., 2017; Suryandaru, 2020). ARDL models represent dynamic relationships between factors in a single-equation framework (Joshua et al., 2022; Nkoro & Uko, 2016; Ohlan, 2017; Olorogun et al., 2022; Tecel et al., 2020). The advantages of the ARDL method are that it produces consistent estimates of long-term and short-term coefficients that deliver good results no matter how many variables there are (i.e. it works well with small datasets/short-time series) and it can be applied to time series that are stationary at  $I(0)$  or at  $I(1)$ .

### 3.2. Data collection

The variables were selected based on the findings of earlier studies and their applicability in the case of Vietnam (Table 2). Time series data from 1990 to 2023 were obtained from Vietnamese government databases, the World Bank and CountryRisk.io. The data used for analysis are the original values and were processed by EViews 12 and Stata 17. EViews 12 was used to check the stability of data, analyse short-term and long-term relationships and test for cointegration among variables, while Stata 17 was used to generate improved figures illustrating correlations between variables.

**Table 2.** Description of variables.

Phenomenon		Variable/Proxy	Relevant studies	Data source
<i>Dependent variables</i>				
Tourism development	<i>TR</i>	Annual tourism revenue	Jayaraman et al. (2011); Lisi and Zhenzhi (2017); Deng et al. (2019); van der Schyff et al. (2019)	The General Statistics Office of Vietnam <a href="https://www.gso.gov.vn/">https://www.gso.gov.vn/</a>
<i>Independent variables</i>				
Good governance dimensions	<i>Export</i>	Export to GDP ratio (%)	Jayaraman et al. (2011); Tang et al. (2017); Eyuboglu and Eyuboglu (2019); Öztürk et al. (2019)	World Bank <a href="https://data.worldbank.org">https://data.worldbank.org</a>
	<i>FDI</i>	FDI's share in the country's total annual investments in economic activity (%)	Kontgis et al.,(2014); Arfaoui et al. (2016); Khoshnevis Yazdi et al. (2017); Latief and Lefen (2019); Tecel et al. (2020); (Appiah et al., 2023)	CountryRisk.io <a href="https://app.countryrisk.io/">https://app.countryrisk.io/</a>
	<i>HDI</i>	'The Human Development Index is a summary measure of average achievement in key dimensions of human development: a long and healthy life, being knowledgeable and having a decent standard of living' (Nations, 2020)	Biagi et al. (2017), Croes et al. (2020), Andi Auliya Hakim et al. (2021)	The United Nations <a href="https://hdr.undp.org/">https://hdr.undp.org/</a>
	<i>GovEff</i>	'The government effectiveness index is an index elaborated by the World Bank which measures the quality of public services, civil service, policy formulation, policy implementation and credibility of a government's commitment to raise these qualities or keeping them high' (World Bank, 2022)	Di Matteo (2019); Chisadza et al. (2021); Mishra et al. (2021)	CountryRisk.io <a href="https://app.countryrisk.io/">https://app.countryrisk.io/</a>
	<i>PS</i>	This score represents 'the level of political stability and absence of violence/terrorism' (World Bank, 2022)	Ejaz et al. (2021)	World Bank <a href="https://data.worldbank.org">https://data.worldbank.org</a>
	<i>RL</i>	The rule of law score represents the level of restriction of arbitrary exercise of power, the extent to which all individuals or organizations are subject to the law, and the degree to which laws are applied equally and fairly.	Ejaz et al. (2021) and Topcu et al. (2023)	World Bank <a href="https://data.worldbank.org">https://data.worldbank.org</a>

#### 4. Short- and long-term relationships in the development of Vietnamese tourism industry from 1990 to 2023

Before moving onto discussing the main findings, the summary statistics of the dataset are checked. Table 3 shows the mean, median and standard deviation of individual datasets.

As the first step, correlation tests were run in order to identify any sign of multicollinearity early in the analysis (Table 4). The results indicate that the variables correlated to different degrees. Certain pairs of variables, such as government effectiveness and export, and HDI and export, show a strong correlation ( $\rho > 0.9$ ).

As a next step, time-series data were tested for unit roots using the Augmented Dickey–Fuller test (ADF) to make sure that no time series is integrated of order 2 or higher (Table 5). The TR and HDI time series were found to be stationary at  $I(0)$ , while the remaining time series were found to be stationary at  $I(1)$ . Thus, the dataset meets the stationary criterion of the ARDL cointegration procedure.

Next, in order to minimise autocorrelation in the residual, a set of VAR models were run and an optimal lag of  $n=2$  was chosen based on the Akaike Information Criterion (AIC) (Table 6).

In the next step, the ARDL cointegration technique was used to check the long-run relationship between the variables. Table 7 shows that both the value of the F-Bounds test and t-Bound test are higher than the upper bound at 99% confidence level, thus there is a long-run relationship between the observed variables.

**Table 3.** Summary statistics.

	TR	Export	FDI	HDI	GovEff	PS	RL
Mean	161,316.1	60.68	5.4	0.62	43.81	0.23	−0.36
Median	38,289	61.9	4.8	0.64	44.49	0.25	−0.38
Maximum	755,000	94	11.9	0.71	59.46	0.53	0.07
Minimum	1340	28.7	2.8	0.48	30.56	−0.12	−0.68
Std. Dev.	215,400.6	18.8	2.16	0.07	8.78	0.16	0.20

Source: EViews 12 analysis.

**Table 4.** Correlation statistics.

	TR	Export	FDI	HDI	GovEff	PS	RL
TR	1						
Export	0.7	1					
FDI	−0.2	−0.2	1				
HDI	0.6	0.9	−0.2	1			
GovEff	0.7	0.9	−0.3	0.9	1		
PS	0.4	−0.5	0.3	−0.5	−0.6	1	
RL	0.6	0.5	0.1	0.3	0.4	−0.2	1

Source: EViews 12 analysis.

**Table 5.** Unit root test.

Variable with Intercept	Augmented Dickey-Fuller test (ADF)				Decision
	Level		1st difference		
	t-statistic	p-value	t-statistic	p-value	
TR	−5.884867	0.0001	–	–	I (0)
Export	−0.117870	0.9393	−6.778189	.0000	I (1)
FDI	−2.912619	0.0550	−4.799611	.0003	I (1)
HDI	−6.190005	0.0000	–	–	I (0)
GovEff	0.382000	0.9791	−5.276459	.0001	I (1)
PS	−0.119719	0.9378	−4.527634	.0013	I (1)
RL	−1.182860	0.6700	−5.723696	.0000	I (1)

Source: EViews 12 analysis.

**Table 6.** Results of optimal lag selection.

Lag	LogL	Sequential modified LR test statistic	Final Prediction Error	Akaike information criterion	Schwarz information criterion	Hannan–Quinn information criterion
0	−562.4336	NA	6,746,983	35.5896	35.91023	35.69588
1	−372.2195	285.3213	1068.869	26.76327	29.32875	27.61395
<b>2</b>	<b>−273.6912</b>	<b>104.6883*</b>	<b>78.18679*</b>	<b>23.66820*</b>	<b>28.47765*</b>	<b>25.26240*</b>

Source: EViews 12 analysis.

In the long term (Table 8), a higher level of development (HDI) and the strengthening of the rule of law (RL) had a positive impact on tourism revenue (TR). In contrast, an increase in government effectiveness score (GovEff) and in FDI's share in total annual investments in economic activity and a higher exports-to-GDP ratio (Export) tended to go together with lower tourism revenue (TR). In addition, the decline in 'political stability and the absence of violence/terrorism' scores over the years led to a raise in tourism revenue (the time series of this indicator tended to go down annually).

In the short run, the effects of independent variables show the same characteristics as in the long run (Table 9). In addition, the first-lagged values of tourism revenue ( $TR_{t-1}$ ), HDI ( $HDI_{t-1}$ ) and the rule of law indicator ( $RL_{t-1}$ ) are positively related to the current value of tourism revenue ( $TR_t$ ). The achievements of the tourism industry are the result of a cumulative process. Furthermore, the value of the error correction term,  $CointEq(-1) = -2.16$  at a 1% significant, which implies that about 216% of any movement into disequilibrium is corrected within one period, that is, about 100% of any movement into disequilibrium

**Table 7.** Results of ARDL – cointegration testing.

Table 7: Results of ADF – cointegration testing.											
Test	Value	Lag structure selected using AIC	Bound critical values								Decision
			1%		2.5%		5%		10%		
			I(0)	I(1)	I(0)	I(1)	I(0)	I(1)	I(0)	I(1)	
F-Bounds test	14.68501	(2,1,2,2,1,1,2)	<b>4.27</b>	<b>6.21</b>			2.97	4.49	2.45	3.79	Co-integrated
t-Bound test	-6.42724		<b>-3.43</b>	<b>-4.99</b>	-3.13	-4.66	-2.86	-4.38	-2.57	-4.04	

Source: EViews 12 analysis.

**Table 8.** Long-run estimate from the ARDL model.

Variable	Coefficient and Prob
Export	-4453.626** (2065.006)
FDI	-13,997.52** (5088.191)
HDI	6,288,858*** (762,015.9)
GovEff	-40,793.99*** (7225.241)
PS	-385,279*** (93,085.75)
RL	896,700.4*** (61,091.4)

$EC = TR - (-4453.6258 * Export - 13997.5222 * FDI + 6288857.8843 * HDI - 40793.9931$

$* GovEff - 385279.0056 * PS + 896700.3653 * RL)$ .

Values in parenthesis are standard errors.

\*\*,\*\*\* indicate 5% and 1% significance levels, respectively.

Source: EViews 12 analysis.

**Table 9.** Results of ECM- short-term relationship.

Variable	Coefficient
$\Delta TR(-1)$	1.709*** (0.174)
$\Delta FDI$	-37,836.45*** (7310.762)
$\Delta HDI$	3,038,094*** (5,092,876)
$\Delta HDI (-1)$	13,641,800*** (4,969,055)
$\Delta GovEff$	-55,572.48*** (11,459.09)
$\Delta PS$	-333,317.1*** (96,458.60)
$\Delta RL (-1)$	1,076,900*** (1,368,901.1)
$CointEq(-1)^*$	-2.16*** (0.178469)
R-squared	89.6%

Note: Values in parenthesis are standard errors.

\*\*,\*\*\* indicate 5% and 1% significance levels, respectively.

Source: EViews 12 analysis.

is corrected for within less than half a period. This is an impressive pace, demonstrating that the economy fluctuated in the short term but quickly adjusted and ran well in the long term (the long-term relationship is quite robust and there are only short-lived deviations from that). The model has an R-squared at 89.6% indicating the robustness of the ARDL model.

In the next step, Granger causality was run to determine whether any of the time series can be used to forecast the variation of others. For the purposes of this analysis, a significance level of 5% ( $\alpha=0.05$ ) was chosen. When the p-value was less than 0.05 ( $p<.05$ ), the null hypothesis ( $H_0$ ) was rejected and the alternative hypothesis ( $H_1$ ) that X is a Granger-causal factor of Y was accepted. Table 10 demonstrates that future changes in tourism revenue can be predicted based on changes in HDI and 'the government effectiveness index'; variation in the 'political stability and absence of violence/terrorism' indicator can be predicted based on changes in tourism revenue, 'the exports-to-GDP ratio', HDI and 'the government effectiveness index'; variation in 'the exports-to-GDP ratio' can be predicted using HDI; variation in 'the government effectiveness index' can be predicted using 'the exports-to-GDP' ratio; and variation in the 'rule of law' indicator can be predicted using the 'political stability and absence of violence/terrorism' indicator.

#### 4.1. Diagnostic tests for model

The model passes the Breusch-Pagan-Godfrey (BPG) test for heteroskedasticity and the Breusch-Godfrey (BG) test for serial correlation (Table 11). The Jarque-Bera test has a p-value  $> .05$  and the hypothesis 'no evidence that the model is not normally distributed' is rejected, so the data have a normal distribution (Figure 4). Next, the CUSUM test checks the stability of the coefficients in the multiple linear regression

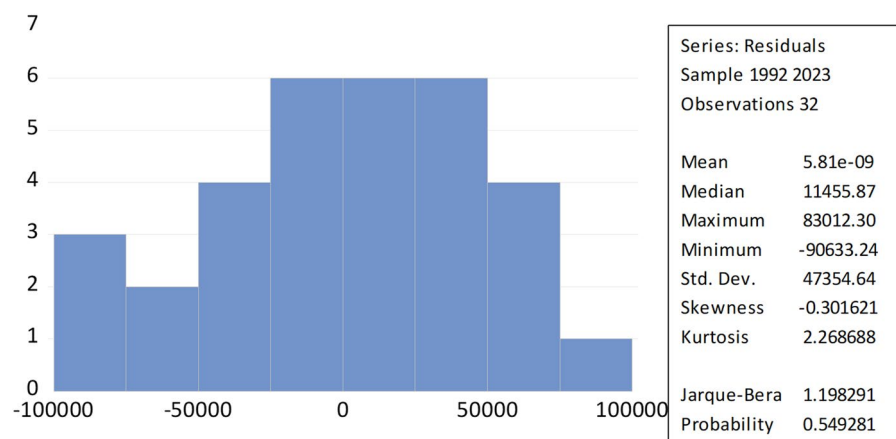
**Table 10.** Granger causality.

Null hypothesis ( $H_0$ )	F-statistic	Prob	Decision
HDI does not Granger Cause TR	4.630	0.010	Reject $H_0$ at 1%
TR does not Granger Cause HDI	10.366	0.000	Reject $H_0$ at 1 %
GovEff does not Granger Cause TR	3.625	0.040	Reject $H_0$ at 5 %
TR does not Granger Cause PS	7.480	0.002	Reject $H_0$ at 1 %
HDI does not Granger Cause Export	4.595	0.019	Reject $H_0$ at 1 %
Export does not Granger Cause GovEff	8.523	0.001	Reject $H_0$ at 5 %
Export does not Granger Cause PS	4.751	0.017	Reject $H_0$ at 5 %
HDI does not Granger Cause PS	4.634	0.018	Reject $H_0$ at 5 %
GovEff does not Granger Cause PS	5.692	0.008	Reject $H_0$ at 1 %
PS does not Granger Cause RL	4.609	0.019	Reject $H_0$ at 5 %

Source: EViews 12 analysis.

**Table 11.** Diagnostic test for the model.

Test	F-statistic	Prob
Heteroskedasticity (Breush-Pagan-Godfrey)	0.735	0.7293
Serial correlation LM test (Breusch-Godfrey)	0.164	0.8505



**Figure 4.** Histogram normality test.

model. Under the null hypothesis of coefficient constancy, values of the sequence outside the expected range suggest a structural change in the model over time. In this model, cumulative sums of residuals plot within the boundaries of the 5% significance level, which confirms this model's stability (Figure 5). Furthermore, an actual-fitted-residual graph is tested to detect non-linearity, unequal error variances and outliers (Figure 6). The residuals 'bounce randomly' around the 0line. This suggests that the assumption that the relationship is linear is reasonable. To conclude, the model passes the relevant tests which confirms the robustness of the results.

## 5. Theoretical and practical implications, and policy recommendations

### 5.1. Theoretical implications

Institutions are one of the few factors that play a decisive role in each area of society and the economy, and in the development of a country in general. Appropriate institutions will create motivation for development, and vice versa, while inappropriate institutions will become obstacles. Year by year, the Vietnamese government focuses its efforts on improving institutions to facilitate sustainable development in all economic sectors. The findings of this study provide insights on the government's role in promoting the development of Vietnam's tourism industry. Notably, the values of HDI and the 'rule of law' indicator increase annually and that has a positive impact on tourism revenue. Thus, one of the main goals of the Vietnamese government, that is, to build strong institutions and promote human development in all respects, has successfully contributed to the development of the tourism industry.

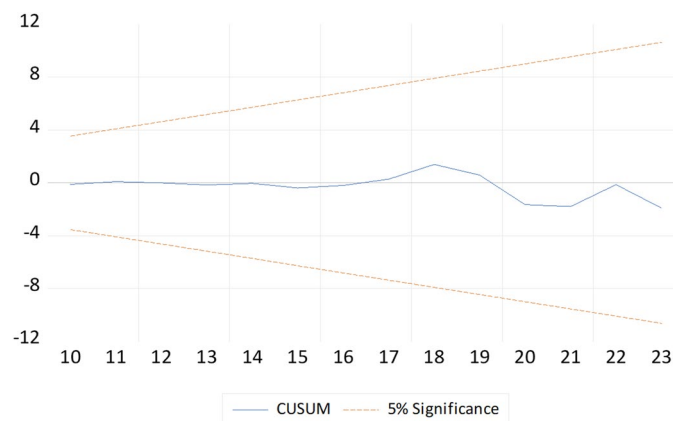


Figure 5. CUSUM test.

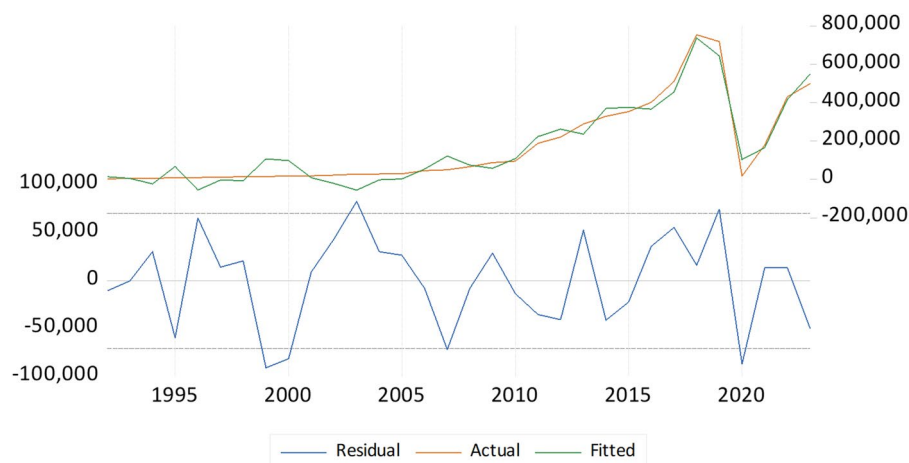


Figure 6. Actual-fitted-residual graph. Source: EViews 12 analysis.

This study supplements references for studies on good governance in Vietnam, especially for the tourism industry. Good governance promotes sustainable economic development, equitable society and improved quality of life. Nonetheless, there are variations in the impact of good governance across industry sectors. The different attributes of good governance seem to have influenced the performance of Vietnam's tourism industry to different degrees over the 34 years of the study (1990–2023). This is partly due to the priorities of the central government in formulating its strategy and the peculiarities of the tourism industry. It is also influenced by domestic and world events. Efforts to improve the government's governance capacity are aimed at facilitating comprehensive and long-term national development and promoting a favourable environment for all sectors of the economy. Tourism is considered a trend-setting industry, sensitive to crises and related to many other economic sectors. Therefore, the tourism industry requires sector-specific policies. While the present study provides an initial assessment of the relationship between good governance and the performance of the tourism industry, further studies are needed, using different analytical models, a broader range of Worldwide Governance Indicators (WGIs) and data from different intervals, to corroborate the above findings.

Furthermore, this study aimed to enrich the application of the ARDL model by exploring the short-run and long-run relationships between governance indicators and the performance of Vietnam's tourism sector. To the best of the author's knowledge, these observed variables are first used in an econometric model with a long time series (1990–2023).

## 5.2. Practical implications

In the long term, an increase in the HDI and 'rule of law' scores positively affects tourism revenue. Unexpectedly, the increase in 'government effectiveness', 'FDI's share in total annual investments in an economic activity' and 'export-to-GDP ratio' reduces tourism revenue. Furthermore, tourism revenue tended to increase annually correlated with the decrease in the score of 'political stability and absence of violence/terrorism'. The relationships of the variables are similar even in the short term.

The HDI serves as a composite metric encompassing dimensions such as knowledge attainment, longevity and the attainment of a satisfactory standard of living. The government's efforts to continuously improve Vietnam's HDI ranking is in line with its overarching goal of fostering sustainable economic development. This investigation provides evidence that a higher HDI score correlates with higher tourism revenue. This is in agreement with the findings of earlier studies, such as Kubickova et al. (2017) and Ridderstaat et al. (2022).

Likewise, an increase in the 'rule of law' score correlates with a rise in tourism revenue. Similar results are found in Gozgor et al. (2019) and Ejaz et al. (2021). Vietnam's legal system is just and rigorous. Since everyone's rights are upheld, everyone has equal access to education, healthcare and tourism services, and has opportunities for personal growth.

'Political stability and the absence of violence/terrorism' have been the foundation for economic development since the Declaration of Independence. For the purpose of maintaining stability, the government has introduced more stringent regulations related to security, immigration, official documents, etc., in all activities. However, it must be noted that Vietnam's 'political stability and absence of violence/terrorism' score has decreased slightly over the years as a result of greater economic openness, regional integration and globalization. In addition, the anti-corruption campaigns have been vibrant and resulted in changes in the list of government staff annually. However, Vietnam's tourism industry has taken advantage of resource diversity and human capital and has developed impressively to date. As a piece of evidence, although there is a decrease in 'political stability and the absence of violence/terrorism' scores over the years, tourism revenue kept growing up.

Economic openness leads to increased exports and flows of FDI capital. In Vietnam, the main export products are garments, electronic components, seafood and agricultural products. In line with the government's development strategy, Vietnam has allocated the most government subsidies and FDI capital to these fields. As a result, 'the exports-to-GDP ratio' has increased over the years and 'FDI capital' also flows into industrial hubs, attracting a large labour force. However, 'the exports-to-GDP ratio' and 'flows of FDI capital' did not support Vietnam's tourism industry. Although traditional products associated with

tourism activities (souvenirs, tailor-made garments, hand-made products) are quite diverse and unique, they do not attract FDI for product expansion and quality improvement. Therefore, their access to tourists is limited, leading to insignificant revenue from this activity. In addition, workers in the tourism industry face many challenges: physical appearance is overrated, there is a high demand for multi-skilled workers and the market is very volatile. The findings of the present study on Vietnam are contrary to that of many other studies (Brueckner & Lederman, 2015; Kong et al., 2021; Menyah et al., 2014; Tahir & Azid, 2015). The government in these countries (China, Indonesia, Japan and some African countries, etc.) took advantage of economic openness, balanced the development of all economic sectors, actively worked to attract more FDI capital into the tourism sector and launched sound policies that integrate tourism and export activities. These are strategies that the Vietnamese government should consider.

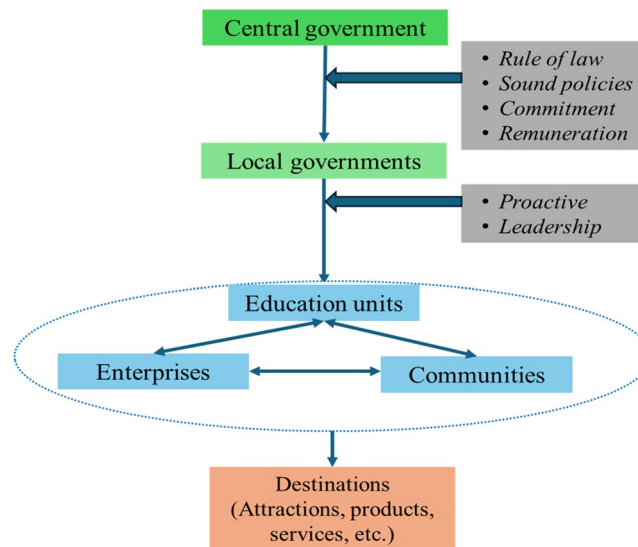
While the efficacy rating of the Vietnamese government has improved over the past three decades, it did not result in a commensurate development in the tourism sector. Vietnam's tourism industry showed considerable growth from the early 2010s onwards, but the introduction of the country's first official tourism policy in 2017, which aims to transform tourism into a key economic sector, further accelerated the industry's development. Prior to that, the tourism industry received less attention from the central government and it developed independently in different localities. Consequently, this study substantiates the assertion that the sustainable development of an economic sector necessitates the implementation of prudent policies by the government, coupled with meticulous planning. This underscores the imperative for 'prompt and earlier' decision-making and seamless collaboration between stakeholders to attain optimal outcomes. Its volatility, seasonality and dependence on other sectors of the economy, make it all the more important that the central government works out and implements a coherent national strategy for the long-term development of Vietnam's tourism industry. In addition, measures that aim to improve the efficiency of public policies and the quality of public services need to take into account their impact on related tourism products and services.

### **5.3. Policy recommendations**

In the literature, several recommendations have been put forward on good governance structure in the tourism sector. Connecting with the empirical results of the present study, some policy recommendations are discussed. Firstly, it is crucial to prioritize the establishment and maintenance of a standardized governance infrastructure that is uniform across central and local levels. Such a governance system would facilitate the transparent dissemination of information and documentation pertaining to tourism activities, ensuring equitable access for all 63 provinces in Vietnam. Secondly, the central government should promote a culture of collaboration and accountability among provinces. This would motivate local governments to expeditiously review materials disseminated by the central government and pose inquiries, and hence ensure that they promptly receive support. Thirdly, capitalizing on economic openness and integration is essential, as these open up opportunities for the government to engage in extensive consultations with preeminent experts in the field. This engagement can facilitate the formulation of more efficacious policies, strategies and promotional programs within the tourism industry.

The government needs to develop human resources as this industry demands a high level of expertise, proactiveness and engagement. In addition, government employees also need to be provided with adequate means to implement policies and programs effectively. Furthermore, it is necessary to promote the rule of law within the tourism industry, while ensuring a certain degree of flexibility to facilitate international tourism operations. As suggested below (Figure 7), the central government should also improve the compensation for the industry's workforce, taking into consideration reducing tensions and increasing dedication. As discussed, workers in the tourism sector are asked for a high-pressure capability on time working and good physical health, especially in the high season. A favourable compensation is a vital policy for recruitment as well as maintaining long-term dedication (Kostakis & Theodoropoulou, 2017; Kozic, 2019). Furthermore, local governments should also build leadership capacity, proactively develop policies appropriate to actual conditions and make use of local resources in order to improve the quality of tourism products and services, and hence increase their competitiveness both domestically and internationally.





**Figure 7.** Tourism governance. Source: Own work.

Tourism development policies need to be discussed and agreed upon with stakeholders. These policies should be developed based on the resources and potential of each destination. Vietnam is rich in tourism resources, all 63 provinces have tourism potential. In order to achieve breakthrough growth, provinces need to formulate their development strategies both by incorporating the overall goals of the central government and by making the most of local resources, identifying their market segment and contributing to a wider range of tourism products (at the national level).

In fact, on-site exports of the Vietnamese tourism industry have not created high revenue due to challenges, such as, quality and attractiveness of products and differences in exchange rates. Furthermore, the pricing of those domestic products and services which make them less attractive to Vietnamese than the services offered by international destinations within the region (Thailand, Singapore, Indonesia) i.e. Vietnamese rather spend their money abroad than at home. Therefore, the government needs to have solutions in place to formulate a reasonable pricing policy in order to boost a domestic market of 100 million people

International visitors coming to Vietnam are mostly from Asian countries, the reasons being geographical distance, access to information and simple procedures (Vietnam is visa-free for the citizens of some Asian countries). The European and American markets still have big potential for Vietnam. To create tourism products that are attractive to this high-end market, Vietnam initially should shortlist products and services that not only meet international standards but are also unique and worthwhile. Additionally, the government should invest more in tourism marketing and promote Vietnam as an attractive, friendly and safe destination. Not less importantly, the Vietnamese government should strengthen educational and cultural cooperation with major countries in Europe to create new opportunities and to attract more tourists. This would also promote trade relations, attract major investors in the tourism sector which would facilitate knowledge transfer and would help integrate tourism development into the process of overall economic development.

To conclude, government policies and governance capacity at all levels of government are major determinants of the performance of Vietnam's tourism industry. While the Vietnamese government is working to make its operations, in general, more efficient, this has not resulted in increased growth in the tourism industry. Therefore, in addition to its overall economic growth strategy, the government should introduce more sector-specific policies and regulations, review relevant administrative procedures and make more funds available to boost the tourism industry. Travel demand is currently on the rise globally, with quickly changing trends and a higher demand for quality products and services. Policies, strategies and promotional campaigns also should be reviewed on a regular basis in line with these developments. In addition, to further increase the effectiveness of tourism development programs, each province should formulate its own 'lower-level' tourism policies capitalizing on local resources and

promoting tourism products unique to the given locality. In addition, political stability and public safety are important factors contributing to the success of the destinations. However, regulations and administrative procedures should be further simplified and made more transparent in order to make Vietnam more attractive to investors and tourists alike. It is necessary to develop infrastructure connecting provinces, increase cooperation between provinces and build supply chains across provinces to ensure reliable sources of input, product quality and diversity, and hence increase competitiveness. Asia is particularly rich in natural and cultural resources. In order to increase their competitiveness in the international market, each destination should develop unique tourism products, create a distinctive brand identity and launch international marketing campaigns. In this respect, other Southeast Asian nations have an edge over Vietnam. This, in part, explains, why, historically, foreign visitors stayed longer and spent more money in e.g. Indonesia, Thailand and Singapore. Lastly, the government should allocate more funds to R&D&I activities as well as attract young people with high degrees to benefit from new scientific achievements in tourism development and then improve the efficiency of the industry in the future.

## 6. Conclusions

In an increasingly interconnected world, individual governments are required to have procedures in place to effectively deal with any potential threat arising in any part of the world irrespective of whether these are political, economic, social, or cultural in nature. This puts pressure on governments to continuously improve their governance apparatus. Extensive, in-depth research on institutions and governance can thus provide valuable input for policymakers.

This study looked at time series spanning 34 years (1990–2023), used an Autoregressive Distributed Lag (ARDL) regression model and variables highly relevant to good governance to scrutinize the government's efficacy in steering and fostering the tourism industry in Vietnam. The main findings provide some insights into the government's role in promoting the development of Vietnam's tourism industry. In particular, the higher values of HDI and the 'rule of law' indicator have a positive impact on tourism revenue. Thus, the main goals of the Vietnamese government, that is, to build strong institutions and promote human development in all aspects respects, has successfully contributed to the development of the tourism industry. However, the higher of 'export-to-GDP ratio', 'FDI capital flows', 'political stability and the absence of violence/terrorism', and 'government effectiveness' did not support Vietnam's tourism industry. Therefore, some policy recommendations were discussed, which focus on improving tourism governance.

The study, however, has some limitations that call for further research using different sets of variables and econometric models. Research on synergies between tourism and other economic sectors of Vietnam such as industry and agriculture further our understanding of the tourism economy. In addition, models that can forecast future shocks and consequent changes in tourism revenue with relatively high certainty should be constructed to help both the government and stakeholders minimize damage to Vietnam's tourism. Furthermore, the time series in this study is 34 years. Higher resolution time series, that is, monthly or quarterly data, could also yield new insights. However, Vietnam's incomplete digital data system poses some challenges in that respect.

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## Data availability statement

The data that support the findings of this study are available from the corresponding author, [Hoang Thi Phuong Thao], upon reasonable request.

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