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Tourism and Economic Growth

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Abstract: This study investigates the impact of international tourism on economic growth, a key concern for policymakers and investors. While prior research suggests tourism development can drive income generation, this study explores whether tourism's contribution to economic growth operates independently or through conventional income determinants like capital accumulation. Utilizing an extended Solow model, we analyze data from 109 countries, spanning 1995 to 2011. The findings reveal that tourism alone does not significantly promote economic growth. Instead, tourism contributes to sustained economic growth when integrated into broader development strategies emphasizing income-determining factors. This research highlights the need for governments to support tourism development in conjunction with policies fostering overall economic growth determinants. The implications are clear: strategic tourism investment must be aligned with enhancing standard income factors to realize long-term economic benefits.

Key words: Economic growth, tourism development, tourism-led growth hypothesis, income determinants, economic development.

Introduction. The question of whether a country's investments in foreign tourism can serve as a catalyst for economic growth is a crucial concern for policymakers and decision-makers. Tourism promoters Advocate consistently for investments and support, assuming that tourism is a reliable means of achieving economic growth. This can be achieved by either creating new attractions (Waitt, 2001; Getz, 2008) or improving infrastructure and amenities (Briedenhann & Wickens, 2004; Becker & George, 2011; Liasidou, 2012). Undoubtedly, international travel and tourism have a significant role in the global economy and represent the largest service industry in international trade (Lew, 2011). Over 80% of countries worldwide consider it to be one of their top five sources of foreign export income (UNWTO 2001a). foreign tourism has demonstrated considerable resilience to global economic downturns, maintaining a robust growth in foreign arrivals despite contractions in other global industries (Song & Lin, 2010; Abiven, 2012). Destinations view tourism as an opportunity to leverage their unique natural and cultural features to attract visitor spending, which in turn boosts the local economy, generates foreign currency, creates employment opportunities, and increases government tax revenues (Hindley & Smith, 1984; Mihalič, 2002;). Tourism, as a strategy for economic expansion, may result in fewer negative effects on the environment and society compared to extractive industries like wood and mining (Hall & Lew, 2009).From a macroeconomic standpoint, international tourism plays a role in generating export money for a location. Investment in export-led growth is a significant aspect of the development objectives of many nations. It is seen as the most secure way to achieve long-term economic growth and improve livelihoods (Nowak et al., 2007). Consequently, there is an increasing amount of scholarly work that examines the practical connection between the development of tourism and the expansion of the economy.

Methodology. The World Travel and Tourism Council (WTTC) concisely described the significant role that travel and tourism play in the advancement and expansion of the worldwide economy as stated below:

In 2013, the total contribution of Travel & Tourism to the global economy increased to 9.5% of global GDP, which amounted to US $7 trillion. This growth surpassed not just the overall economy but also other important sectors such as financial and business services, transport, and manufacturing. Travel & Tourism supported around 266 million employment worldwide in 2013, which accounted for 1 in 11 of all jobs. The persistent need for Travel & Tourism, along with its capacity to produce substantial employment, consistently demonstrates the significance and worth of the industry as a means for economic growth and the creation of jobs. (WTTC, 2014, Foreword)

This phrase alludes to a significant differentiation between economic growth and economic development, which is elucidated more explicitly by Cárdenas-García et al. (2013, 1-2): The expansion of economic activity has a favorable impact on a country's economic growth. Tourism is seen as an economic endeavor that has the capacity to boost worldwide economic expansion due to its compatibility with other economic activities, its contribution to gross domestic product (GDP), its ability to create jobs, and its generation of foreign exchange, among other factors. However, the true significance of tourism lies not solely in its contribution to overall economic growth, but also in its potential, under favorable structural conditions, to impact the economic and cultural advancement of society, thereby enhancing the well-being of the local population.

The main objective of this article is to examine the relationship between tourism development and general economic growth, rather than the relationship between economic growth and more specific economic development.

Readers can consult Lee and Chang (2008) and Sánchez-Rivero, Pulido-Fernández, and Cárdenas-García (2013) for the second option.

The increasing significance of international tourism development for economic growth has stimulated a growing body of scholarly research that examines the tourist-led growth hypothesis (TLGH) that forms the basis of this strategy (West, 1993; Uysal & Gitelson, 1994; Archer, 1995). The majority of research indicate a favourable long-term correlation between the development of tourism and economic growth.

These recommendations have been made for various countries including Greece (Dritsakis, 2004), Italy (Massidda & Mattana, 2013), Mauritius (Durbarry, 2002), Spain (Balaguer & Cantavella-Jorda, 2002), Taiwan (Kim et al., 2006), Turkey (Gunduz & Hatemi-J, 2005; Ongan & Demiroz, 2005), four Pacific Island countries (Narayan et al., 2010), seven major Mediterranean countries (Dritsakis, 2012), 21 Latin American countries (Eugenio-Martin et al., 2004), 55 OECD and non-OECD countries (Lee & Chang, 2008), and 144 countries (Cárdenas-García et al., 2013). The purpose of this research is to expand on existing work on the relationship between tourism and economic growth by examining the economic mechanism that explains the positive correlation between the two. The primary aim of this study is to explore a novel and significant research inquiry: Does tourist development act as an independent factor contributing to income growth, or does it primarily influence economic growth through the usual income determinants, such as capital accumulation?

The significance of this subject lies in its potential to shape policy decisions in divergent ways. If tourism contributes to income growth, it is recommended that all governments prioritize supporting the expansion of their tourism industry. However, if the impact of tourism growth on economic growth is mediated by standard income determinants such as capital accumulation, governments should only support the expansion of the tourism industry to the extent that it promotes growth in these factors. Investing in tourism without considering its impact on standard income factors may not provide long-term benefits to the economy.

The information provided The World Development Indicators (WDI) database, created from officially recognized international sources, is the principal collection of development indicators by the World Bank in 2014.

This data contains the most up-to-date and precise information on world development. The World Development Indicators (WDI) database includes over 1,300 annual time series indicators for more than 200 economies and over 30 nation groups. The database provides data for several indicators that span over 50 years. The World Development Indicators (WDI) is extensively utilized in contemporary economic growth research because to its exceptional quality and capacity to be compared internationally (refer to Kim et al, 2012). Additionally, we utilize the international tourist data from WDI not only for its credibility, but also because it is compatible with the national income accounting data employed in this analysis. Exports are quantified using the same methodology in both GDP calculations and when measuring foreign tourism receipts as a percentage of total exports. The sample we used for our analysis consists of 109 countries, chosen based on the availability of international tourist data from the World Development Indicators (WDI). The data covers the period from 1995 to 2011.

As per Gunduz and Hatemi-J (2005), we choose the count of international visitor arrivals as our indicator of tourism activity (TOUR). In order to ensure resilience, we furthermore present the findings using the metric of foreign tourism receipts as a percentage of overall exports. We prioritize international tourist arrivals as this data is accessible for a greater number of countries during our sample period.

In accordance with the literature on economic growth, the expenditure on research and development as a percentage of the gross domestic product (GDP) is utilized to quantify R&D, while the average number of years of schooling for individuals aged 25 and above is employed as a substitute for education. Furthermore, to ensure the reliability and effectiveness of our findings, we also provide the outcomes derived from alternative indicators of research and development (R&D) and education. These indicators include patent applications and the adult literacy rate, which represents the percentage of individuals aged 15 and above who possess the ability to read and write.

Results and Discussion. We contribute to existing research by demonstrating that tourist development impacts the economic growth of destinations through the conventional factors that determine income. The results of our research are significant.

Both theoretical and practical consequences. Our findings indicate that future research should prioritize examining the interaction between tourist development and conventional income determinants to better understand the relationship between tourism development and economic growth. Our findings indicate that governments should assist the tourism industry in its expansion by implementing strategies that simultaneously promote growth in the standard income elements. To a certain degree, this is frequently achieved during the development process, although it is rarely consistently executed in a clear and comprehensive manner. Multiple growth studies have discovered that the rise of tourist development is not autonomous, but rather occurs in cooperation with other economic strategies.

Sugiyarto et al. (2003) contended that the amalgamation of international tourism development and trade liberalization policies yielded favorable economic consequences for Indonesia, such as heightened economic output, diminished government deficits, and a decreased national trade imbalance. This phenomenon has also been observed in smaller tourist sites that possess a strong tourism reputation (Lanza & Pigliaru, 2000b; Armstrong & Read, 2000). Vanegas and Croes (2003) discovered that international tourism has been the dominant sector driving economic growth in Aruba, a Caribbean island, since the late 1980s. This success can be attributed to its integration into a wider export-oriented and neo-liberal economic policy strategy. An inherent continuation of our research is to explore the specific income factors through which tourist development has the greatest impact on economic growth. In order to tackle this problem, it is necessary to initially construct a more intricate model. The model should encompass the relationship between the components of production, technology, and the output of an economy. Additionally, it should consider how these factors and technology are influenced by their respective determinants, such as tourist development. Using this model, it is possible to estimate a set of equations to analyze the impacts of tourism development. Exploring this area of future research will provide significant insights into the most effective tourism policies. For example, if it is determined that tourism development primarily influences economic growth through its impact on research and development (R&D), then an ideal tourism policy could involve promoting business travel.

Summary

The findings of this study highlight that tourism development alone is not a sufficient driver of economic growth. Instead, its positive impact on economic growth is realized through its integration with conventional income determinants such as capital accumulation and infrastructure development. This underscores the necessity for policymakers to adopt a holistic approach to tourism investment, ensuring it aligns with broader economic strategies to promote sustained growth. The implications suggest that future policies should not isolate tourism development but rather incorporate it into comprehensive development plans that enhance traditional economic drivers. Further research is recommended to explore the specific income factors through which tourism exerts the greatest influence on economic growth, providing deeper insights into effective tourism policy formulation.

The topic of whether international tourism can stimulate economic growth is of significant importance. Policy makers must determine the allocation of public revenues and the distribution of incentives. Promote the sustainable economic well-being of individuals over an extended period of time. Although there may be some rare cases, the majority of past research strongly supports the idea that there is a clear and positive relationship between international tourism and economic growth. Since the late 1990s, these discoveries have been combined into the tourism-led growth hypothesis, which is widely acknowledged as a fundamental notion by proponents of tourism. It has been examined by tourism researchers using various cointegration modeling methods. We contribute to the existing research on Tourism-Led Growth Hypothesis (TLGH) by examining the economic mechanism that explains the positive relationship between tourism and economic growth. Our analysis reveals that without controlling for standard income factors, international tourism showed a statistically significant relationship with growth. However, once we considered the standard income determinants, tourism lost its marginal explanatory power. This was true even in major international tourism economies and when accounting for heterogeneity across countries. Our research indicates that the development of tourism has an impact on economic growth and income by influencing the factors that determine income. It is important to clarify that our research does not indicate that tourism has no impact on national or local economic development. Indeed, it certainly does. Nevertheless, our research indicates a shift in the objectives of tourism development, moving away from simply investing in tourism for its own sake. Instead, the focus is now on making tourism investments that strategically support the conventional factors that determine revenue. Tourism does not thrive in isolation. The success of a society relies on a well-functioning infrastructure that facilitates the transportation of goods and people. It also relies on a highly skilled, imaginative, and enterprising workforce that can adapt to new challenges and seize opportunities in inventive ways. Additionally, it depends on a government and civil society that foster the development of places that attract both residents and tourists. Thus, for the majority of nations, implementing a comprehensive and varied economic development strategy is more conducive to fostering international tourism growth compared to a limited approach that solely concentrates on tourism in isolation.

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