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Tourism Spending-Economic Growth Causality in 49 Countries: A Dynamic Panel Data Approach

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Abstract

Tourism is an important economic engine. According to the World Tourism Organization (UNWTO), the international tourism has grown steadily over the last sixty years; where it constitutes one of the leading sectors with the fastest growing in the world. "Tourism has become one of the main items of international trade. Today, international tourism is become the fourth largest source of export revenue after the oil industry, chemical and automotive. This study analyzes the relationship between tourism spending and economic Growth in 49 countries, using the panel co-integration and panel Granger causality tests. The results show a significant way which is a co-integrating relationship between economic Growth and tourism spending. The results also indicate bidirectional causality between tourism spending and economic Growth, which could be a good tool to prioritize the allocation of resources across industries to ensure a better tourism in general and economic outcomes. Investors and managers may also use this causality to identify the best time for investment and business strategies by observing the evolution of the performance of higher temporal hierarchy industries.

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1. Introduction

The tourist industry and traveling currently have become the largest and most diverse sector from worldly affairs. According to the World Tourism Organization (UNWTO), international tourist arrivals and revenues worldwide in 2013 were 1087 million and 1159 billion U.S. dollars, respectively (World Tourism Organization, 2014). The international tourist arrivals worldwide are expected to increase by 3.3% per year between 2010 and 2030, to reach 1.8 billion arrivals by 2030, according to the prospective long-term study of UNWTO tourism in 2030. Where, it is generally recognized that tourism plays a vital role in the economy of many state in the worldwide. According to (Gee, 1999), the magnitude of this industry results directly by the way that serves as a principal source to generate income, employment, private sector Growth and infrastructure development in umpteen countries. Due to these advantages, tourist development doesn't only stimulate the Growth of the industry, but also induces the overall economic Growth (Lee & Chang, 2008).

Therefore, stimulating economic Growth by the development of the tourism industry has frequently been taken as a major economic development strategy for the majority of developing countries. By dint of the growing importance of the tourism industry to the economy of a country, the matter to explore the causal relationship between tourism spending (a particular type of Export) and economic Growth has drawn more recent attention. However, the presence of a strong correlation does not necessarily imply a causal relationship. In general, the causal relationship can be one of the tourism spending to economic Growth, economic Growth in tourism spending, in either directions, or absence of causal link entirely. Indeed, understanding the causal relationship between tourism spending and economic Growth is important in the design and implementation of tourism policies. According to the trade-economic Growth relationship theory, the causal relationship between tourism spending and economic Growth has been synthesized into three testable hypothesizes within the literature: tourism-led economic Growth hypothesis, economic-driven tourism Growth hypothesis, and reciprocal causal hypothesis (Oh, 2005). The hypothesis of tourism-led economic Growth acknowledges a unidirectional causality relationship of the expansion of tourism to economic Growth. The assumption of economic Growth based on tourism, a unidirectional causality relationship from economic Growth to the expansion of tourism is evident.

Whilst, the mutual hypothesis asserts that the causal link between economic Growth and the expansion of tourism seems to be bi-directional, this implies that pressures in two areas are beneficial. Averting the causal relationship between economic Growth and the expansion of tourism has an enormous importance because it can furnish useful implications for the pertinent policy decisions. Although if there is no causal link between the expansion of tourism and economic Growth might be found, it provides an idea to reflect on the effectiveness of strategies for the tourism promotion.

A significant issue is, is there a long-run relationship between tourism spending and economic Growth? The reply to this query is the reason for the ranking of articles published in these relationships.

The remnant of this paper is organized as follows. Section 2 shows the study of the literature on tourism spending and economic Growth. Section 3 presents the data used in this study. Section 4 describes the methodology. Section 5, 6, 7 and 8 bring to light respectively why test the panel unit root, the approach of the Co-integration, estimating the long run cointegration relationship in a panel context, the Fully Modified OLS (FMOLS) and Dynamic OLS (DOLS) estimators and Panel Granger Causality. Section 9 reports the results from the empirical results analyses. Finally, conclusions and policy implications are presented in Section 10.

2. Study of the literature on Tourism Spending and economic Growth

Since the past several decades, it was the highlighting of the international tourism for the reason of that the international tourism has been steadily increasing as well as the weight of the tourism industry for the economy of many countries whether developed or developing countries. Although the weak global economic performance and the economic problems of the Arab Spring in 2011, the number of international tourists traveling worldwide attained

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