

Impact of Tourism Employment on Economic Growth

Madhumini, T. R. P

Assistant Lecturer, Department of Economics, Faculty of Social Sciences, University of Kelaniya, Sri Lanka.

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ABSTRACT

Tourism has become a major growth sector in developing countries. That is, tourism affects the economic growth of a country in different ways. Tourism contributes to various aspects of the economy such as foreign exchange earnings, employment, income generation, regional development etc. Accordingly, the main objective of this study is to examine the contribution of tourism employment to the economy. Accordingly, using quantitative data, the study found that tourism employment had a positive impact on economic growth in Sri Lanka during the period 2004 – 2023. Accordingly, the implication of this study is that policy makers should take policy measures to further identify tourism employment opportunities.

Keywords: Employment, Economic Growth, Tourism Sector, Economic Impact, Sri Lanka

INTRODUCTION

Tourism is now a rapidly expanding industry in rich and emerging countries. In addition, the country's economy depends on the production of conservative export goods, which is currently declining, and the tourism sector has emerged as the only viable option open to all nationalities. In developed countries, tourism develops as an economic activity integrated with social attitudes, while in underdeveloped countries it develops as an economic activity integrated with social attitudes (Pathirana, 2001).

Tourism has contributed significantly to the economic growth of many developing and developed countries. Generally in recent years, policy makers in developing countries have focused on economic policies to promote tourism as a potential source of economic growth.

Considering the benefits of tourism to a country's economy as a whole, it can be said that it shows a difference from the benefits of other economic activities. Especially in the developing countries of the world, tourism has been directed considering the various economic benefits it brings to a country. The economic impacts of tourism are multifaceted and include several key dimensions that significantly affect the overall economy of a destination. A primary positive effect is the stimulation of economic growth. Tourists who spend money on food, hotels, transportation and other attractions boost the local economy and create new jobs and services.

Another important aspect of tourism's economic impact is job creation, which is often facilitated by this surge in economic activity. Jobs in the tourism industry can be found in complementary businesses including retail, transportation and entertainment, as well as traditional tourism-related industries. Additionally, a destination's balance of payments is significantly affected by tourism-related expenditure inflows. As an export-oriented industry, tourism generates foreign exchange, which helps maintain a favorable balance of payments. This inflow of foreign exchange can strengthen the nation's financial stability, combat the trade deficit and increase its overall economic resilience. Therefore, the critical role of

the industry in promoting sustainable economic development in many places around the world is highlighted by the tourism sector's economic impact, growth, employment improvements.

According to the Keynesian approach, international tourism can be considered as an externality of aggregate demand that has a positive effect on average income and employment, thus leading to economic growth. Therefore, tourism activity is a crucial step as a major source of economic growth.

According to the World Travel and Tourism Council, travel and tourism revenues contribute US\$8.3 trillion, which is 10.4% of global GDP. The travel and tourism sector covers 313 million jobs and a massive investment of \$882 billion. The sector will increase by 4.6% in 2017 compared to just 3% growths in the global economy (Economic Impact World, 2018). Hence the significant importance, relevance and size of the industry make this an important topic of study and it contributes to the specific objective of my research.

The purpose of this thesis is to examine the relationship between tourism and gross domestication.

Theoretical Background and Literature Review

Tourism involves services such as transportation, communication, hotels and food, shopping and entertainment. Therefore it is not an action; It is a set of activities and services. Since tourism is associated with many economic activities, its contribution to economic growth is essential and there is a theoretical relationship between tourism and economic growth. It originated from the Keynesian multiplier theory (Tiwari, 2011). Multiplier effects mean that any government spending, regardless of the form of spending, brings about a cycle of spending that increases employment and prosperity. Tourism investment has income and employment multiplier effects in addition to direct income and employment effects. Tourist arrivals have a positive impact on increasing economic income in terms of local accommodation, food, transport facilities and entertainment services as tourism involves many goods and services. Due to the arrival of tourists, the current level of domestic production increases, which leads to an increase in income and employment levels. For example, one rupee of tourism expenditure increases domestic income by more than one rupee through the income multiplier effect, and one additional unit of employment in the tourism sector increases more than one unit of employment in the economy as a whole through the employment multiplier effect. . Therefore, under this approach, tourism makes a positive contribution by multiplying income and employment.

Another new concept used by Ashley and Mitchell (2006) is called pro-poor tourism. This means that tourism development will increase pro-poor income levels and employment opportunities, thereby reducing poverty. In other words, pro-poor tourism can be defined as tourism that provides net benefits to the poor. Because tourism is labor-intensive, tourism products can be built using natural and cultural resources, which are some of the few assets that the poor possess.

Lee and Chang (2008) investigated the relationship between tourism development and economic growth for OECD and non-OECD countries over the years 1990–2002. In their paper they focus on the panel cointegration technique to reinvestigate long-run co-movements. In addition, on a world scale, a synergistic relationship between GDP and tourism development was proven. They stated that tourism development in non-OECD states is superior. For the long-run effect, Lee and Chang (2008) found that the panel causality test proved that there is a unidirectional relationship from tourism development to economic growth in OECD countries. The relationship was bilateral among non-OECD countries, but only weak ties were found in Asia.

Dwyer, Forsyth and Spurr (2003) assess the economic impact of tourism growth and special events. They found that spending by international tourists increases GDP, economic growth and employment, while also helping to allocate scarce resources in the host country. (Dwyer, Forsyth & Spurr, 2003).

Using time series analysis, Onder and Durgun (2008) investigated the causal relationship between tourism revenue and employment in Turkey from 1980 to 2007. Their findings indicated that both tourism income and employment positively affected tourism.

Wall and Mathieson (2006) state that tourism-related spending can generate employment opportunities in direct, indirect and induced recipients, all of which increase overall employment in these countries. As a result, these linkages can benefit the economy, generating more income and employment opportunities. In the tourism industry, indirect employment has a greater impact than direct employment (Tlibs, 2010).

According to my knowledge, the recent research related to my study through the above literature review is limited. So I chose a study to show how tourism employment contributes to the economic growth of Sri Lanka.

BACKGROUND OF STUDIES

Sri Lanka is a nation with a land area of 65,000 km and a country of beautiful beaches based on more than 100 km of coastline in the Indian Ocean. Along with attractive landscapes, heritage sites, rainforests, etc. in the hilly area, she also has green tea plantation and other sustenance. Thus, Sri Lanka’s tourism industry is alive with natural beauty and resources.

Tourism in Sri Lanka is a labor-intensive industry and has the potential to provide employment opportunities to a large number of mostly poorly educated or unskilled workers. Since 2002, the total number of jobs generated by the Sri Lankan tourism industry has increased continuously over the last decade. In 2012, this industry provided 162,869 jobs, of which 41.6 percent were direct employment opportunities (Central Bank, 2012).

Accordingly, this study aims to study how much tourism employment has contributed to Sri Lanka’s GDP between 2004 and 2023.

RESEARCH METHODOLOGY

Using secondary data, previous researches, books, papers etc. are used to compare the information and how tourism employment in Sri Lanka affects the economy is analyzed here. Accordingly, in data collection, data is obtained quantitatively using secondary sources such as annual reports of the Sri Lanka Tourism Authority, reports of the Central Bank of Sri Lanka. Data from 2004-2023 is used as the basis for the study. The model is designed with the objective of identifying the field of study.

Y = Gross Domestic Product

X₁ = Employment of Tourism Sector

can be indicated. Accordingly the model,

$$Y^{\wedge} = \beta_0 + \beta_1 X_1 + u_i$$

RESULTS AND DISCUSSIONS

Descriptive Statistics

	Mean	Std. Deviation	N
GDP	697.1850	282.71763	20
Tourism_Employment	206.0460	62.06015	20

The mean value of gross domestic product is 697.1850 million and the mean value of tourism employment is 206.6460 million.

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.909 ^a	.827	.817	120.90816	.827	85.884	1	18	.000	.264

a. Predictors: (Constant), Tourism_Employment

b. Dependent Variable: GDP

It can be determined from the value of the coefficient of determination that the regression model explains 82% of the total variation in the dependent variable, Gross Domestic Product.

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1255517.835	1	1255517.835	85.884	.000 ^b
	Residual	263138.090	18	14618.783		
	Total	1518655.926	19			

a. Dependent Variable: GDP

b. Predictors: (Constant), Tourism_Employment

As per the table above, the model is statistically reliable overall as the significant value is 0.00 (0.05 > 0.00). This means that Tourism Employment affects GDP.

Coefficient Values

$$Y^{\wedge} = \beta_0 + \beta_1 X_1 + u_i$$

$$Y = 156.281 + 4.142X_1$$

The major finding of this research is that there is a positive relationship between Tourism Employment and GDP growth in Sri Lanka.

Here, when the Tourism Employment and over increases by one unit, the gross domestic product increases by 4.142 units. The parameter related to β_1 is statistically reliable. Here the significant value is 0.00 which is less than 0.05. So Sri Lanka's Tourism Employment has a statistically reliable effect on economic growth.

CONCLUSION

Tourism is a major contributor to the GDP of many developing countries. Accordingly, this study examined the contribution of Sri Lanka's tourism industry to the GDP during the period 2004-2023. Despite the fact that the tourism industry faced unprofitable conditions due to the Covid-19 pandemic, overall, the tourism industry made a high contribution to Sri Lanka's GDP during this period. Therefore, this can further contribute to the GDP by further promoting the tourism industry and generating new employment opportunities. This is the implication of this study for policy makers. That is, policy makers should implement various policy proposals to further promote the tourism industry.

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