

Impact of Tourism on Economic Growth: Evidence from Lebanon, Jordan and Turkey

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Abstract

Tourism sector is playing a crucial role in the development of the economy in Lebanon. Despite the regional political tension and local security issues, tourism activities have continued to grow in the last year.

The main purpose of this paper is to analyse the impacts of tourism indicators of Lebanon, Turkey and Jordan on their economic growth using panel data (cross sectional time series data) approach. Static linear panel data models were used for determining the effects of tourist arrivals (independent variable) on tourism contribution to gross domestic product (GDP) of Lebanon, Jordan and Turkey.

The analysis in this research discloses an adequately gauge of the impact of tourists' arrivals on tourism contribution to economic growth. The results showed that an increase of 1 % in tourists leads to a rise of 0.42 % in the tourism contribution to GDP.

The findings of this research are especially useful for Lebanon, Jordan and Turkey for developing convenient tourism strategies, and could significantly contribute to promoting sustainable and integrated development of the country.

Keywords: Tourism, Gross Domestic Product (GDP), Economic Growth, Sustainable Development, Competitiveness.

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Introduction

Tourism is considered as one of the Key sectors of development in the world and a main generator of income, employment and wealth.

In Lebanon, despite at first glance the Travel and Tourism sector was showing strength in the last few years, it encounters challenges that it needs to overcome in order to keep the development and wealth of the sector.

Moreover, the improvement of competitiveness in the tourism sector in Lebanon could significantly contribute to promoting sustainable and integrated development.

In 2019, the travel and tourism in Lebanon, Turkey and Jordan contributed respectively around 19.5%, 12.7% and 19.8% of the country's global GDP (WTTC, 2020).

The relationship between economic growth and tourism indicators has long been a popular issue of discussion in the literature of economic development. In this content, the main purpose of this research is to analyse tourism indicators of Lebanon tourists' arrivals and neighbours' countries and the tourism contribution to countries' economic growth using panel data approach. Annual data are used for the period 1997 to 2019. The data was gathered from the World Bank database and World Travel and Tourism Council.

Tourism development positively influences economic growth, but few studies have examined the extent to which tourism productivity influences sectors of the economy. Recently, studies have been conducted comparing the effects of tourism sector productivity on economic development. (Liu and Wu, 2019)

To analyse the tourism development and its impact on countries economic growth, it is important to study tourist inflows at a national level given the current competition in the tourism market between countries (Jansen-Verbeke, 1995).

Review of the scientific literature

Because of the importance of tourism in the economy and the expectations of governments that tourism will lead to economic growth and development, there is a significant literature to discuss the topic.

It has been argued that tourism is an easy, effective and relatively inexpensive tool to achieve economic health (Tosun, 2001).

In the last years, more attention has been paid to tourism by the governs because it has been seen both as a source of growth and employment and as a way of cultural promotion. Also, in the academic environment it has been debated up to several relations between economic growth and tourism. (Brida, Matesanz Gomez, and Segarra, 2020)

Economic growth can be associated with an increase in the number of tourist arrivals in two ways. First of all, through the contribution brought to companies (profit, investments), households (services, salaries) and the government (goods, services, taxes, duties) through the money spent on accommodation, food, shopping, attractions, souvenirs, transport. Second, tourist arrivals indirectly affect GDP through productivity spill-overs in situations where international companies in the hospitality industry operate in new destinations bring new ideas, personally. The new influences can inspire and motivate local entrepreneurs, setting new standards comparing to major international chains (Groes, et al., 2021).

There are many publications discussing the contribution of tourism to GDP, in which the absolute value of tourism GDP, the share of tourism in GDP and their changes over time are discussed /Archer and Fletcher (1996), Evensen (1998), Sharpley (2001), WTTC (2011).

As we are dealing with time series data for several countries, we relied in our paper on Mourad (2019) book dealing with panel data analysis, theory and practice, based on a great bibliography by examining all the sides that make this topic easily affordable by researchers. Also, with Mourad (2018a), a panel co-integration analysis was carried out by considering the impact of trade on GDP in the World's top ten economies.

Mourad (2018b) performed a panel data analysis using pedroni's approach to estimate the long-run equilibrium relationships between vital economic determinants and real GDP in GCC countries.

Research methodology

Graphic analysis of variables

Lebanon in figures. As we mentioned before, the tourism sector plays a crucial role in regional development, contributing to the development of the economy and job creation. Despite the regional political tension and local security issues, tourism activities have continued to grow in Lebanon in the last year.

The travel, tourism and hospitality industry is a significant contributor to the Lebanese economy. According to the World Travel and Tourism Council, tourism contribution reported an average of 19% to GDP in the period from 1997-2019. This ratio reached a high record of 34.4 % in 2003 showing an improvement in tourism activity compared to previous years whereas it experienced a low record of 1.1% in 2000.

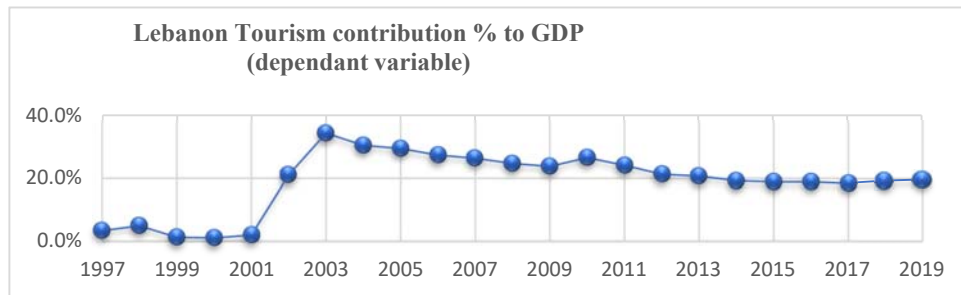


Figure no. 1. Tourism contribution to GDP in Lebanon from 1997-2019

Source: Lebanon Ministry of Tourism, 2021

The tourist arrivals show a steady increase from 1997-2004 and experienced a continuing fall in the following years after the deterioration of the political situation in Lebanon due to Prime Minister’s assassination in 2005.

One year later the Israel’s war on Lebanon caused a continued drop in tourist’s arrivals to nearly 1 million tourists. This sector started to improve through 2007-2010 whereby the number of tourists amounted to 2,168,000 in 2010 reaching its high record. However, the eruption of Syrian crisis along with the local security instability through 2011-2014 has highly affected the flow of international visitors to the region in general and to Lebanon in particular.

The latter experienced a sequence of terrorism attacks in many regions of its land especially in Beirut, in addition to the kidnap of Estonian tourists in Lebanon in 2011 This situation improved from 2015 as the government strengthened the local security and won the war against terrorist later in 2017. However, in the last quarter of 2019 the tourists dropped with the start of “October revolution” as a cause of the financial crisis that the country experienced, recording a 1.72% annual decline in total tourists.

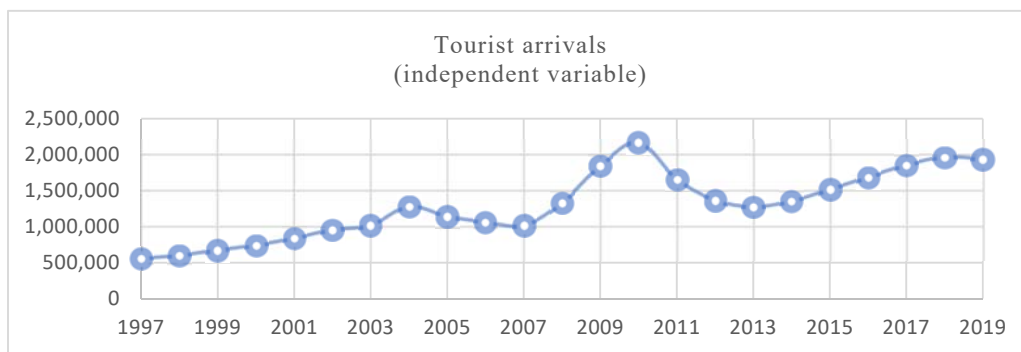


Figure no. 2. Annual tourists to Lebanon from 1997-2019

Source: Lebanon Ministry of Tourism, 2021

Turkey in figures. Tourism and hospitality industry is a major contributor to the Turkish economy and it is growing in importance (Gokovali, 2010). Tourist arrivals witnessed a strong steady growth in

turkey in the period from 1997 until 2015 whereas the foreign tourists visited Turkey was around 9 million in 1997 and grew around 316% in 2015 hitting 39.5 million. (WTTC,2011).

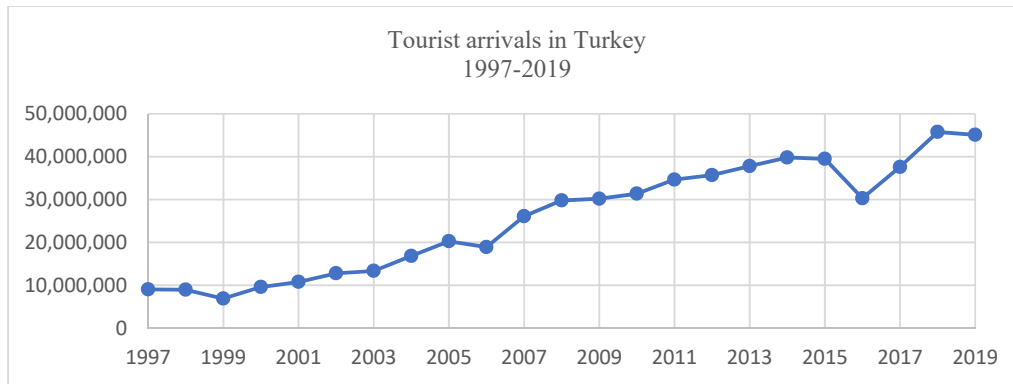


Figure no. 3. Tourism contribution to GDP in Turkey from 1997-2019

Source: Ministry of Culture and Tourism of Turkey

Tourist Arrivals in Turkey averaged 25,698,565 from 1997 until 2019, reaching an all-time high of 45,768,000 in 2018 and a record low of 6,893,000 in 1999 whereas Turkish tourism faced serious crises following the two earthquakes in the industrial northwest region of Turkey in this year (Yolal, 2010).

The terrorist attacks and the political conflict with Russia caused a drop of tourist arrivals in 2016 by 23.8 %. This number accounted a rise by a year-on-year as the ties between Turkey and Russia have normalized.

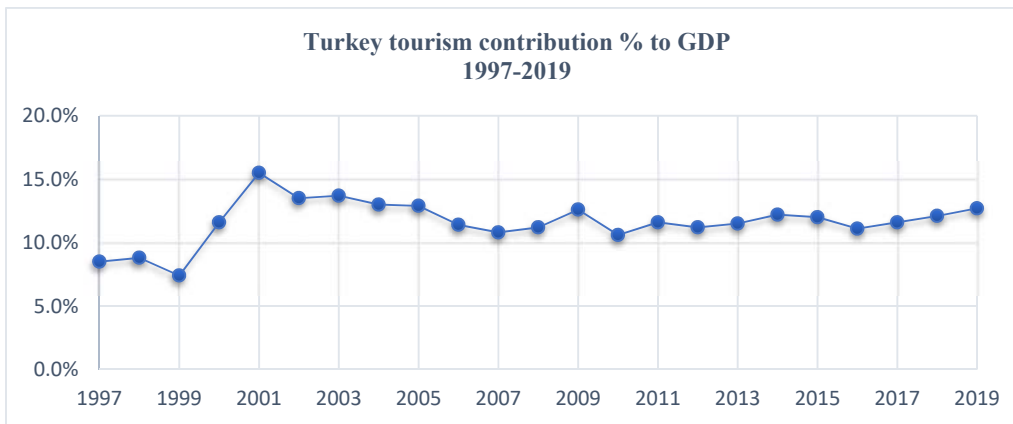


Figure no. 4. Annual tourists to Turkey from 1997-2019

Source: Ministry of Culture and Tourism of Turkey

These figures reveal the total contribution of tourism sector in GDP, whereby this number varied over this period from its low record 7.4% in 1999 to 15.5% its high record in 2001. However, Turkey contribution of travel and tourism to GDP (% of GDP) fluctuated substantially in recent years, it reached its peak of 15.5% in 2001 and tended to decrease through 2002 - 2019 period ending at 12.7 % in 2019 (WTTC, 2019).

Jordan in figures. While Jordan is a country of limited resources, Tourism is considered as a major income source for the national economy. Over the past few years, The Jordanian tourism sector remains

to grow steadily after resisting many difficulties imposed by the different challenges in which the region has faced that include the Global Financial Crisis as well as the (Arab Spring) revolutions in 2011.

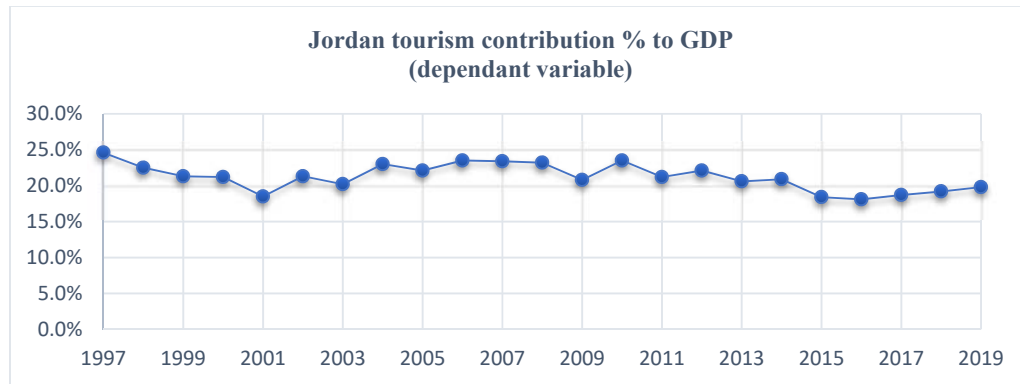


Figure no. 5. Tourism contribution to GDP in Jordan from 1997-2019

Source: Ministry of Tourism and Antiques of Jordan

Jordan which is heavily reliant on the tourism industry, has experienced a steady growth through 2001-2010 revealing the strength of the tourism sector which contributed an average of 21.2% to GDP. However, it experienced a drop in tourism arrivals by 11.7% after the outbreak of political turmoil between Israelis and Palestinians in 2000 (Beirman, 2003).

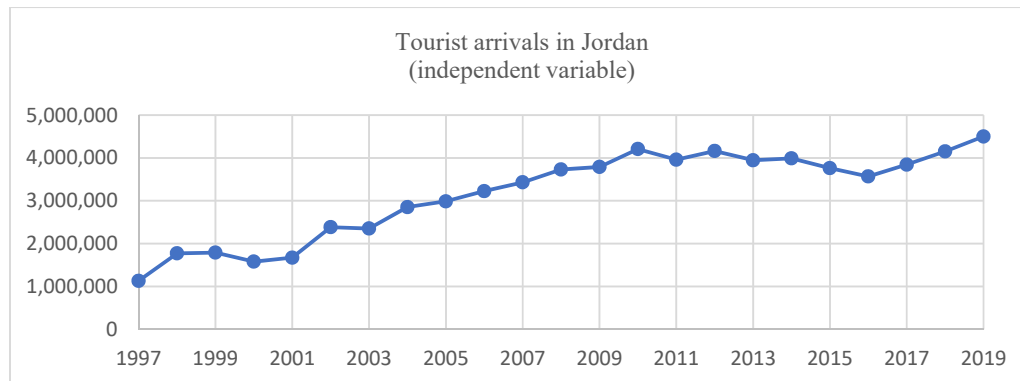


Figure no. 6. Annual tourists to Jordan from 1997-2019

Source: Ministry of Tourism and Antiques of Jordan

The number arrivals to Jordan during 2011 stood at 6.8 million compared to 8.1 million recorded back in 2010 representing a drop of 16% over 2010. Arab Spring revolutions addition to the war in Syria likely caused the stagnation in tourism in Jordan from 2011 to 2014 as well as the precipitous drop that happened in 2015 and continued through 2016. However, this indicator recorded a steady increase from 2017 until 2019 where it reached its highest record of 4.5 million tourists.

Still, the total tourist arrivals to Jordan averaged an amount of 3,164,457 tourists through the period of study.

Panel data modeling in tourism and contribution to GDP

X: Tourist arrivals (independent variable)

Y: contribution to GDP in percentage (dependent variable)

Database: 1997-2019 (23 years)

Countries: Lebanon, Turkey and Jordan

The two variables are calculated in natural logarithm.

Panel Regression - Estimation by Random Effects model is considered to deduce the equation describing the relation between the variables of study. Eviews program is used to analyse the relation between the variables.

For a deeper theoretical understanding of these models, we guide researchers to Mourad (2019, p. 156-209). Log-transformed data is considered.

Panel Data is set of data obtained by observation of the characteristics of a variety of units (cross-sectional variables) over time (Ahn and Moon, 2001).

Panel data sets that thousands of cross sectional units observed through the time are used in many micro-economic researches (Hill, Griffiths and Lim, 2008). Panel data offer more explanatory data, more variability, more degrees of freedom, less co-linearity among the variables and more efficiency (Baltagi, 2010). Panel data analysis can be considered as a combination of regression and time series analysis (Frees, 2004).

Because panel data has time based dynamics with the observations of cross sectional data repeated through time, the effect of unmeasured variables can be controlled (Hsiao, 2003). With the use of cross-sectional observations over time, panel data analysis provides more clarification character, less co-linearity and more degrees of freedom and efficiency than only cross sectional analysis or time series analysis.

Table no. 1. Panel Regression - Estimation by Random Effects

Variable	Coefficient	Std. Error	t – Statistic	Signif
Constant	-3.6785	2.4413	-1.507	0.132
X	0.4188	0.1568	2.672	0.008
RSS = 21.54032 S_u = Standard error of estimate = 0.594239 S_α = Individual – specific standard error = 0.8822 S_ϵ = Purely random standard error = 0.6029 Hausman Test(1) = 1.68 Significance Level = 0.195				

Source: Eviews output

Results and discussion

In this paper, we used panel data approach to analyse the effect of tourists' inflows on economic growth (GDP) of Lebanon, turkey and Jordan over 1997-2019 period. The main findings of random effects model indicate that tourists' arrivals positively affect tourism contribution to economic growth.

Furthermore, the analysis of tourism indicators (tourist's arrivals, and tourism contribution to GDP) through 1997-2019 for the countries of study showed that the tourism downturn happened in many periods was mainly due the regional political disruption, local and surrounding security issues.

Conclusions

Political instability generates negative publicity, which results in the unescapable drop in tourist arrivals. However, Mass media plays a crucial role in conveying the image of a destination so that it can attract or detract potential visitors. (Hall and O'Sullivan 1996, cited in Thapa 2003).

This sector will continue to be strong so long as the development takes place in an integrated and sustainable manner, along with the rise of a number of challenging headwinds. Tourism destination planners need to constantly monitor the image of their country and to work with national governments towards stability and the safety and protection of tourists and local populations alike.

Incorporating tourism crisis management planning into the country's overall sustainable development and integrating marketing strategies along with local mass media could help to protect and rebuild the country image of safety and attractiveness.

Further comparative studies about the impacts of tourism sector on growth in the country of study, will be conducted by researchers as it could help in setting strategies that contribute to the reduction of unemployment and poverty.

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