

Impact of Tourism Industry on the Economic Growth of Sri Lanka

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Abstract

In Sri Lanka, tourism has been identified as the third largest and fastest growing source of foreign currency in 2018, after private remittances and textile and garment exports, accounting for almost \$4.4 billion or 4.9 percent of gross domestic product in 2018. Tourism industry is a key element which accelerates the economic growth by earning high foreign exchange and reducing poverty by providing direct and indirect employment opportunities to locals. This study primarily investigates the impact of between tourism sector on economic growth by employing Augmented Dickey Fuller's unit root test, correlation analysis and regression analysis. Annual data from 1989 to 2018 was used. The dependent variable was economic growth while tourists' receipts were independent variable. Strong and positive correlation was explored between tourists' receipts and economic growth meanwhile the results of regression analysis indicate that tourists' receipts significantly impact on the economic growth.

Keywords: Tourists receipts, Economic growth, Foreign exchange

1. Introduction

1.1 Background of the Study

Trade in services such as tourism, transport and computer services sector bring notable surplus to every country in the world as it increases foreign exchange income and employment opportunities. Tourism industry plays a significant role in promoting economic growth of developing countries. The number of international tourists exceeded 1 billion in 2012 and it is estimated that this number will go beyond 1.8 billion in 2030. Sri Lanka is a beautiful island which is located in the Indian ocean. It is an iconic country among world tourists for its fabulous tourist destinations like sand beaches, natural harbours, hills, mountains, forests, sanctuaries, ancient monuments, temples etc. Anuradhapura, Arugam Bay, Adam's Peak, Batticaloa, Bentota, Beruwala, Bundala National Park, Colombo, Dambulla, Ella, Galle, Hambantota, Hikkaduwa, Horton Plains, Jaffna, Kalkuda, Kandy, Katunayake, Kitulgala, Knuckles Range, Pasikuda, Pinnawela, Polanaruwa, Sigiriya, Trincomalee, Weligama, Wilpattu National Park and Yala National Park are some of the popular tourist attractions in Sri Lanka. Sri Lanka tourism sector is featured prominently with rapid growth but three decades of civil war between Sri Lankan government and Liberation Tigers of Tamil Eelam challenged tourism industry. The Sri Lankan government declared the end of the 26-year civil war between the Sri Lankan government and the Liberation Tigers of Tamil Eelam (LTTE) on 18th of May, 2009. After the end of local war, the tourism industry started to flourish in Sri Lanka. Main purpose of this study is to find out the impact of tourism income on economic growth in Sri Lanka.

1.2 Tourism and Economic Growth

The contribution of tourism industry in economic growth has become an important factor. The tourism industry attracts Foreign Direct Investment (FDI) inflows which support sustained economic growth. As tourism has started to boom, Foreign Direct Investment inflows have also been rising. The tourism industry contributes to the economic growth and development is reflected in the form of exports since it represents 40 percent of all exports of services, making it one of the largest categories of international trade (UNWTO, 2006). According to the estimates of the World Tourism Organization (2000), the number of international people movements around the world will surge to 1602 million by 2020, while tourism receipts will reach some US\$200 billion. The enhancement in tourism industry led to a growth of household incomes and government revenues directly and indirectly by means of multiplier effects, improving balance of payments and provoking tourism promoted government policies. As a result, it is believed that the development of tourism brings a positive contribution to economic growth (Khan, Phang, & Toh, 1995; Lee & Kwon, 1995; Oh, 2005). Tourism industry reduces unemployment rate and poverty.