

An Analysis of the Relationship between the Real Gross Domestic Production (RGDP) and Tourism Sector: An Econometric Study on Sri Lankan Perspective

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Abstract

This study targeted to find the relationship between the Real Gross Domestic Production and the tourism industry which was one of the key industries in promoting economic growth and development in Sri Lankan context. The variables used in this study were Real Gross Domestic Production, Tourism Receipts/Income, Tourists Arrivals, Tourism Employment and Dummy (1/0). The dependant variable was Real Gross Domestic Production and the rest of the variables were independent variables. The Dummy stood for the war period or not by defining '1' for the war period and '0' for non-war period in Sri Lankan context. The data used in this study were collected from the annual reports of Central Bank of Sri Lanka for the time period of 1970 to 2014. The quantitative methodology used in this study was based on the econometric analysis using the Statistical Software of E-Views, Minitab and MS Excel in collaboration with the parametric and non parametric analyses. The time series econometric techniques such as Augmented Dickey Fuller for unit root test, Engle Granger for co-integration and Granger causality test for causal relationships between the variables were used in this study. This study found that a positive relationship existed between tourism receipts and economic growth in the long run and the unit root test resulted in the stationarity of the variable. The Granger causality test showed the two way causal relationships from Tourism Receipts to Real Gross Domestic Production and from Real Gross Domestic Production to Tourism Receipts. This study prominently suggested for the government and policy makers to keep on focusing on the economic policies to be designed for the promotion of tourism industry as one of the prospective sources for economic growth and development in Sri Lanka.

Key Words: *Tourism Industry, Parametric, Spuriousness, Granger Causality, Augmented Dickey Fuller*

I. Introduction

Modern tourism in Sri Lanka expanded rapidly after 1966 when the government established the Ceylon Tourist Board, now called the Sri Lanka Tourism Board (SLTB). The government of Sri Lanka recognized the tourism industry as a prominent and potential sector of growth in the post-war development with a target of attracting 2.5 million tourists by 2016. There are 39 tourist attractions all over Sri Lanka (Ismail, et.al. 2012). The number of tourist arrivals reached a peak of 407,230 but then declined to 337,342 arrivals in 1983 due to the ethnic tension between Sinhalese and Tamils.

Tourism industry has experienced persistent expansion and has achieved a significant source of global economic output over the past six decades. Tourism has been identified as one of the fastest growing industry in the world. According to the United Nation World Tourism Organization (UNWTO), tourist visits have grown from about 900 to 940 million last year and the figure is projected to rise to 1.6 billion by the year 2020 and UNWTO states that tourism is the largest industry in the world with an estimated 11.5 percent of the world GDP and employing about 12.5 percent of the world's work force (Halter & Randle, 2012). International tourist arrivals calculated as 25 million in 1950, 278 million in 1980, 528 million in 1995, and 1,035 million in 2012 and 1.8 billion tourist arrivals are forecasting the year 2030 (UNWTO, 2013). Travel & Tourism is an important economic activity in most countries around the world. As well as its direct economic impact, the industry has significant indirect and induced impacts. The UN Statistics Division-approved Tourism Satellite Accounting methodology (TSA: RMF 2008) quantifies only the direct contribution of Travel & Tourism. But WTTC recognizes that Travel & Tourism's total contribution is much greater, and aims to capture its indirect and induced impacts through its annual research (WTTC, 2014).