

## A Review on the Impacts of Tourism and Hospitality on Economic growth of a Nation

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### ABSTRACT

Tourism and hospitality play dynamic roles in the economic growth of many nations. Tourism is usually seen as an instrument of employment and income generation. It enhances foreign exchange earnings through commodities trade and importing of capital goods, required services, and manufacturing segments of the economy. This review explored all the economic growths that every nation that embark on tourism can get. From this review it can be seen that tourism and hospitality contribute to gross domestic product and foreign direct investment. Tourism is the main employer of labor in the globe and jobs created by tourism spreads across the economy in areas of construction, telecommunications, retail and manufacturing, thus, creating jobs in large number for young people, women, and minorities whether in small or medium size companies. In rural areas, tourism is being used as a strategy for agriculture and community development. In conclusion, every nation especially developing ones should be encouraged to invest in tourism and hospitality because of numerous economic growths that are associated with tourism and hospitality industries.

Keywords: Economic growth, tourism and hospitality, nations and development.

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### INTRODUCTION

The importance of tourism cannot be underemphasized as tourism stands out to be among the first three major and rapid growing industries in the world [1]. Among the three are technology, and telecommunication. Apart from oil, tourism is the next world leading export commodity. In recent times, the United Nations World Tourism Organization (UNWTO) embarked on a project from 2005 to 2007 to create a common glossary of terms for tourism [2]. It defines tourism as a social, cultural and economic event which entails the movement of people to countries or places outside their usual location for personal or business/professional purposes [3]. These people are called guests (which may be either tourists or excursionists; residents or non-

residents) and tourism has to do with their activities, some of which imply tourism expenditure. In other words, tourism is the movement of people for a number of purposes (whether business or pleasure). It is important to understand the various groups and constituencies involved in this movement. Of course it includes the tourist, but also the vast array of businesses providing goods and services for the tourist, the government and political structure of a destination, and the local residents of the destination community itself [4]. Each of these components is necessary parts of a successful tourism destination and operate within private and public sectors, the built environment, and the natural environment. All these come

together to create the processes, activities, and outcomes of tourism [5]. Tourism is widely perceived to be an effective vehicle for development. For many countries, this sector is considered a powerful stimulator of national economies because it affects those economic sectors associated with it, and at the same time creates jobs, increases domestic demand, contributes positively to the balance of payments and allows a better reallocation of wealth [6].

Tourism contributes to raising the investment speed in tourist destination places via the creation of amenities and infrastructure required for the production of tourism goods and services, which demand high levels of investment, both public and private [7]. Despite the high levels of investment in road and rail network and equipment, tourism development is less demanding of capital than is the case for most industries, since tourism activity are characterized by the prevalence of small-and medium sized enterprises (SMEs), which cover a great array of products and services [8]. Hence, the high level of investment in tourist infrastructure and superstructure are carried out by the

state and should be considered as a means to stimulate employment, economic growth and the social promotion of small investors [9].

Tourism can play a dynamic role in the economic growth of developing as compared to developed nations [10]. Tourism development is viewed as an instrument of employment generation and income [11]. Tourism enhances foreign exchange earnings through commodities trade and importing of capital goods, required services, and manufacturing segments of an economy [12]. The trends suggest three types of the economic impact of tourism development: direct, indirect, and induced [13]. An example of the direct economic impact of tourism is the increased revenue of hotels, restaurants, and tourism organizations [14]. The indirect impact occurs from flows such as hotel and restaurant purchases supplies by firms at the destination [15]. Induced impact occurs when the beneficiaries of direct and indirect impacts (such as firm owners, employees) spend their income. Hence, tourism development influences various sectors of the economy through multiplier effects [16].

#### **CONTRIBUTION OF TOURISM TO GDP AND FDI**

The input of tourism to Nigeria's GDP from government revenues generated via levies on the hospitality sector (which includes registration and other charges) is put at N1.149m in 2004, while in 2009 N100 million was

generated [17]. The tourism industry contributed the sum of N1, 232.2 billion in 2011. The WTTC also predicted that the figures will increase by 6.5% in the 10 years. Trends suggest that tourism is a determinant of foreign direct investment (FDI) in a country [18]. Also

an increase in tourists demands more tourism-related amenities and facilities (such as hotels, bars, casinos, beaches) that would require more investments. International restaurants, hotels, and food chains are investing in every potential corner of the globe to meet the increased tourism demand [19]. [20] suggests that foreign investors visit the destination country to identify potential investment opportunities. Investment in

tourism leads to better infrastructure, new tourist attractions, and better transportation [21]. Tourism development relies on good public and private infrastructure [22]. The tourism industry can influence public policy for infrastructure upgrades and can provide the required capital investment by attracting tourists and foreign investments [23].

### **TOURISM CONTRIBUTION TO EMPLOYMENT**

Tourism is the main employer of labor in the globe and jobs created by tourism spreads across the economy in areas of construction, telecommunications, retail and manufacturing, thus, creating jobs in large number for young people, women, and minorities whether in small or medium size companies [25]. It has been estimated that tourism is the sector with the biggest employer of labor in Nigeria as it is generating employment for millions of people and its effect rubs on every aspect of people from taxi drivers to Bank managers [26]. In 2002 the tourism industry generated an estimated 199 million jobs that is one in every 13 jobs worldwide [24]. And as at 2009, tourism in Australia made a direct contribution to the economy of 4.7% of total employment, while in Nigeria as at 2011, the Travel and Tourism industry was forecast to directly generate a total of 897, 500 jobs in 2012, and that happens to comprises of 1.4 % of total employment in Nigeria. However, the number of jobs generated

via tourism going by the prediction for 2012 is rather too low.

The great advantage of tourism is that it is labour intensive [24]. An increase in production is normally achieved by an increase in employment [24]. This is beneficial for those economies that need to reduce unemployment rate. On the other side, tourism can create shock in the job market rising wages in the service sector and inducing mobility across sectors [11]. Being labour intensive, tourism is likely to be more effective in countries where unemployment prevail than in countries where the economy tends to be at full employment [11]. More people in developing countries can be employed as the tourism develops while the development of tourism in the developed nations may result in using other sectors' labour force, reducing their performances [12]. The rapid expansion of international tourism has led to significant employment creation. For example, hotel accommodation

sector alone provided 11.3 million jobs

in 1995 worldwide.

### **TOURISM AND AGRICULTURE DEVELOPMENT**

Tourism has significant backward links with the agriculture sector [25]. In rural areas, tourism is being used as a strategy for agriculture and community development [26]. The literature on the empirical investigation between tourism and agriculture development is quite silent. Scholars have suggested that tourism increases the demand for local food products, which provides support for agriculture development, hence increases the economic multiplier effects [27]. Sustainable cuisine is

essential for an authentic tourist experience, supporting local agriculture production [28]. Enhanced links between agriculture and tourism present significant opportunities to stimulate local production, retain tourism earnings in the locale, and improve the distribution of economic benefits of tourism to rural people [27]. These demands can result in a variety of positive outcomes [28]. Agro-tourism can generate additional income while enhancing the value of the tourism experience.

### **TOURISM DEVELOPMENT AND POVERTY**

There is a lack of empirical investigation in the literature on tourism development and poverty alleviation. Tourism is considered an essential tool

for developing economies, noticeably in generating foreign exchange, attracting international investment, increasing tax revenue, and providing job opportunities [29].

### **TOURISM CONTRIBUTION TO FOREIGN EXCHANGE EARNINGS**

Tourism is a potential source for income generation especially through foreign exchange as it further transcends with a multiplier effect to the rest of the whole economy [30]. Ghana recognizes tourism as one of the main sector in her financial system recovery program and is currently its third foreign exchange earner after mineral and cocoa. Tanzania, a Southern African country account for about 5% of foreign exchange from her tourism, even Kenya earns about US \$128 million from tourism [31, 32, 33, 34, 35]. From all these it can be seen that tourism has the

potential to serve as a foreign exchange. The government of Nigeria in view of tourism's contribution via her erstwhile president, Olusegun Obasanjo put in place machineries to revamp the tourism sector and to enhance it as a major revenue earner. This came particularly at a time of economic depression and to diversify her economic base from petroleum [36, 37, 38, 39]. Income is earned via tourists expenditures which is further injected into the destination's economy having rendered services like accommodation, food, drink, local transport,

entertainment and shopping [10]. An increase in the exchange rate has negative influence on export quantity of demand of tourism products and it also decreases the demand on tourism expenditure by government. Again, an

increase in world's economy also contributes to tourism exports of North Cyprus. The economy of North Cyprus is currently experiencing an increase in its real exchange rate as a result of the political stability of Turkey [40, 41].

#### **TOURISM CONTRIBUTION TO TAXATION**

It is typical to find in most tourism literature that tourism also contributes to a nation's wealth through tax levies on foreign purchases, hotels, travel agents, tour operators, and other commercial activities from tourism via the National Tourism Corporation and States Tourism Boards [11]. There are direct and indirect contributions to a nation's economy via tourism arising from tax. Direct contributions could

come through taxes levied upon incomes from tourism employment and tourism businesses, and also direct levies on tourists such as departure taxes and duties levied on goods and services supplied to tourists [1]. WTO estimates that revenue generated from travel and tourism worldwide as a result of direct, indirect, and personal tax alone in 1998 was over \$800 billion [6].

#### **TOURISM IMPACT ON OTHER INDUSTRIES**

Tourism generates finance for infrastructure development and generally increases citizen's welfare [4]. It has also influenced Nigerian aviation industry with the coming in of capital flights associated with oversea trip and an expansion of the same industry which had Nigerian Airways for a monopoly between the periods of 1985 to 1992 [7]. The increase is to the effect that as from 1992 there had been an influx of over 25 different carriers in the

country. Tourist upon visitation, patronize local folk art such as straw baskets, hats, wooden carvings, ornaments, trinket and help improve the living standards of host areas [3]. Tourism comes with a multiplier effect that rubs on other sectors of Nigeria's economy, namely: financial institutions, hospitals, transport, agriculture, environment and aviation [8].

#### **TOURISM AND ECONOMIC GROWTH**

Tourism can play an active role in the financial growth of developing as compared to developed nations [17]. Tourism growth is viewed as an instrument of employment generation and income [22]. Tourism enhances

foreign exchange earnings through commodities trade and importing of capital goods, required services, and manufacturing segments of an economy [18]. The trends suggest three types of the economic impact of tourism development: direct, indirect, and

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and indirect impacts (such as firm owners, employees) spend their income. Hence, tourism development influences various sectors of the economy through multiplier effects [20]. The literature suggests bidirectional, unidirectional, and no causal relationship between tourism and economic growth [32].

### TOURISM AND TRADE

Tourism sector in general does not have as much restrictions as other export-oriented activities where countries try to protect local production by imposing high entry fee for imported products. This is due to the fact that tourism goods and services are consumed in the country provider [7]. This is favourable when considering trade advantages that may be spread to local economies instead of benefiting outsiders [8]. Looking at international evidences, recently tourism accounted for 65% of service sector in Argentina [12]. In Brazil, tourism generated revenues of more than \$5 billion [11].

It is also estimated that travel and tourism contribute \$3.7 trillion to global economy. Looking at tourism receipts per region, data from WTO [3] reveal that in 2004, Europe accounted for US\$ 326,693 million, followed by America with US\$ 131,682 million, Asia and the Pacific with US\$ 124,960 million and Africa with only US\$ 18,335 million. All these regions have increased significantly their receipts compared to the previous year where the amounts

were US\$ 282,913 million; 114,104 million; 94,855 million and 15,494 million respectively [8]. Another interesting point regarding tourism and trade is that wherever tourism business starts, burgeoning related activities follow with their impacts on local economy [7]. For instance, a holiday hotel construction attracts businessmen to implant to the proximity of the hotel for serving tourists different needs [8]. This tourist business calls upon taxi and bus owners to offer their services for transfers, excursions and round trip. Contractors are also needed for their service regarding the vehicle for hotel facilities. Musicians and artists are also employed to entertain hotel customers [9]. Artisans also seize the opportunity to expose and sell their products to tourist as souvenirs and many others activities [8]. The contribution of tourism to economic development is recognised by empirical studies. Data from the World Tourism Organisation in 2003 show that tourism receipts represented 6% of export of goods and services [13]

Considering the country's dependence on export, it is worth mentioning that

the development of tourism can reduce a country's reliance on primary commodities as a source of export earnings and yet still develop. If a country is mainly relying for instance on agriculture exports, in developing tourism, not only it can expand its export earnings, but also avoid price fluctuation that affect primary commodities [23]. Successful experiences of small economies and islands that have recently become emerging tourism destinations (such as Mauritius, Maldives, the Dominican Republic and other Caribbean islands)

have revealed the vital importance of building proper linkages between tourism activities and the rest of the economy. Such linkages are key factors in increasing value-added from trade in tourism services, and reducing leakages from tourism in developing countries [20]. When economic sectors of a country including tourism develop strong linkages in a way that each industry buys and sells its inputs and outputs from other local sectors, the risk of depending on imported inputs to produce goods and services for tourist and local market can be reduced.

### CONCLUSION

In conclusion, every nation especially developing ones should be encouraged to invest in tourism and hospitality

because of numerous economic growths that are associated with tourism and hospitality industries.

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