



Tourism and economic growth: the role of globalization

Firda Hidayati^{a*}

^a Department of Public Administration University of Brawijaya, Malang, East Java, Indonesia

ARTICLE INFORMATION

Article history:

Data submission : 10 October 2017
1st revision: 10 November 2017
Accepted: 16 December 2017
Available online: 30 December 2017

Keywords: tourism, economic growth, globalization

ABSTRACT

Tourism is believed to bring significant impact on economic growth in both developed and developing countries. However, many still question the role of globalization to foster tourism impact on economic growth. This research aimed to review current journals on tourism to examine possible impacts of globalization on tourism and economic growth. This study is aimed to review articles from 2007 to 2017 (10 years) to map the correlation between those three aspects. The finding supports the notion on the positive impact of globalization to tourism contribution to economic growth. The developing and third world countries need to manage globalization, in term of export, Foreign Direct Investment (FDI) and foreign tourist spending to increase tourism development and economic growth. Proper tourism expansion policy should not only focus on physical infrastructure such as hotels, roads, and restaurants, but also non-physical infrastructure such as innovation and coordination to enhance benefits gained from globalization.

2017 FIA UB. All rights reserved.

1. Introduction

Social and economic development will foster only if social and economic activities support modernization. Rostow (1956) claimed that a country would experience an industrial revolution if only its society and infrastructure were ready institutionally to create and implement new technology in its production process. Although, Rostow did not specify tourism as a sector in industrial revolution, which is characterized by massive, job opportunities, massive industrial scale and massive new technology used, modernization can be seen from tourism industry. Many developing countries to focus on tourism industry to secure their steps toward more modern countries have followed this idea.

Tourism industry is expected to increase job opportunities, and wealth. Job opportunities created and wealth accrued from tourism industry is massive. According to the World Travel and Tourism Council (WTTC) (2017) total contribution of travel and tourism to GDP in 2016 was USD 7,613.3 billion (10.2 % of GDP) and is expected to rise by USD 11,512.9 billion (11.4 % of GDP) by 2027. Massive job opportunity was created in 2016 where 9.6% of total employment

(292,220,000 jobs) and by 2027, 381,700,000 jobs is expected from travel and tourism industry.

Tourism impact on economic growth has been believed to boost economic growth. Many researchers study correlation between those two aspects and the result of studies are vary, based on context, time and method used. However, studies in developing countries and third world countries found globalization has significant positive impact on tourism and economic growth (Akkemik 2012; Gabdrakhmanov, and Rubtsov 2010; Jensen 2010; Kim 2012; Steinbrink, Frenzel and Koens 2012). Less tourism contribution to economic growth in developed countries does not imply that tourism is not important to economic growth, but this finding support Rostow (1956) argument on stages of economic growth. Social and economic growth in developed countries are supported equally by all industries.

Another notion on tourism is that this sector provides massive job opportunities and reduces income gap, which are the biggest problem in south countries. The tourism even provide job for the people in slum areas, which characterized by substandard housing, unreliable electricity, and other basic services as well as

* Corresponding author. Tel.: +62-553737

absent of law enforcement (Steinbrink, Frenzel and Koens 2012). These authors found that job opportunity in slum tourism area in term of guided tours – be they coach, van, jeep, quad, bicycle or walking tours has helped people living in those area to increase their economic growth and change their social life. Tourism has also created economic growth in remote areas where job opportunities is scarce (De la Barre 2013; Greiner 2010; Harwood 2010). The globalization bring more visitors to developing countries and therefore managing tourist destination will secure more economic growth in all areas including slum and remote areas.

Tourism is viewed as generator of foreign currency and investment. The contribution of tourism to economic growth is represented by steady growth of income from international tourist and international investment in term of infrastructure and complementary needs (Ansar 2016; Crescenzi 2012; Kim 2012; Mowforth and Munt 2015). The tourism industry which is shown in national and international tourism agent, international and national network hotels, and international and national food restaurants, has become a major source of economic growth in developing countries (Ghaderi, and Henderson 2012; Palei 2015).

Even though the contribution of tourism to economic growth is significant, managing globalization to yield more income especially for tourism sector remain a challenge for developing countries. Many developing countries struggle to manage demand and complimentary conditions (Kim 2012; Égert, Kozluk and Sutherland 2009). Lack of infrastructure is proven the major drawback of tourism development in developing countries (Harwood 2010). Therefore, necessary and sufficient pre-condition factors of tourism development will be investigated to foster tourism development. This study is important to map factors that determine international tourism destination management, especially in less-income countries.

2. Discussion

Development in a region should be performed to create positive impact to social and economic development. Stimson (2006) described local economic development success should be seen from product quality and process. The product quality is found in measurable job opportunities, wealth, living standard and investment, whereas, the product process is shown at how industry support , infrastructure, job opportunities and market development shape work, life and money and time investment in daily life (Stimson, Stough and Roberts 2008). Even though, Stimson Stough and Roberts (2006) does not mention specifically about tourism, multiplier effect of tourism industry can provide a secured job opportunity, sustainable wealth, sustainable living standard and sustainable investment, which are important factors in regional development.

Tourism industry is seen as magic tools to increase job opportunities, and wealth. Huge potential job opportunities and income generated from tourism industry (Andereck, and Nyaupane 2010; Kim 2012; Tao and Wall 2009) have motivated many countries to develop a tourism policy as a tool to reduce poverty (Blake et.al. 2008; Scheyvens, and Momsen 2008; Synman 2012) and regional income gap (Gabdrakhmanov, and Rubtsov 2014). Tourism is highly recommend to increase local-dependent tourism income in island-countries (Katircioglu 2009; Scheyvens, and Momsen 2008; Schubert, Brida, and Risso 2011) and low-income countries Kim (2012) due to income generated from tourism regardless of equality. Government has to be more innovative on creating income distribution policy in tourism (i.e. prioritizing the poor in specific cluster, different tax tariff for poor, etc.), since the benefits of lower income people is less than higher income people in Brazil (Blake et.al. 2008). The government should focus on best policy to gain benefits from globalization (Kim 2012). The job and income generated from tourism industry is not clearly pro-poor policy in term of equality, but it provide income and job for poor to survive and have more access to accrue wealth.

Decision makers have to be scrupulous in evaluating impact of tourism expansion on investment and living standard. Quality and quantity of physical infrastructure such as hotel, restaurant and road transportation are significantly influence number of tourism visit to a specific destination (Akkemik 2012; Cernat, and Gourdon 2012; Ghaderi, and Henderson 2012). The foreign visitor spending and FDI are crucial to determine economic growth in tourism dependent areas (Ming, G. A. O. 2011; Tiwari 2011). Foreign direct investment (FDI) in term of real estate sector, export, accommodation, and catering sub-sectors positively increase international tourism contribution to economic growth (Fereidouni, and Al-mulali 2014; Katircioglu 2009; Tiwari 2011; Setaanah 2011). Katircioglu (2009) found that Cyprus as an island-type tourism, heavily depend on export-import to increase international visitors. Cernat and Gourdon (2008) reaffirmed the notion that socio-ecological and infrastructure aspects are the main ingredient of sustaining tourism contribution to economic growth. This notion has been long studied as aspect of sustainable tourism.

Studies that support tourism impact on economic growth require not only infrastructure as a matter of concern but also socio-ecological management. Eight elements of sustainable tourism which are tourism assets, tourism activity, tourism-related linkages, tourism-related leakages, environmental and social sustainability, overall infrastructure, attractiveness

(Cernat and Gourdon 2008 p. 1046) should be use to ascertain positive tourism impact on economic growth. Buckley (2012) emphasized the importance of tourism destination governance in term of managing pollution and harsh impact of dense visitor and massive consumption to environment. Therefore, it is sufficient that tourism management is focused on individual, technical and politic as means to control the adverse impact of tourism expansion to environment.

Even though, Chou (2013) and Othman, Salleh, and Sarmidi (2012) observed positive correlation between government spending in tourism and tourism growth in term of more international visitors, (international and national) investment and domestic job opportunities, some other researcher found otherwise. Brau, Lanza, and Iglaru (2007), Figini and Vici (2009) recently also claimed that the opposite is true. Chou (2013) and Holzner (2011) emphasized the trend of lesser tourism contribution to economic growth due to higher cost of investment in the initial steps and later on economic boom. Initial investment is high cost due to lack of infrastructure in developing countries (Harwood 2010). Tang (2011) found that investment in tourism in some period tend to have lesser contribution to economic growth i.e. job opportunities due to high operational cost and inflation. Another factor of concern is fierce competition between country in term of tourism infrastructure (hotel, restaurant, leisure places) and knowledge structures (training and education) that will win multinational competitors instead of domestic institutions (Chou 2013). Government will need innovation to overcome challenges especially in deal with variety social background of tourism-dependent communities and variety of natural tourism problems (i.e. remote areas, protected areas, and protected habitant) as well as social problems (i.e. crime, income gap, social gap, and overcrowded seasonal population).

Tourism investment is not only required physical investment but also non-physical investment. Crescenzi and Rodríguez-Pose (2012) found that investment on education in term of society and local government innovation in European countries to draw investor is proven to be more effective than physical investment i.e. road. Innovation is all about product, process, managerial, marketing and institutional effort that will increase tourism affect economic growth (Hjalager 2010). But, government need always to think a new way to sustain tourism impact to economic growth and set a standard minimum of sustainable tourism policy (Moscardo 2008; Rodríguez, Williams and Hall 2014). For example accommodation standard i.e. cleanliness, accessibility and comfortable beds should be maintained while adding innovation such as affordable price (Hall and Williams 2008 in Hiljakers 2010). Using small-scale accommodation (Reiwooldt 2006 in Hiljakers

2010), customized comfort (Enz and Siguaw 2003 in Hiljakers 2010) are example of endless innovation without sacrificing standards. Studies show that continue innovation will secure more sustainable tourism.

Despite innovate on policy need in tourism industry, many researchers found failures and drawbacks in implementing innovation policy. Most of innovation policy failed to implement due to absent of coordination between ministries responsible to implement policies (Hall 2009). Separation between more sustainable tourism approach and economic tourism approach also impede the development of tourism innovation (Butler 1999 in Moscardo 2008). Rodríguez, Williams and Hall (2014) pointed out weak coordination between institution, inconsistency in innovation between actors, imbalance participation between actors and inconsistency of funding have been the major drawback for implementing continuous innovation.

3. Conclusion

The finding suggested that globalization bring higher positive impact on developing countries. Government in developing countries should focus on creating tourism policy, i.e. intensifying international tourism that maximize benefits from globalization, which observed as a solution for securing economic growth. Tourism policy need to focus on providing, maintaining and improving physical and non-physical conditions to secure more sustainable tourism. Physical condition such as infrastructure (hotels, roads, and restaurants) must be present. Without proper physical infrastructure, the development of unique and potential tourism destination will not flourish. However, it is important to note that the quality and quantity must be suit with the local condition of the specific tourist destination. Without comprehensive analysis of physical infrastructure, the tourism destination development will not be sustainable. Sustainable tourism required management on how many visitors allows entering, including number of accommodations, roads, and restaurants available in a protected areas to secure the function of a certain tourist destination in the future.

Another finding from reviewing the literatures support those social changes are also prerequisite aspects to increase investment to achieve more sustainable economic growth. Developing countries need to improve their education system to allow more innovative thinking to grow in the society and local government. Innovation required constant change that adapt to different challenges in different time, situation, and location. In order to secure constant change not only local officers but also society are required to observe the

change of customer has need and predict what will problems and solutions be in the future. Coordination between actors is the key to secure the sustainable innovation in tourism, since there are multiple stakeholders, institutions, countries and cultures that should be deal with it. Interesting finding found that innovation though the use of niche markets is a prerequisite to secure more sustainable tourism destination. People are more interested with some customable services provided to them, the need of feeling of peace and calm when someone visit tourism destination is on demand currently.

Indonesia as one of developing countries with 17,000 island which many are remote areas has huge potential to take advantage from tourism industry. The studies found that many tourism-independent countries such as Cyprus which characterized by island-dependent tourism have been success in using tourism as the main sector of economic growth (Katircioglu 2009). New Zealand and Australia as developed countries have been able to successfully developed tourism in remote areas, i.e. Northern territory (Greiner R. 2010; Hall 2009; Harwood 2010). A huge potential also take place in term of slum-tourism, where slum areas can be turn into tourism area if it manage with professional guide travel.

References

- Alam, A., Malik O.M., Ahmed M., & Gaadar K. 2015. Empirical Analysis of Tourism as a Tool to Increase Foreign Direct Investment in Developing Country: Evidence from Malaysia. *Mediterranean Journal of Social Sciences*, 6 (4): 2001-2007. Doi:10.5901/mjss.2015.v6n4s3p201
- Akkemik K.A. 2012. Assessing the importance of international tourism for the Turkish economy: A social accounting matrix analysis. *Tourism Management*, 33 (4): 790–801
- Blake A., Arbache J.S., Sinclair M.T., & Teles V. 2008. Tourism and poverty relief. *Annals of Tourism Research*, 35 (1): 107–126. doi.org/10.1016/j.annals.2007.06.013
- Buckley R. 2012. Sustainable tourism: Research and reality. *Annals of Tourism Research*, 39 (2): 528–546. doi.org/10.1016/j.annals.2012.02.003
- Cernat, L., & Gourdon J. 2012. Paths to success: Benchmarking cross-country sustainable tourism. *Tourism Management*, 33 (5): 1044–1056.
- Chou M.C. 2013. Does tourism development promote economic growth in transition countries? A panel data analysis. *Economic Modelling*, 33: 226–232. doi.org/10.1016/j.econmod.2013.04.024
- Crescenzi, R., Rodríguez-Pose A. 2012. Infrastructure and regional growth in the European Union. *Papers in regional science*, 91 (13): 487-513. DOI: 10.1111/j.1435-5957.2012.00439.x
- De la Barre S. 2013. Wilderness and cultural tour guides, place identity and sustainable tourism in remote areas. *Journal of Sustainable Tourism* 21 (6): 825-844.
- Fereidouni, H. G., & Al-mulali, U. 2014. The interaction between tourism and FDI in real estate in OECD countries. *Current Issues in Tourism*, 17 (2): 105-113. doi.org/10.1080/13683500.2012.733359
- Frenzel, F., Koens, K., Steinbrink M. 2012. *Slum Tourism: Poverty, Power and Ethics*. Routledge.
- Gabdrakhmanov, N.K. & Rubtsov V.A. 2014. Tourist and Recreational Positioning of Tatarstan Republic: Cluster Analysis. *World Applied Sciences*, 30:202-205
- Ghaderi, Z. & Henderson J.C. 2012. Sustainable rural tourism in Iran: A perspective from Hawraman Village. *Tourism Management Perspectives*, 2–3: 47–54
- Greiner R. 2010. Improving the Net Benefits from Tourism for People Living in Remote Northern Australia. *Sustainability*, 2: 2197-2218. doi:10.3390/su2072197
- Hall C.M. 2009. Innovation and tourism policy in Australia and New Zealand: never the twain shall meet. *Journal of Policy Research in Tourism, Leisure and Events*, 1 (1): 2-18. doi.org/10.1080/19407960802703466
- Harwood S. 2010. Planning for Community Based Tourism in a Remote Location. *Sustainability*, 2 : 1909-1923. doi:10.3390/su2071909
- Jensen, Ø. 2010. Social mediation in remote developing world tourism locations – the significance of social ties between local guides and host communities in sustainable tourism development. *Journal of sustainable tourism*, 18 (5): 615-633
- Katircioglu S. 2009. Tourism, trade and growth: the case of Cyprus. *Applied Economics*, 41 (21): 2741-2750. doi.org/10.1080/00036840701335512
- Kim N. 2012. Tourism destination competitiveness, globalization, and strategic development from a development economics perspective. Dissertation. Illinois
- Ma M., & Hassink R. 2013. An evolutionary perspective on tourism area development. *Annals of Tourism Research*, 41: 89–109.
- Moscardo G. 2008. Sustainable tourism innovation: Challenging basic assumptions. *Tourism and Hospitality Research*, 8 (1): 4-13.
- Ming, G. A. O. 2011. Scale of Inbound Tourism and FDI Dependence. *Tourism Forum*, 1.
- Othman R, Salleh N.H.M., and Sarmidi T. 2012. Analysis of Causal Relationship Between Tourism Development, Economic Growth and

- Foreign Direct Investment: an ARDL Approach. *Journal of Applied Sciences*, DOI: 10.3923/jas.2012.
- Palei T. 2015. Assessing the Impact of Infrastructure on Economic Growth and Global Competitiveness. *Procedia Economics and Finance* 23: 168-175. [doi.org/10.1016/S2212-5671\(15\)00322-6](https://doi.org/10.1016/S2212-5671(15)00322-6)
- Rodríguez I., Williams A.M., Hall C.M. 2014. Tourism innovation policy: Implementation and outcomes. *Annals of Tourism Research*, 49: 76–93. doi.org/10.1016/j.annals.2014.08.004
- Scheyvens, R., & Momsen J.H. 2008. Tourism and Poverty Reduction: Issues for Small Island States. *Tourism Geographies*, 10, 2008 - Issue 1: 22-41. doi.org/10.1080/14616680701825115
- Schubert, S.F., Brida, J.G, Risso W.A. 2011. The impacts of international tourism demand on economic growth of small economies dependent on tourism. *Tourism Management*, 32 (2): 377–385.
- Seetanah B. 2011. Assessing the dynamic economic impact of tourism for island economies. *Annals of Tourism Research*, 38, (1): 291–308. doi.org/10.1016/j.annals.2010.08.009
- Snyman S.L. 2012. The role of tourism employment in poverty reduction and community perceptions of conservation and tourism in southern Africa. *Journal of Sustainable Tourism* 20 (3): 395-416. doi.org/10.1080/09669582.2012.657202
- Stimson R.J., Stough R.R., & Roberts B.H. 2006. *Regional economic development: analysis and planning strategy*. Second ed. Springer.
- Tao T.C.H., & Wall G. 2009. Tourism as a sustainable livelihood strategy. *Tourism Management*, 30 (1): 90–98.
- Tang C.F. 2011. An exploration of dynamic relationship between tourist arrivals, inflation, unemployment and crime rates in Malaysia. *International Journal of Social Economics*, 38 (1): 50-69. [doi: 10.1108/03068291111091963](https://doi.org/10.1108/03068291111091963)
- Tiwari A.K. 2011. Tourism, Exports and FDI as a Means of Growth: Evidence from four ASIAN Countries. The Romani