

The Role of Tourism Industry on Economic Growth: A Study Based on Sri Lanka after the Liberalization

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ABSTRACT

Tourism is considered as a fast growing industry in Sri Lanka and it is used as a vital strategy to reach greater economic productivity. The main objective of this study is to examine the role of tourism industry on economic growth of Sri Lanka. In order to reach this objective, the ARDL test is applied to examine the long run relationship between the variables and Error Correction Model is applied to examine the short run relationships between the variables. Further, in this research Granger Causality test is used to examine the causality relationship between the variables. The GDP, the revenue of tourism sector, tourist arrivals, the total employment of tourism sector and the number of tourist nights are the variables used in this research. The analysis was carried out for the period from 1977 to 2018 and the software's of E - views 10 and Ms Excel are used to analyses the data. The ARDL Bound Test results confirmed that there is a cointegrating relationship between the variables. According to this test, it is decided that, in the long run the tourism industry contributes immensely to the economic growth of Sri Lanka. Further, this test suggests that, tourism revenue and tourism employments have positive and significant impact on Economic Growth in the long run. The Error Correction Model found that, tourist arrival has positive and significant impact on Economic Growth in short run. At the same time Granger Causality Test indicates that, there is a uni-directional causation between the tourism sector and the economic growth of Sri Lanka. According to these results this research emphasizes that, the government and private investments on tourism and by developing the infrastructure of the country in order to enhance the economic growth of Srilanka. Additionally, macroeconomic policies must to be taken into act to the stimulate tourism development through utilize untapped tourism resources in Sri Lanka.

Keywords: Economic Growth, Tourism Industry, ARDL Test