

Tourism's Impact on Sri Lanka's Economy: A Time Series Analysis

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ABSTRACT

Purpose: This study investigates the nexus between tourism receipts and economic growth in Sri Lanka in the short and long run. It is also meant to study the impact of Foreign Direct Investments, economic freedom, and war periods on economic growth.

Methodology: The paper's annual data ranges from 1978 to 2023, sourced from the Annual reports of the Sri Lanka Tourism Development Authority, Central Bank of Sri Lanka, and the World Bank. In this respect, the methodological section employs the econometric approach by applying an Augmented Dickey-Fuller test for stationarity, a cointegration test for the presence of long-run relationships, and a Granger Causality test to test any causal links between all series analyzed using EViews 12.

Findings: Estimations show that In the long run, tourism receipts and economic growth are positively and significantly related. This factually means that with a 1% increase in tourism receipts, GDP increases by 0.601%. The FDI also positively influences the GDP, but this influence will be significant after three years. While doing so, the negative and significant coefficient of the economic freedom index shows that the GDP affects it negatively, thereby signaling a complex relationship that may require more deliberations. Finally, the war dummy variable assumes negative significance, indicating a lower GDP growth rate at the time of war since the government spends much on defense. Results from a Granger causality test showed that tourist revenue contributed to economic growth via a unidirectional causal relationship.

Practical Implication: Tourism is a strategic driver for sustainable economic growth in Sri Lanka. Policymakers are envisaged to provide facilities and incentives to trigger international tourism demand promotion and development for more significant inflows of tourists, who will, in turn, create growth in tourism and the multiplier effect to stimulate other industries' contribution to general economic growth.

Originality/ Value: The worth of this research to the existing literature lies in the fact that it provides empirical proof for a positive relationship of tourism with economic growth in Sri Lanka, the lagging effect of FDI, and the puzzling role of economic freedom. In addition, it tries to highlight that tourism is one-way sustainable growth can be achieved. Hence, policymakers might draw some valuable insights from this while chalking out some effective strategies regarding tourism development.

Keywords: *Economic Growth, Tourism Receipts, Foreign Direct Investments, War*