



## Tourism and economic growth: the role of globalization

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### 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.

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## 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

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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 used to ascertain positive tourism impact on economic growth. Buckley (2012) emphasized the importance of tourism destination governance in terms of managing pollution and harsh impact of dense visitor and massive consumption on the environment. Therefore, it is sufficient that tourism management is focused on individual, technical and political means to control the adverse impact of tourism expansion on the environment.

Even though, Chou (2013) and Othman, Salleh, and Sarmidi (2012) observed positive correlation between government spending in tourism and tourism growth in terms of more international visitors, (international and national) investment and domestic job opportunities, some other researchers 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 periods 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 countries in terms 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 dealing with various social backgrounds of tourism-dependent communities and various natural tourism problems (i.e. remote areas, protected areas, and protected habitats) 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 terms of society and local government innovation in European countries to draw investors 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 and affect economic growth (Hjalager 2010). But, government needs always to think a new way to sustain tourism impact on economic growth and set a standard minimum of sustainable tourism policy (Moscardo 2008; Rodríguez, Williams and Hall 2014). For example accommodation standards i.e. cleanliness, accessibility and comfortable beds should be maintained while adding innovation such as affordable prices (Hall and Williams 2008 in Hiljakers 2010). Using small-scale accommodation (Reiwooldt 2006 in Hiljakers

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

Despite innovation on policy need in the tourism industry, many researchers found failures and drawbacks in implementing innovation policy. Most of innovation policy failed to be implemented due to absence of coordination between ministries responsible to implement policies (Hall 2009). Separation between more sustainable tourism approach and economic tourism approach also impedes the development of tourism innovation (Butler 1999 in Moscardo 2008). Rodríguez, Williams and Hall (2014) pointed out weak coordination between institutions, 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 findings suggest that globalization brings higher positive impact on developing countries. Government in developing countries should focus on creating tourism policy, i.e. intensifying international tourism that maximizes benefits from globalization, which is observed as a solution for securing economic growth. Tourism policy needs to focus on providing, maintaining and improving physical and non-physical conditions to secure more sustainable tourism. Physical conditions such as infrastructure (hotels, roads, and restaurants) must be present. Without proper physical infrastructure, the development of unique and potential tourism destinations will not flourish. However, it is important to note that the quality and quantity must be suited with the local conditions of the specific tourist destination. Without comprehensive analysis of physical infrastructure, the tourism destination development will not be sustainable. Sustainable tourism requires management on how many visitors allow entering, including number of accommodations, roads, and restaurants available in a protected area to secure the function of a certain tourist destination in the future.

Another finding from reviewing the literature supports that social changes are also prerequisites 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 requires constant change that adapts to different challenges in different times, situations, and locations. 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.

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