

Tourism and its effect on economic growth in North Africa.

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Abstract:

Tourism is one of the biggest foreign exchange earners in the developed countries. In North African countries such as Libya, Morocco, Tunisia, Egypt, Algeria and Mauritania, tourism has been recovering from various impediments since the Arab spring of 2010 from 9.7% contribution to GDP to 10.7% contribution to GDP growth. The insecurities that were created by militias in Libya and across North Africa affected the earnings from tourism. Improving security and factors that can favour international tourist arrivals has a big likelihood to the economic growth of North Africa for years of 2012, 2016 and 2017. The economy in north Africa majorly depends on oil, industries and service business. To understand economic growth in North Africa, there is need to examine the contribution of tourism in terms of GDP, employment, exports and industrial growth in north Africa. Therefore, the aim of this paper is to assess the effect of tourism on economic growth in North Africa.

Keywords: Economic growth, Tourism, GDP, North Africa, Arab spring, insecurity.

I. Introduction

Tourism and travel is one of the vital economic activities around the world as measured from its contribution to GDP through its international tourism receipts. It has both direct and indirect contributions to growth of countries. The direct contributions include accommodation, transport, entertainment, attractions and industrial growth among others which all contribute to economic growth of a country. North Africa also known as the Maghreb is made of countries stretching from Atlantic shores of Morocco to the Suez-canal in Egypt and the red sea in the East (African development Bank, 2018).

Since 2010, the region was marred with insecurities and emigrations resulting the Arab spring and political instabilities mostly in Libya that saw an enormous fall in the economic growth of the region for over the next five years to 2016. There was recovery since the end of 2016 more so in Egypt and Algeria more so due to increased oil markets and improved security in the region. In 2017, the direct contribution of travel and tourism was 5.2% of total GDP with a total contribution of 10.9% to GDP in the same year. The tourism sector also created 9.8% of total employment, visitors' exports generated USD 18.5bn which is 12.4% of total exports and 6.9% of total investment was generated in 2017 (World travel and tourism council, 2018).

The North African region has a high potential of raising its economic growth through tourism. With its historical beautiful sceneries of the Sahara Desert, strategic location along the Mediterranean Sea, Atlantic shores and Red sea plus industries stemming from the oil reserves, North Africa is capable of improving its GDP performance. There has not been studies that have examined the contribution of tourism to economic growth in north Africa for which this paper aims to assess.

II. Literature review

A number of articles propose various methodologies of dealing with the measurement of the contribution of tourism upon the economy. In a study of the impact of tourism and economic development by Proença and Soukiazis (2005). In their study, the correlation between the bed capacity of Portuguese regions and the regional economic growth measured by GDP per capita growth. They find that 1% increase in accommodation capacity in tourism sector induces 0.01% increase in per capita income. Tourism also increases the convergence rate of per capita income in Portuguese regions.

Lanza and Pigliaru, (1999) also using a different method examined the tourist specialization of the country and its effect of the economic growth based on Lucas's two-sector endogenous growth

model. Their study found out that countries with endowments of suitable natural resources large relative to the size of their labour force are likely to develop a comparative advantage in tourism and will grow faster than those who specialize in the manufacturing sector.

North Africa as a vital region in Africa been experiencing a recovery since the Arab Spring in 2010. Leke, (2017) revealed that the real GDP growth of North Africa in 2017 was estimated at 4.9 percent, up from 3.3 percent in 2016, higher than the African average of 3.6 percent and second only to East Africa. But this improved performance stems largely from the greater than expected production and export of oil by Libya, which generated strong GDP growth of 55.1 percent.

The African development bank report (2018) found out that growth in north Africa was also attributed to an improved security environment resulting from joint regional and international assistance to the country. Growth in North Africa also benefited from Morocco's better than previous year growth of 4.1 percent in 2017, up from 1.2 percent in 2016 and this was mainly because of the improved agricultural productivity resulting from the combined positive effects of a good rainy season and implementation of the Morocco Green Plan (AfdB, 2018).

The world tourism organisation (2017) contends that tourism has several direct effects on the economy and these include contribution of foreign exchange earnings used to balance trade, creation of employment, spending in hotels, airlines, airports, travel agents and leisure and recreation services by tourists which all contribute a value to the GDP growth of a country.

2.1 Theoretical frame work

The study adopted a growth model similar to the Solow growth model with Cobb-Douglas production including physical and human capital to explain the relationship between tourism and economic growth. North African countries in a pursuit of economic growth must put into place several factors to enhance tourism.

These factors include openness to trade, political stability, infrastructure as measured by the ratio of the sum of imports and exports to the Gross domestic product, often described as terms of trade, foreign direct investment, and household consumption expenditures. Theoretically, simple double log-linear of Cobb-Douglas production function is being specified below:

$$Y_{it} = f(H_{it}, K_{it}, X_{it})$$

Where Y is the log output per capita as a function of H, K and X, which represent the log of per capita inputs of factors that improve tourism receipts, that is, physical capital, human capital and tourism dependency (or "tourism capital") respectively.

III. Contribution of tourism to GDP between 2010-2018

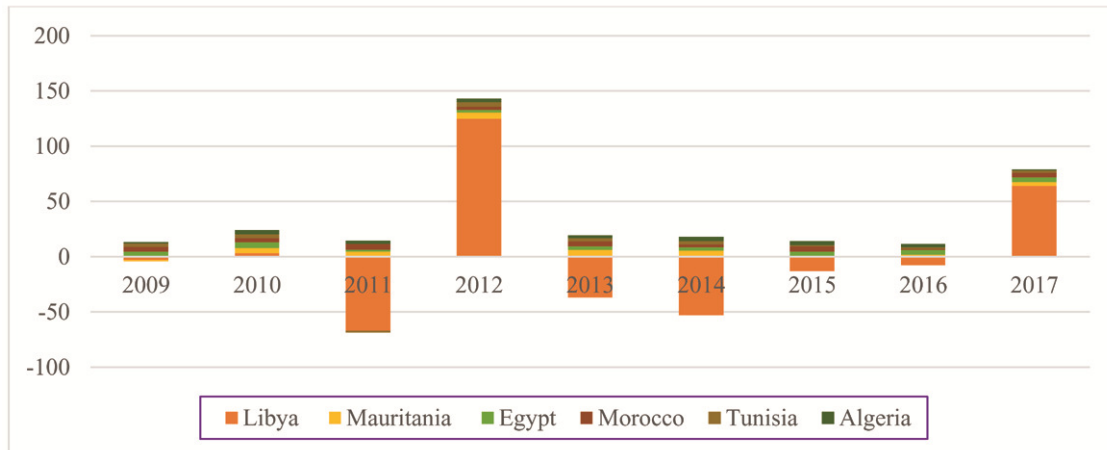
Figure 1: A line graph showing the contribution of Tourism to GDP, employment and Visitors exports



source: World bank

From figure 1 above, it can be observed that the contribution of tourism in relation to GDP, employment and visitor's exports has not been stable. From 2010, the contribution of tourism to the three indicators of economic growth (total contribution to GDP, employment in 1000s and visitors' exports) started declining. This can be attributed to the Arab spring which worsened the security situation in North Africa. This deteriorating performance continued to decline reaching its peak in 2011 when it started rising again. In 2012, the GDP growth increased up to 21.35 mainly because of the increase in the oil prices in Libya which attracted international receipts and foreign exchange (figure 2).

Figure 2: showing the contribution to GDP growth of individual North African countries 2009-2018



Source: world bank 2018

Figure 3: Average Real GDP growth of north Africa 2009-2018



Source: World bank 2018

The elevation in the Libya's GDP performance was due to the restoration of crude oil production, which collapsed in 2011 as rebels waged a bitter, and eventually successful, insurgent campaign against ex-ruler Moammar Gadhafi (Riley, 2012).

Before 2011, hydrocarbon production accounted for more than 70% of GDP. But as rebels advanced on Tripoli, production fell from 1.77 million barrels of crude per day to 22,000 barrels per day. This reduced the visitor's exports and hence declining the tourism sector, this can be illustrated from figure 2 where the real GDP growth for Libya was highest with a value of (- 66.7%). In 2012, there fresh elections were National Transitional Council which took over Libya and established a new government of the General national congress which took over power and increased oil production to 27 billion dollars but this did not last long before strikes from oil workers and different militias escalated armed conflicts and oil production fell to 13 billion dollars plus tourism declining to -10.5 in 2013 to -2.6 in 2016. The political instabilities that followed the Arab spring also affected other countries like Tunisia, Morocco and Egypt.

IV. Conclusions

From the above study, it can be concluded that tourism is a big contributor to economic growth in North Africa but several factors more so security help to create an environment where tourism thrives. North Africa has been affected by a series of insecurities which include the fall of Moammar Gadhafi in 2011 and the Arab spring that affected the economies as very many services could not attract foreign investment.

The study established that in 2011, the study established that the average real GDP growth declined to -10.3 for north Africa as a region. This is due to the insecurity that had taken over the entire north Africa.

In 2012 when the average real GPD of six countries in North Africa that is, Mauritania, Egypt, Libya, Morocco, Algeria and Tunisia increased up to 22.35 mainly because of the new government in Libya which increased performance in hydrocarbon and the openness to trade after the removal of trade sanctions improving its performance in tourism as witnessed by which greatly contributed to a total contribution of 2.2 tourism value.

With the improving political environment in the last half of 2016 and 2017. North Africa has attracted more international tourism receipts as evidenced in the contribution to employment, GDP and visitors' exports in figure 1. The study therefore concluded that tourism has had a recovery effect on the economic growth of North Africa.

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