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CONTRIBUTION OF TOURISM SECTOR TO OMAN'S GDP

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Abstract

Over the decades , tourism sector has seen continuous growth and in depth diversification in order to be considered as one of the fastest growing sectors of the world economy. Modern tourism is deeply associated with development and it envelops an increasing number of new destinations. These dynamics have transformed the tourism sector into a driving force for socio-economic development. Moreover, tourism sector contribution to the employment, bringing foreign income/exchange cannot be underestimated. Against this backdrop, this paper examines the contribution of tourism sector in the growth of Oman's economy. The economic parameters considered for the present study are tourism contribution to GDP, Visitors Exports, Employment opportunities, Internal Consumption, Capital Investment and Government Spending, etc. The study delineates to what extent tourism sector fortifies to the economic growth and development of Oman. The present study is an attempt to evince the relationship between economic growth and other economic variables taken into consideration. The trends of global tourism sector in general and Oman tourism sector in particular have well been underlined. It has been anticipated this financial year that Oman Tourism Sector is going to herald an illustrious contribution to boost the national economy compared to other segments. The WTTC report said the government of Oman recognizes tourism being significant benefactor into job creation, heritage conservation and community development as well as its ability to promote cross-cultural dialogue and understanding among both people and nations. The data of

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seven years, serially from 2009 to 2015, has been taken for this purpose. To ascertain the results, correlation and Analysis of Variance (ANOVA) are used for proving the facts. The outcomes show a positive relationship between economic variables for tourism and GDP of the country.

Keywords: Tourism, Oman, Internal Consumption, Capital Investment, Gross Domestic Product

INTRODUCTION

Travel and tourism have been the most noticeable economic activity round the globe during recent times and have drawn piquant gaze of strategists and policy-makers. They have been contributing to the economy everyway— directly, or indirectly. The role and contribution of tourism are identified in terms of generation of income and employment, foreign exchange earnings, infrastructure development and exchange of culture among people also. The term travel and tourism includes airports, airlines and other passenger transportation services, hotels, tour agencies, tour operators, visitors business, car rental business and other related services to travel. Growth of Tourism depends predominantly on economic conditions, structural framework of the government, etc. If the economic conditions are favourable in a country, people would intend to spend more on tourism, and vice versa. Further, across the globe, international tourists arrivals play a major role to invigorate economic output.

Trends of Global Tourism Industry

The contribution of Travel and Tourism to the global economy was USD 580.9bn (9.8% of GDP) in 2014 which rose to 3.7% in 2015, and is expected to rise by 2.0 % pa to USD 11,381.9bn (10.5% of GDP) in 2025. Tourism industry is growing faster in comparison to other industries such as financial services, retail and supply chains, manufacturing and transport, etc. Tourism alone contributed 9.4% of total employment, which grew 2.6 % during 2015 and is expected to grow by 2.3% pa in 2025 around 10.7% of the total. Visitors Exports was recorded USD 1,383.8bn (5.7% of total exports) in 2014. It grew by 2.8% in 2015 and is expected to rise by 4.2% pa from 2015-2025, to USD2, 140.1bn in 2025 which is around 5.6% of the total. Tourism investment was recorded as USD 814.4bn, or 4.3% of total investment by 4.8% in 2015 and is speculated to gain by 4.6% pa over the next ten years to USD1, 336.4bn in 2025 which is 4.9% of the total (WTTC Economic Impact Report 2014 and 2015).

Globally, there has been continuous expansion and diversification of tourism industry with the passage of time and various new destinations have also been explored and created. International tourist arrivals have increased and crossed one billion during 2012 with total of

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1035 million tourists. Further, it is expected to reach around 1.4 billion by 2020 and 1.8 billion by 2030 respectively. Similarly, the receipts from international tourists are recorded as USD 1,075 billion during 2012 (UNWTO Barometer).

Trends of Oman Tourism Industry

Tourism Industry in Oman has claimed considerable progress and development during recent times leading to foster an overall increase in all tourism indicators. One of the milestones can be added with the implementation of the Integrated Tourism Complexes such as Salalah Beach Resort, Wave and Jabel Al-Sifa Resort and establishment of new departments which cater to different services for investors— both domestic and foreign.

Oman is making uphill efforts to carve new horizons for its tourism sector in order to elevate its contribution into country's GDP to prove it as one of the most promising sectors partaking in national growth as part of diversification policy. The policy is putting emphasis on developing non-oil sectors along with oil and gas sectors. The idea of the government recontouring tourism sector for fruitful future prospects also indicates the limitation of exploiting natural resources. Now, the government tourism policy is all set to entice effective tourism avenues luring swarms of visitors to the Sultanate in upcoming years.

The total contribution of travel and tourism to the Oman economy was recorded as OMR1593.8mn (5.7% of GDP) in 2015. Further, it is expected to rise by 6.0% in 2016 and 6.0% pa to OMR 3023.3mn (7.7% of GDP) in 2026 (WTTC Economic Impact Report 2016). Oman Tourism industry created 111,500 jobs during 2015 (5.7 % of total employment). This is expected to increase by 4.4% in 2016 (116,500 jobs) and rise by 3.5 pa to 164,000 jobs in 2026 (7.9% of total). Travel and tourism were recorded as OMR245.5mn (3.1% of total investment). This is expected to intensify by 4.6% in 2016, and further expected to increase to OMR 450.4mn in 2026 (4.0% of total investment). Visitors Exports created revenue of OMR 679.9mn which is 4.5% of total export in the year 2015. It is predicted to grow up to 5.4% in 2016 and 6.6% in 2026.

Therefore, it is observed that there are various economic indicators related to tourism contributing to Oman GDP. Under this setting, this study has been conducted by these scholars to delve into significant contribution of tourism sector to the GDP of Oman.

REVIEW OF LITERATURE

Many scholars and researchers have attempted to explore the contribution of travel and tourism to the GDP of different economies of the world. The variables taken for these researches also vary country to country and study to study.

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The study focusing on the effects of international tourism on economy of Turkey inferred that receipts from international tourism are the source of foreign currency for Turkey's economy. They have greatly contributed to repayment of debt by government and helped in getting rid of current account deficits adding to employment generation and national income (Akal, 2010).

There is a strong and time-tested relationship between tourist arrivals and real GDP of the country. The study conducted in Barbados examined the supply side hypothesis of demand for tourism. It is concluded that 1% growth in GDP is caused by 1–2% of increase in tourist arrivals (Jackman and Lorde, 2012). Research conducted on the role of international tourism in economic growth taking Spain as case study has bolstered the proposition of strong relationship between international tourism and GDP (Balaguer & Cantavella-Jorda, 2002). Oh (2005) articulated in study conducted on korea that heightening in the receipts from tourism is an overt sign of economic growth. Study made in Taiwan established a reciprocal-causal relationship between tourism development and GDP upsurge (Kim, Chen & Jang, 2006). According to Khalil, Kakar & Waliullah, 2007, expansion of tourism sector is imperative for economic development of Pakistan. Tourism is one of the vital factors of growth of Mexican economy using expenditure for tourism and real exchange rate (Brida, Carrera & Risso, 2008). Study done by Aliqah and Al-rfou (2010) explored the effect of tourism sector on economic growth and development on Jordan for a long period commencing from 1990 to 2008. The study concluded that tourism industry has significantly grown in terms of tourism services, infrastructure and tourist arrivals. Samimi, Somaye & Sadeghi (2011) concluded that there is causal and long run relationship between tourism development and GDP of the developing countries. Due to economic recession and slow down of economies in Europe and the East, the countries of the Middle East have experienced a robust growth in market for travel and tourism (Gardner, A 2013). Oil sector contributes around 75% to their GDP; however government has laid emphasis on its plan making tourism as the key sector. Tourism's contribution to GDP of Oman was 6.4% in 2014 which is expected to reach 8.4% in 2024 (Aljazeera.com, 2015).

Based on the observations made from literature review of the study, some of the very important economic indicators have been traced namely Tourism's contribution to Economic Growth (GDP), Tourism's contribution to Employment (CEMP) , Visitors Exports (VEXP) , Internal Consumption (INTCONS) , Capital Investment (CAPINVST) and Government Spending (GOVSP).

Objectives of the Study

1. To study the trends of Oman tourism sector.
2. To examine the contribution of tourism sector to GDP of Oman.

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RESEARCH METHODOLOGY

The Study and Data

Scholars have collected secondary data for the last seven years period from 2009 to 2015. The data has been collected from various sources including World Bank's World Development Indicators, Reports of World Travel and Tourism Council (WTTC), Reports of United Nations World Tourism Organization (UNWTO), etc.

In the present study, the economic indicators such as Tourism contribution to GDP is considered as dependent variable while Tourism contribution to employment, Internal Consumption, Visitors Exports, Capital Investment for Tourism and Government Spending towards tourism are considered as independent variables.

Rationale behind Selecting Time Period: 2009 to 2015

GDP is an important tool to gauge and exhibit economic performance of any nation, or a particular region. Beside this, it is also used in judging the effects of inflation or deflation of the economic perspective of a country. The chief reason behind putting the panorama of 2009 till 2015 for our study banks on the Great Economic Recession of the twenty-first century that began from the United States in December 2007 extending till June 2009 covering a timeframe of 19 months in its span. Having begun there, this impact travelled to the other pockets of the world and left a cruel imprint on the economies of almost every nation. It nearly resulted in a *financial swoon* affecting all the sectors that bolstered any country across the globe. But the positive aspect of this crisis was a perpetual awakening— more conscious and aware perspective planning for future, lest such an instant recession's sway might shake their bowers once again. The alacrity of amassing back-up devices to save a nation was not only about the global powers, but also of the growing and struggling economies of this world. Henceforward, most of the governments strived hard to push forth investment on long-term infrastructure projects as a remedial measure to reverse the influence of recession.

Oman's GDP chiefly rests on its oil and natural gas reserve. The Great Economic Recession gave a severe jolt to these two sectors too, consequently. As the world oil market witnessed slump, so did Oman's economy. This can be seen in Oman's Nominal GDP which shows a negative growth of –10.9% (approximately $53.4 billion) in the year 2009 compared to 2008. However, Oman's economy got over that major recessional sink by 2010, yet it plunged into another invoked by global economic slowdown due to oil revenue crash in the first phase of 2015. This marked as *stimuli* or *turning point* for the economists and strategists of Oman and other GCC nations to concentrate on developing other sectors, so that their nation's economy might stabilise strongly. Due to this slump, for the first time Oman's state budget reflected a

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budget deficit by projecting a shortfall of 2.5 billion Omani Riyal (which is equal to approximately $6.5 billion) in 2015. That is why, the present research considered the GDP data from 2009 to 2015 as an appropriate period of study by relating it to the development of the tourism sector as an alternative posed by the government of Oman in case of any future calamity to its economy.

Hypothesis of the Study

In order to obtain desired results regarding the objectives of the study, the researchers have proposed the following null hypothesis:

H0: There is no significant relationship between Tourism contribution to GDP and Tourism contribution to employment, Internal Consumption, Visitors Exports, Capital Investment for tourism and Government Spending towards tourism.

Analytical Approach

For the desired outcomes and analyzing data, scholars have used different statistical tools such as correlation and regression.

RESULTS AND DISCUSSION

Correlation Analysis

Table 1: Correlations Matrix

		GDP	CEMP	VEXP	INTCONS	CAPINVST	GOVSP
GDP	Pearson Correlation	1	.977**	.986**	.997**	.912**	.981**
	Sig. (2-tailed)		.000	.000	.000	.004	.000
	N	7	7	7	7	7	7
CEMP	Pearson Correlation	.977**	1	.970**	.977**	.819*	.953**
	Sig. (2-tailed)	.000		.000	.000	.024	.001
	N	7	7	7	7	7	7
VEXP	Pearson Correlation	.986**	.970**	1	.986**	.861*	.959**
	Sig. (2-tailed)	.000	.000		.000	.013	.001
	N	7	7	7	7	7	7
INTCONS	Pearson Correlation	.997**	.977**	.986**	1	.902**	.965**
	Sig. (2-tailed)	.000	.000	.000		.006	.000
	N	7	7	7	7	7	7
CAPINVST	Pearson Correlation	.912**	.819*	.861*	.902**	1	.923**
	Sig. (2-tailed)	.004	.024	.013	.006		.003
	N	7	7	7	7	7	7
GOVSP	Pearson Correlation	.981**	.953**	.959**	.965**	.923**	1
	Sig. (2-tailed)	.000	.001	.001	.000	.003	
	N	7	7	7	7	7	7

** Correlation is significant at the 0.01 level (2-tailed) * Correlation is significant at the 0.05 level (2-tailed).

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Correlation matrix shown in the above table 1 reflects the correlation-coefficient relationship among the variables (Contribution to Employment, Visitors Exports, Internal Consumption, Capital Investment for tourism and Government Spending towards tourism) used in the study with the GDP.

In the present research, highest Pearson's r is 0.997. This value is very close to 1 which shows a perfect positive relationship. Hence it is proved that there is a strong relationship between GDP and Internal consumption variable. This means that changes in internal consumption will strongly correlate with changes in the GDP. For this reason, we can also conclude that there is a strong relationship between GDP and Internal consumption.

The correlation matrix also shows that all independent variables confirm positive results (Contribution to Employment 0.977, Visitors Exports 0.986, Internal Consumption 0.997, Capital Investment for tourism 0.912 and Government Spending towards tourism 0.981) and fall in the range of –1 to +1 which is the universal acceptable range for showing strong correlation. Values falling in this range (–1 to +1) reflect that the correlation is significant and there is a durable and fructifying relationship existing among all the variables with the dependent variable GDP. As all the variables are positive, this is evident that there is no weak relationship between any of the two variables chosen for this research. Hence we conclude that all the variables are strongly correlated.

Regression Aanalysis

Table 2: Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	1.000[a]	.999	.995	14.34993	3.215

a. Predictors: (Constant), GOVSP, CAPINVST, VEXP, CEMP, INTCONS
b. Dependent Variable: GDP

The model summary table 2 indicates that R2, which is also called as the coefficient of determination, shows the correlation between the observed and predicted values of dependent variable GDP (R as 0.999). The proportion of variance in the dependent variable (GDP) which can be explained by the independent variables (Contribution to Employment, Visitors Exports, Internal Consumption, Capital Investment for tourism and Government Spending towards tourism) shows value of R square as 0.999 an overall measure of the strength of association. Adjusted R square value is 0.995 which is an adjustment of the R-squared that penalizes the

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addition of extraneous predictors to this model. Standard error of the estimate is 14.34993 as per the outcome of the model which is also referred to as the root mean squared error.

Table 3: ANOVA

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	254505.537	5	50901.107	247.188	.048[a]
	Residual	205.920	1	205.920		
	Total	254711.457	6			

a. Predictors: (Constant), GOVSP, CAPINVST, VEXP, CEMP, INTCONS
b. Dependent Variable: GDP

It is seen from the above Anova table 3 that the number of the model being reported is one. From the model breakdown of variance in the outcome variable, it is seen that these three categories Regression, Residual, and Total are examined. The Total variance is divided into the variation which is explained as the independent variables (Model) and the variation which is not explained by the independent variables (Error). Sum of squares shows the three types of variance associated which are Total variance, Model variance and Residual variance. The Total variance (254711.457) is divided into the variance which can be explained by the independent variables (Regression value showing 254505.537) and the variance which is not explained by the independent variables (Residual value showing 205.920).

The degree of freedom DF column shows the values associated with the sources of variance. The total variance is shown as N minus 1 (N–1) as the degrees of freedom. The Regression degrees of freedom correspond to the number of coefficients estimated less than 1. Including the intercept, there are 6 coefficients, so the model has 6 – 5= 1 degrees of freedom. The error degrees of freedom are the DF total minus the DF model which is in this case, 6–1=5.

In the Mean Squares, the Sum of Squares is divided by their respective DF which shows for regression model 50901.107 and for residual model that is 205.920. F-statistic in the above table shows the p-value associated with it. The F-statistic is the Mean Square (Regression) divided by the Mean Square (Residual): 50901.107 / 205.920 = 247.188. The probability is shown as “Sig.” in the table where the score is 0.048 (P-Value) which is less than 0.05 (α) exhibiting that the result is significant. Thus, the null hypothesis is rejected and alternate hypothesis that there is a significant relationship between Tourism contribution to GDP and Tourism contribution to employment, Internal Consumption, Visitors Exports, Capital Investment for tourism and Government Spending towards tourism, is accepted. Further, it is concluded that there is a statistically significant difference between all the five conditions/ variables.

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CONCLUSION

Tourism is considered as one the fastest and diversified industries in the present world. The role of tourism has been quite significant as a booming sector contributing to the growth and development of Oman economy and various studies can be identified in this line. The present study concludes that there is a positive relationship between tourism economic variables such as contribution of tourism to GDP, Visitors Exports, Internal Consumption, Employment, Capital Investment and Government Spending. The ANOVA table establishes that P-value (0.048) which is less than 0.05 (α) is showing result to be significant that the independent variables (Visitors Exports, Internal Consumption, Employment, Capital Investment and Government Spending) are greater influencer of Tourism on growth of Oman economy.

SUGGESTION AND POLICY IMPLICATIONS

The present study confirms that Tourism and related activities affect the economy of Oman significantly. Hence the Oman Government should firmly focus on accommodations, passenger transportation services, hotels, tour agencies, tour operators, communication, security issues and also establishment of new departments which would successfully and efficiently cater to different services for investors— both domestic and foreign for the expansion of tourism sector. Oman can accelerate its economic growth and performance by yoking strategically the beneficence of tourism and strengthening governance conduct and maintain a sustainable growth despite the adverse impact of oil price crisis in the GCC region.

LIMITATIONS OF CURRENT STUDY

- The paper focuses on tourism sector only whereas there are other important sectors which have significant contribution to the GDP of Oman.
- Expansion of service sectors such as airlines, hospitality industry, hotels and restaurants greatly influence the growth of tourism sectors. Arrivals of international tourists, foreign exchange earnings, etc have not been taken into account in the present study.
- The study focuses only on the government expenditure and initiatives for the development of tourism and travel, however the role of private sector in the growth of tourism of an economy can't be marginalized which is not included in the present study. This can be taken up as topic/issue for further research.

DIRECTION FOR FUTURE RESEARCH

The outcome of the present study recommends the potential direction where future study can be conducted. The focused areas may include role of tourism in the context of foreign investment,

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per capita real GDP, trade and hotel industry also, oil price crisis and tourism sector, effect of employment in tourism sector on Oman's economy.

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