AN EXAMINATION OF THE ROLE OF TOURISM TO ELIMINATE POVERTY

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ABSTRACT

Tourists' influence on absolute poverty in two developing countries is examined in this study, which goes beyond the economic impact. People in poverty are evaluated to discover if tourist spending has an impact. An error correction model may be used to estimate the link between poverty and tourism spending. A favourable effect on the poor from visitors does tend to be short-lived, however, as the poor at lower economic levels are more directly affected by tourism growth. Studies in developing nation's show that the effects of tourism development vary, and this means that the policy implications vary as well.

Keywords: error correction model; co-integration; Granger causality; poverty relief; Kaldorian approach; Central America

I. Introduction

Tourist development and poverty alleviation have been largely ignored because of the strong legacy of the trickle-down hypothesis in tourism research. A government's most challenging challenge is ensuring that few resources are used wisely. Because of this, efficiency fosters social progress while simultaneously igniting economic growth. This theory holds that economic development is beneficial to society as a whole. For example, according to (Khan, *et al.* 2020), when it comes to enhancing the well-being of the general population, an activity that may benefit everybody may really help certain individuals more than others. There may be a rise in inequality if the wealthiest people benefit most from increased efficiency. This would be unpleasant due to the persistent poverty that exists throughout the planet.

There are significant research gaps as a result of the diverse experiences of developing countries in implementing TLG programmes. Consider the following concerns. In the same amount of tourism revenue, which countries have had higher poverty rates? Considering previous events in certain countries, are there policies that can be effectively replicated in other countries? Is it possible to alleviate poverty in any developing country by promoting tourism?

This study focuses on tourism and poverty reduction in two low- and middle-income countries. Research shows that tourism may help alleviate poverty, which is quantifiable. There are three interrelated concerns that the initiative intends to address. Tourism may increase when there are fewer people living below the poverty line. If there's a link, how close are you with this individual? Third, what are you trying to accomplish here? This study examines the link between tourism and absolute poverty, rather than the distribution of income as is the case with relative poverty. It is defined as the inability to consume a minimal bundle of goods and measured by a monetary income that falls below the poverty line. Monetary deprivation of two dollars a day per person is regarded moderate; monetary deprivation of one dollar a day is considered extreme.

Kaldorian analysis helped researchers discover a link between economic growth and reduced poverty. An error correction model is used to quantify and evaluate the empirical link between tourism and poverty reduction in two developing nations in Central America (ECM).

II. Background

It has been known since the 1960s that tourism may help alleviate poverty, but scientific evidence of this association has just lately emerged. In order to better comprehend the link between tourism and economic growth, there are two primary categories: the first is a debate about tourist-led growth, and the second is the building of an empirical correlation between these two variables. According to the author's assertions, tourism is growth-oriented, and he assumes that this expansion would mostly benefit the underprivileged. In this study, a direct empirical link between tourism and poverty alleviation has been sought.

The first portion of the research includes country-specific and cross-sectional studies. Tourism in Hawaii, as shown by (Garza-Rodriguez, 2019) country-specific studies, contributed considerably to revenue growth. In his research of the economic impact of tourism in Spain, (Liang, & Bao, 2018) observed that it had a significant influence. (Manzoor, *et al.* 2019) discovered results that were equivalent to those in the United States in Mauritius, Greece, and Fiji.

The dynamic model established by (Llorca-Rodríguez, *et al.* 2020) suggested that tourist expenditure was favourable for the long-term growth of the little economy. Tourists' passion for the place, say the researchers, changed local spending patterns, allowing people to spend now rather than save for the future. (Folarin, & Adeniyi, 2020) investigated the impact of tourist specialisation on economic growth in a small nation using an endogenous growth model. They demonstrate that tourism appears to improve economic growth regardless of the size of a country. It's been demonstrated that countries with more experience in the tourist industry grow faster than those that don't. According to (Zhao, & Xia, 2020), economic growth in Nicaragua was linked to visitor spending. A positive correlation between tourism receipts and economic growth was established even in tourist-heavy countries.

III. A snapshot of current poverty

Poor health and a lack of access to high-quality healthcare are some of the symptoms of poverty, as are illiteracy, irregular income, a variety of occupations, the inability to own a home with certainty, a lack of basic infrastructure of adequate quality, a lack of agency, and a lack of personal safety. The impoverished seem to be more vulnerable to disasters like earthquakes, hurricanes, crime, and unemployment. In the developing world, about 1.5 billion people lack access to safe drinking water, and a further 2 billion are without power (Qian, Shen, & Law, 2018). The increasing gap between rich and poor countries is the most serious economic and social issue of our day. When it comes to private spending, the richest 20 percent spend an amazing 77 percent, while the poorest 20 percent spend just 1.5 percent. In emerging economies, the gap between the rich and the poor in terms of consumption is just as stark. As an example, the richest 10% of the population consumes half of the country's economic output, while the poorest 50% consume only 10% of the country's GDP. One millionaire is born every two days and this results in the daily death of 25,000 people due to hunger.

Poverty has long been quantified by looking at the financial situation of a family. A lack of basic essentials such as food, clothes, and shelter may be shown in this example. Income and real consumption can be measured via household surveys. To measure poverty, survey data is heavily weighted by a variety of conceptual and practical considerations. Finding the poverty line, on the other hand, is a significant theoretical conundrum. In this issue's theoretical and methodological framework, (Mahadevan, & Suardi, 2019) is among the most significant contributors. In contrast to those who are actually poor, he defines the poor as those whose resources fall below a given line or threshold at time t–1. An alternate definition of poverty is the percentage of the total population's average, median, or mean income that falls below a certain threshold. The first definition is used in this investigation.

IV. Tourism and poverty reduction

Economically developing nations have depended extensively on tourism since the 1960s. Several international organisations, including the World Bank, have cited tourism as a potential economic engine for developing countries. WTO (2002) claims that tourism helps relieve poverty since it necessitates going to a certain location. In contrast to the other sorts of economic stimulation that might help alleviate poverty, tourism may have varied advantages as a development engine (Shahbaz, *et al.* 2020). Due of the large variety of services and non-traded goods that visitors purchase from local sellers, this is the case. Thus, a wide range of service providers contribute to the overall tourist experience. As a result, the good impacts of tourist expenditure may be able to aid poor, marginal, and rural populations (more employment, greater income levels, and a trickle-down impact).

Several of the world's poorest and least developed countries have seen their economies grow in recent decades as a consequence of tourism, while developing economies have seen the importance of tourism rise.

V. Methodology

This model does not include the Kaldorian hypothesis, which states that economic expansion is generated by foreign demand. According to (Scheyvens, & Hughes, 2019), export growth directly affects the speed of production growth. For the purposes of this study, exports and economic growth will be the primary focus, with tourism as an export driving economic growth being of particular relevance. Economic growth and tourism are intertwined, as this study shows, because of the study's focus on income and poverty. A rise in tourism may benefit the poor both directly and indirectly. A person's capacity to earn at least $1 per day (known as the "headcount") is classified as poor in this research.

VI. Results

If the data contained unit roots, then the (Rasoolimanesh, *et al.* 2020) tests were employed. If a unit root is found, the ADF test employs a number of regression equations (autoregressive processes of order). In the equations, drift and linear trend are two distinct forms of deterministic factors. To prevent making a Type I error and rejecting the null hypothesis in the unit root testing, remove any serial correlation from the residuals using two information criteria. The PP test suggests a non-parametric technique for preventing higher-order autocorrelation in a series. It is first-order autoregressive process that is employed in this test.. The non-parametric adjustment is made to the values t-ratio to account for residual autocorrelation.

The ADF and PP test software report the simulated critical values. The Nicaraguan and Costa Rican variables are accounted for in the ADF and PP tests. Results demonstrate that none of the variables is level-stationary

(Rogerson, & Saarinen, 2018). Using the first-difference time series, it is discovered that the variables are integrated to order one. It is essential that the variables have a long-term relationship if they are integrated.

VII. Conclusion

If tourism has any effect at all on extreme poverty, this study sought to find out. In this study, three hypotheses were put forth: (1) tourism is vital to the poor, (2) tourism does not have a systematic influence on the poor, and (3) tourists at lower economic levels have a greater impact on the poor.

If the first hypothesis is correct, then tourism may have a major influence on alleviating poverty in some cases. The following three aspects are considered crucial: There is a significant prevalence of extreme poverty, as well as an increasing tourism sector, in the country. Approximately 45 percent of Nicaraguans live in extreme poverty, with the rural population particularly badly struck by a lack of resources and economic and social opportunities (Xue, & Kerstetter, 2019). Nicaragua's GDP per capita is second only to Haiti's in the Western Hemisphere, and its human development index is second only to Haiti's. To put it another way, tourism was responsible for 6.4% of Nicaragua's GDP and 5.2% of the country's jobs between 2003 and 2008. Entire Costa Rica's overall economy was boosted by tourism, which accounted for 14.3% GDP and 13.99% jobs.

An increase in tourist earnings of only one percent can reduce poverty in Nicaragua by 1.23 percentage points, according to this study. International tourism receipts rose by 11% in 2009 over 2008, according to the World Bank. The decline in the poverty index is 5.68 points as a result of this increase. In Nicaragua, tourism has had a significant influence on poverty reduction. A rise in visitor spending will lead to increased opportunities for employment for the poor. Tourism has the highest potential for creating jobs in Nicaragua, according to ECLAC (2007). For the most part, the country's tourism industry looks to be producing better-quality jobs than the country's other economic sectors. jjj observed that hotel workers have higher fringe benefits, such as a bonus and paid vacation, despite the fact that their compensation is lower than in other industries, such as sugar.

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