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### STUDYING THE IMPACT OF TOURISM ON ECONOMIC GROWTH IN AZERBAIJAN



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### ABSTRACT

Tourism, which has become one of the most important sectors in many developing countries, is one of the largest and fastest growing service sectors in the world. The effect of tourism on economic growth is a proven fact both in the literature and in practice. The main purpose of this study is to investigate the effect of tourism on economic growth in Azerbaijan within the framework of tourism economy. In this context, data for the years 1995-2020 were obtained from UNWTO. Systematic approach, analysis and synthesis methods were used in the study. As a result of the research conducted in the context of the analyzed years, the highest number of tourists came to Azerbaijan (3.17 million people) in 2019, tourism revenues were maximum (3.21 million US dollars) in 2017, and per capita tourist expenditures were highest (993 US dollars) in 2018. found. In addition, it has been determined that the share of tourism in the Gross National Product in Azerbaijan was the highest (7.5%) in 2016.

**Keywords:** *tourism, tourism economy, economic growth, GDP, Azerbaijan.*

**JEL code:** *Z30; Z32*

### INTRODUCTION

Tourism is one of the largest and fastest growing industries in the world. Tourism has become one of the most important sectors in many developing countries. Tourism is an activity with great potential due to the formation of economic dynamics and its capacity to absorb the workforce. Tourism is linked to many service sectors and the performance of the tourism sector also affects the performance of other related sectors. The tourism sector has a wide range of services offered in many areas such as accommodation, food and beverage, and agency, and also provides employment opportunities for many people [1].

It can contribute to a country's economic growth by creating more employment opportunities, increasing investment in new infrastructure, and increasing a country's tax revenues and foreign exchange revenues [2]. Today, tourism has become a popular phenomenon and one of the largest industries in the world. Thanks to the great socio-economic contributions, tourism has become an important economic sector for many countries around the world. Tourism is one of the important economic activities that not only provides a major source of income for the economy, but also creates many jobs and develops services and infrastructure.

Tourism plays an important role in increasing socio-economic growth, especially in developing countries. Therefore, tourism policies and their implementation are of central importance for World Bank countries. However, the fact that tourism is closely interconnected with other sectors such as environment, education, health and transportation makes it even more difficult to reach the targets that countries have set for the sector. For example, the tourism sector relies heavily on local human capital; this means that tourism and accommodation workers must be properly trained for specific jobs (education sector) and mobility must be facilitated both in terms of infrastructure and public transport (transport sector) [3].

In the recent years, tourism business development has been the focus of study and research. In the analysis of tourism, economists emphasize the economic effects of tourism on the



economy. The speedy growth of tourism causes an increase of household incomes and government revenues through multiplier effects, improvements in the balance of payments, and growth of the tourism industry.

### **METHODOLOGY**

The main purpose of this study is to investigate the effect of tourism on economic growth within the framework of tourism economy. However, the development of the tourism sector in Azerbaijan in 1995-2020 was investigated in the study. In this direction, studies on the impact of tourism on economic growth in the literature have been compiled in a systematic manner, all of them have been examined within the scope of the year, country, and topic, and the results have been analyzed. Both qualitative and quantitative methods were used in the study. Systematic approach, analysis and synthesis methods were used in the study. Qualitative data were obtained from academic literature and quantitative data from UNWTO.

According to UNWTO [4], anyone who spends at least one night in a country, but does not live there for more than 12 months, is considered a tourist. According to UNWTO's methodology, those who take part in business trips and other non-tourism trips are not taken into account in the statistics. In addition, the number of people who pass through during the same day, such as crew members of ships or flights, are also not considered tourists in most countries. If the same person enters more than once in the same year, each visit is counted again.

### **TOURISM SECTOR AND INDUSTRY**

Tourism is one of the fastest growing sectors of the global economy. Most countries that invest in tourism and see it as a key sector for their development rely on tourism for their economic growth. Various initiatives have been taken by national governments over the past decade, such as reviewing tourism strategic plans, tourism communication campaigns, and the creation of national tourism brands.

Almost all international tourists carry out three activities that are common to them and from which we can measure the international tourism dimension [5]. The activities of these tourists are: crossing international borders, exchanging the national currency and spending time abroad, that is, staying in some kind of facility for accommodation.

Many countries are trying to take advantage of their natural qualities and attractions, such as historical heritage, exotic landscapes, and a convenient location for shopping and entertainment, which drive economic growth and further support this sector [6]. The earnings from the tourism sector therefore not only affect the economic growth of a country or region, but also lead to job creation in different sectors, foreign exchange accumulation and improvement of the long-term economic infrastructure [7].

### **THE IMPACT OF TOURISM ON ECONOMIC GROWTH**

The causality between tourism growth, relative prices and economic growth has also been discussed in the literature [8]. The idea of economic growth, which is also a reflection of the rise in real per capita income, essentially relates to the production capacity, which is associated with the supply side of the economy and defines long-term gains [9].

That is, Dritsakis and Athanasiadis [10] applied causality tests based on the VAR model for Greece, based on the data of the 1960-2000 period. As a result of the study, it was found that TLG is supported and there is a long-term cointegration relationship between tourism and economic growth. Gündüz and Hatemi [11] applied leveraged bootstrapping causality tests for Turkey during the 1963-2002 period. As a result of the study, they found unidirectional causality running from international tourism to economic growth. Özdemir and Öksüzler [12] investigated the causal relationship between tourism earnings and economic growth using the Johansen technique and VECM in the 1963-2003 sampling period in Turkey. As a result of the study, it has



been proven that there is both short-run and long-run unidirectional causality from tourism to GDP.

In a study by Khalil, Kakar, and Malik [13], the role of tourism revenues in short-term economic development in Pakistan between 1960 and 2005 was examined through the ECM. As a result of the study, it has been revealed that economic expansion is necessary for tourism development in Pakistan. Kızılgöl and Erbaykal [14] examined the relationship between tourism revenues and economic growth for Turkey in the 1992-2006 period using the Toda-Yamamoto causality method. As a result of the study, it has been proven that there is unidirectional causality from economic growth to tourism revenues.

In a study by Gautam [15], the relationship between tourism and economic growth in Nepal was examined. As a result of the study, it was found that the cointegration test for the determination of the long-term relationship and the error correction method for the short-term dynamics were performed, and it was determined that tourism (represented by foreign exchange income) causes economic growth in both the short and long run. A study by Snyman [16] examined the role of tourism employment in poverty reduction in Botswana, Malawi and Namibia. As a result of the study, it was found that employment in tourism in rural communities helps to involve residents in the market economy, while income from tourism employment allows households to invest in assets, education and investment.

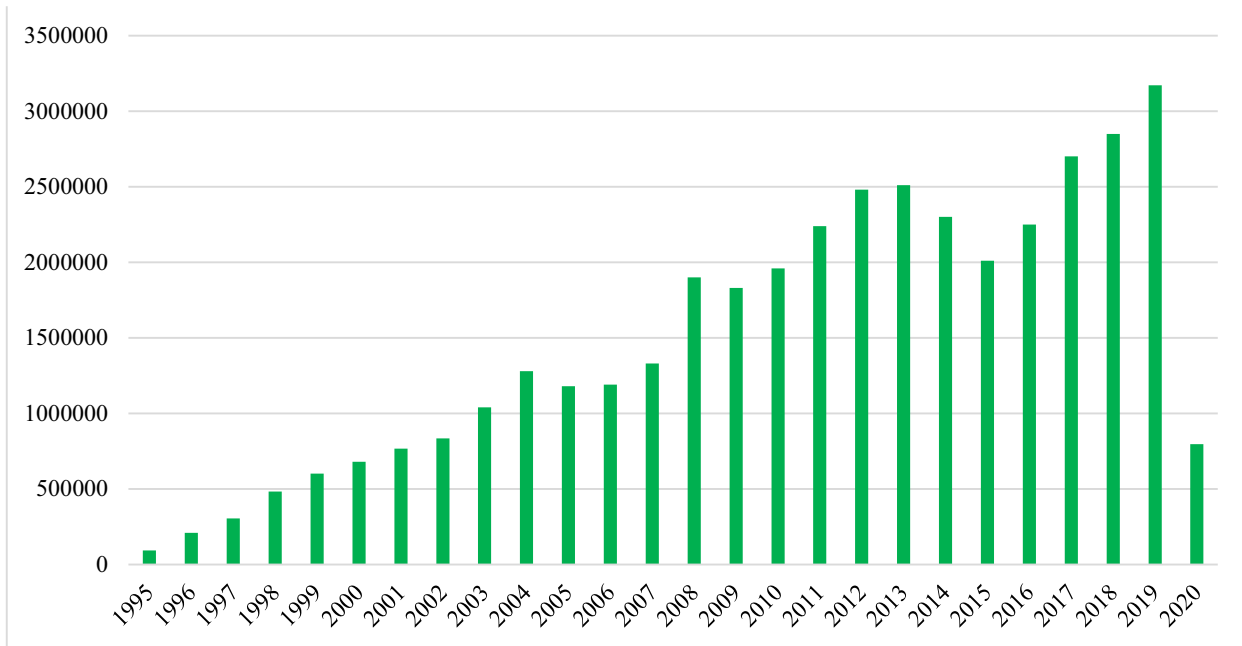
Aslan [17] investigated the causality relationship between tourism development and economic growth by using the panel Granger causality tests newly developed for the 1995-2010 period in Mediterranean countries. As a result of the study, the EDTG hypothesis was supported for Spain, Italy, Tunisia, Cyprus, Croatia, Bulgaria and Greece. However, TLG hypothesis valid for Turkey and Israel, BC hypothesis accepted for Portugal, NC hypothesis accepted for Malta and Egypt. Pavlic, Svilokos and Tolic [18] examined the causal relationship between tourism and economic growth by applying the Johansen Maximum Likelihood cointegration technique and VECM covering the period 1996-2013 in Croatia.

A study by Hesami, Rustamov, Rjoub, and Wong [19] examined the impact of oil prices on tourism revenue in countries that heavily relied on crude oil exports from 2000 to 2017. As a result of the study, it was found that oil prices and tourism revenues are cointegrated, the existence of long-term equilibrium relations and a unidirectional Granger causality from oil prices to tourism revenues. Karimi, Khezr, and Razzaghi's [20] study of the effects of regional conflicts on tourism in Middle Eastern and African countries revealed the contradictory spread of domestic and foreign prices in the effects of relative prices on tourist arrivals. While rising prices in neighboring countries attracted more domestic tourists, it also revealed that higher domestic prices are indicative of improved tourism structures and more tourists.

### **DEVELOPMENT OF THE TOURISM SECTOR IN AZERBAIJAN**

The years with the highest tourism income in Azerbaijan are 2017, 2016 and 2018 respectively. However, the years with the largest share of the tourism sector in the GNP are 2016 (7.5%), 2018 (6.05%) and 2017 (4.9%), respectively.

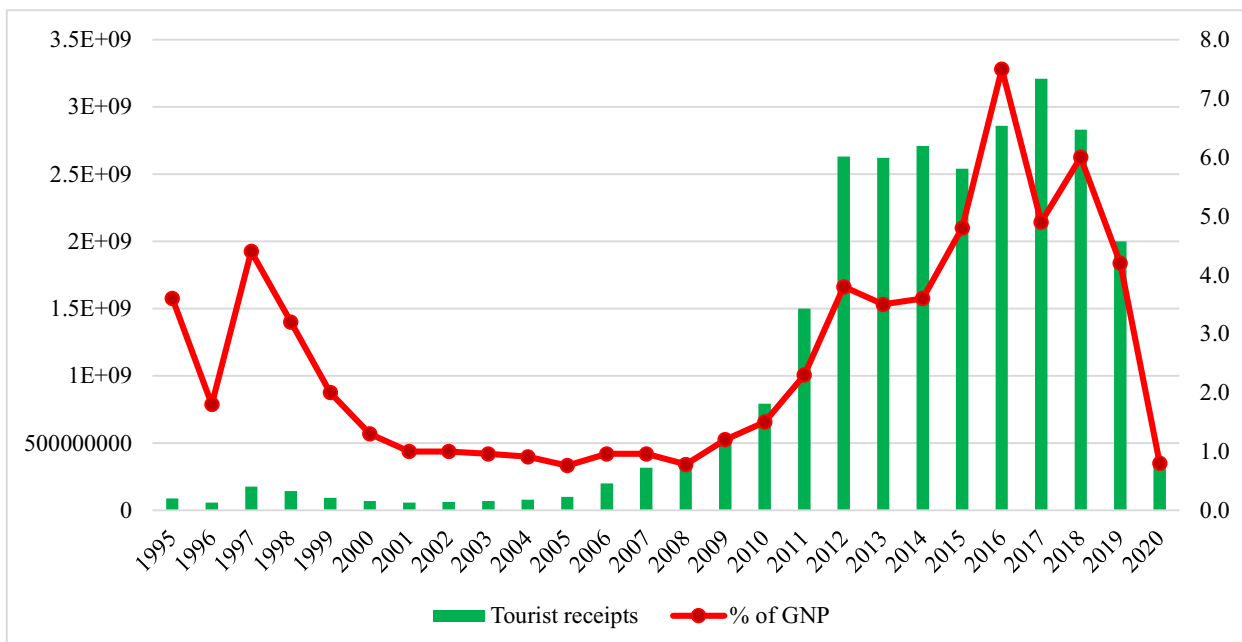
**Figure 1. Number of tourists in Azerbaijan (1995-2020)**



Source: UNWTO (2023)

When looking at the total number of tourists who visited Azerbaijan, it appears that the year 2019 saw the highest number of visitors (3.17 million), followed by 2018 (2.85 million), and 2017 (1.77 million) (2.7 million people). The year 2018 saw the largest amount of money spent by tourists per person (993 USD), followed by 1995 (935 USD), and 2011 (670 USD).

**Figure 2. Tourism revenues in Azerbaijan and the share of these revenues in the GNP (1995-2020)**



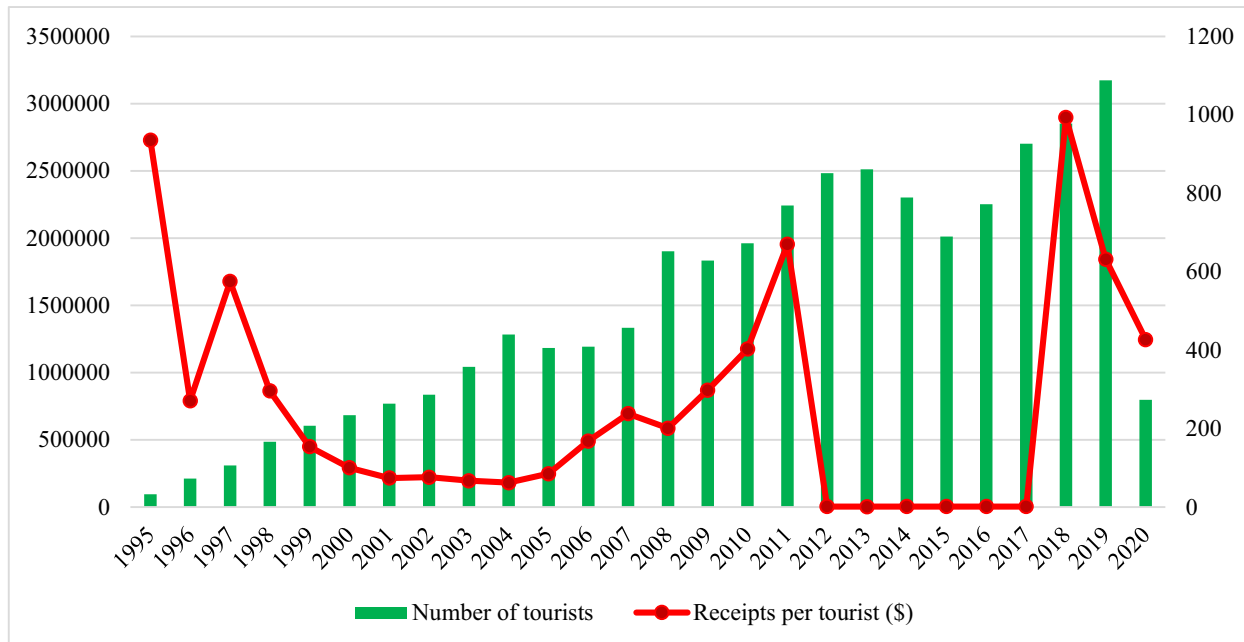
Source: UNWTO (2023)

The COVID-19 epidemic has had a more detrimental effect on certain parts of the economy, including the tourism industry, which is one of those parts. The year 2020 saw the lowest annual total for the number of tourists visiting Azerbaijan during the previous 18 years. The amount of money spent by tourists per person during the epidemic was 427 USD, which is higher than the average amount spent per person in the years before to the pandemic. This is reflected in the earnings generated by tourism (340 million USD) in 2020. It is important to mention that the

tourist industry contributed 0.8% of the total gross national product in 2020.

Both the country's total tourism income and the tourism industry's contribution to the gross national product saw significant growth in 2011 and 2012. The peak of tourism income in Azerbaijan was in 2017, and the peak of the share of the tourism sector in GNP was in 2016.

**Figure 3. The number of tourists and the receipts per tourist in Azerbaijan (1995-2020)**



Source: UNWTO (2023)

According to UNWTO [4], each of the tourists who came to Azerbaijan in 2020 spent about 361 US dollars on average. Azerbaijani residents spent an average of 319 dollars per year while vacationing abroad.

## CONCLUSION

International tourism is a category of tourism in which tourists have a longer radius of movement outside the national borders of their permanent residence and the economic effects of this type of tourism are significantly higher than those of domestic tourism [21]. A different tourism policy created by various states is one of the primary factors for the existence and development of tourism together with the natural and anthropogenic resources of the determined destinations.

Tourism is indeed a largely service-based industry, ranging from travel, accommodation, transportation, activity planning and catering, but also to the conservation, conservation and exploitation of resources. Tourism in the service sector has been growing dynamically over the past two decades, mainly due to the influx of foreign direct investment, the improvement of infrastructure and the development of tourist offers. The tourism sector contributes significantly to GDP growth, employment and local development. An important factor in a country's development and prosperity is economic growth. Every country seeks to achieve economic progress. As a consequence, several macroeconomic factors have an impact on economic growth [22]. In order for the tourism industry to be sustainable in the future, an effective policy and planning must be established today. The creators of tourism policy and strategies should be able to identify tourism trends and propose adequate mechanisms aimed at the development of high-quality tourism products and services. Tourism policy basically means planning aimed at guiding tourism that needs to progress in its development [23].

As a result of the research, some important information was obtained. Analysis of data on Azerbaijan for the years 1995-2020 reveals that the tourism sector has developed in the country.



Thus, in 1995, tourism revenues in Azerbaijan amounted to 87.00 million US dollars or approximately 3.6 percent of the gross national product. This corresponded to about 93,000 tourists at the time and about US\$935 per person. Over the past 25 years, the country's dependence on tourism has increased somewhat. Before the start of the COVID-19 pandemic, sales were \$2.00 billion, 4.2 percent of gross national product. Thus, each visitor spent an average of 632 dollars on his vacation in Azerbaijan. In 2020, due to the COVID-19 pandemic, tourist arrivals in Azerbaijan, like the rest of the world, have sharply decreased. Thus, in Azerbaijan in 2020 (\$340.00 million) it decreased by 83 percent (\$2.00 billion) compared to 2019.

According to the results of the research, it should be noted that the highest number of tourists came to Azerbaijan (3.17 million people) in 2019, tourism revenues were maximum (3.21 million US dollars) in 2017, and tourist expenditures per capita were found to be the highest (993 US dollars) in 2018. In addition, it has been determined that the share of tourism in the Gross National Product in Azerbaijan was the highest (7.5%) in 2016.

Globalization has had the greatest impact, both favorably and unfortunately, on the travel and tourism industry. People are now more interested in the world around them and have a greater desire to learn about cultures they are unfamiliar with, visit locations they have never been to before, and sample foods and beverages they have never tried before [24]. This is due to the fact that their awareness of the wider world has increased. The research by Khan, Naseem, and Khan [25] demonstrates that there is a twofold causation between the amount of money spent on tourism and the growth of the industry. One of the primary responsibilities of governments is to seek out and support economically viable industries as a means of addressing issues of economic expansion, unemployment, and fiscal and monetary imbalances. When seen in this light, policymakers consider the tourist industry to be one of the most significant industry sectors supporting overall macroeconomic success [26].

It is possible to say that the development of tourism in Azerbaijan will have a positive effect on GDP, based on both the analysis of the data on Azerbaijan between the years 1995-2020 and the relevant literature. Based on the findings obtained within the framework of the research, it can be said that tourism revenues are important and that Azerbaijan can increase tourism revenues by taking advantage of its tourism potential.

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## **AZƏRBAYCANDA TURİZMİN İQTİSADİ İNKİŞAFA TƏSİRİNİN ARAŞDIRILMASI**

Bəhman HÜSEYNLİ

### **XÜLASƏ**

İnkişaf etməkdə olan bir çox ölkədə ən mühüm sektorlardan birinə çevrilən turizm, dünyanın ən böyük və sürətlə inkişaf edən xidmət sektorlarından biridir. Turizmin iqtisadi artıma təsiri həm ədəbiyyatda, həm də praktikada sübut olunmuş faktdır. Bu tədqiqatın əsas məqsədi turizm iqtisadiyyatı çərçivəsində Azərbaycanda turizmin iqtisadi artıma təsirini araşdırmaqdır. Bu kontekstdə UNWTO-dan 1995-2020-ci illər üçün məlumatlar əldə edilmişdir. Tədqiqatda sistemli yanaşma, analiz və sintez metodlarından istifadə edilmişdir. Təhlil olunan illər kontekstində aparılan araşdırmalar nəticəsində Azərbaycana ən çox turistin 2019-cu ildə (3,17 milyon nəfər) gəldiyi, turizm gəlirlərinin maksimum 2017-ci ildə (3,21 milyon ABŞ dolları) olduğu, adambaşına düşən turist gəlirlərinin ən yüksək 2018-ci ildə (993 ABŞ dolları) olduğu müəyyən edilmişdir. Bundan əlavə, Azərbaycanda turizmin Ümumi Milli Məhsulda xüsusi çəkisinin 2016-cı ildə ən yüksək (7,5%) olduğu müəyyən edilmişdir.

**Açar sözlər:** turizm, turizm iqtisadiyyatı, iqtisadi inkişaf, ÜMM, Azərbaycan.

## **ИССЛЕДОВАНИЕ ВЛИЯНИЯ ТУРИЗМА НА ЭКОНОМИЧЕСКОЕ РАЗВИТИЕ В АЗЕРБАЙДЖАНЕ**

Бахман ГУСЕЙНЛИ

### **SUMMARY**

Туризм, ставший одним из наиболее важных секторов во многих развивающихся странах, является одним из крупнейших и наиболее быстрорастущих секторов услуг в мире. Влияние туризма на экономический рост является доказанным фактом как в литературе, так и на практике. Основной целью данного исследования является изучение влияния туризма на экономический рост в Азербайджане в рамках экономики



туризма. В этом контексте данные за период 1995-2020 гг. были получены от ЮНВТО. В исследовании применялись системный подход, методы анализа и синтеза. В результате исследований, проведенных в разрезе анализируемых лет, установлено, что наибольшее количество туристов прибыло в Азербайджан в 2019 году (3,17 млн человек), максимальный доход от туризма был в 2017 году (3,21 млн долларов США), самый высокий туристический доход на душу населения составил в 2018 г. (993 долл. США) в год. Кроме того, было установлено, что удельный вес туризма в валовом национальном продукте Азербайджана был самым высоким (7,5%) в 2016 году.

**Ключевые слова:** туризм, туристическая экономика, экономическое развитие, УММ, Азербайджан.

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