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The nexus between tourism, financial development, and economic growth: Evidence from African countries

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Abstract

This paper examines the nexus between tourism, financial development and economic growth in 31 African countries using the Dumitrescu–Hurlin Granger non-causality test that accounts for heterogeneity and cross-sectional dependence. It also employs the Granger causality test in the frequency domain that distinguishes between temporary and permanent causality for the country-specific analysis. It shows a cointegration relationship between tourism, financial development and economic growth. It reveals a joint long-run causality from tourism and financial development to economic growth, and a joint short-run and long-run causality from tourism and economic growth to financial development, albeit the joint causality from financial development and economic growth to tourism is tenuous. The individual causality shows a bidirectional causality between tourism and economic growth, between financial development and economic growth, and between tourism and financial development. The country-specific analysis reveals that tourism is a significant predictor of financial development and economic growth at high frequency rather than at low frequency in most countries. Therefore, African countries should prioritize the policies and programs that can facilitate the development of the tourism and financial sectors in their quest to accelerate economic growth and development.

1 | INTRODUCTION

Theoretical literature posits that tourism has the potential to accelerate economic growth since it provides foreign currency earnings, employment opportunities, infrastructural development, and improvement in balance of payments. The new growth theory postulates that economic growth can be stimulated by increasing the quantity of labor, capital, and exports. International tourism is considered as a nonstandard type of export because it is a source of receipts and consumption (Brida et al., 2016). The specification of the tourism-led growth hypothesis is based on the production function with inputs such as labor, capital, and tourism. The tourism-led growth hypothesis posits that tourism drives economic growth because it provides foreign exchange earnings, which are required to purchase capital goods, pay for imports, and maintain international reserves (Ehigiamusoe, 2020; Narayan et al., 2010). Through strong leakages, tourism could stimulate other economic industries (e.g., agricultural, manufacturing, construction, services), and boost investments in new infrastructure, labor, technology, and environmental resources.

Apart from tourism, financial development is considered as one of the potential determinants of economic growth (Ehigiamusoe & Lean, 2018; Levine et al., 2000). According to the growth theory, financial development spurs growth

