Investigating Asymmetry in Tourism and Growth Relationship in the Pacific Island Countries: Any Lessons for Policy Makers?

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Abstract

The global economy has been devastated by the Covid-19 pandemic, which began in the first quarter of 2020. The unprecedented damages in terms of loss of lives, livelihoods, and interruptions in international travel have caused deep contractions in small islands and developing countries, which are known for their dependency on tourism. This paper empirically examines the relationship between tourism and economic growth in the selected Pacific Island Countries (PICs). Adopting a panel nonlinear autoregression distributed lagged (NARDL) approach, we account for potential nonlinearities in the relationship and empirically determine the asymmetric response of per capita GDP to positive and negative tourism shocks. Our analysis depicts that tourism and per capita GDP have a significant asymmetric relationship. The estimates show that a decrease in tourism earnings has a larger negative impact on economic growth when compared to the positive outcome of the same size rise in tourism earnings. The negative impact of tourism is also found to be more pronounced in the long run. The results are robust to different tourism indicators and sub-sample periods. ICT and the financial market as control variables have a significant positive effect on economic growth. The study findings have some policy implications for PICs.

Keywords: Asymmetry; Covid-19; Economic Growth; Pacific Island Countries; Tourism

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