

# Investigating the Effect of Oil Price and Currency Exchange Rate Changes on Outbound Tourism in OPEC Member Countries

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## Abstract

The World's tourism industry has been developing for several years. The global economy grows, and more and more people tend to go travelling not only within their own country but also to foreign countries. Thus, it is relevant to investigate the relationship between macroeconomic indicators and the tourism industry.

## Introduction

An impact on the demand for tourism. First of all, economic factors have to be taken into account. Income is a critical variable to take in consideration for tourists to make their decision. When there is economic growth, the disposable income of household increases, which encourages people to raise the budget for recreation, and traveling, can be a good mean to relax and explore new environments. Also, the exchange rate and the prices of goods (the inflation rate) in the destination country play important roles. Domestic inflation and domestic currency appreciation in the destination country imply that tourists need to spend more to merely purchase the same goods and services, which weakens the attraction of the destination. With the domestic currency depreciation, more potential visitors are willing to travel. For a specific country or region, there are two types of travelers namely domestic tourists and inbound tourists. Nowadays the inbound tourism represents an increasing proportion of the whole tourism industry. Compared with the domestic visitors, the inbound visitors are more likely to be influenced by the exchange rate and the inflation rate in the destination.

Nations of immigrants will draw more tourists to come and visit friends, while trade-intensive countries will bring more business visits. In addition, advertising and the purposes of travelling (family visit, business trip, etc.) play considerable roles on selecting destinations. When the government increases the budget for travelling, advertisement, and more information is delivered to the foreign markets, this can certainly elevate the tourism aspiration of that country. Other factors like safety and political environment may have an impact as well. Political turmoil in certain regions would influence the travel plan of tourists, and some countries could even issue alerts to keep their citizens from going to the area.

The tourist arrivals and expenditures are appropriate variables to evaluate the impact of economic factors on the tourism industry. The amount of tourist arrivals to some extent depends on the popularity of the destination; however, it also fluctuates between different years. Moreover, it may have specific trends in several years due to the economic or political environment. The prices have great influence on the on-the-ground expenditure. While changes in prices, will, to some extent, be reflected in the changes in the exchange rate (XR) However, to consider the relative price can be more effective than the absolute

price, since it allows a comparison between the purchasing power of two countries. Consequently, consumer price index (CPI) and Gross domestic product (GDP) should also be analyzed, since both of them also reflect the price level of the destination country.

## Literature Review

There is a consensus in the literature that tourism is one of today's faster growing industries and it plays a significant role on economic growth. In Harvey et al. [1] study, applying the bounds testing approach to cointegration and an error-correction model to a linear-log equation, with data from the World Bank and the International Financial Statistics (IFS) of the International Monetary Fund (IMF) (1995-2010), using variables like the real GDP, annual international tourist arrivals, the nominal exchange rate, and real exchange rate [2,3]. The empirical evidence from Philippines indicated that not only short run but long run growth will benefit from tourism development. As a member of the BIMF-EAGA (namely Brunei-Indonesia-Malaysia-Philippines - East ASEAN Growth Area), Philippines implemented some measurements to boost economic cooperation, including tourism relations, which contributed to economic development. The same thing happened in Jamaica. By examining the causal relationship between financial development and tourism industry, Ghartey [4] confirmed that tourism arrivals and expenditure lead to economic growth, by introducing the CPI, the GDP and the tourism arrival (1963-2008) into a VAR model, both in the long and in the short term. In 1986, due to the depreciation of the domestic currency, tourism expenditure ascended, being conducive to more economic growth in the country [5]. The Government also played a fundamental role trying to decrease consumer taxes and hence promoting the consumption of local goods and investment in physical capital to promote the national industry [6].

The research for Mediterranean countries shows similar results. Dritsakis [7], using the method of cointegration analysis and data for real GDP per capita, real receipts per capita and real effective exchange rate in the period of 1980-2007, reveals that tourism development is closely related to GDP in seven Mediterranean countries: Greece, Turkey, Cyprus, Spain, France, Italy, and Tunisia [8]. Besides, not only the economic growth rate, but regional effects should be taken into account. It is more reliable to analyze the situation of the whole region

instead of individual countries because of globalization. Furthermore, the author suggests that governments should assist the tourism industry to grow as much as possible [9]. Instead of paying attention to the current situation, policymakers should consider strategies for the long run [10]. But in a changing period like the financial crisis, specific adjustment should be launched to meet the emerging demands, rather than keep using the past estimated model. According to Odhiambo's [11] statement, with the data for 1980-2008 and the Autoregressive Distributed Lag (ARDL) bounds testing approach, unlike most of the previous research, in Tanzania, tourism development leads to more economic growth in the short term, however, in the long run, growth-led tourism plays the important role. Meanwhile, statistical analysis also indicates that in the short run, there are bidirectional relationships between exchange rate and tourism development, and between exchange rate and economic growth.

Dutch disease describes the connection between the economic growth of natural resources and the decline of other export services and commodity. Forsyth et al. [12] investigated whether Australian tourism, as one of the export services, is suffering Dutch disease [13]. Due to the mineral industry strong growth since 2004, the Australian dollar experienced rapid appreciation, which reached an historic peak in 2012. At the same time, this currency appreciation results in the contraction of other tradable goods and services. By analyzing the statistics of mining, tourism, and other industries, we can conclude that the tourism industry was suffering from the Dutch disease [14].

However, to turn the situation around, some measures can be taken into account. Change the prices by lowering the taxes on tourists, promote the inbound tourism as well as domestic tourism and improve the portfolio of tourism products to make it attractive, should be useful measures for weakening the negative effects [15]. What shouldn't be neglected is that seasonality has a significant importance for tourism industry and previous research paid less attention to this factor. Espinet et al. [16] filled the blank. Using data from Spanish tour operators brochures for 2002, which included 32 different tourism destinations in 11 countries, 1776 hotels, and 27231 prices, it can be summarized that climate, hotel services, and star rating are important variables of seasonality. Except for the economic elements, policymakers and hotel managers should take seasonality as one of the variable to forecast tourism demand.

Saayman and Saayman [17] studied the impact of exchange rate volatility on tourism in South Africa. It is assumed that the volatility of the South African Rand, the local currency (the ZAR) has an important impact on both visitors' spending and arrivals only from 2000 onwards, when the South African currency was permitted to free float. Volatility is modelled using a GARCH model, while the influence thereof on tourism is modelled using an autoregressive distributed lag model (ADL) and a bounds test approach [18]. Using quarterly data for the period between 2003 and 2010 for average spending, tourism arrivals, real gross domestic product, consumer price index, nominal exchange rate of South Africa and the main sources (countries) of intercontinental arrivals, respectively Germany, the UK, Germany, the USA, France, Brazil, and China were used. The author found that increased currency volatility is associated with increase with on-the-ground expenditure in most of the countries, respectively China, Germany, the USA, and Brazil, while Australian tourists tend to take smaller risks, spending less when volatility increases. In terms of Arrivals, most of the countries showed risk aversion behavior at the exception of China [19]. Due to increased currency volatility, arrivals

declined. Last but not least, in the long term, spending would be influenced more than arrivals.

Chao et al. [20] examined how currency depreciation affects the prices of Ain inbound tourism, illustrating that the exchange rate has a dominant effect in the amount of tourists that that country receives. Also, the effect of rising domestic price inflation can be passed through to foreigners, via tourists and their consumption while they are staying in the country. Consequently, the depreciation of the domestic currency may harm the revenue of inbound tourism [21,22]. Currency volatility affects not only the visitor's expenditure but also arrivals, and in the long run the revenues will be influenced even more. Another example using German tourists who travel to Turkey, also showed that exchange rates are significant determinants of tourism demand [23]. The authors collected observations on Turkey's tourist arrivals from Germany from 1996 to 2009, at quarterly frequency, to analyze its relationship with exchange rates (the authors tested alternative exchange rates volatility measures), using Generalized Autoregressive Conditional Heteroscedasticity (GARCH) specification and a variance volatility measure [24]. To sum up, exchange rates are significant determinants of tourism demand. Secondly, the exchange rate and a relative price proxy should not enter the tourism demand model separately, but rather be combined as an exchange rate adjusted effective price variable [25].

## Discussion

The United States is one of the most visited countries in the world and international tourism is one of the most important contributors to the country's economy. According to the National Travel and Tourism Office (NTTO), the arrival of international tourists in the USA grew by 97%, from 39.2 million in 1996Q3 to 77.5 million in 2015Q1 (NTTO National Travel & Tourism Office). These statistics are expected to grow with the World Travel and Tourism Council (WTTC) estimating that by 2025 the arrival of international tourists in the USA will reach 128.8 million and will generate USD279.4 billion (WTTC World Travel & Tourism Council). International travelers have a major impact on the US economy; international tourists visiting the USA in 2015 spent a total of USD216.9 billion. This level of spending yielded a USD61 billion trade surplus and generated one job for every 68 international visitors (NTTO National Travel & Tourism Office).

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