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**An Investigation of the Dynamic Relationship between  
Tourism Expenditure and Non-Oil Growth with the Planning  
of a Blue Ocean Strategy: The Case of Libya**

**NAGMA AHMAD R. HBEISH**

**A thesis submitted to the University of Huddersfield in partial  
fulfilment of the requirement for the degree of Doctor of  
Philosophy.**

**The University of Huddersfield**

**January 2018**



## **Abstract**

The aims of the thesis are to investigate tourism led non-oil growth (TLNOG), for Libya, and to identify the factors that will help to increase this growth through creating and implementing a Blue Ocean Strategy (BOS). These are three research questions: (1) Is there any relationship between tourism expenditure and non-oil GDP in Libya? (2) Is there any causality between these two variables? (3) How to resolve and recover the particular case of Libyan tourism growth through the BOS? Firstly, the research estimated the potential of tourism by using the Auto Regressive Distributed Lag (ARDL) co-integration model proposed by Turner (2006) to ascertain the long-run relationship between tourism expenditure and non-oil growth. Then, semi-structures interview questions based on the Eliminate-Reduce-Raise-Creative grid (ERRC) (Kim & Mauborgne, 2005b) were dismissed to five kinds of stakeholders (consultants, public promoters, hoteliers, tour operators and tour guides). This study indicates that the long-run relationship is verified between the variables and there is one long run causality. The findings show the BOS through: (a) value innovation by offering special services and packages in hotels (e.g. planning healthy food for special events); (b) technology innovation linked to museums considering people with special needs; (c) cost-off by reducing the prices of the tourist restaurant and internal flights; (d) new segment market by creating the North and South Mediterranean tourism. Finally, the BOS as a recovery strategy by adopting tourism culture and choosing the desert as the main theme for Libyan tourism. The study concludes that TLNOG is not verified, and the growth in the Libyan tourism market could be achieved through the application of thoughtful and appropriate Blue Ocean Strategy.

## **Dedication**

**To my Dad, Mum, Brother's Souls,**

**My Husband and my little Kids**

**Aslm and Raghed**



## **Acknowledgements**

Firstly, I would like to thank Almighty ALLAH for giving me strength and the ability to overcome all the obstacles throughout my study and my life.

I am deeply grateful to my Supervisor; Julia Meaton, and my family for their support; I owe a deep gratitude to my husband and my kids for giving their moral support and allocated time to complete my study.

Finally, I would like to thank my close friends for their engorgement, and extending my appreciation to everyone who has given a support to me.

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## Abbreviation list

|        |   |
|--------|---|
| ADF    | Augmented Dickey-Fuller                             |
| AIEST  | Association of Scientific Experts in Tourism        |
| AIC    | Akaike Information Criteria                         |
| AFDB   | African Development Bank                            |
| ARCH   | Autoregressive Conditional Heteroscedasticity       |
| ARDL   | Auto-regressive Redistributed Lags                  |
| ARIMA  | Autoregressive Integrated Moving Average            |
| BOS    | Blue Ocean Strategy                                 |
| CAD    | Current Account Deficit                             |
| CC     | Common Currency                                     |
| CUSUM  | Cumulative Sum of Recursive Residuals               |
| CUSUMQ | Cumulative Sum of Square of Recursive Residuals     |
| CPI    | Consumer Prices Index                               |
| DF-GLS | Dickey Fuller- Generalized Least Square             |
| ECM    | Error Correction Model                              |
| ERRC   | Eliminate, Reduce, Raise and Create                 |
| EU     | European Unit                                       |
| FDI    | Foreign Direct Investment                           |
| FDS    | Foreign and Domestic Spending                       |
| FMOLS  | Fully Modified Ordinary Least Square                |
| GBTT   | General Board of Tourism and Traditional Industries |
| GDP    | Gross Domestic Product                              |
| GNA    | Government of National Accord                       |
| GNC    | General National Congress                           |
| GPC    | General people's Committee                          |
| HDR    | Human Development Research                          |
| HDI    | Human development index                             |
| HEIs   | Hotel education institutions                        |
| ICT    | Information and communication technology            |
| IID    | Independent and Identically Distributed             |
| IT     | Information technology                              |
| ITS    | Information Tourism Statistics                      |
| IVs    | Instrumental Variables                              |
| IMF    | International Monetary Fund                         |
| INSEAD | Institute European de Administration de Affairs     |
| JML    | Java Modelling Language                             |
| KPSS   | Kwiatkowski-Phillips-Schmidt-Shin                   |

|        |   |
|--------|---|
| LHR    | Libyan House of Representatives                                 |
| LM     | Lagrange multiplier   |
| LTM    | Libyan Tourism Minister Plan                                    |
| MENA   | Middle East and North Africa countries                          |
| NTC    | National Transitional Council                                   |
| NUTS   | Nomenclature of Territorial Units for Statistics                |
| OECD   | Organisation for Economic Co-operation and Development          |
| OLS    | Ordinary Least Square   |
| OPEC   | Organisation of Petroleum Exporting Countries                   |
| R&D    | Research and Development  |
| RTS    | Recommendation on Tourism Statistics                            |
| SC     | Schwarz Criteria  |
| SCDM   | Sustainable Competitive Destination Model                       |
| SDR    | Special Drawing Rights  |
| SMEs   | Small Medium Enterprises  |
| STS    | System of Tourism Statistics                                    |
| SSFIC  | Social Security Fund Investments Company                        |
| SWOT   | Strengthens, Weakness, Opportunities and Threats                |
| TE     | Tourism expenditure   |
| TIPB   | Tourism Investment and Promotion Board                          |
| TLGH   | Tourism Led Growth Hypothesis                                   |
| TNOG   | Tourism-Non Oil Growth  |
| TSA    | Tourism Satellite Account                                       |
| TIPB   | Tourism Investment and Promotion Board                          |
| TYDL   | Toda- Yamamoto Doaldo and Lukepohl method                       |
| UNESCO | United Nations Educational, Scientific and culture Organization |

## **Chapter 1: Introduction**

Tourism has become one of the largest sectors of the economic world for over half a century and it provides a strong contribution towards stimulating global economic development, such as generating development, employment opportunities and exports earnings. In 2014, the World Travel and Tourism Council (WTTC) reported that the contributions of the travel and tourism industry towards global GDP have seen a significant increase from USD940 billion in 2008 to USD7trillion in 2013. The reason behind this increase is due to visitor exports, which is considered a measure of money that are spent by international tourists, rising to 3.9% at a global level, year on year. Pan, Liu, & Wu (2014) have stated that the growth rate of international tourism grew, regardless of the financial crisis at that time. That leads to the fact that the growth rate of tourism is higher than the growth rate of the world economy during that period. The role of tourism is considered a catalyst of development in many different countries. International tourism is recognized as a positive effect towards increasing long-run economic growth through different channels; first, tourism is a significant foreign exchange earner, allowing payment for imported capital goods or basic inputs used in the production process. Second, tourism plays an important role in spurring investments for new infrastructure and competition between local firms and firms in other tourist countries. Third, tourism stimulates other economic industries by direct, indirect and induced effects. Next tourism contributes to generate employment and increases income. Moreover, tourism can cause positive exploitation of economies of scale in national firms (Andriotis, 2002; Croes, 2006; Fagence, 1999; Lin, Liu, Tseng, & Su, 2011). Finally, tourism is an important factor for the diffusion of technical knowledge, stimulation of research and development, and accumulation of human capital. The belief that tourism can promote or

cause long-run economic growth is known in the literature as the Tourism Led Growth Hypothesis (TLGH). Tourism is the leading source of foreign exchange in at least one of three developing countries who have made it a priority sector, and this holds true especially for small islands(Durbarry, 2004). On the other hand, it is important to note that a portion of foreign exchange generated by tourism is expatriated by transnational corporations, through transfer of pricing, and so on(Schubert, Brida, & Risso, 2011). As a result of that, promoting tourism locally, regionally and nationally is based on its potential ability to generate direct or indirect economic benefits for the economy of the country(Sharpley, 2009).

There is a widely held belief that tourism has played a fundamental role in developing countries to reach economic growth and development. Libya's travel and tourism industry contributed 1.6% to Libyan GDP in 2004(U. UNWTO, 2005), and its contribution towards employment is 2.2% of total employment in 2004. The unemployment rate in Libya is considerably high at 30% of the total population(Jamahiriya, 2010). The Secretary of the General People's Committee (GPC) attempted to reduce the over-capacity of employment in the state sector, but all the solutions put forward so far have been impractical. For that reason, the tourism industry is considered to offer great opportunities for creating jobs to resolve the issue of high unemployment rates in order to lead to a growth of services and other non-oil GDP industries forward toward the general growth of non-oil GDP, and then lead to economic growth.

In terms of the above, this study is traces the relationship between tourism and non-oil GDP in order to ascertain the proper polices. The study has proceeded in its investigation to find out the policy that could increase the growth of tourism through the BOS, which has been claimed by Kim & Mauborgne (2004). The concept of the BOS strategy is to switch from competition amongst the industry within the same marketplace to reconstructing the market

and creating new demand. Kim & Mauborgne(2005b) concluded that creating these strategies can move the industries and organisations to the next level of an uncontested marketplace, which can advance industrial effectiveness.

However, the blue ocean market is still not a clear market, and Kim and Mauborgne (2005) said that the idea of the BOS is based on that instead of getting a share of the cake, it would seek enlarging the cake. Kim & Mauborgne (2005b) concluded that creating these strategies could move the industries and organisations to the next level of an uncontested marketplace, which can advance industrial effectiveness. Due to intangible products and services, which have been offered to tourists, the BOS is considered the most proper strategy for the tourism industry. The BOS has been conducted in the marketing strategy field, and it may deliver an important advantage with the Libya tourism industry.

## **1.1 The Aim and Objectives**

Tourism potential is a key component of tourism and a prerequisite of tourism development. The main aim of this study is how to increase the growth in the Libyan tourism market share.

### **1.1.1 Objectives**

The present study's objectives are:

- 1) To find the relationship between tourism expenditure and non-oil GDP.
- 2) To find the causality between the variables (Non-oil GDP and Tourism).
- 3) Exploring in depth the factors that would increase the growth based on the BOS.
- 4) Recovering tourism industry.

## **1.2 The Contribution of the Thesis**

This present study has provided several contributions as following:

### **1.2.1 Contribution to the TLGH:**

Despite the fact that the tourism industry plays a fundamental role in the world economy, the previous literature has paid little attention to the empirical investigation of the tourism contribution to Non-Oil Growth (NOG), and economic growth in general. As a result, this study has provided an empirical of TLNOG investigation, and this could have contributed towards bridging the gap between the TLGH literatures. The commonly accepted argument on the contribution of TLNOG needs to be verified empirically as well. Therefore, this research has verified the relationship between tourism expenditure and non-oil growth and the later is led to cause tourism expenditure.

### **1.2.2 Contribution to the BOS**

In the literature, there are few studies that investigated the impact of the BOS strategy on the tourism industry. Thus, this study contributed towards the BOS, due to there is not enough literature that studied the growth of tourism with regards to the BOS framework. As a result, this study contributed to the BOS in terms of both tourism growth and tourism recovery at the same time.

### **1.2.3 Contribution through TLGH & BOS**

The study has conducted two methodologies to find both the growth of tourism industry and recovering the industry by applying the BOS. Applying the BOS method based on the TLNGO results has considered the first study that use two methods in order to recover and increase the growth of the industry. Hence, expanding economic diversification in the future.

## **1.2.4 Contribution to Libya**

### 1.2.4.1 Contributing to the theory

The study has been used to measure tourism income by applying tourism expenditure, which has been used in the wider literature of TLGH. However, the majority of the libyan tourism literature has not paid attention on investigating TNOG, which links tourism expenditure directly to the non-oil sector or to economic growth in general. Hence, this study has been the first study applying this variable within TLGH studies. Thus, this study has contributed to the theory by applying non-oil GDP. Besides that, the libyan tourism literature has not examinine the BOS yet in the tourism market.

### 1.2.4.2 Practice

The research has carried out two methos:

The first one is time series. the TLGH literature has shown that there just one study carried out for Libya with a panel method; however, the investigation was not complete due to a lack of sources. The panel method tends to disregard a country's specific features and the analysis did not establish the direction or causal linkages between tourism and economic growth. Hence, a case study can simplify definite a causality in time series approach is more possible than the panel approach, particularly for small market.

The other one is applying the ERRC tool. This study provides evidence of a recovery strategy for Libya in the context of the BOS. The investigation is focused on how the BOS could be the best strategy for developing the tourism industry to become a unique industry and as a key growth in Libya in the future. Also, it is a solution that will be delivered to the economic policy makers in order to recover and develop Libyan tourism industry. Thus, this is a contribution towards providing a strategy that could help in the recovery of the tourism sector and increase growth at the same time.



### 1.3 The Organisation of the Thesis

The present thesis has ten chapters. Following this introduction, chapter 2 describes the role of tourism growth worldwide, focusing on the contribution of tourism to the economy. Moreover, it identifies the role of the stakeholder in promoting development through tourism, such as the government, the tourism industry, and non-government organisations. Also, it identifies the impact of the crisis, such as terrorism and civil war, on tourism growth and strategies that have been chosen to recover tourism market after the crisis.

Chapter 3, identifies the Libyan economy, and the background of the Libyan tourism industry. Also, it identifies the factors that have determined the growth of the tourism industry. Moreover, it comprises the strategies designed for the Libyan tourism market in previous studies in order to develop the tourism market.

Chapter 4 presents a theoretical framework for establishing tourism leads growth analysis in several times and countries with a different economic methods and determinants of tourism growth.

Chapter 5 constitutes the core of the empirical analysis. This chapter uses a quantitative method based on an econometrics method. The chapter investigates an important potential relationship between tourism and economic development and the validity of the hypothesis of tourism-led non-oil growth over the period 1995-2010. The econometrics method has applied Auto-regressive Redistributed Lags (ARDL) for co-integration. This approach is an attempt to ascertain the long-run relationship between the variables and causality, and to find the long-run relationship between the variables. Also, it looks at whether economic growth causes increased tourism expenditure for Libya. Moreover, this study address the question of whether the increased tourism activity causes non-oil growth for Libya.

Chapter 6 represents the empirical findings and discussion. The chapter comprises the time series model analysis, which is provided within the period (1995-2010). The results of the unit root test and co-integration ARDL are reported with the interpretation and discussion. The result of the causality estimation is provided with an interpretation and discussion.

Chapter 7 focuses on the strategies that increase the growth of the industry. The BOS is presented in this chapter, and a description regarding how the BOS can be created.

Chapter 8 represents a qualitative method based on the results of the first method. This method applies the BOS tool, which is called ERRC by Kim and Mauborgne(2005a). The aim of this chapter is to create the BOS for the Libyan tourism market in the future.

Chapter 9 the interviewee findings are also represented under the ERRC tool for five tourism stakeholders with coding diagrams. Then, the discussion is stated with the growth and recovery under the BOS strategy.

Finally, chapter 10 provides a summary of the key research findings that have emerged from the data analysis and findings discussion. Also, this chapter identifies the research contributions towards the knowledge and presents the study's limitations and recommendations for further research and policy makers.

## **Chapter 2: Tourism Trend Background and its Impact and Policy**

### **2.1 Introduction**

This chapter provides a review of the tourism background globally and for the Southern Mediterranean countries specifically. It also discusses a wide overview of the tourism trends during the period of 1990-2013, and it introduces the important tourism region in terms of international arrivals and receipts. Furthermore, this chapter determines the effect of tourism on GDP and employment by direct and indirect effects. Secondly, this chapter aims to identify why tourism is considered a favorable strategy, due to its impact on increasing and creating the businesses, following its impact on the national and social society. The final section of this chapter will identify the role of policy of the government, the private tourism industry and non-government organisations in enhancing the growth and development of the industry.

This chapter is structured as follows: In section (2.2), it shall present the definition of tourism, the primary tourism differences and tourism expenditure, in section (2.3)- tourism demand, in section (2.4)- tourism supply, in section (2.5)- global tourism trends are explained, and the growth of the international arrivals and receipts in Southern Mediterranean countries are explored in Section (2.6). Finally, section (2.7) focuses on tourism's effects, and section (2.8) - discusses the policy role of the stakeholders.

## 2.2 Definition of Tourism

Generally, the literature of tourism has classified tourism into two main types: technical and conceptual definitions. In 1937, the United Nation World Tourism Organisation (UNWTO) defined an international tourist as following:

*“ An international tourist is a person who visits a country, other than that in which he habitually lives, for a period of at least twenty-four hours ” (Leiper, 1979, p. 393).*

While in 1963, the United Nation conference recommended a definition of visitors for statistical purposes.

*“ Visitor describes any person visiting a country other than that in which he has his usual place of residence, for any reason other than following an occupation remunerated from within the country visited ”(Leiper, 1979, p. 393) .*

The definition of technical tourism in accordance to UNWTO has been recently agreed upon amongst many countries, which is as following:

*“The activities of persons travelling to and staying in places outside their usual environment for not more than one consecutive year for leisure, business and other purposes not related to the exercise of an activity remunerated from within the place visited ”(Hecht, 2005, p. 3).*

Consequently, “tourism” is used in this definition to mean all travel, for a wide range of possible aspects and purposes, such as business, holiday, study, sport, religion and other purposes. However, any travel for paid work is not regarded as tourism. The conceptual definitions of tourism have been defined by Hunziker and Krapf (1941):

*“Tourism is sum of the phenomena and relationship arising from the travel and stay of non-residents, to the extent that does not lead to permanent residence and are not linked with earning activity”*

However, some critical issues have occurred from this meaning. First, it includes both a dynamic factor which is the activity of travelers to the locations that have been visiting, and a fixed element (the stay in another non-resident area). Second, it has differentiated the movement of individuals from individuals living and working entirely in the host country.

It has also differentiated the tourists “temporary visitors” of migrants who are involved in the activities for the long-term in economic terms. This definition has been further criticized because it has excluded business travel from the concept of tourism.

McIntosh (1977) has suggested a more comprehensive definition, which is that the science, art and business of attracting and transporting visitors, accommodating them and graciously catering to their needs and wants. He has considered this definition with other subjective sides of the tourism, rather than the business component. However, Leiper (1979) has argued that there is no clear definition of tourists, who are the most significant tourism agent nor is there a focus on spatial or temporal aspects, which are also essential. Wahab (1996) has indicated that the significance of these components, such as a man, the author of the act of tourism; space, the physical element to be covered; and time, the temporal element consumed by the trip and stay. Another definition was put forth by UNWTO:

*“as the sum total of industries, such as construction and infrastructure, transportation, accommodation, food and beverage services, recreation and entertainment, travel agencies, tour operators and a large share of handicraft activities, culture and heritage, etc.”(Lanquar, 2011).*

### **2.2.1 Main Tourism Difference**

The System of Tourism Statistics (STS) has characterized between the next classification of tourism and tourists, which are:

- Domestic tourism and International tourism

Domestic tourism considers the tourism of local “resident” visitors inside the country, while international tourism describes the tourism of visitors who have crossed the borders to a country which is not their usual place of residence.

- Inbound tourism and outbound tourism

Inbound tourism is tourism of non-resident visitors or “foreigners” inside the economic country, whereas outbound tourism is the tourism of local people from the country to other countries.

- Tourists and excursionists

Bond (2008) has defined tourists as guests or “visitors” who have stayed for at least a day (24 hours) in the country; whereas, excursionists are also visitors who have stayed for less than 24 hours in the country the tourists have visited; therefore, the word for ‘visitors’ has included both tourists and excursionists.

### **2.2.2 Tourism Expenditure Concept**

the tourism expenditure or Visitor Expenditure, which is a form of the import, is considered the most important indicator of the export. Increasing the importance of tourism has been highly required by the policy makers, marketers and researchers in order to evaluate the impact of tourism on the national economy and the other sectors in the economy (Manente, 2000). According to UNWTO RTS (Recommendation on Tourism Statistics), visitor expenditure has been the basic element of tourism demand, and has been defined as: all the expenditures that have been made by the tourists or visitors during their stay at a destination country (Laimer & Weib, 2006). However, there are some expenses that should be excluded from the visitor expenditures,

such as (Laimer & Weib, 2006):

- Purchases for commercial purposes
- Capital investment
- Cash given to the relatives or friends

Tourism expenditure has been categorized in accordance to RTS into the following categories:

- Package travel
- Accommodation
- Food and drink
- Recreation, culture, and sporting activities
- Shopping
- Others

### **2.3 Tourism Demand**

Tourism has been characterized as an export industry, its product consumed on the spot. Once it produces it must be consumed within a period of time. Therefore, it was a major issue for most of tourist services, such as hotels, because the production and distribution of tourism services happens at the same time. The heterogeneous, perishable and intangible nature of the tourist product, and its sensitivity to changing market conditions, implies that the sector could benefit strongly from an intensive use of information technology (IT). It has a significant role in shaping the growth of the tourism industry (products and services). Technology and the Internet have made the world as a 'small village', and every type of the information pertaining to the tourism industry is readily available such as, geographic location, culture, history, attractions, facilities and cuisine, and the other information that could help in the design and development of particular places. Moreover, the adoption of new technologies will lower the cost of provision of tourist services and improve the efficiency and productivity of the tourist sector.

A tourist product is considered highly heterogeneous, not homogenous. Therefore, most specialized countries have something different to offer potential consumers. In contrast, the demand for tourism is subject to change due to non-economic factors. Such examples include political crises, and changes in preferences and expectations. Unpredictable factors result in making the correct and accurate forecasting of consumer demand for tourism a very hard task (Gray, 1972; Schulmeister, 1979). Moreover, there are some major factors that have influenced the tourism demand, which are:

- 1) Relative prices between different destination countries
- 2) The distance of a prospective destination.
- 3) The transportation cost compared with the other destinations.
- 4) Income distribution in the tourist countries.
- 5) Prices differences in terms of exchange rate.
- 6) Private consumption of all of these factors is controlled by the destination countries, except the relative prices.

Many factors have driven a significant growth of international tourism over the past 50 years. These factors have been considered the most influential factors on the development of tourism. For an example, there have been increases in wealth, free time and technological progress in transport. However, recently, political change has been considered a significant factor for issues relating to new destinations in developing countries.

The nature of demand has also changed due to the advent of the so-called 'new tourist'. Tourists have been recently considered more flexible, more environmentally sensitive in seeking meaningful experiences, and therefore travel more to new, different, untouched and exotic destinations. Changing tourist tastes have led to changes of tourism demand, hence, the adoption of a blue ocean strategy is more reliable in this case. Therefore, tourism demand considers a vital opportunity for developing countries, with regards to the challenge for how the developing countries can harness this potential means of



development (Sharpley & Telfer, 2002).

## **2.4 Tourism supply**

Tourism supply has primarily depended on the attractions, activities and basic tourist resources (sunny, sandy beach and cultural heritage) of a particular destination. However, the tourism industry has required a high level of investment for the development and supply of goods and services to meet tourist and region development requirements. These investments have included infrastructure (such as roads, sewage and electricity, transportation, accommodation, non-hotel branch), and shopping with associated services (such as insurance and finance). As a consequence, the public sector has provided the essential infrastructure and financial assistance requirements for the tourist industry (Kaiser, 1978). Whereas, the private sector has provided the bulk of tourist facilities and services. In other words, the private sector initiates and leads the process of tourism development. Such a policy, however, usually results in two major drawbacks:

- 1) It may result in an irregular pattern, highly scattered development, and inefficient use of resources and duplication of facilities when planning and development give to the private sector (Murphy, 1985). It can also lead to a saturation of the regions, which are already congested and lead to backward development, so long as private investment tends to concentrate in already developed regions where basic infrastructure is relatively abundant.
- 2) The risk of a huge dependency on tourism producing countries it may become even more severe. The structure of tourism product produces “immobile” results in that the demand and supply in the market place are confronted.

Generally, for the reasons described above, state involvement is crucial where tourism is concerned with helping to ensure a more efficient function of the industry. The government should plan and lead the process of tourist development, and stimulate the interests of the private sector within a comprehensive tourist development plan, in order to promote private investment in line with pre-specified goals and objectives(Murphy, 1985). There are some critical issues that the government should consider when formulating such plan.

1. The government must decide what the desired growth rate would reach; it is crucial in the national economy and the way that tourist development will fit within the government's plans for regional development(Robinson, 1976).
2. The government should prepare a summary of the regions of the nation and the attractions and resources of each. A "landing zone" is necessary to promote regional and different types of investment for regions where this kind of development would be more profitable(Cleverdon, 1979).

Gray (1972) notes that the government should also decide the perspective roles of the public and private sectors, as well as the role of the locals and foreigners. Despite the advantages that foreign investment would bring, it has disadvantages, which decreases the share of the net benefit to a country or region. Tourism supply may have a significant impact on the contribution of tourism towards development. The tourism industry has supplied similar components in the provision of experiences, but the characteristics of supply may vary considerably in terms of scale, nature and control/ownership. A destination might be identified by patterned, large scale mass tourism development, largely controlled by overseas interests. The structure of ownership in the tourism industry contains a large number of small

independent family units. It could have advantages if the government found a way to overcome the difficulties of communicating its policy plans to the various agents involved. Therefore, planning for the development sector could be more effective and efficient than other organized and stronger units. However, efficient communication with and control of the various units involved in the production and distribution of tourism would call for a high degree of decentralization(Delivani, 1991). This type could be seen in developed countries, although regrettably, Delivani (1991) describes how it is unheard of in less developed countries that intend to exploit their comparative advantage in the provision of tourist services, since government services tend to be highly centralized.

## **2.5 Global Tourism Trend**

Tourism is regarded as a phenomenon of the twentieth century(Faulkner & Vikulov, 2001). In fact, the travel industry and tourism have seen rapid growth in recent decades, and have become one of the largest industries in the world, due to the fact that global tourism experiences "more than 250 million people around the world"(Coshall, 2003, p. 4). International tourist arrivals (overnight visitors) increased by 4.3% in 2014, reaching a total 1133 million after topping the 1 billion mark in 2012, while international tourism receipts reached US \$1245 billion worldwide in 2014, up from US \$1197 billion in 2013, corresponding to an increase of 3.7% in real terms (UNWTO, 2015).

Statistics show that international travel and tourism have grown by 2% in 2008, to 922,000,000 international arrivals, which has increased to 18 million, compared with 2007(UNWTO, 2009). According to UNWTO 2008 and 2009 were difficult years for the tourism industry as a result of the performance of the world economy and the development of (H1N1) virus which is the subtype of influenza A virus. It was expected that the number of international arrivals would decline by 5% in 2009, and in 2010 a slight improvement was expected,

despite the critical period in 2009, there was a bleak future for travel and tourism 2020 expects international arrivals to reach up to 1.6 billion (UNWTO, 2009).

### 2.5.1 Tourism Contribution to the GDP

According to the World Travel and Tourism Council (WTTC), tourism makes a considerable contribution both directly and indirectly. As seen in the Table 2.5.1-1 below, the highest share of global tourism to GDP for both direct and indirect contribution in 2000 was by 3.9 and 10.7 respectively. However, direct and indirect income contributes to GDP is considered 2.8 times its match as a direct impact over this decade.

**Table 2-1 Tourism contribution to GDP (1999-2020).**

| Years        | Tourism' s GDP (Direct Effect) |            |           | Tourism' s GDP (Direct & Indirect Effect) |            |           |
|--------------|--------------------------------|------------|-----------|---|------------|-----------|
|              | 2000 US\$ billion              | Growth (%) | Share (%) | 2000 US\$ billion                         | Growth (%) | Share (%) |
| <b>1990</b>  | 913.2                          | -          | 3.7       | 2474.8                                    | -          | 10.0      |
| <b>1995</b>  | 1029.3                         | 2.0        | 3.7       | 2755.8                                    | 1.8        | 9.9       |
| <b>2000</b>  | 1293.4                         | 3.9        | 3.9       | 3481.9                                    | 4.0        | 10.7      |
| <b>2005</b>  | 1281.7                         | -0.2       | 3.4       | 3673.1                                    | 0.9        | 9.9       |
| <b>2009</b>  | 1318.2                         | 0.6        | 3.2       | 3775.0                                    | 0.5        | 9.4       |
| <b>2020*</b> | 1968.4                         | 3.4        | 3.1       | 5811.3                                    | 3.7        | 9.6       |

Source:(WTTC, 2010, 2013). \*forecasting.

In 2009 the direct share of global tourism to GDP decreased to 3.2%, due to the economic and political crisis in 2000, and the indirect effects decreased to 9.4% in 2009.

### 2.5.2 Tourism Contribution to the Employment

The tourism industry is considered as one of the most complicated industries, which has many goods and services, and it is further connected with many different industries. Hence, the tourism industry is intensive and creates labor both directly or indirectly, such as through hotels, restaurants, resorts, transports, banks, agriculture, construction and arts (Li, 2004). Table 2-2 below shows the growth and the share of the tourism direct and indirect contributions to employment between 1995-2020\*.

**Table 2-2 Tourism contribution to employment (1995-2020).**

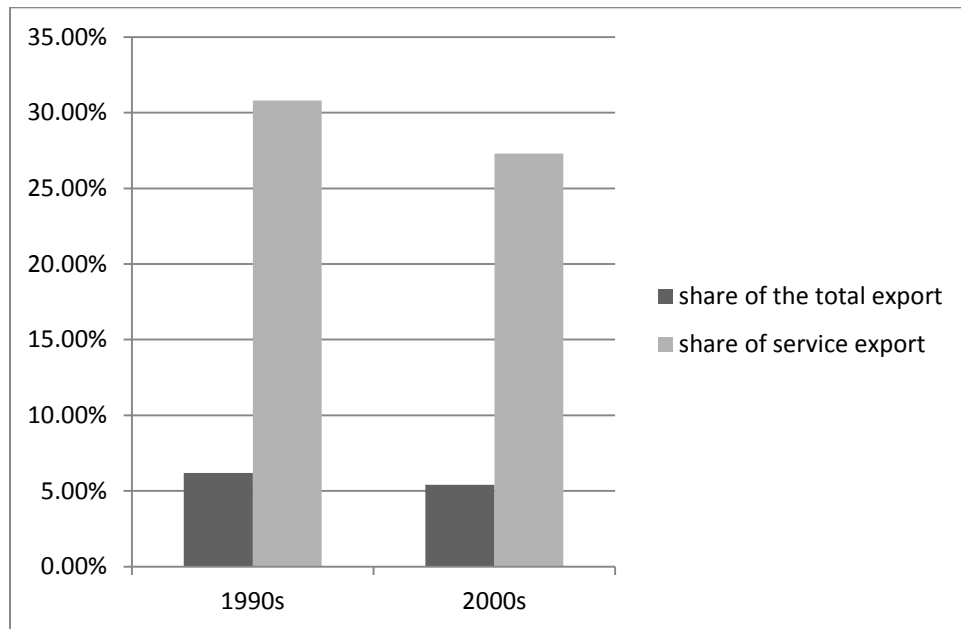
|      | Direct and Indirect Tourism Employment |        |       |
|------|--|--------|-------|
| Year | Million                                | Growth | Share |
| 1995 | 188.2                                  | 2.5    | 8.1   |
| 2000 | 216.0                                  | 2.3    | 8.6   |
| 2005 | 234.3                                  | 1.4    | 8.6   |
| 2009 | 236.5                                  | 0.2    | 8.2   |
| 2020 | 303.0                                  | 2.1    | 9.2   |

Source: (WTTC, 2010, 2013).

WTTC (2010) has reported that tourism created 188.2 jobs in 1995 both directly and indirectly. Since then, the number has increased significantly to reach 216 million jobs in 2000 with a growth rate of 2.3% and share of 6.6%. However, tourist jobs during 2005-2009 had a slight increase, but with drop in growth rate to 0.2. Therefore, the share of tourism in the total employment decreased gradually to reach 8.2 in 2009.

### 2.5.3 Tourism Contribution to the Exports

Tourist exports represent an amount of money that is spent by tourists in the destination countries. This does not include tourism expenditure purchases on such things as accommodation, curios trip, and car hiring etc.



**Figure 2-1** Tourism contribution to the export (1999s-2000s).

Source: Calculated from the World Bank (WB) (2016).

Figure 2-1 shows that the contribution of tourism to exports through the 1990s had a high share, with 30% of total exports above 6% of service export. However, in the 2000s the total share of the exports had decreased to 27% of total exports, with over 5% of service exports.

### 2.5.4 Global International Tourism Arrivals and Receipts

The number of the international tourist flows has increased steadily. As a result, Table 2-3 indicates that the tourist arrivals have increased 3.72 times from over 277.6 million in 1980 to 1, 035- million in 2012. The increase flow

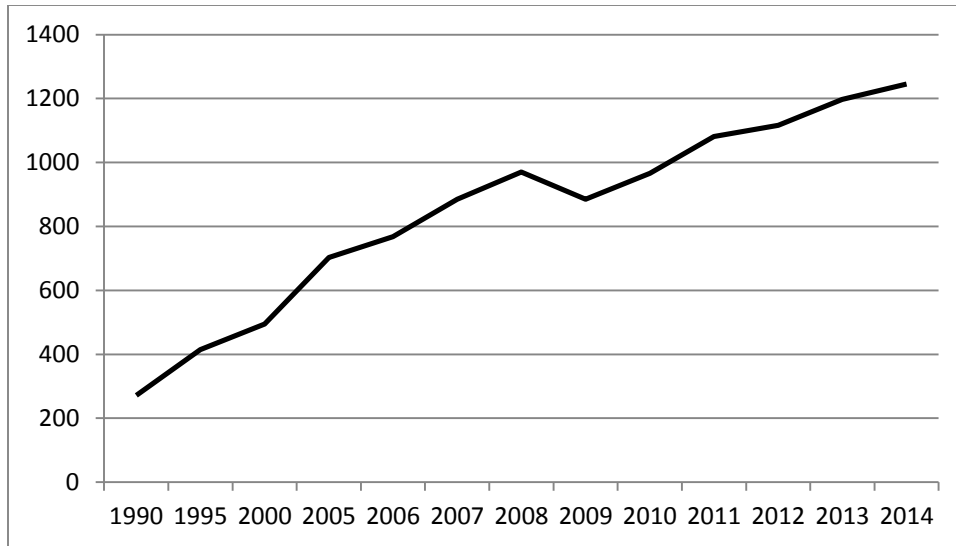
of the international tourist arrivals have continued despite several economic crises and on-going political instability (Nosier, 2012).

**Table 2-3 Global International tourist arrivals (1980-2012)**

|   | 1980  | 1985  | 1990  | 1995  | 2000  | 2005  | 2010 | 2012  |
|---|-------|-------|-------|-------|-------|-------|------|-------|
| International tourist arrivals (millions) | 277.6 | 319.5 | 437.7 | 539.4 | 686.8 | 806.3 | 949  | 1,035 |

Source: (Popescu, 2014).

Figure 2.2 illustrates the trend of the global international tourist receipts through 1990 to 2014, as can be seen in the above trend. In the 1990s, the number of international receipts had grown steadily, except for the end of the 1990 period, due to the Asian financial crisis in 1997-98, specifically. In the first period of the 2000s, the international tourist receipts deteriorated dramatically particularly from successive economic and political crises, which range from 11 September in 2001, followed by the recession in 2001-2003, then followed by the global recession in 2008 and Swine Flu in 2009.



**Figure 2-2 The Global international tourist receipt US\$ billion (1990-2014)**

Source: .(UNWTO, 2015).

### **2.5.5 Global Tourism Arrivals by the Geographical Regions (1995-2014)**

International tourist arrivals and receipts between the regions have been diversified among the global regions. International tourism has been controlled by two regions, namely Europe and the Americas, which have received almost 78% of global tourist arrivals and about 77% of global international receipts in 1995 as listed in the Table 2-4. The highest share of Europe’s market in tourist arrivals was in 1995. The high position of Europe is attributed to several reasons, as Latham (1998) has stated, which includes high income for the majority of the European countries, work conditions for Europeans, high standards of infrastructure, and higher orientation of the tourism sector in addition to its location. However, the Europe market share has gradually decreased.



In terms of the second region, in 2000, Americas had highest international receipts, estimated around 28.66% of global tourism receipts. However, this number has continuously decreased over the period 2005-2014.

**Table 2-4 Average share of tourist arrivals and receipts (1995-2014).**

| Region | Europe   |          | Asia and Pacific |          | Americas |          | Africa   |          | Middle East |          |
|--------|----------|----------|------------------|----------|----------|----------|----------|----------|-------------|----------|
|        | Arrivals | Receipts | Arrivals         | Receipts | Arrivals | Receipts | Arrivals | Receipts | Arrivals    | Receipts |
| 1995   | 57.59    | 51.49    | 15.53            | 19.42    | 20.64    | 25.48    | 3.579    | 1.77     | 2.59        | 1.82     |
| 2000   | 57.12    | 48.65    | 16.31            | 18.4     | 18.99    | 28.66    | 3.925    | 2.25     | 3.57        | 2.03     |
| 2005   | 55.06    | 51.59    | 19.25            | 19.8     | 19.2     | 21.4     | 4.43     | 3.21     | 4.54        | 3.89     |
| 2010   | 50.70    | 44.2     | 21.6             | 27.1     | 21.68    | 19.8     | 5.25     | 3.4      | 6.41        | 5.5      |
| 2013   | 52.1     | 41.0     | 22.9             | 30.0     | 15.4     | 22.1     | 5.0      | 2.96     | 4.45        | 3.8      |
| 2014   | 51.4     | 40.8     | 23.2             | 30.2     | 16       | 22.0     | 4.9      | 2.9      | 4.5         | 3.95     |

Source: Calculated from UNWTO (2008, 2009, 2010, 2015).

The main reason for the slow decline in international arrivals and receipts for both markets is attributed to the emerging new destinations of the Asia and Pacific region. In 2014, the Asia and Pacific region reached the highest international arrivals and tourist receipts of 23.2% 30.2% respectively. The remarkable improvements of the Asian and Pacific countries with regards to economic growth and reducing the restrictions on the tourism and political stability are the main factors for increasing the international arrivals and receipts (Nosier, 2012).

In the African region, international arrivals and receipts increased through the period of 1995-2010. The region achieved a high growth for both international arrivals and receipts in 2010, with 5.25% 3.5% respectively. Similarly, the

Middle East region achieved a high rate in terms of the international tourist receipts and arrivals in 2010.

## 2.6 International Tourism Trends in the South Mediterranean Countries.

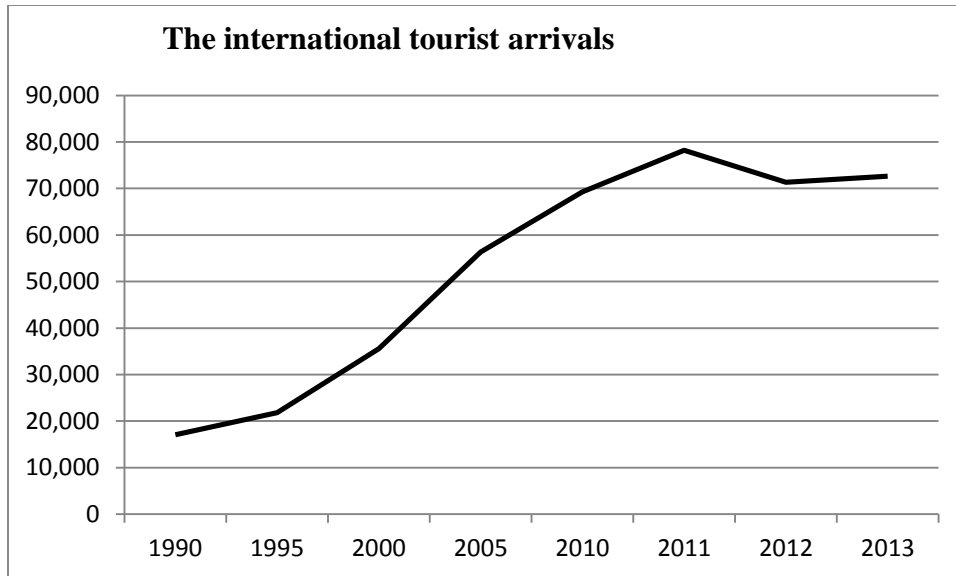
### 2.6.1 Tourist Growth in the South Mediterranean (1990-2012)

High growth rates for inbound world tourism have been recorded in eleven of the south Mediterranean countries, which are Algeria, Egypt, Lebanon, Morocco, Libya, Syria, Tunisia, Turkey, Occupied Palestinian, Israel, between (1990- 2010).

**Table 2-5 The international tourist arrivals (1990-2012).**

| <b>Countries</b> | <b>1990</b> | <b>1995</b> | <b>2000</b> | <b>2005</b> | <b>2009</b> | <b>2010</b> | <b>2011</b> | <b>2012</b> |
|------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Algeria          | 137         | 520         | 866         | 1,443       | 1,912       | 2,070       | 2,395       | 3,200       |
| Egypt            | 2,411       | 2,871       | 5,506       | 8,608       | 11,914      | 14,051      | 9,497       | 11,200      |
| Israel           | 1,063       | 2,215       | 2,672       | 1,916       | 2,321       | 2,803       | 2,820       | 2,900       |
| Jordan           | 572         | 1,075       | 1,427       | 2,987       | 3,789       | 4,557       | 3,975       | 4,290       |
| Lebanon          | 210         | 450         | 742         | 1,140       | 1,851       | 2,168       | 1,655       | 1,300       |
| Libya            | 96          | 56          | 174         | 170         | 260         | 260         | 26          | 104         |
| Morocco          | 4,024       | 2,602       | 4,420       | 6,077       | 8,341       | 9,288       | 9,342       | 9,450       |
| Palestine        | ...         | ....        | 1055        | 88          | 391         | 522         | 446         | 482         |
| Syria            | 562         | 815         | 3,015       | 5,838       | 6,092       | 8,546       | 5,070       | 2,000       |
| Tunisia          | 3,204       | 4,120       | 5,244       | 6,975       | 6,904       | 6,902       | 4,782       | 5,950       |
| Turkey           | 4,799       | 7,083       | 10,428      | 21,125      | 25,506      | 27,000      | 31,456      | 35,782      |

Source: Calculated from UNWTO (2008, 2009, 2010, 2015).



**Figure 2-3 the general trend of the international tourist arrivals (1990-2013) in South Mediterranean countries**

Source: Calculated from UNWTO (2008, 2009, 2010, 2015).

Similarly, domestic tourism in these countries has seen a significant increase, despite of safety issues, natural crisis, high oil prices and economic unpredictability; moreover, the financial crisis in 2008 had no impact on these countries in particular. However, in 2011 the Arab spring had a negative impact on the tourism growth and brought the trend down (Robert & Casella, 2013).

Table 2.5 shows that Turkey and Morocco are the champions of the southern Mediterranean tourism industry in 1990, and Morocco saw a considerable increase of international arrivals in 2011 and 2012, despite a terrorist attack in Marrakesh. From 1990, the trend of tourism increased quickly to reach the highest level of international arrivals in 2010, and as Figure 2-3 shows, this increase has been attributed to the 14 million arrivals to Egypt in that year, in addition to Turkey. However, in 2011 the trend went down to 9.49 million of international arrivals in Egypt. The steady increase of international arrivals in

Turkey is due to Turkey's political choice to make tourism as a national policy in the early 1980s. Therefore, its priority focused on internet use to boost its image and reputation, and a huge number of investors engaged in tourism. In 2012, Turkey saw a substantial increase and reached approximately 35.7 million.

For Algeria, 2011 is considered a favorable year, with an increase of 15.7% in international arrivals to 2.395 million. In 2012, an increase of international arrivals reaching to 3.2 million was due to huge progression of the tourism investments.

In Tunisia, its development within the tourism industry is dominated by hotel and resort products for Europeans. In 2010, Tunisia received about 6,902,749 million international arrivals, however, in 2011, the number of international arrivals declined to 30.7% of the previous year. In 2012, the number has deteriorated to reach 2.5 million, and in 2013 there was an expectation from the tourist authorities to reach 7 million international arrivals, but political events and terrorist attacks had a negative impact on Tunisia's image.

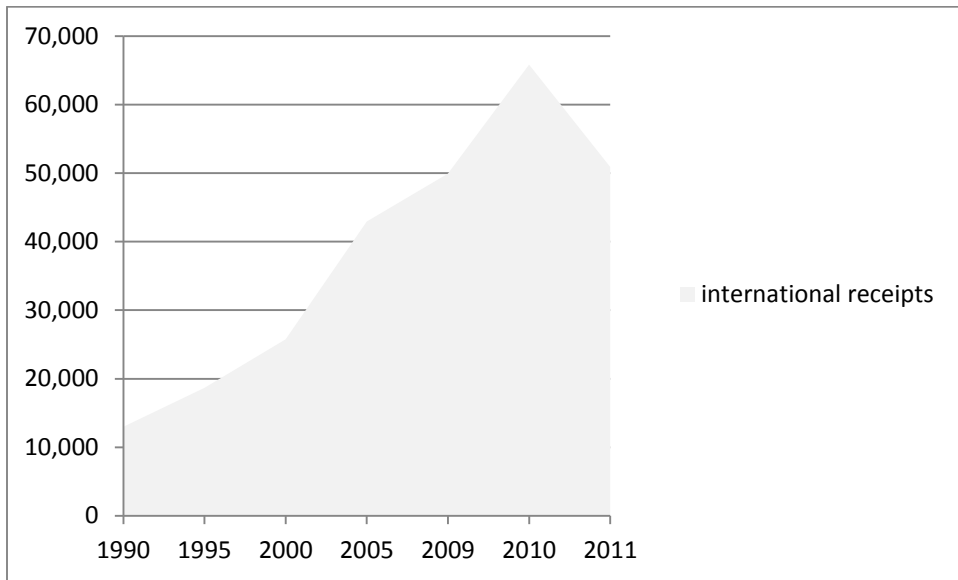
Countries such as Syria, Lebanon, Jordan and Israel have seen a positive growth in terms of international arrivals through the period of 1990-2010, however, in 2011 a significant drop of international arrivals occurred for these countries, except Israel saw an increase of international arrivals reach 2.82 and 2.886 in 2011 and 2012 respectively. Jordan saw a marked a growth in terms of its international arrivals, which were about 4.16 million in 2012 after a decline in 2011.

As a result of that, studies have shown that 2011 and 2012 witnessed a substantial increase of Muslim customers in South Mediterranean countries, and there has been a growth of Muslim expenditure of about 4.8% compared with 3.8% in the world. Consequently, this will increase investments in

tourism, in avenues as hotels, restaurants, spas, prayer halls and halal restaurants.

### 2.6.2 International Tourist Receipts

The international tourist receipts in Mediterranean countries have increased during the period of 1990-2010 to about 384 %. This increase is twice as much as whole the world in the same period.



**Figure 2-4 International receipts for South Mediterranean countries (1990-2011)**

Source: (Lanquar, 2011)

The tourist receipts boomed in the Mediterranean countries through 1990 and 2010. In 2010, the international receipts marked 3.5 times the level of 1990, then before during the so called ‘Arab Spring’ for such countries. Countries such as, Egypt, Turkey, Libya, Tunisia and Syria had achieved a high growth of domestic tourism growth. Moreover, in Turkey domestic tourism is

considered more important than that international tourism, whereas in Israel domestic tourism is about 40 % more important than international tourist.

## **2.7 Why Tourism is Favored for Development Strategy?**

After we have reviewed the growth of international tourism and in the south Mediterranean countries, the study will identify the importance of the tourism industry with regards to the economic and social effects. This research has shown these types of effects on GDP, employment directly or indirectly in the form of figures. This section has precisely illustrated the role of these effects on developing an economic society by expanding business opportunities.

In terms of direct effects for the workers or entrepreneurs who have worked in the tourism sector, their wages and earnings have participated directly in the sector(Ashley & Mitchell, 2008). However, indirect effects have occurred through the tourism value chain. Telfer (1996) has stated that tourism has offered more opportunities than other industries do throughout the local economy whether directly (such as through food provision) or indirectly (through services such as accommodation, local transport and souvenirs). The level of which such linkages can be designed depends on a variety of factors, such as the availability to invest in, the extensive variety and the maturity of the local economy or quality of the domestically created goods. As a result of these factors, tourism depends on the inputs that come from other sectors, such as food, beverage, transportation, etc. Studies have shown that these internal-sectorial factors have added about 60-70% extra value to the tourism sector for developing countries(Ashley & Haysom, 2006). Consequently, the impact of tourism directly and indirectly on the economy has been briefly illustrated in Table 2-6 below.

**Table 2-6 Tourism impacts on local economy**

| Effect types  | Economic and social impact  |
|---|---|
| <p>Direct: employment and enterprises for those who are working in the tourism industry.</p>                              | <ul style="list-style-type: none"> <li>• Local employing, training and staff promotions</li> <li>• Access for depurative groups, such as women, youth to employment</li> <li>• Connection between SMEs for producing tourism product and services.</li> <li>• Participating and engagement for guests to share in activities in the local economy.</li> <li>• Combined businesses, sharing profits, channels for regular donations to the local economy.</li> </ul> |
| <p>Indirect: employment and enterprises for those who are working in other industries supplied by the tourism sector.</p> | <ul style="list-style-type: none"> <li>• Linkages between supplies whether are local or small businesses for food, goods, and services.</li> <li>• Providing training for local businesses to meet the standards of the procurement</li> </ul>  |

|   |  |
|---|--|
| <p>Dynamic: more generally, the effects on the economic and society</p> | <ul style="list-style-type: none"> <li>• Developing new infrastructure, or complete local needs, such as water, transport, and electricity.</li> <li>• Providing support for small businesses and associations to undertake the advantages of the growing scale of the tourism market.</li> <li>• Addressing barriers for women in employment and enterprises.</li> <li>• Respecting local traditions by using local resources and engaging residents in joint planning.</li> <li>• Supporting universities and training centers</li> <li>• Investment in human resources and skills, which can be transformed from the tourism sector to other areas</li> </ul> |
|---|--|

Source:(Ashley, De Brine, Lehr, & Wilde, 2007).

### 2.7.1 The Economic Impact

Tourism is considered a growing industry, and it has continued to be one of the world's quickest increasing sectors, and globally, its development is estimated to continue. Thus, tourism is basically seen as a safe development option. The Tourism as Catalyst of the Development, from the perspective of



a destination considers the role of perspective tourism as a catalyst for development, and alternatively (more precisely) economic growth. Moreover, the most compelling reason behind this are adopting tourism as a development strategy since it has potential impact on the local or national economy as a source of employment, income, foreign exchange and government revenue. There are number of factors that can answer the question of why tourism is favored as a development strategy:

#### 2.7.1.1 Balance of Payment

Tourism is considered a major source of gaining hard currency compared with other economic sectors, particularly in those countries which depend heavily on this industry. It is attributed to the nature of the tourist sector in dealing with services, which is provided to international tourists, and foreign exchange earnings. It makes the tourism industry a more stable sector than others, such as the export markets in raw materials which are unstable and, therefore, foreign earnings are uncertain. Furthermore, tourism (on average) has a lower import content, the reason for this being that foreign visitors can buy services from local providers(Vanhove, 2011). The role of tourism in generating foreign currency is crucial for those countries where their economy has been determined by the tourist industry, and it is considered a single source of foreign exchange earnings. Moreover, the tourism industry is important for particular countries at intermediate stages of development. Consequently, any development process in these countries will required products that are imported from industrialized countries, and these imports will have risen sharply(Wall & Mathieson, 2006).

In this case, the question which has been presented in many studies is how these countries meet their payments. There is no doubt that many countries are suffering from lack of foreign exchange. The tourism sector represents a major

source of earning foreign currency, and it contributes to the total export earnings, such as goods and services, which can alleviate the balance of payments deficits for many developing and newly industrialized countries. As a result of that, it will reduce dependency on foreign loans, and could be a good motivation to increase investments, which will accelerate economic growth(Delivani, 1991).

Tourism expenditure is a form of export, and tourist expenditure abroad is a form of import and is important for financing imports(Manente, 2000). Therefore, the balance of payments account for a country's a record of economic transactions during a period of time (usually a year) between the resident of the country and the rest of the world to estimate the true effects of tourism on its economy, particularly on its balance of payments. These effects contain two components: the effects of tourism on the home country, and the effects of international tourism. In order to assess the effects of tourism, which includes expenditures made by foreign visitors in the visited country and by residents of the home country, the balance on the travel account is subtracted from them. However, some argue, that the travel account does not provide other effects occurring as a result of domestic activity. Moreover, the balance in all accounts of the balance of payments (travel account and tourism balance) is by no means necessary. Perhaps more meaningful results would be obtained if the two effects were treated separately(Delivani, 1991; Wall & Mathieson, 2006).

The effects of tourism on the balance of payments may have a negative and a positive effect. There are factors that differentiate gross and net tourism receipts. Net receipts vary greatly from country to country, and it possible that this is due to tourism receipts "leak" outside the country. The net foreign exchange receipts for a country will depend on three factors:

1. The propensity to import of the tourist exporting country.
2. The percentage of the expatriate labor.
3. The nature of capital investment

The propensity to import is the proportion of each unit of the tourism expenditure, which are transferred to another area for the purchase of goods and services. Imports may be either direct or indirect. Direct imports are content goods and services consumed immediately by tourists or used by the tourist sector. Indirect imports are represented of the raw materials, industries goods and services for local producers who provide goods and services to the tourist sector. The propensity to import is influenced by the magnitude of the imports, which depends on the degree of the consumption structural diversity of the importing country's economy, and also influenced by its import policies. The disparity of the consumption degree to these goods and services is by international tourists in the visited country. For example, if tourists desire to buy domestic goods (e.g. particular drinks or food), the imports of foodstuff or drinks will decline, moreover, if the visitors return to their country, the tourists may continue consuming these particular products and this might be the scope of the hosting countries to increase its exports. Whereas, if tourists insisted to consume products, familiar to their own countries, then the receiving countries will have to increase its imports. This also depends on the size of the country. In small countries, their economy is likely to be less diversified than in large countries. For example, Small Island, with a small resident population and very little diversification economy might be totally dependent on the life-pattern of international tourists. In small countries, their economy is likely to be less diversified than in large countries developing countries. For example, Small Island, with a small resident population and very little diversification economy might be totally dependent on the life-pattern of international tourists. . In small, developing countries, the ratio between net and gross tourism receipts is small for obvious reasons (the size of their domestic market, the lack of

intermediate goods industries etc.), and usually tends to import a large proportion of tourist-related products. The economies of developing countries are unable to meet the demands created by international tourism. Some developed countries are able to supply and operate their tourist industry from their domestic resources, and as a consequence, have low import propensities. The tourist industry in these countries is boosted by a veteran system of backward linkages. This can only happen in a mature, diversified economy.

Expatriated laborers have occupations in the tourist industry, and are often considered one of the most important reasons that cause leakages in tourist exporting countries. Because of that, tourism has required a higher proportion of semi and unskilled labor than any other industry. Expatriate labor is considerably higher in developing countries and their occupation concentrates on managerial and administrative positions and their consequent outflow. To avoid that, many developing countries tend to specialize in international tourism or as the industry matures in a destination that could possibly alleviate this issue if training programs were established. Thus, their labor forces will qualify to take such positions in the future. On the other hand, in developed countries, where a large number of immigrants who are imported (or not) with low wages and skills, and also may be reluctant against doing domestic labor. The outflows or the remittances of foreign workers to their countries could reduce the net receipts of the receiving countries. Thus there is one obvious remedy, which is that investments in the training of local people should also reduce foreign employment and remittances in the long term (Wall & Mathieson, 2006).

The nature of capital investments in the tourist receiving country is another factor to determine tourist receipts, which will eventually last in the country. In many developing countries, tourist development has been dominated by foreigners and the substantial effects of foreign investments on developing

countries. Foreign investment in the tourist industry stems from the need to finance development in the early stages of tourist development, or the emergence of multinational hotel chains, tour operators, and restaurant chains. The tourist capital investment considers a large proportion of total investments, and may find itself under foreign control. This would have a negative impact on the balance of payments for two major reasons:

1. Allowing foreign investors to equip the facilities (building materials, food, beverages etc.) with which are the familiars from their own countries. This will presumably import the equipment with no restriction on their imports.
2. Foreign possession firms, particularly multinational corporations, which gain huge profits.
3. A large proportion of their profits is transferred to foreign country.

To conclude, foreign ownership might result in high occupancy rates in hotels or on the whole tourist development in developing countries. However, the existence of large leakages of profits and revenues by foreign ownership may mean that tourism is doing less than it might be in reducing or minimizing the deficit in the balance of payments, especially in developing countries. There are grounds to believe that tourism on average has lower import content than other essential economic sectors. The reason for this is evident tourists are buying services that the local population can provide to a large extent. Furthermore, it is not too difficult (at least in most regions) to develop the agriculture sector in the long run, towards the needs of the hospitality industry(Vanhove, 2011). This is because the export markets in raw materials are unstable and, therefore, foreign earnings are uncertain. Tourism development is often a solution for avoiding this deterioration in terms of trade. Mass tourism yields an important amount of foreign exchange rate, which allow the country to import manufactured goods (Vanhove, 2011). A truer

picture of the impact of tourism on the current account rather than the official figures shows that the nature of the tourism balances the exclusivity of the imports needed to sustain tourism(Manente, 2000).

#### 2.7.1.2 Employment

Developed countries have considered the tourism industry an economic endeavor (Liu & Wall, 2006); whereas, in developing countries, leisure consumption is considered a path for development. This consumption has created jobs, and tourism may be the only remunerative employment possibility in poor and peripheral regions where few other options are available to improve their marginal economic status. Tourism has a high need for human capital and has offered a diversity of jobs in a variety of processes(Liu & Wall, 2006). As a result of this, tourism has been characterized by many authors, this particular merit of the tourism sector is very attractive and is radical for developing countries. In fact, developing countries have commonly depended on developing their manufacturing for industrial countries, and as a result of that, it can be a little help to create employment in that sector. Whereas, it may be different for the tourism industry, because the latter relies much more on domestic resources, for instance, in local labor, capital, and technology. The tourism industry has required a higher proportion of semi-skilled and unskilled labor, particularly during the initial stages of its development. These requirements are probably due to the high proportion of hospitality labor in the services occupation, for example, in hotels and eating and drinking places(Choy, 1995; Wall & Mathieson, 2006). Moreover, it is reasonable to presume that the tourism industry will demand (in advanced stages) more skilled labor(Delivani, 1991). Another feature in the tourism sector for generating employment is that it can further reduce expatriate workers, which is a consequence of the inability of the home country to supply the labor domestically, and allow local people to find jobs(Dwyer & Forsyth, 1997). In

addition to, the tourism are minimizing money flows or remittances that have been generated from foreign employment .

Therefore, the tourism sector should involve local employees in training to reduce the remittances and the interdependence of foreign labor(Wall & Mathieson, 2006).The impact of the tourism industry on employment in both developed and developing countries has been a major importance at the regional, rather than the national level. Moreover, several discussions have concerned tourism as a vehicle for regional development.

Some authors have defined the tourism product as not a single product, but an “amalgam” made up of highly heterogeneous activities that combine in multiple, sequential stages. For example, according to the tourism satellite account (TSA) document(Zimmermann & Smith, 2011), the tourism characteristic activities include 12 sectors with different goods and services. Moreover, Uk Polo (1994) consider tourism as a collection of industries. Additionally, the autor defined the tourism product as a composite product, which involves transport, accommodation, catering, natural resources, entertainment, and other facilities and services, such as shops, banks, travel agents and tour operators. For that reason, this sector is a more labor-intensive sector than other departments. Consequently, it is a more efficient sector for creating employment, thus, it has a highly capital-intensive demand, which is made on the infrastructure, especially at the initial stages of its development(Delivani, 1991). Tourism activity has clearly generated employment in abundance, and also its effects on employment have been influenced by the type of tourism activity, which is considers more labor-intensive than others, such as, accommodation facilities (hotels), and restaurants. The high labor intensity is also a feature of the industry itself; many small niche entrepreneurs are mainly labor supply(Wall & Mathieson, 2006). However, some authors have argued that not only the tourism industry,

but also other economic sectors will benefit from the existing infrastructure once it is created(Delivani, 1991).

Employment has benefited from tourism growth, and it is likely to be significant in the economic environment where it is characterized by high unemployment and the labor intensiveness of the tourism industry. Moreover, Dwyer and Forsyth (1997) state that there is a firm relationship between the unemployed characteristics in the long-term and the nature of the tourism labor market. In contrast, the quality of jobs and the qualification requirements of the tourism workforce are better than are perceived by those outside the industry(Choy, 1995). In other words, when, one might accept that the developing countries have entered the industry that would not attempt to require services that need much expatriate labor (Wall & Mathieson, 2006). However, Choy (1995) write that the residents must be developed to handle a corporate level of responsibilities, not just to be educated, but also must be exposed to a variety of situations. For instance, work as managers abroad to gain experience in different operating environments.

Increased visitor's expenditure has generally increased employment within tourism sector firms, but employed workers may decrease elsewhere within the economy. Some authors have been attributed to the deteriorating marital status and low pay in some sectors, such as education, making tourism an attractive employment option and some of the unemployed change their unemployed status for unemployment because the tourism industry can provide a channel back to the labor market(Szivas & Riley, 1999). However, if resources are drawn away from other export-oriented industries where labor substitution between industries arises owing to demand for similar sets of skills, which are in the short supply. The development of tourist sector has depended on, first, the magnitude of the net increase in employment from



increased tourist expenditure, and the latter will rely on several factors ((Dwyer & Forsyth, 1997, p. 230):

1. The extent to which unemployed resources within the economy are taken up by the tourism industry.
2. Whether the resources, which may be underemployed in other industry sectors, are better utilized in the tourism industry.
3. The degree to which resources are imported from overseas to meet the increased demand for tourism goods.

Secondly, it depends on the size of the employment multiplier, the strength of backward linkages, and the extent to which the tourism industry employs non-resident workers (Delivani, 1991). This is due to the diversity of tourist activity and employment in the tourist industry is a quite high, the development of the tourism industry has created employment not only in this sector but also in other existing sub-sectors. In fact, this will create difficulties in measuring tourism-specific employment to determine the limitations between sectors, which are often imprecise. It is very difficult to define employment in the tourism industry; therefore, there are three types of employment, which are generated by the tourism industry, distinguished into primary and secondary:

Primary employment has been generated directly by the demand of tourist services, which is characterized into direct and indirect employment. Direct employment has resulted from visitor expenditures in the accommodation sector, restaurants, travel agencies etc., whereas, indirect employment is generated in other sectors by supplying goods and services to the tourist sector, which has not resulted directly from tourist spending, such as, builders, food and drink suppliers etc. Secondary employment (or induced employment) is additional employment created from spending and resending additional money earned from primary employment (Delivani, 1991). It is clear that primary direct employment has

depended on the magnitude of visitor expenditure and the tourist markets. Whereas, the new number of employment has been generated via indirect employment, it has depended on the magnitude of the relationship between the tourism industry and other sectors, and their ability to meet the demand of the tourist industry (Delivani, 1991). Furthermore, secondary employment is used to estimate changes in the number of full-time equivalent job opportunities, which were created by a unit of tourist expenditure (Wall & Mathieson, 2006).

The assumption here is that tourism employment faces tremendous difficulties when attempting to measure an accurate level of tourism employment in an economy. One of these difficulties is the diversity of the tourist sector and the various activities to formulate the tourist product. Furthermore, difficulties become greater if the number of jobs is created by the expenditures of the resident or the local population, rather than by the expenditure of tourists. Additionally, there are two universal characteristics of tourist employment:

The tourism employment has strong seasonality for most types of the tourist sector in many destinations. It is caused by high demands in certain months of the year, and usually reaches a peak in summer time; whereas, it is lower during the rest of the year. In that particular situation, the tourist sector has attracted many types of employment, which are created in this situation, and its mobility is concerned. This strong seasonality is manifested in seasonal jobs “low paid, casual or part time employment, high turnover rates”; and seasonal demands in the tourism industry may create labor shortages in key areas. However, these have been satisfied by student labor and the employment of family members. Moreover, there are many strategies that have been adopted in an attempt to extend the tourist season (Wall & Mathieson, 2006). Some of these are: alleviate the pressure on the summer months through the development of different forms of tourism. For instance, conference tourism, winter tourism... etc.. Making variation prices during some times of the year at the level of demand. Generating

new demands through the expansion of permanent tourism for retired people and their relatives, which would attract their friends as potential tourists (Delivani, 1991). There is only limited evidence that these have worked and that destinations have reduced their dependency on seasonal tourism.

Tourism requires a higher proportion of semi-skilled and unskilled labor and also employs more young and female people than many other industries. These groups often feature prominently in the long-term unemployed (Dwyer & Forsyth, 1997), or part time workers who do not belong to the official workforce. For example, student, retired people or 'informal' workers (Telfer & Sharpley, 2015). The latter's contribution to full-time employment may be more limited, or as a sort of 'second choice job' or one from, which will eventually move on other sectors, or to better paid jobs in the same sector (Delivani, 1991). Mobility into tourism employment is beneficial for the economy, if it is the excess labor which moves or when labor is more productive in tourism than it was in previous employment. Economic disadvantage arises when labor moves from more productive industries into tourism and when labor, which is employed and needed in other sectors of the economy, abandon jobs for tourism occupations. Some authors have noticed that tourism is merely a refuge employment in changing times. In this case, by inducing labor shortages, tourism displaces other industries. These industries are generally related to agriculture, which is thought to be at the greatest risk, but the actual impacts of labor mobility into tourism on agriculture are highly debated within the literature (Szivas & Riley, 1999).

As a result of these inherent difficulties in defining the boundaries of tourism employment are manifested in the absence official and reliable data. The absence of data may use a share of tourism in the GDP of a country to use it as an approximation of primary tourism employment, and then use an employment multiplier to estimate the level of secondary employment. For instance, in the Hong Kong the 89% of GDP is from services, and 14% of the workforce work in

financial services, insurance and real estate; moreover, most of these services are non-tradable and depend heavily on international tourism (CHAO, Hazari, Laffargue, Sgro, & Yu, 2006). Another way to estimate the level of the accommodation employment is to function the total number of beds and jobs which deal directly with tourists (Wall & Mathieson, 2006).

#### 2.7.1.3 Income Generating

The percentage of the tourist receipts in the GDP of a country is a strong indication of the importance of its tourist market. However, it is not an exact indication so far as income generation for the country is concerned. Hence, for a deduction of the total tourism revenue, any "leakage" of the income of the local or national economy to the world, would reduce net income and will remain in the final of the economy. English (1986) has identified the potential leakage as follows:

1. The import content of consumer goods and services directly sold to the visitors, such as, food or drink. To the tourism industry via other sectors that have a particular structure of intermediate purchases of the tourist sector. To the tourism manufacturers through capital goods (E.g., elevators, taxis, buses). To government expenditure via infrastructure requirements in the tourist sector, e.g. airports, roads, electricity, sewage.
2. Foreign exchange payments to factors supplying services for the national tourist sector. These include remittances of foreign workers who are employed in the tourist sector, profit transfers abroad on the part of foreign-owned firms, and payments to foreign tour operators.

All of the leakages above affect the economic structure indirectly through the tourism industry. In general, the higher a country's propensity to import, the higher will be the leakages outside the economy, and it will be more reliant on imports in particular if the economic basement is less diversified.

Initially, tourists have created the direct revenue via their expenditures in the host countries. These revenues are eventually spent to pay the salaries of those workers who are employed in the tourism industry, and to refill stocks of the various tourist establishments, hence, generating further indirect incomes. The additional direct and indirect revenues will also be spent re-spent inside the economy to purchase goods and services that produce from other sectors. As a result of that, inducing effects have increased overall economic activity. However, Mathieson and Wall (1982) have stated, “*at each round of spending some of these incomes will flow outside the economic system till the impact of the initial expenditure on national income drowns*” (p. 64-5).

There are two conditions that have been put forth by Erbes (1972), which are that tourism must have fulfilled a net impact on the National Income:

1. The ratio costs in the foreign exchange of earned/receipts in foreign exchange must, obviously, be less than one.
2. The foreign exchange earnings attributable to tourism must imply that the total earnings are higher than what would have been if the country possessed no tourism sector. There are three rules to signify this condition:
3. The rate of net tourist receipts to the value of national currency must be higher than other sectors.
4. The cost of a local product sold by the tourist industry to tourists must be higher than that of the identical product on the export markets.
5. Net foreign exchange receipts by the tourism industry must be higher than foreign exchange earnings by other sectors, or greater than foreign exchange savings of industries producing import substitutes.

If the first rule is satisfied, the tourist industry in developing countries may earn more foreign exchange than import-substituting industries. Compared with other export sectors, the case is rather inconclusive, but may well be in

favor of tourism as a net income generator, given the fact that demand for tourist services are a rising faster for most export products (Erbes, 1972).

#### 2.7.1.4 Regional Development

This study has discussed the significant impacts of the tourism on national economy, such as balance payment, income generation, and employment. It has considered that the tourism industry may have a significant role to play on the regional level. Most countries whether are industrial countries or not, possess somewhat “dual” characteristics for both the growth stage and their economic performance. The group of their relatively in backward regions though is not homogeneous, since it may involve regions with various types of issues. Therefore, differentiate:

1. Regions that have not been designed yet, (e.g. non-urban places, isles, etc.).
2. Regions that have been formulated in previous times, but that have been lagging behind, so far as the average level of development of the country is concerned. Because the requirement for their products has been decreasing, either because of altering consumption patterns, or modifying manufacturing methods or both (e.g. decreasing industrial regions in developed countries).

Tourism and its economic impact on the regional stage can be experienced in same places on the nationwide level, such as being concerned primarily with income and jobs creation, and it can be calculated in the same way by offering regional information. However, the net effect of tourism growth on the region and on employment has relied on a different set of the aspects, most significantly, on the structure of the regional financial system, and on the types of tourism that have been designed in the area. Furthermore, in terms of the national economy, the net impact of tourism earnings on careers has depended

on the import element of the tourist product and on the leakages of the receipts, which are outside the financial system as well as on the rate of expatriate labor employed (Delivani, 1991).

On the regional stage, the same set of circumstances implement as well, but with some differences:

Brownrigg and Greig (1976) have stated that there are weak backward linkages that tend to exist between tourism and other economies on the regional level. The reason behind this is due to the lower level of the diversification of the regional economy, compared to the national one. Furthermore, Gray (1972) has writes that,

*“this deficiency of variation of the regional economy causes the expenses for the growth of the tourist market to be higher, as long as all facilities and financial commitment needed for the development of the tourism sector has to be mainly attributed to tourism in the deficiency of external economies, and benefits distribute among various different sectors and economic sectors”*  
(p. 156).

Thus, both the regional level and the payments, which have suffered from the tourist industry, are being likely to be greater than at the nationwide stage, and the net impact of tourism earnings on employment has reduced. However, this relies on the dimension and the framework of the regional economic system. The more it is diversified and is likely to be less reliant on tourism, hence, it will be more capable to use regional sources in the tourist market, rather than import them. Moreover (Williams, Shaw, Williams, & Shaw, 1988) stated

*“the type of the tourism development and the purpose of the tourists who*

*interested in a region will have a disparate impact on the regional level of income and employment” (p. 7-10).*

It has been claimed that if the purpose of the policy makers is in tightening (and hopefully eliminating) regional differences, which are based on part of the global tourist market, are being labored such as high or low-income tourists. Therefore, the tourism industry considers a main element for redistributed wealth either through direct tourist expenditure or through international investments in tourism infrastructure, facilities, and through the market of the tourism household. Hence, it has possibly redistributed the prosperity on national range. However, the total value and net preservation of tourist spending have differed significantly from one destination to another, where have suffered from ‘leakages’ and the tourist expenditures have been funding imports in order to meet visitor’s needs.

Tourism development in developing countries could attract more tourist expenditures and international tourism investments at a small level. As a result of that, these receipts have to be well integrated in the region's structure and development level in order to use the maximum level of local resources and labor. It has been considered that if the degree of the tourist development is not large enough, then, tourism development may even rely on a 100% of local suppliers and labors. On the other hand, the aim is to reach the fastest possible overall growth rate, then, the tourist development should be designed on a high level and large-scale basis, which would have the effect of attracting higher spending tourists. Moreover, Chow (1980), and Williams et al. (1988) have pointed out that this type of tourism development has heavily depended on foreign investors and foreign “know-how” suppliers, who are outside the region, and have a high ratio of foreign labor with a consequence that a form of “internal migration” might develop.



Another point is that tourism has utilized the natural and free infrastructure; therefore, tourism development is based on existing resources, such as beaches and heritage sites. There is a low cost of establishment compared with other industries, and resources are considerably 'free'. Therefore, efforts have increasingly been made to place an economical value on using these main sources, but expenses have certainly incurred in the protection, maintenance, and management of all tourism sources.

### **2.7.2 Social impact**

Compact (2010) has stated that in order to establish strong and stable economics it is a crucial for all sectors at various levels to enable women to participate in and contribute towards economic development. Internationally, tourism is one of the few economic sectors where females outnumber males in several positions, but with the same pay. A study made by UNWTO (2010) reported that 31% of employees in the African region who work in hotels and restaurants are female; whereas in other sectors, the number of women is about 21%. Moreover, young people have also been considered the core of tourism development, and as an engine of tourism employment. Therefore, tourism can attract young people in productive employment, and deliver an alternative to out-migration, urban poverty, and armed conflict. Furthermore, (Ashley et al., 2007) have pointed out that tourism development has tended to play a fundamental role in enhancing women's positions in order to overcome gender barriers by employing a comparatively high portion of females, and purchasing products that have been produced by women.

To conclude, tourism has an impact on the national economy and social society. In the following section, the research has set forth certain elements regarding how the tourism industry can build a strong business and increase its growth.

## 2.8 How to Build Business Opportunity?

There are five elements for building business opportunities in order to benefit the tourism industry through a number of ways, which are as follows:

### 2.8.1 Enhancing consumer satisfaction

An important element of the tourism industry is to improve customer services in the following ways:

- 1) Regarding the morale of staff and service quality improvements, Ashley and Haysom (2006) have reported that when employees, who receive opportunities for training and self-development, feel more positive about their jobs, they become more motivated and better equipped to deliver "high-quality" services.
- 2) Providing more a various range of unique products for tourists, tourism companies must develop products for tourists by joining local services, goods, and cultural experience into vacation options. As a result, this will help many tourism companies to differentiate themselves from rival local players, or other regional locations, which have similar characteristics. For example, in the Dominican Republic, tourists have been taken to coca farms by hotels in order to link tourists to a cultural experience. Thus, tourists have an opportunity to see the process of coco production, or buy local manufactured art and watch folk dancing (Ardahaey, 2011).
- 3) By improving community attitude and interaction with visitors, local communities and suppliers can work together in order to broaden the economic opportunity, which can help to increase the gratitude of the tourism industry and reinforce "a company's social excess to operate. (Bah & Goodwin, 2003)have stated that,

*“Tourists are likely to have a more welcoming, friendly experience with locals if their host hotel or resort is seen in a positive light by local inhabitants, taxi drivers, business owners, and public officials. In the Gambia, for example, hotels started allowing craft market producers and vendors to sell on designated days within the hotel and juice pressers to deliver juice to guests. Relations between sellers and guests have improved, and levels of hassle on the beach and in the markets have dropped”*(p.13).

### **2.8.2 Building Brand, and improving the capacity of the markets**

Ashley and Haysom (2006) have stated that the tourism industry can assist to create more different places for itself through economic opportunity exertions. Incorporating local culture, suppliers, and services into the tourist experience can be helpful to differentiate tourism product and branding. This opens up new marketing opportunities and developments. As a result of this, it can be good plans relating to obtaining rewards and free advertisement through magazines as well as business publications.

### **2.8.3 Increasing Accessing to Financing**

Major hotels access funding from international investments, regional and national development banks, and institutions. As a result of that, these investors often require a commitment to social and environmental criteria (Ashley & Haysom, 2006).

### **2.8.4 Decreasing Operating Costs**

The expenses of importing goods, which have been used for tourism industry needs, are significantly high and the industry has been forced to import them. Therefore, local supplies have to be developed in order to reduce these expenses, although developing local suppliers requires resources and training initial inputs (Ashley et al., 2007).

### **2.8.5 Collaborating effectively with Government**

Communities and governments can work proactively in order to expand economic opportunities to have a better relationship with local, national, and regional policy makers. Therefore, the government may directly or indirectly support tourism companies if they have a social and economic development impact on the community through the permission of grants, planning or operating licenses (Ardahaey, 2011).

## **2.9 Stakeholders Policy for Developing Tourism Growth**

### **2.9.1 Tourism Policy**

Many destination countries have not formulated a tourism policy. In some cases, such as the Republic of South Africa, Namibia, and the South Pacific states, such policies exist; whereas in other cases such as the UK government, tourism is supported, but there is no actual policy that guides tourism development in the UK (Colin Michael Hall, 2008). There are many definitions of a policy, but a suitable definition is perhaps formulated as follows: “*A policy is a reasoned consideration of alternatives*” (Lickorish & Jenkins, 2007, p. 171)

This brief definition implies that all resources for most countries are scarce - capital, land and manpower, for example. Where there is resource shortage, policy issues regarding how to allocate these scarce resources are considered. The second insinuation from the definition is the opportunity costs, which involve using these resources in one way rather than another. For instance, tourism development may require land. However, that land may have other uses in terms of purposes, uses as agriculture, building, forestry, etc. As a result of that, in the majority of countries, there is often an alternative usage for scarce resources, which are obtainable for development. Therefore, policy is

required to reflect what the possibility substitutes, and what the benefits of one alternative are against another (Lickorish & Jenkins, 2007).

### **2.9.2 What the type of the tourism product that should be supplied?**

From a policy point of view, the most salient question is - what can be offered to tourists and what may attract a market? For some countries, several kinds of tourism would not be appropriate development options. For instance, in Indonesia and Pakistan, gambling is not permitted, whereas in many Caribbean islands gambling is one of the major aspects of the tourism industry. Hence, in some countries, there will be moral objections to the use of gambling as a type of tourism. In other countries, particularly Islamic nations, beach tourism might be regarded with some skepticism, particularly if it attracts a type of tourist whose immodest dress can cause local consternation and objection. Therefore, it is essential to determine what type of tourism product should be supplied.

The government is often considered the protector of society, and therefore; it fundamentally must decide what type of development is acceptable and suitable for the country. Recently, there has been a trend to decrease the role of the government in development planning. However, in the tourism sector, the government still has a role to play as the final arbitrator of decisions and endorsement acceptability. Acceptability not only belongs to ethical and religious concerns, but can also have political implications. For instance, the United States' government embargoes Cuba and Libya, and until recently, Vietnam. Moreover, it has made the decision to forbid tourists to visit North Korea.

This question is very important due to the tourism market being essentially based on segmentation in order to balance supply and demand to matching market characteristics. The type of tourist attracted and tourists from particular

countries might be more acceptable than other types. It may also be that certain parts of countries might be earmarked for specific types of development. For example, in Spain the major thrust of tourism is on beaches where the attraction and the market segment is mainly focused on budget package tourists, whereas in other parts of Spain, attempts have been made to develop the regional hinterlands and attract tourists interested in the cultural appeal of the country. Therefore, sub-national development is focused on the issue of development objectives. Although tourism can provide social and economic advantages and benefits, a decision might be taken not to allow any development in a region or location. Many countries have established national parks for recreational and preservation purposes, however, no type of development has been permitted. Conserved national parks are given a higher priority than economic benefits, thus, this is considered as a national objective.

### **2.9.3 Evaluating the Tourism Policy**

In terms of the role of tourism in every destination, there are many policies that must be assessed or evaluated. Moreover, it should be noted that tourism's economic impacts are instant. Social and cultural transformations have arisen through the long term, and as a result of that, they are difficult to identify.

There is much evidence that supports the importance of policy. For example, "to what extent will a country rely on the government, as opposed to the private sector to develop the tourism business?". In the developing countries where the government has controlled the majority of the business. However, in many developed countries where the private sector establishes the tourism investments and the only role of the government provides and delivers a qualifying environment.

In the developing countries, tourism in its earlier stages of development and it has relied on international tourist arrivals and local visitors being given very

low priority. Moreover, there are several considerations for determining what important considerations should take priority, such as political and economic concerns . Therefore, in several countries, it might be suggested that tourism has developed in “an enclave” rather than in an incorporated way. This means that tourism has developed with the idea of separated visitors and the host community; hence, this is now a somewhat unfashionable approach.

There may be good economic and social reasons why an enclave policy is adopted. It permits the concentration of infrastructure into a single location with consequent benefits arising from economies of scale. It may use land resources effectively and efficiently, and it may permit the segregation of visitors and residents. In countries where there are religious and cultural sensitivities, a concentrated development might be the preferred option. Land ownership is often a problem associated with tourism development.

The issue of human resource training and development is a sensitive issue in tourism. The issue of funding tourism development and the role of international investment, which is considered as dissenting to domestic capital, is very significant. To conclude, before tourism is planned, it is a good idea to set out policy guidelines for future development. It is a process that must be based on a realistic evaluation of what the government has to achieve from the tourism sector, and how this achievement can be attained. The process requires coordination between the public and private sectors, with the latter being the main player. This cooperation can be cemented in the planning process.

#### **2.9.4 Tourism Policy and sustainable Development**

Sustainable development has become a contested concept for policy development. Therefore, the process of tourism development must preserve the environment, which is the nature and culture of the environment, and is the basis of all tourism activities. The tourism development process has benefited

society in each destination; moreover, it has ensured a satisfactory investment returns rate, which is considered a stipulation for economic growth (OECD).

Furthermore, tourism products have become sustainable for all markets, which specifically mean that it is not just for the “niche- markets”, such as culture tourism and eco-tourism (OECD) . Therefore, the public policy and strategy for sustainable development has undertaken many actions in such fields as education, training, sustainable practices qualification for the private sector, social involvement, measurement and assessment, maintenance, lifting restrictions and raising investments that relate to sustainability. Many of these method have been developed in order to preserve delicate archaeological places, to set up statutory needs for assessing the environmental effects of tourism investment ventures, and moreover, to develop plans for land use that attempt to reduce growth and occupied areas(OECD).

### **2.9.5 The Role of Government Policy**

The goals of tourism development were determined by Gunn and Var (2002) which are: boosting tourist attractions, improve the economy, business success, and integration of the local community area and its sustainable resources. Regarding to that, the hosting government endeavors to build a strategy that has the right combination of tourism development in order to maximize their foreign earnings. The government has played an important role in the development of the tourism industry in developing countries. Also, it has set rules and regulations to establish policies that can reach economic gains for local people and the state. Whereas, a lack of control for governments over the nature of tourism development has led to dependency on foreign products, investments, and skills . The state can play a significant role in controlling overseas investment in the tourism industry, and the activities of private developers(Baskin, 1995; Britton & Clarke, 1987).



### 2.9.5.1 Nature of tourism development

In Third World countries' conditions, tourism growth is valuable, because it enhances economic growth. However, some types of tourism in Third World countries and Islamic countries may not be desirable. Consequently, they choose some approaches, such as a hands-off approach to allowing tourism to develop according to national and international demand and marketing strategies. Moreover, they can attract particular types of tourism that bring the most benefits and least harm to their country. Scheyvens (2002) lists some examples of governments that have attempted to control the nature or volume of tourism by focusing exclusively on higher-end tourists. The national policy promotes a large-scale tourism development as a strategy for modernization. For example, supporting resort development and hotels with star ratings. It provides encouragement to foreign investors, and meanwhile, small-scale tourism initiatives are formally intended to be reinforced by the ineffective and less powerful local and provincial governments (Dahles & Bras, 1999). Brohman (1996) clarified the fact that small-scale and regional organizations are often more successful and efficient in generating income, careers, and government revenue, than larger internationally-owned companies. Thus, indicating that the government must seek to improve its revenue acquired from the tourism industry and it should concentrate at least some of their interest at this lower level (Scheyvens, 2002).

Supporting local development communities through tourism enterprises that are owned and controlled by outsiders requires managing rather than providing labor, and the government may need to look into and support other forms of tourism. Clearly, governments need to properly consider the characteristics of travel and leisure they wish to engage in before developing their plans and policies. Simple presumptions, such as gaining high-class visitors which increase a country's advantages from travel and leisure, do not always depend

on reality and generally neglect the needs and issues of many 'lesser' people, who could obtain financial-type maintenance visitors. Scheyvens (2002) mentioned that it might not be appropriate in nations that need to reduce the overall number of visitors, such as in the Maldives or Bhutan, to be able to secure the natural inhabitants, but it could be fiercely competitive in other nations.

#### 2.9.5.2 Plans and Regulation

For tourism planning in the Third World to be effective and responsive to community interests, there needs to be a synchronized system of planning. There is insufficient coordination of planning from the national to regional and local levels. National planning is conducted chiefly in a top-down manner, while at the local level, authorities lack the capacity and resources to apply tourist applications successfully and further regulate development. The local stage of the public sector planners must be more responsive to local needs and interests. 'Local authorities, through the production of integrated plans and development control powers are best placed to assess the characteristics of the local environment, the priority needs, and attitudes of the local population to tourism' (Hunter, 1995).

The national government has the responsibility to act on matters that are vital to the success of tourism, but over which communities have no control, such as airline schedules, investment policies, and data collection. Oppermann and Chon (1997) have pointed out that government investment policies have determined whether basic infrastructure will develop to a stage regarded as 'adequate' or attractive to potential tourism developers, and whether these developers will receive any incentives, such as tax breaks. Also, to adequately plan for tourism development and carry out effective marketing, governments need to collect statistics and other information on visitor arrivals, popular

destinations, and expenditure patterns (Lea, 1988). Information gathering is most critical, and can help governments to (for example) establish clear regulations regarding water and soil quality and waste production, and to define carrying capacity levels for different resources to avoid overexploitation.

Tourism plans and policies need regulations to be complemented by effective legislation and boosting this legislation, in order to ensure that the private sector does not impinge on the well-being of local communities and environments. The impact of tourism depends crucially on the ownership of regulatory power (Parnwell, 1998). It is critical, therefore, for those governments to play a strong role in regulating, rather than allow elites or international interests to usurp or bypass state control (Delivani, 1991). Efforts to regulate tourism development include planning controls, placing conditions and investment, implanting legislation concerning land tenure and access, and the allocation of licenses or concessions to tourism operators (Ashley, 2000; Kadt, 1990). Akama (1999) cites that tourism regulation in many Third World countries is notoriously poor, while many other Third World countries have effective regulatory frameworks that should be particularly successful in controlling environmental impacts, but they do not always monitor for such effects or enforce these regulations (Wall, 1996).

Government regulations have been gradually placed under evaluation by industry players. However, they have declared that the best choice for them is the self-regulation of their activities. Some of industry players support self-regulation in practice. For instance, the UK tour operators have handled, created and implemented regulations, which result in more maintainable types of tourism development (Forsyth, 1995). In an ideal situation, government regulations, such as a company's recommendations, should be associated with an industry, which is willing to apply the self-regulation (Trousedale, 1998).

Moreover, for good policy at the national level, such as effective planning, strategy making, legislation and regulation, there is a need for strong and effective governance at the local level. Insufficient governance can cause a lack of management of regulations, and seriously undermines the high quality of tourism and the advantages it could bring to Third World people.

The government has the capability to play a crucial role in providing or handling appropriate skill training to residents, who exist in tourist companies. Learning small enterprise abilities in management and marketing is particularly appropriate, and it should be available to both those working in formal and informal enterprises. Moreover, the government should promote the outcomes and track tourism issues. For example, this occurs if city authorities discover that visitors avoid certain locations because they feel harassed by serious suppliers (Shah, Gupta, & Boyd, 2000). The authors have said that information should be made available to the providers, rather than simply sending out their report to regional organizations and asking the police to be more cautious in controlling providers. Marketing cooperation possibilities between communities and the private sector can be an efficient method for governments that wish to overcome issues and economic dependence associated with foreign ownership of tourism assets and control over the market. To secure new places effectively for tourism from foreign domination, provincial or state governments can put in place protective legislation, which makes it complex or difficult for outsiders or purchase land in the area (Shah et al., 2000).

However, Woodley (1993) explains that the most important factors for management in the tourism market are ownership and investment. Also the author mentions that funding for tourism development is not available and must come from outside interests. Moreover, to stimulate and motivate a discussion between private sector players and communities, government

authorities that can ensure these communities, have a reason to take part in combined ventures from a relatively highly effective position, by either making loans available to them, or by providing them secure tenure over what is often their greatest asset. Communities must be motivated in other ways, such as having access to lawyers to ensure that they do not bear most of the risks for joint projects, and that they have some governmental speech or management over projects rather than just contributing economically (Scheyvens, 2002).

Another key role for the government is to provide beneficial legislation to allow communities to set up viable enterprises. Restricted building specifications may mean that it would be too expensive for most people to establish facilities to government standards, even when, in fact, a traditional primary house with added facilities would be adequate. The problem of setting appropriate standards for tourism services is also implemented through guiding, and official tourist guides may need to secure government acceptance. In some cases, government regulators plan to protect ethnic minorities from the excesses and intrusions of tourism. They have effectively prevented these people from benefiting from tourism, and this has happened in Nepal (Ashley, 2000; Shah et al., 2000). Governments can provide excellent support to small-scale and community enterprises by the way in which they market tourism to their country. For example, they can promote a broad range of tourism options, instead of just those appealing to mass or luxury tourists. Thus, in some countries, the government's tourism office provides visitors information on accommodation, guest-houses in villages, and hotel accommodation. Ideally, governments should also try to inform tourists of the benefits of supporting small, community-scale enterprises (Scheyvens, 2002).

### **2.9.6 Role of the Tourism Industry Policy**

The question here is what can be done with the tourism industry to facilitate the development of communities. The issue here is that the tourism industry still needs changes to promote economic growth.

### **2.9.7 Efforts by tour operators to promote community development**

Not all tourism stakeholders are interested in the development of community; many are only interested in the industry. The tourism sector itself has shown concern for local communities. An examination of tour operators indicates that some are involved in innovative schemes to bring about tangible benefits to their host communities. Mann (2009) suggests a three-point scale to indicate the degree of community participation that different tour operators encourage, which are:

- 1) Responsible Tours. A commercial tour operator provides direct benefits to local communities through avenues such as donations to community projects and training local people to be a tour guide.
- 2) Partnership Tours. These offer opportunities for communities to cooperate with an outside agency, such as a private tour operator or other communities, and can allow for the community to plan and manage tourism enterprises, but not to have total control. In contrast, partnership tours consider the appropriate management in a situation where communities lack the skills and business knowledge vital to the successful functioning of a tourism enterprise(Mann, 2009).
- 3) Community Tours. The Australian company ‘Just Travel’ is an example of community tours under Mann’s conception. In this case, the community in the third world initiate and plan tours, while tour operators attract clients, prepare them for their experience through

several days of learning about the country, the culture, its problems, and its achievements. Moreover, it encourages post-tour reflection also as a vital part of preparation. The participants are then invited to continue to foster international solidarity with new-found friends (Wenham, 1985).

As mentioned above, partnership tours provide excellent opportunities for the beneficial involvement of local communities in tourism.

### **2.9.8 Partnerships between industry players and local communities**

The communities interested in tourism ventures have collaborated with the private sector in order to benefit from the resources and skills of the private sector. Collaboration represents a joint venture luxury lodge and buying fruit and vegetables from local villagers. However, a lack of experience and skills has prevented communities to enter into such agreements. Thus, local operators cannot compete with multinational companies, due to extensive image, power and resources of the latter (C. Cater, 2010; E. Cater, 1995). Without adequate support, communities can end up receiving only token economic benefits from joint tourism developments rather than broader benefits. Strong support can exist in both negotiating and managing such partnerships over the long term. The support can come for an example from NGOs, or business drivers (Scheyvens, 2002). In many cases, local communities could benefit from selling services or products to tourists, including food, crafts, etc. As a result of that, developing countries' economies have been linked with tourism outlets and agents, and can offer important economic opportunities for poorer members of communities.

Joint ventures have used community resources for tourism in exchange for profit sharing, jobs, and other material benefits which have become increasingly popular. Ventures allow a community to gain skills and

confidence in dealing with outsiders without having ultimate responsibility for the effective running of the business, while simultaneously earning some revenue. In practice, joint ventures vary considerably in terms of the degree of control accorded to local communities. Moreover, non-economic partnerships can also provide important benefits for local communities. For example, local businesses or tourism associations can run mentoring schemes linked to tourism enterprises or managers with community enterprises to assist them in establishing or finding strategies in order to tackle constraints to business success.

### **2.9.9 Non-government Policy Role**

The specific strategies of such NGOs are: information and awareness-raising for local communities; building capacity and raising confidence; networking; promotion of responsible tourism; and the implementation of conservation and development programs.

#### **2.9.9.1 Information and awareness for communities**

The crucial role the NGOs can perform is to provide communities with information about the ways in which they are involved with tourism before deciding whether or not it is feasible or desirable for them to follow Joppe (1996) 's way. Inadequate information can make vulnerable communities to consider sharing with the private sector. Basically, information is essential to overcome the disadvantage that local communities face to further participate with the tourist market, that is, the local destination remains relatively divided from the global market. Receiving tourists but not understanding or playing some role in control of the terms in which and the process by which, they arrive (Walczak et al., 1997).

Therefore, Pearce (1995) and Timothy (1999) suggest that educating host communities is critical for socially appropriate sustainable tourism



development. This education can take a wide variety of forms, and can be created over the wide range of levels. Pre-tourism development, for example, could include community participation in market research. Market research is imperative to establish whether or not a proposed tourism project will actually be feasible in the form that it is structured. However, communities often need outside help, which NGOs can provide (Joppe, 1996). NGOs can also encourage communities to participate in tourism planning, offering opportunities for them to study and take on aspects of the tours of other tourism sites and information about the potential pitfalls of community participation in tourism. Once tourism is recognized, efforts can be made to ensure that local communities are aware of the patterns of tourism in their area, including the most popular sites, busy times, and how tourists behave (Scheyvens, 2002).

#### 2.9.9.2 Capacity building and increased confidence

Scheyvens (2002) states that if communities need to embrace a tourism venture, they will need to adopt training to build and strengthen their capacity to run a successful businesses, develop their confidence to deal with visitors, private sector partners and/or governmental organizations for those who may need permission to establish a tourism enterprises. There are unfortunately many cases of communities that generate funds to build structures and employment of people in the administration and management of a small tour company, and then, feel confused and disappointed when tourists do not get 'just dumped in'. Without proper management and advertising, community tourism initiatives, even seemingly ideal ones, may fail. Both internal and external sponsors and contributors or donors and communities have not always identified the amount of management and promotion experience necessary for a community to make a successful tourism venture. Tourism, as a business, in many countries has been dominated by outside operators' overseas shapes or large cities. Hence, without sufficient planning and training, few local people

are likely to have an excellent knowledge of how tourism ventures work, or what visitors want. Some NGOs have initiated excellent initiatives to build capacity. For example, in Nepal NGOs have assisted women to develop their self-confidence and become actively involved in tourism trekking through providing education and training for them (Gurung, 1995).

### **2.9.10 Networking**

Networking can play a significant role in the tourism sector, such as through sharing information and foreign partnerships. Networking can attract more diverse stakeholders to work in tourism ventures. Some NGOs have identified other assembly of sharing ideas and information in three types: regional, national or international. Moreover, other NGOs have depended on the electronic forum of advertising and link like-minded people around the world (Scheyvens, 2002).

#### **2.9.10.1 Promotion tourism responsible within the industry**

Recently, NGOs have been making efforts to shape the direction of the tourism industry. Some of the efforts made via prompting a particular type of tourism, whether sustainable or responsible, to ensure the awareness of these options for both private sector stakeholders and the tourist industry. Other NGOs promote sustainable tourism by promoting fair trade commodities in tourism such as coffee, crafts, and involving communities in peace, democracy and achieving local development. The other NGOs are directly linked to promoting responsible tourism, such as running tours to foster social justice and provide ways for culture exchange (Scheyvens, 2002).

#### 2.9.10.2 Promotion of responsible tourism among visitors

NGOs can influence tourists' preference and practices through travel options and provide information to guide their behavior in their destination country. NGOs argue that they should support local communities by promoting good tourism practices, and Mann in 2000 suggests that tourism should be authorized by the Community Guide to provide information for tourists who are seeking environmentally friendly and socially sustainable tourism options. Moreover, regarding cultural exchange, NGOs must ensure that visitors are empowered with information about the nature of the local communities and the environment that they are visiting; otherwise, they will experience a culture shock from both tourists and locals, or cultural arrogance will be displayed by tourists (Pearce, 1995).

## 2.10 Summary

The number of the international tourist flows has increased steadily by 3.72 times from over 277.6 million in 1980 to 1,035 million in 2012. The increased flow of international tourist arrivals has continued despite several economic crises and political instability. In the 1990s, the number of the international receipts globally had grown steadily, except for the end of the 1990 period due to the Asian financial crisis in 1997-98, specifically. In the first period of 2000s, the international tourist receipts deteriorated worldwide dramatically, particularly due to successive economic and political crises, which are 11 September in 2001 followed by the recession (2001-2003), then followed by the global recession in 2008, and Swine Flu in 2009.

The global international tourist arrivals and receipts between regions have diversified among the global regions. International tourism has been controlled by two regions, namely, Europe and the Americas. These two regions have received almost 78% of global tourist arrivals and about 77% of global international receipts in 1995. The highest share of Europe's market in tourist arrivals was in 1995. The high position of Europe has been attributed to several reasons, as Latham (1998) points out: high income for the majority of the Europe countries, work conditions, high standards of infrastructure, and the high orientation of the tourism sector, in addition to its location. However, the European market share has gradually decreased.

In terms of the second region, in 2000 the Americas had the highest international receipts, estimated around 28.66% of global tourism receipts. However, this number has continuously decreased over the period of 2005-2014. In the African region, international arrivals and receipts increased greatly through the period 1995-2010. The region achieved high growth for both international arrivals and receipts in 2010, with 5.25% 3.5% respectively.

Similarly, the Middle East region achieved a high rate in terms of international tourist receipts and arrivals in 2010.

In Mediterranean countries, high growth rates for inbound world tourism have been recorded in 11 of the south Mediterranean countries, which are Algeria, Egypt, Lebanon, Morocco, Libya, Syria, Tunisia, Turkey, Occupied Palestinian, Israel, between (1990- 2010). However, in 2011 the Arab spring had a negative impact on tourism growth and brought the trend down. The international tourist receipts in Mediterranean countries have increased during the period of 1990-2010 to about 384%. This increase is twice as much as whole world in the same period. Tourist receipts boomed in the Mediterranean countries through 1990 and 2010. In 2010, the international receipts marked 3.5 times the level of 1990, before the so called 'Arab Spring' for such countries.

International tourism has a fundamental impact on the social, cultural, economic, and the region itself by developing the markets. The international tourism is considered a catalyst of development in many different countries. Therefore, international tourism is crucial and important for contributing towards the economy; hence increasing economic growth through different channels. Tourism generates foreign exchange, plays an important role in spurring investments, and stimulates other economic industries by direct, indirect and induced effects, and creates jobs to increase income. The most compelling reason behind adopting tourism as a development strategy is its potential impact on the local or national economy as a source of employment, income, foreign exchange and government revenue. In addition to this, with regards to the social impact on women and young people, tourism is one of the few economic sectors where employed females outnumber males in several positions.

There are several important elements of the tourism industry that build the tourism industry, such as enhancing consumer satisfaction, building brand and improving the capacity of the markets, increasing financing access, decreasing the operation costs and working effectively with the government. As a result of that, many destination countries must formulate a tourism policy through the government, private sector and non-government organizations.

To conclude, this chapter has identified the tourism conception and the main major differences between tourism types, through exploring the global international growth globally and through the South Mediterranean region. Tourism has a wide-ranging of dynamic effects. Therefore, tourism development has affected growth patterns through having multiple effects on the domestic and national economy, an increase of household income and government revenues, improvements in the balance of payments, and employment strategies for the local community, as well as improving the business environment.

## **Chapter 3: Background of Tourism in Libya**

### **3.1 Introduction**

To begin, this chapter aims to overview the Libyan economic growth of non-oil growth, and traces the movements and the trends of the relationship between tourism and its components. In addition, this chapter presents an overview of the main events that impact negatively on the tourism industry in Libya. It explores international tourist trends and its contribution to the economy and employment, in addition to indications of tourism investment and government tourism expenditure. The growth of tourism is analyzed in trends with main remarkable generating markets in different regions. Evidence is linked to outbound Libyan tourism in competitive regions of countries. Lastly, this chapter shows the growth of tourism expenditure and determines the primary important channels of tourist spending by trends and patterns for Libya.

This chapter is structured as follows: in the section 3.2, there is a review of the Libyan economy background in general. Section 3.3 discusses the Libyan tourism industry and the main events in Libya and its effects with analyses of tourism impacts on the economy in trends, in addition to the main tourist market region in Libya. Finally, section 3.4 focuses on the growth of international tourism expenditure and represents the main channels of tourist spending. Finally, section 3.4 lists the main findings and summarizes the chapter.

### **3.2 Libyan Economy Background**

Libya is located in North Africa, boarded in north by the Mediterranean Sea, in the south by the Chad and Niger, Tunisia and Algeria in the west, and Egypt and Sudan to east and south-east respectively. Libya is considered the fourth

largest African country and seventeenth in the world. With a population of approximately 6.202 million, around 1.7 million of them live in the capital city of Tripoli. Expectations of a growing population have been reported by the to the International Monetary Fund ( IMF) with 1.8%. Moreover, the World Health Organization (WHO) has shown that the life expectancy in 2013 is 77 for females and 73 for males. Furthermore, education is provided by the state, and primary education is compulsory for children who are aged six in primary school. As shown in Table 3-1, according to the Human Development Index (HDI) (2013), Libya has the second highest score of HDI in Africa.

**Table 3-1 Top ten African countries by HDI**

| <b>Rank</b> | <b>Country</b> | <b>HDI</b> |
|-------------|----------------|------------|
| 1           | Seychelles     | 0.806      |
| 2           | Libya          | 0.769      |
| 3           | Mauritius      | 0.737      |
| 4           | Algeria        | 0.713      |
| 5           | Tunisia        | 0.712      |
| 6           | Gabon          | 0.683      |
| 7           | Egypt          | 0.662      |
| 8           | Botswana       | 0.634      |
| 9           | South          | 0.629      |
| 10          | Namibia        | 0.608      |

Source: (K. Malik, 2013)

The official language is Arabic, however, in terms of foreign language; English is the first foreign language and sees a wide use by young people and business groups due to many of Libyans professionals being educated in Europe, America, Canada and Australian universities. However, Italian is also known as the second foreign language, although it is not as widespread as English (Cheng, Green, Conradie, Konishi, & Romi, 2014). Moreover, as reported in Table 3-2, Libya is considered the sixth highest top countries in terms of the



GDP per capita. In addition, Libya has the eighth largest proven oil reserves in the world, with fifteen highest oil productions (Berman & Dar, 2013).

**Table 3-2 Top ten African countries by GDP per capita**

| <b>Rank</b> | <b>Country</b>    | <b>GDP per capita</b> |
|-------------|-------------------|-----------------------|
| 1           | Seychelles        | 26,168.91             |
| 2           | Equatorial Guinea | 25,117.18             |
| 3           | Botswana          | 17,595.63             |
| 4           | Gabon             | 17,586.34             |
| 5           | Mauritius         | 16,350.47             |
| 6           | Libya             | 14,474.75             |
| 7           | South Africa      | 11,750.37             |
| 8           | Tunisia           | 10,200.29             |
| 9           | Namibia           | 8,159.88              |
| 10          | Algeria           | 7,736.90              |

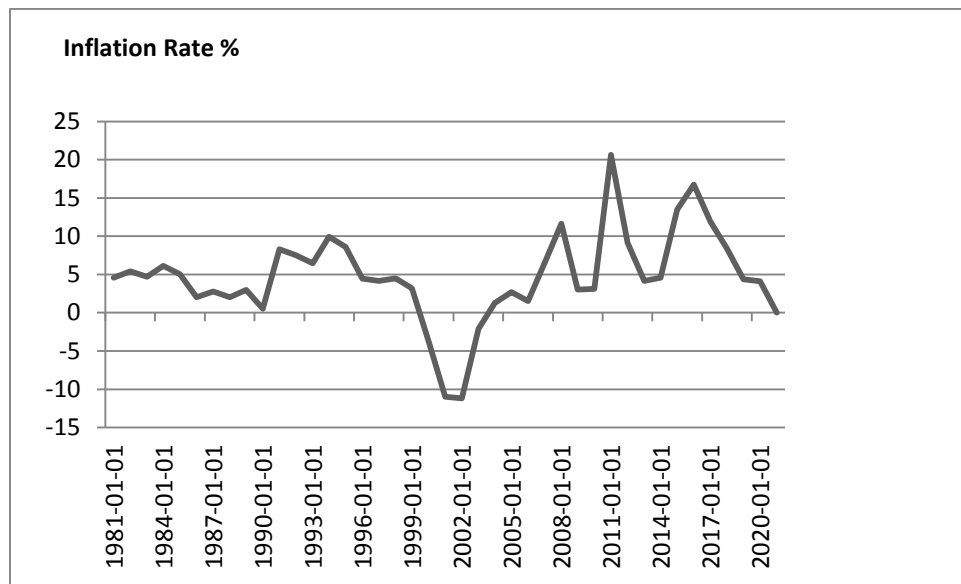
Source: (Berman & Dar, 2013).

However, Libya has been impacted by two revolutions. The first one was by Gaddafi, against King Idris in 1969, who controlled Libya for almost 42 years. During his era, in particular from 1977, the economy was developing and made high progression in terms of GDP and HDI. This was attributed to high revenues from the oil industry as a result of the largest assets and reserves; hence, it does not have any foreign debts. The second revolution was early in 2011 in order to topple the Gaddafi regime; thus, the new transitional period set to date with four governments have come consecutively.

Libyan economy has a robust foundation to rebuild itself and has been presented with many opportunities which Libya has not yet exploited, and there is much potential for output growth. Furthermore, Libya has the ability to protect the Libyan Dinar from change, due to large foreign exchange reserves, which Libya has gained from the oil industry. Hence, it can keep the

economy stable from influencing the import and exports market (Cheng et al., 2014).

In terms of the exchange rate, the Libyan government has pegged the Libyan Dinar to an Special Drawing Rights (SDR) at a fixed rate, in order to stabilize the Libyan dinar value before the world economic crisis. However, in 2013, the IMF announced that the Libyan government would support the physical and monetary policy in order for the Libyan Dinar to be sustainable. The financial system in Libya must be developed and re-built by the central bank. For example, it can increase the FDI, and in this regard, the central Libyan bank has needed to increase regulation and supervision measures to achieve stabilization for the economy in the medium term (Cheng et al., 2014).



**Figure 3-1 International inflation rate (average consumer prices) (1980-2020)**

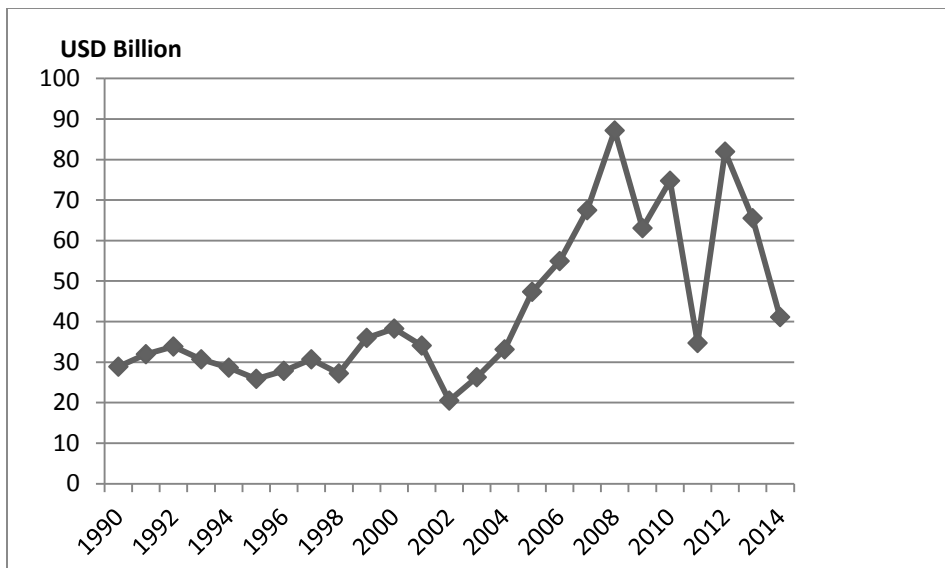
Source:(WB).

According to Figure 3-1, the inflation rate or consumer prices index (CPI) expressed the average of the inflation rate over the period 1980 to 2020. The estimation of CPI began in 2014. The IMF has reported that the rate of

inflation in Libya has managed to keep it level between 5% and 4%, regardless of some periods.

### 3.2.1 Economic Growth

Libya has been recognized as an oil wealth country and the Libyan GDP value represents about 0.07% of the world economy, its GDP has fluctuated over between 1990-2014 as illustrated in Figure (3-2). The Libyan GDP averaged between 28.90 to nearly 40 USD billion over the period of 1990-2000. Until 2002, the trend recorded a high decline at 20.48 USD billion, following the year that the Libyan GDP increased until it reached to 87.14 USD billion in 2008.



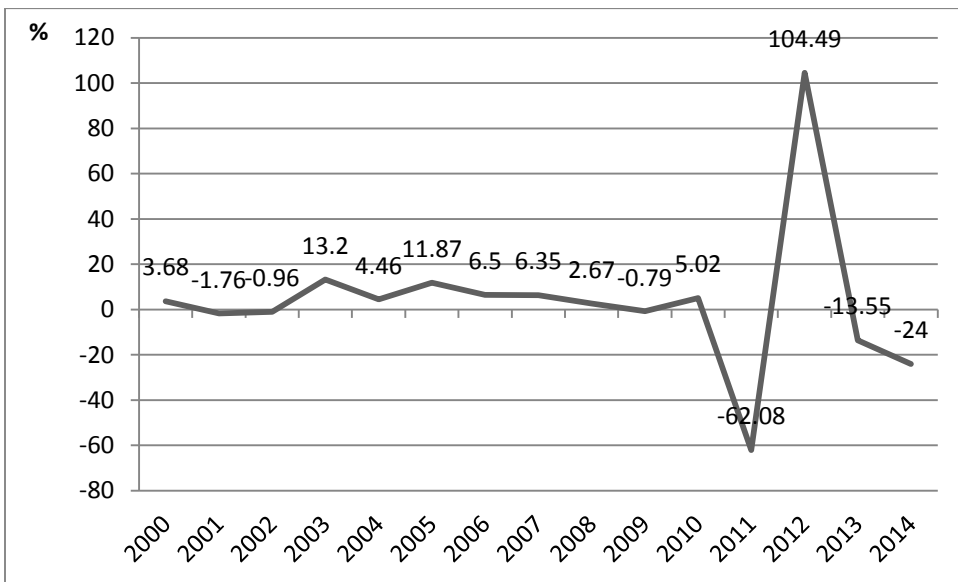
**Figure 3-2**Libyan GDP

Source: World Bank

However, in 2011, the Libyan GDP plunged from 74.77 billion to 34.7 billion. Non-hydrocarbon GDP reduced due to the Libyan revolution. Consequently, all other macroeconomic indicators deteriorated markedly. However, in 2012, the Libyan GDP reached 81.91 USD million with the new government and

new elections. In 2013 and 2014, the Libyan GDP plummeted again from 65.51 to 41.14 billion USD, respectively.

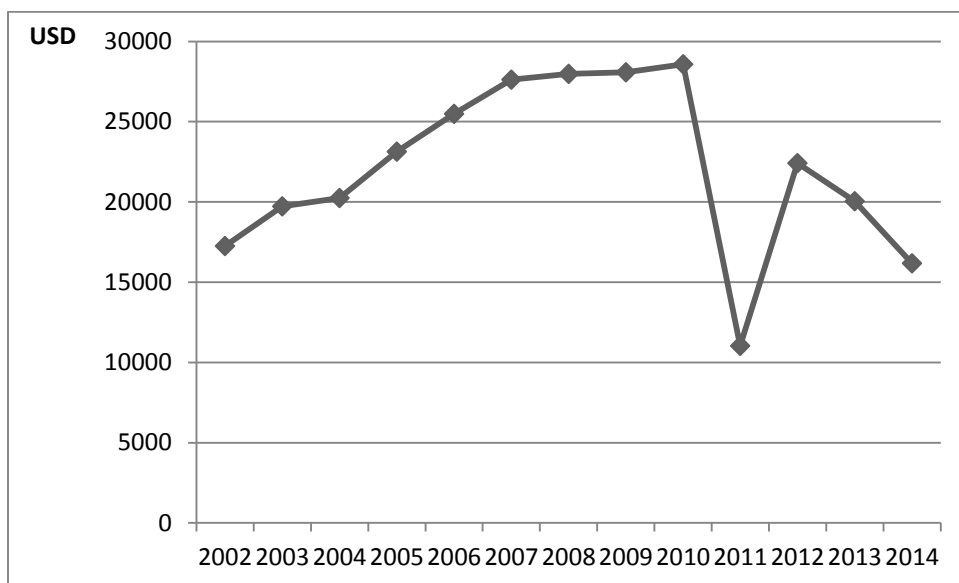
As illustrated in Figure (3-3), the average value of economic growth over the period 2000-2014, was about 3.66%. The lowest value was in 2011 with -62.08%, and following that year the trend rocked to reach the highest growth of the period with 105.49%. However, economic growth plunged dramatically with -13.55% and -24% in 2013 and 2014, respectively.



**Figure 3-3 Libyan economic growths (2000-2014)**

Source: (WB).

In terms of GDP per capita, Libya ranked higher than other oil producer countries. Its world average was the equivalent of 37% GDP per capita over the period 2002-2014 and reached a high level with 28570 USD in 2010, as shown in the **Figure (3-4)**. However, in 2011 there was a low average of 11040 USD. Despite the high figures, Libya is considered to have the lowest income in the region.



**Figure 3-4 Libyan General National Product per capita (2002-2014)**

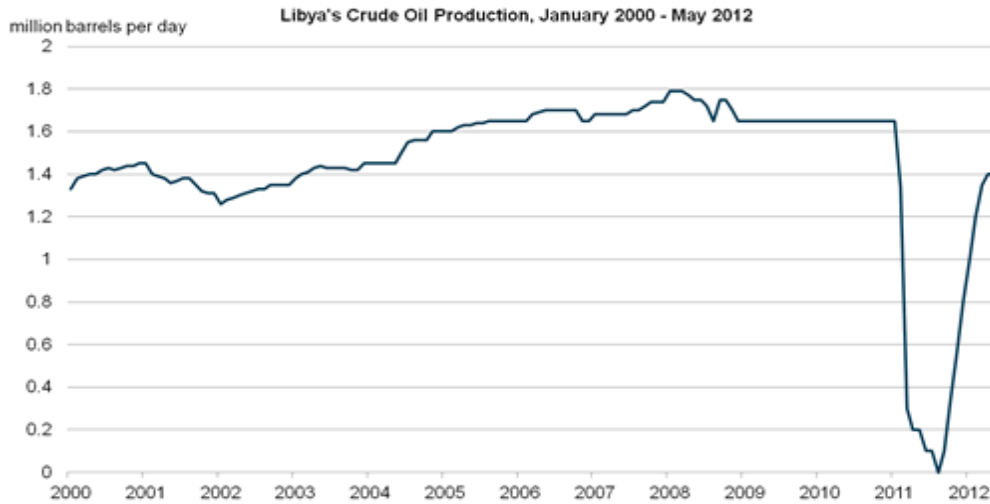
Source:(WB).

For its development program during 2008-2012, Libya allocated about 117 USD billion. Additionally, Libya has a rank of 14 in the world due to its reserves from foreign currency of approximately 107 USD billion. Libyan investment assets worth 70 UDS billion, and around 32 USD billion in cash has been returned with 64 banks in the United States. Despite of all its fiscal expansion, foreign direct investment in Libya has not exceeded 15 USD billion (Resnick & Van de Walle, 2013).

In terms of labor, the total number of Libyan force workers is roughly 2.4 million people. There is an increasing unemployment among Libyans and a growing number of foreign workers. Moreover, based on the World Bank report, Libya is considered one of the highest countries in the world with employment over 70% of the workforce in the public sector. Therefore, following civil unrest, one of the major issues the government must tackle is the complexity of the labor market.

### **3.2.2 Energy Sector**

Libya holds the largest amount of crude oil reserves in Africa and it is among the ten largest countries (Chivvis, Crane, Mandaville, & Martini, 2012). Its oil is known as sweet crude oil. Libya is a member OPEC, and produced about 1.79 million barrels per day before the civil unrest, and the majority of the Libyan production has exported about 84% of its production to Europe markets, approximately 14% to Asian Oceania and to Americas about 2% (EIA, 2015). Hence, in the past few years Libya was a significant contributor to the global supply of oil. However, the Libyan hydrocarbon sector was affected by civil unrest five years ago. During the crisis of 2011, Libyan hydrocarbon exports were disrupted at that time, and the minimum of the production was just for domestic consumption. In 2012, with a new government, oil production saw a rapid recovery but it has remained lower than levels before 2011. In mid-2013, Libyan's oil production was crippled again to more than half of the previous year due to huge disruptions that led to a decrease in Libyan oil production. In 2014, the oil production recovered until the second half of the year, and then in late 2014 there was major disruption, but the output was not recovered.



**Figure 3-5 Libya's oil crude production (2000-2012)**

Source: (Cheng et al., 2014).

As seen in Figure (3-5), the country has depended heavily on the hydrocarbon sector, and it has dominated the economy for a long time ago. According the IMF, in 2012, Libya's revenue from gas and oil accounted for almost 96% of total government revenue and nearly 98% of its total exports. Thus, the total amount of Libya's exports revenue was roughly 79% from hydrocarbon exports, which brought about 48 USD billion. In 2014, oil production and its revenues accounted for more than 70% of GDP, more than 95% of exports and about 90% of government revenues. Moreover, Libya possesses Natural Gas reserves and has produced roughly 15.8 billion m<sup>3</sup>. More than 60% of gas production has been exported to Europe by pipeline. New investments and exploring plans have been expected to continue after stability(Cheng et al., 2014).

The negative impact of the crisis in 2011 has continued to have an effect on economic activities due to the instability of the political government, as well as declining both oil and gas production with a decline of global oil prices.

Hence, non-oil production was contracted by 50% a decline of international reserves; and the national currency depreciated against the US dollar.

### **3.2.3 Non-oil Sector**

In 2005, after lifting international sanctions, the Libyan economy continued to be reformed and became non-oil as an engine of economic growth, despite persisting to limit foreign investment at that time. The Libyan non-oil sector has contributed to GDP with 40%, whereas, this sector has employed about 97% of the total workforce. Public services are considered the second most important sector in the economy, which includes healthcare, education and other services, and which contributed to GDP by 45% in 2005, compared to the period of 1990-1999 in which the services contribution to the GDP was at 40% (WB). Hence, a growth in services is considered faster than the overall GDP. As a result of that, despite this increase, the contribution of services to GDP was high, but it has remained below the average of the Middle East North Africa region.

The important clusters of the non-oil sector are as follows. Firstly, the agricultural industry, which is identified as a main source of employment, but its contribution to the economy is less than the average in the countries of the MEN. Libya imports roughly 80% of its food and its primary source of water for agriculture is the Great Man-Made River Project (Libya backup profile 2014). Secondly, the construction industry has a significant existing demand on housing, commercial and infrastructure. Therefore, development in this sector could generate employment and leads to non-oil growth. Thirdly, with regards to transit trade, Libya has a geographical advantage that could open up opportunities for trans-shipment and value added service. However, that required more investments to be developed in order to be a highly competitive country in the Mediterranean region.



Libya has suffered from some obstacles that have hindered Libya to become more developed locally and internationally. Libya had blocked foreign investments and prevented Libyan businesses to access technology, experts and resources for decades. Furthermore, many productive enterprises take place in the informal sector, because they do not have active support from the government. Libya has a low level of involvement in a productive economy due to lacking a basic infrastructure, which hinders a favorable business environment, where private enterprises can grow. Hence, it has been stated that the informal sector in Libya is risky and inefficient to achieve such scale (Chami et al., 2012). Thus, despite all of these obstacles that have blocked Libya to be recognized, and based on the size of the non-hydrocarbon economy which is increasing rapidly, it would be expected that Libya could become an economic leader in the region. GDP growth averaged over 6% per year during the period 2005-2008 and 3% a year during the two years following the global financial and economic crisis of 2008. Growth in the later period was generated in the non-oil economy, led by retail and wholesale trade, services, construction, and financial services.

Ultimately, Libya has the potential to grow its economy through the construction industry by increasing the number of investments between local and foreign companies. Moreover, in 2012 there were 636 companies which came to the event and attracted around 17 thousand guests. In addition, Libya also has potential to grow in the tourism and transportation industries, which are considered as emerging industries. The Libyan tourism industry has the potential to be the second largest industry as a country with the United Nations Educational, Scientific and Cultural Organization (UNESCO) world heritage sites, resorts and desert tourism (Cheng et al., 2014). Therefore, in the following section, the research is focused on this industry to review the main indicators and trends that have been raised through the period in order to identify the main indicators and trends and its impact on the economy.

### 3.3 Libyan Tourism Industry

The Libyan tourism industry developed in the late of 1960s. The largest category are restaurants and cafes, with 3500 (87.5%) of the enterprises, followed by travel agents, with 225 (5.6%), hotels and guesthouse, with 195 (4.9%), and tour operators, with 15 (0.4%). However, in 1973, the Gaddafi regime focused on the oil sector and neglected all of the non-oil industries, and one of these industries is including the tourism sector due to high revenue from the oil industry. Currently, after civil unrest in 2011, the government has ambitious plans for developing this industry to be the second largest industry of the economy following the energy sector.

Libya has a comparative advantage in terms of UNESCO heritage and natural and culture resources. The natural resources have been categorized into three main types. Firstly, Libya has a pleasant Mediterranean climate, landscape, sea with sandy beaches, lakes, oases, and green mountains. Libya has heritage resources represented by Greek and Roman sites which are located in the east and west respectively. The Roman sites are; Sabratha and Leptis Magna while the Greek sites are Cyrene, Aploiona and Tolimita located in the Green Mountains. Moreover, Gadamas is an Islamic ancient city located in south western Libya, which is close to the Algerian border. In terms of the above, Libya has five sites listed in the UNESCO World Heritage, which are: Sabratha, Leptis Magna, Cyrene, Gadamas and Acacus. With regards to cultural resources, Libya has a rich and varied culture, which includes museums, food, festivals events, architectural forms and modes, folklore dances and songs (Khalifa, 2010). Furthermore, there are many other tourism attractions in the country, which are presently not fully tapped, such as pure beaches which leaves potential for further developments.

### **3.3.1 Libyan Main Event**

The Table 3-3 lists the main issue that Libya has faced from 1970s to date. Gaddafi policy became fluctuated with Western countries for decades, during 1970s to 1980s period because Gaddafi supported radical rebels around the world. Moreover, in the middle 1980s, Libya was accused of bombing in Berlin and targeting the American army, which led to more attention and worries between Western countries and Libya. As a result of that, in 1986, American attacked Libya and many of its citizens were killed(Khalifa, 2010).

Furthermore, Libya was suspected of bombing Pan American airlines over Lockerbie in 1988. Hence, the United States and United Kingdom imposed sanctions on Libya via the United Nations in 1990. Ultimately, the Libya's politics and economics were isolated as a result of sanctions and trade embargoes. The transfer of two Libyan intelligence agents of the Pan Am 103 were bombing Trail force suspicion in the US or in the UK .In June 1992, Libya agreed that the suspects of should be tried abroad, but it was not until April 1999 when they were transferred to the Netherlands for the track under Scots law(Zoubir, 2002).

**Table 3-3 Libyan Key events**

|              |  |
|--------------|--|
| 1970s-1980s  | Libya suspected of supporting radical group  |
| 1984-1985    | Bombing a Berlin Night Club and targeting US soldiers                              |
| 1986         | American aircraft Attacked Libyan citizens in Tripoli and Bangazi                  |
| 1988         | Bombing the Pan America aircraft over Lockerbie                                    |
| 1992-93      | International sanctions on Libya for 10 years                                      |
| 1990s        | Gaddafi and African United State Proposal  |
| 1999         | Western Countries with Libya to resolve issues                                     |
| 2003         | Libya accepted the responsibility of the Lockerbie, and UN sanction was eliminated |
| 2006         | USA eliminated Libyan state from terrorism list.                                   |
| 2008         | Relationship with US resumed   |
| 2011         | 17 February Libyan Revolution  |
| 2014 to Date | Instability and civil War  |

Source: Author.

The negative image of Libya, which was generated by Gaddafi's policies, with the western countries in general and United States and United Kingdom in particular, led to Libya being isolated from being a country of destination, despite its having core resources; and in addition beings close to Europe, which

is considered a key resource market. The reason for this is that dominating western countries in the tourism market made way for Libya to develop and promote its tourism sector. Later on in 2006, the US-Libya's designation was officially cancelled as state sponsors of terrorism, and in October 2000, the General Assembly of the United Nations made Libya as a non-permanent member of the Security Council of the completion of his return to the world stage. However, Libya began opening for business to increase its tourism potential (R. Butler & Suintikul, 2010).

In contrast , no longer stability and the Libyan revolution began in 2011, which led to the first Libyan civil war, which led to Gaddafi's death. Libya is currently undergoing political, economic and social reconstruction, and it has been governed under an interim constitution drawn up by the National Transitional Council (NTC). Elections of a General National Congress were held on 7 July 2012, then in 25<sup>th</sup> June 2014 a new election was made and the NTC handed power to the Libyan House of Representatives (LHR) ("Libyan Council of Deputies election," 2014). Recently, Libya has suffered from terrorism activities in some areas of Libya, such as Benghazi and Serit. The increase in terrorist activities has affected the Libyan image and hinders all the efforts toward the stability and development. As a result of that, the international community is keen to see Libya stabilize, and their efforts are to support a new government, which is called the Government of National Accord (GNA), which is considered a new Libyan government in 13<sup>th</sup> March 2016.

As a result of that, concerns about security, which are more related to terrorism and political instability than crime and violence, have caused some countries to see a reduction in international arrivals. Currently, instability in Egypt has led to reduce international tourists and limiting receipts; hence, funds are available for investment. Libya has a huge potential to increase its visitors, if

the security and unstable political situation can be quickly resolved ("North Africa," 2015). The security considers the most important issues. Bizan (2013) has suggested two elements that should be considered for peaceful status, which are securing the borders of the country and balance between local values and demands of tourists.

In the following section, the study has focused on the impact of tourism on the economy in various periods, and identifies tourism expenditure and the main channels tourists who can spend their money throughout their trip. Finally, the study has looked at the impact of the regime policy and civil war on the tourism development.

### **3.4 Tourism Contribution to the Economy**

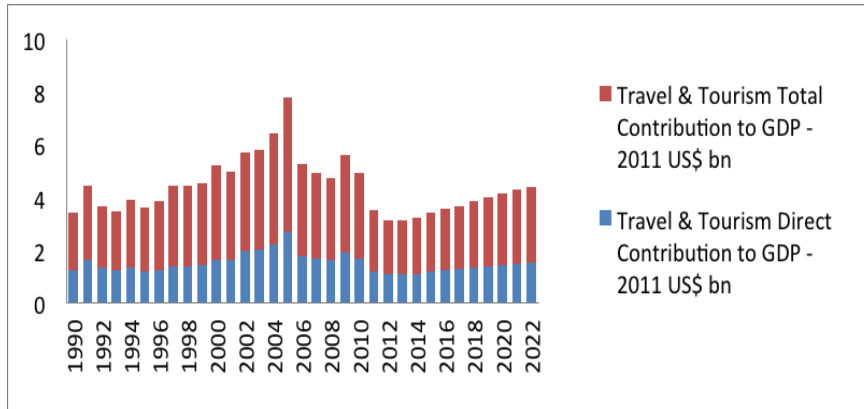
There is a widely held belief that tourism has played a fundamental role in developing countries, whether locally or internationally, to reach economic growth and development. Thus, it is a fundamental key to recovering the balance of payments from the deficit, due to generating income, employment and tax revenues. What is more, it is an important source of foreign currency, which has been utilized to pay for imports and to maintain a desired level of international reserves in many countries. Hence, the contribution of tourism has a multiplier effect on the economy of the target through direct action, side effects and without induced effect. Direct or primary effects have connected with the proceeds of tourism services, including airlines, travel agencies, hotels, restaurants, shops and other tourist services leading from tourist spending (Syriopoulos, 1990). The indirect effect of changes in economic activities has, through several rounds of re-spending of revenues from tourism activities, provided inputs for the tourism industry connected. The effect is induced by changes in economic activity of budgetary expenditure of the proceeds directly or indirectly from tourism expenditure. Both indirect and

induced affects are known as side effects (Khan, Seng, & Cheong, 1990; Nosier, 2012).

Additionally, the tourism industry plays a crucial role for boosting the development of infrastructure and has helped to promote the attraction of the new technology. Tourism's actual weight has defined the activities of traditional tourism as offering accommodation, transportation, etc. More tourism-related investment, government spending and exports of goods, including the direct and indirect contribution of tourism to GDP.

#### **3.4.1 Tourism Contribution to the GDP**

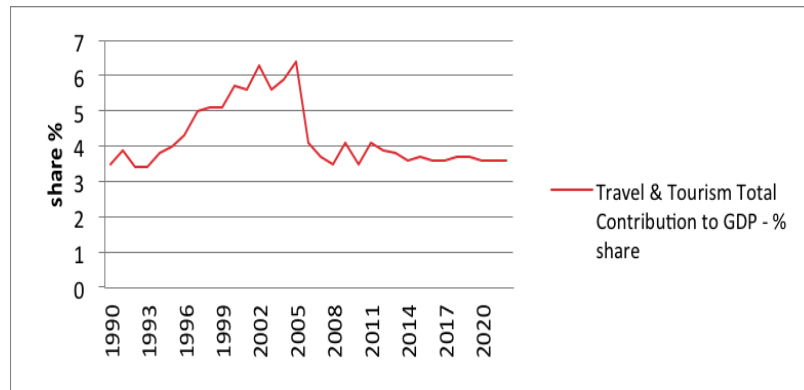
Libya's travel and tourism industry contributed roughly 1.6% to Libyan GDP in 2004 (U. UNWTO, 2005)), and its contribution to the employment was 12.1% of total employment in 2005; whereas, the unemployment rate in Libya has considered high at 30% of the total population. The Secretary of the General People's Committee (GPC) attempted to reduce the over-capacity of employment in the state sector, but all the solutions put forward of so far have been impractical(Khalifa, 2010).



**Figure 3-6 Total tourism contribution to GDP (1990-2022).**

Source: (WTTC, 2015).

In the Figure 3-6, the trend has shown that tourism’s total contribution to GDP has fluctuated over the period of 1990-2014. From 1990 to 2005, the trend increased gradually until 2005 when it reached the highest level. However, the total tourism contribution saw a sudden decrease through the period of 2006 to 2008, due to the visa requirements. Generally, the trend constantly increased before the civil unrest in 2011, and then it deteriorated.



**Figure 3-7 Tourism GDP in Libya and its share to the GDP**

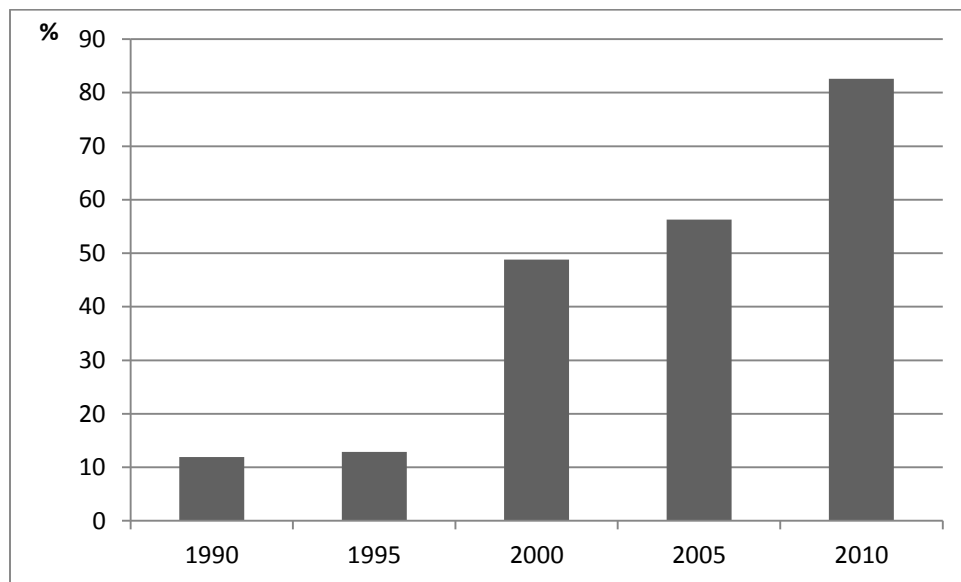
Source: (WTTC, 2015). \*2017 and 2020 are predicted.



In fact, changes in the tourism industry, and its impact on the growth of other sectors has had a positive impact on the overall economic development of the country. In the period of 1995-2006, as shown in the Figure 3-7, the share of tourism increased from over 3% of GDP in 1990 to roughly 7.5 % of GDP in 2006. On the contrary, in the following year, the shares fell suddenly to 4% in 2007 and continued to decline until 2008. However, in 2009, the shares recovered to reach 4% again. After that, the trend fluctuated and plunged between 3% and 4% for the rest of the period.

### 3.4.2 Tourism in the balance of services

Tourism has been known as a primary component of the total services receipts in the balance of payment (Lanquar, 2011). Figure 3-8, shows the share of tourism receipts in the balance of services in Libya over the period of 1990-2010.



**Figure 3-8 Libyan tourist receipts as share of service receipt (1990-2010)**

Source: (Lanquar, 2011).

Generally, there was a gradual increase in the shares the tourist receipts over the period from 1990-2010. The highest growth accounted in 2010 with 82.6% comparing to in 1990 was the lowest rate recorded with 11.9%. The weight of the tourism growth in Libya may have become greater when compared to the non-oil GDP.

### **3.4.3 Tourism Contribution to the Employment**

The labor force in Libya is estimated at 1.6 million, and some sources estimate the unemployment rate at around 30%, which primarily affects young people (Winckler, 2005). According to the Organization of Arab labor, Libya appears to be the county with the fifth highest unemployment rate. Statistics show that unemployment in Libya rose by 17% in 2003, with 383,546 job seekers (Al-Khatib, 2007). The tourism industry is considered being a labor intensive activity. It plays a significant role in reducing the unemployment rate in Libya and the staff of the hospitality industry. Tourism presents benefits merchant gift shops, restaurants, arts and crafts manufacturer and newspapers, etc. (Ali, 2013). In 2004, the Libyan tourism industry was a complicated labor-intensive industry. Hence, the sector directly or indirectly creates an enormous amount of work in many different areas, such as transportation, restaurants and tourist information. In addition, the tourism industry indirectly drives other areas, for example, jobs in agriculture, banking, and construction. The tourism sector in Libya has managed to attract a large number of workers who belong to their wider implications, the indirect and induced effects on the economy (Ali, 2013).

**Table 3-4 Tourism employment as a share of total employment (1990-2010)**

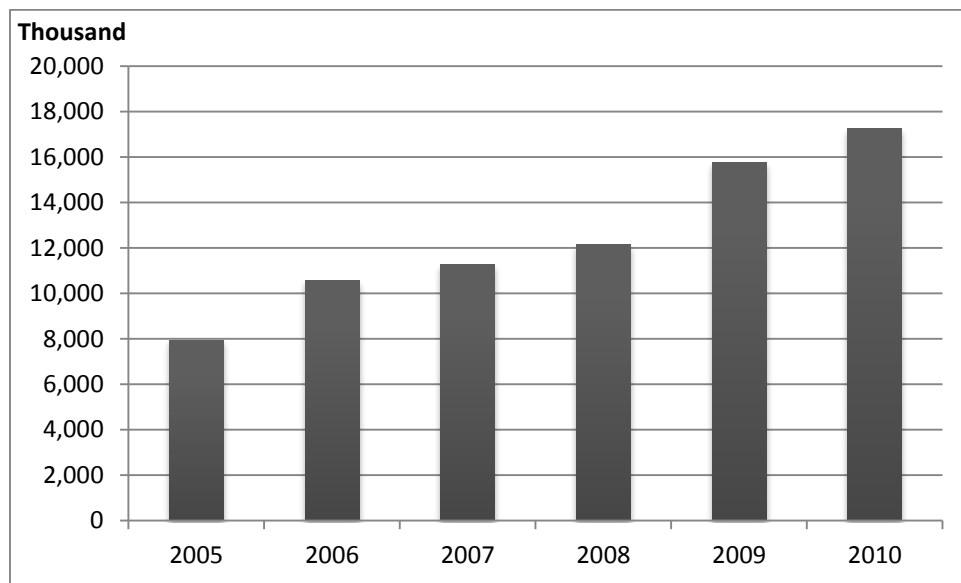
| <b>Year</b> | <b>Share %</b> |
|-------------|----------------|
| 1990        | 5.7            |
| 1995        | 8.7            |
| 2000        | 11.4           |
| 2005        | 12.1           |
| 2010        | 9              |

Sources: (Lanquar, 2011).

Both the direct and indirect tourism employment had generated a significant contribution to the total employment in Libya. As reported in Table 3.4, in 1990, about 5.7% tourism contributed to total employment and the share of tourism contribution to the employment increased gradually from 1990 beyond 2005, which was the highest average with 12.1%. However, in 2010 the rate of tourism contribution to employment decreased to reach 9%.

Moreover, accommodations, restaurants and cafes are a major source for generating employment opportunities for local people. However, there is a need to promote the wide range of opportunities and prospects offered by tourism, especially in the ranks of operation and management of long-term careers and general entertainment, even though there are just a few areas that offer long-term rewarding careers. Also, they contribute to enhancing the quality of jobs in the tourism industry and facilitating the entry of those who are under-represented in the labor force. Therefore, developing this source is considered a key issue for increasing the growth of any industry in the country.

The Figure 3-9 shows the number of employment in hotels and similar establishments, restaurants and cafes over the period 2005-2010.



**Figure 3-9 Total number of employment in hotels and similar establishment (2005-2010).**

Source:(Center, 2011).

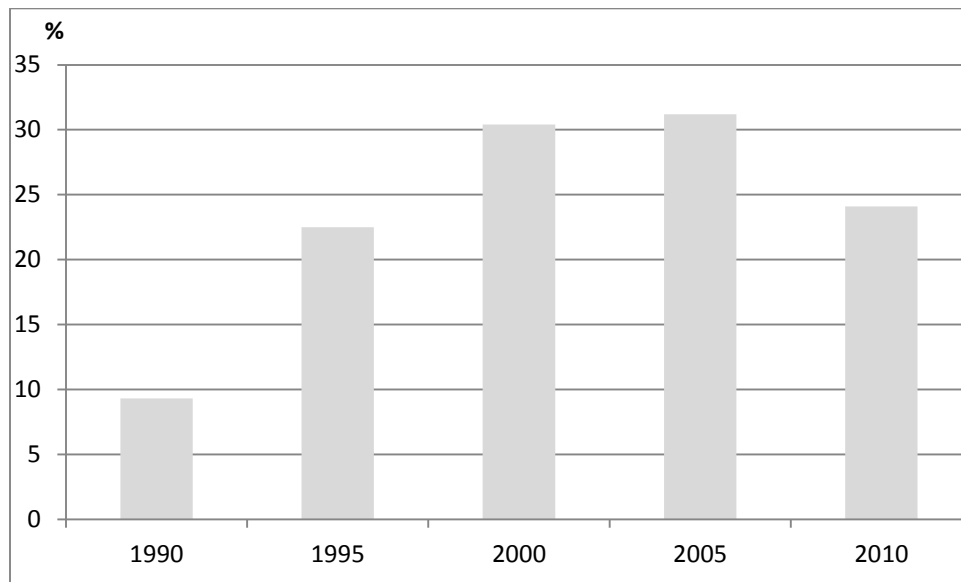
There was a slight increase in the total employment during the period 2006-2008, with an average of 1000 employees in every year; however, both 2009 and 2010 reached 15,760 and 17,275 respectively. Despite increasing employment in Libya, the industry has suffered from a lack of appropriate and qualified workers. Therefore, IMF has reported that Libya must meet the requirements of demand in the Libyan tourism industry, such as language and computer skills. Moreover, there is an effective link between educational colleges and the tourism market (for instance, hotels) (Naama, 2007).

There is a growing number of women at work, but they have stated faced some difficulties, whether from traditional social culture or problems that have been imposed by the nature of modern industrial society (Ahlawat, 1999). However, recently, all the issues above have been gradually disappearing due to the

awareness of society and the need for work, and there is slight increase of working women in the tourism sector, as in other destinations.

### 3.4.4 Tourism Investment Share to the Total Investment

Tourism investment has globally presented less than 10% of overall investments (WTTC, 2015).



**Figure 3-10 Share of tourism capital investment in total investment (1990-2010).**

Source: (WTTC, 2015).

As shown in the Figure 3.10, Libya's share of capital investment in tourism grew faster and it increased from 9.3% to 22.5% between 1990 and 1995 with its height in 2005, reaching 31.2%. However, the share of tourism investment declined to 24.1 %.

These investments have been represented in transportation, technology and equipment for tourism. Moreover, investment has included Foreign Direct Investment (FDI), but it has slowed down during the revolution. Furthermore,

investment in information communication and technology has a wide reflection on tourism growth in the future. There are some programs and projects that indicate a growing number of these investments in Libya between 2005 and 2010. Lanquar (2011) reported that such kinds of Information and Communication Technology (ICT) investment can allow for good access to the destination and reduce the role of foreign agency and tour operators, hence, reducing the cost of travel.

In terms of the Economic and Freedom Index, Libya recently has had a score of 10 out of 100 in investment freedom. The index has illustrated how those difficulties in investing in the country can influence the inflow of FDI, such as political instability and security.

#### **3.4.5 Tourism contribution to the Government Expenditure**

As shown in Table 3.5, the share of the tourism's expenditure to total government expenditure doubled from 1% in 1990 to 2.5% in 1995. Then, it increased constantly between 1995 and 2010. This increase was attributed to ambitious programs of development, which included diversification and modernization of the domestic tourist sector, expanding the private sector and foreign investment, in addition to legalization and regulation of the institutions framework that were linked to the private sector and FDI.

**Table 3-5** Share of total government expenditure (1990-2010).

| Year | Share % |
|------|---------|
| 1990 | 1       |
| 1995 | 2.5     |
| 2000 | 2.7     |
| 2005 | 2.6     |
| 2010 | 2.6     |

Source: (WTTC, 2010, 2015).

The government is the owner of the tourism industry, which can lead to the absence of competition. Hence, the private sector in Libya must activate the private sector-driven the tourism growth that through exploitation of the capital and expertise of foreign players. This will develop the tourism industry much faster than if Libya relies solely on the local players. Enabling the economy leads the private sector to gain strength, which is a precondition for faster non-oil growth and job creation. The Libyan government has to commit and work together with the private sector to restore infrastructure in Libya. Moreover, coordination and encouraging the private sector's initiatives with promoting partnership between public and private sector in order to achieve the development of the tourism sector (E. Jones & Haven, 2005).

Khalifa (2010) noted that Matug (who was a Manpower, Media and Awareness department at General People's Committee of Manpower and training) declared in (2007) that the Libyan tourism industry can benefit from developing in the international tourism market research or international tourism through Small Medium Enterprises (SMEs). Thus, SMEs have been considered as the motor of most economics which allow people to be free from the domination of the public sector and its negative impact on the economy, as well as a lack of productivity, lower productivity and higher costs. On the other hand, Libya's SMEs have faced enormous challenges, one of which is known as the "public sector agenda". In addition, the financial developing system, which plays an essential role in promoting the tourism industry through the private sector, can lead to economic growth. Therefore, the financial system is considered a lounge for any of economic policy that seeks to increase economic growth in that country. According to Cevik (2011) due to a huge dependency of government spending on hydrocarbon growth, that financial development has a significant negative effect on non-hydrocarbon growth.

. As a result of that, there was lack of long-run relationship between the financial intermediation and non-hydrocarbon output growth, despite the removal of international sanctions and the country moving forward with a broad spectrum of reform initiatives aimed at achieving greater openness and gradual liberalization of the financial system (C. I. Jones & Romer, 2010).

However, the regulations and legalizations have been hindered local investors from expanding their investments or even FDI investment, and lacks financial support from the government. The new government in 2011 started to assess the situation and review all the previous laws and regulation which governed tourism, in addition to reviewing all contracts concluded by the former regime with local and foreign companies. The Libyan government in terms of increasing the growth of the non-oil market made some reforms such as the creation of the Tripoli stock market in March 2007 was meant in part to speed along the privatization of public companies. This creation of a more streamlined banking system, with the privatization of the banking system and foreign investment as majority stakeholder starting in 2007 (Sahara Bank). Reduction of the minimum investment threshold from \$50 million to \$1 million in 2006. Creating the Libyan Investment Authority as the country's sovereign wealth fund. In August 2009, the government established the Privatization and Investment Board, meant to establish a one-stop shop to streamline business license applications, and to install greater investor confidence. Also, the government has made the legislation in support projects around Cyrene and other archaeological sites. ("African Development Bank Group," 2011).

Libya's public sector controls the economy, hence, all the legalizations and framework has remained significantly. Hence, the share of government expenditure on tourism as a total of government expenditure is still quite small when compared to the weight of the public sector on the economy, as shown



in Table 3-2. As a result of that, Lanquar (2011) reported that to increase expenditure to enhance the competitiveness of tourism industry by planning and applying a good balance of strategies at national and local levels in order to generate income and create jobs. However, this has required more coordination with several government policies.

### **3.5 Visit Purpose**

Libya's location is in North Africa, and it has a Mediterranean climate with coastlines situated on the Mediterranean Sea. Moreover, Libya is known as the home of the famous Acacus Mountain, Gaberoun in the core of big desert landscape, Green mountain in the Libyan east, which have stimulated other types of tourism, such as safari and sport. In addition, Libya has a number of the historical Greek cities and Roman cities, such as Cyrenaica, Lepthys Magna and Sabratha respectively, as well as cultural festivals that are known in the West Mountain. As a result of that, Haven-Tang, Jones, and Webb (2007) stated that Libya's unique archaeological and cultural heritage are the main element of the Libyan tourist product, and spa tourism. Moreover, the authors have also said that the potential of tourism spa in Libya will offer the opportunities of attracting "high-spending market segment", such as conferences and business tourists.

According to Abuharris and Ruddock (2003), the three top purposes of visiting Libya are presented in the Table 3.6. These facts have resulted from their investigation. The first top purpose has been attributed to holidays and vacations, and in the second rank, historical places and the third place, the desert.

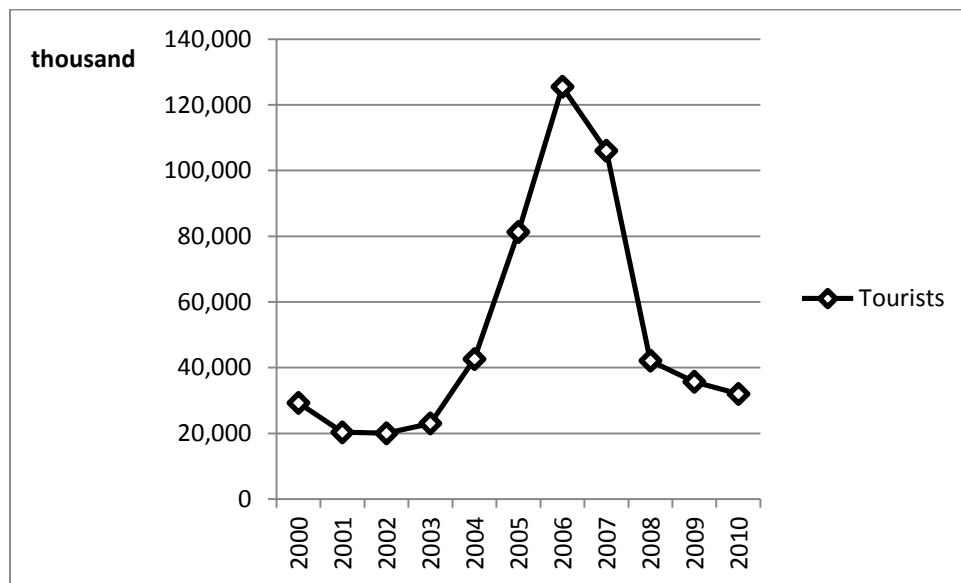
**Table 3-6 Top three purposes for visiting Libya**

| Purpose of Visit      | Rank |
|-----------------------|------|
| Holiday and Vacations | 1    |
| Historical Places     | 2    |
| Desert                | 3    |

Source: (Abuharris & Ruddock, 2003).

### 3.5.1 International Tourist Arrivals

Travel and tourism is considered a vital source of foreign exchange, generating employment opportunities and tools for helping many countries for reducing their dependency on other sectors, such as the oil industry (finite resource) (Tourism market trends, 2003). The international tourist arrivals in Libya have grown rapidly from to 2007, as shown in the Figure 3-11.



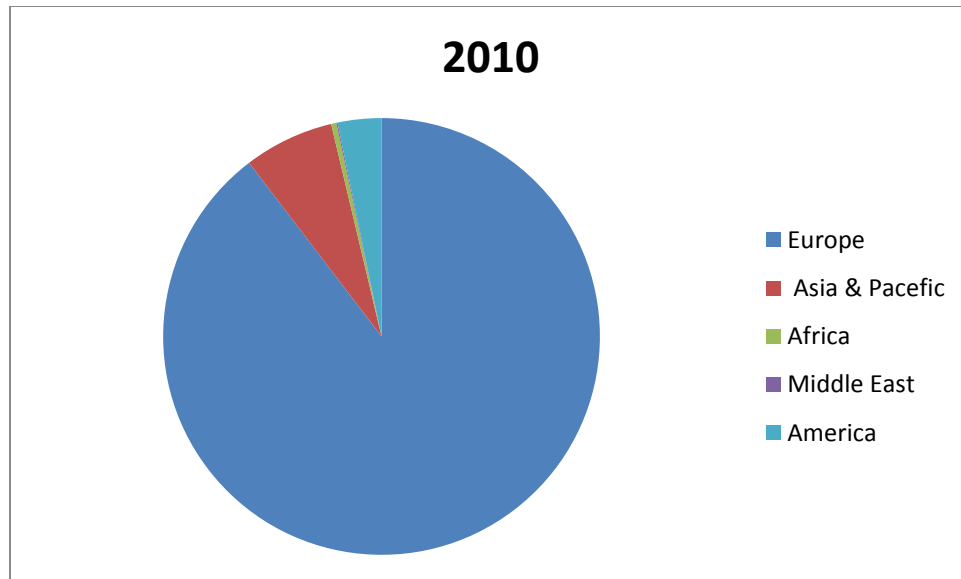
**Figure 3-11 Number of international tourist arrivals (2000-2010).**

Source: (" information and Tourism Statistics Institution, the National Libyan Board," 2010).

In general, the trend of the number of the tourist arrivals in Libya increased after the international sanctions removed in 2003. The General Board of Tourism and Traditional Industries GBTT in (2008) has reported that international arrivals increased rapidly from 81,319 in 2005 to 125,480 visitors in 2006(Khalifa, 2010). However, in November 2011, all international arrivals were required to have an Arabic translation page in their passports; hence, the number of international arrivals decreased dramatically to 35,700 in 2009. This action has caused almost a 20% decrease in the following year (" information and Tourism Statistics Institution, the National Libyan Board," 2010).

### 3.5.2 The Origin of the Tourists to Libya

Tourism arrivals in Libya have depended on three regions; the biggest share of tourist arrivals to the Libyan tourism is Europe, Asia and Pacific, and then America. However, Africa and the Middle East have a minor share of tourist arrivals in Libya, as illustrated in the Figure (3.8)

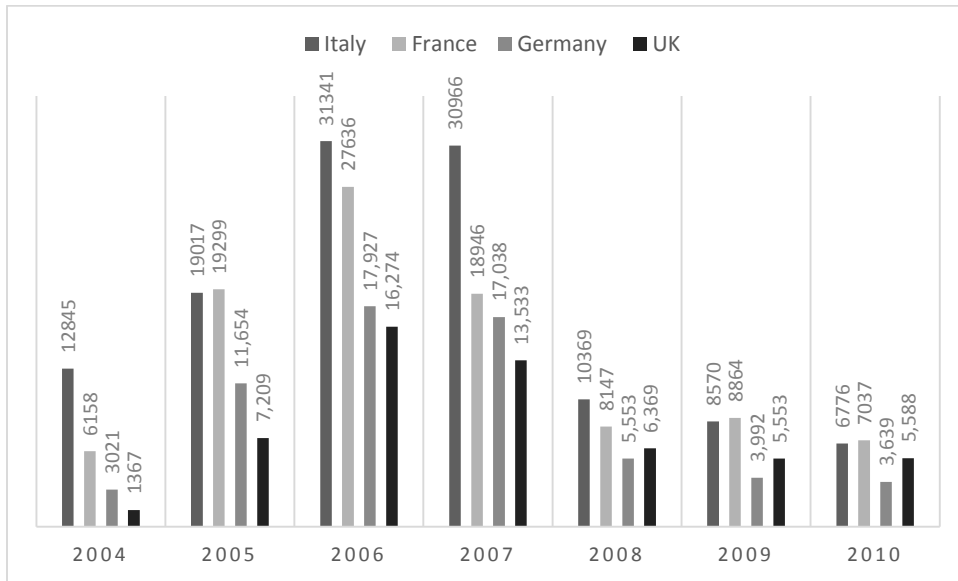


**Figure 3-12 Share of tourist arrivals to Libya in 2010**

Source: (" information and Tourism Statistics Institution, the National Libyan Board," 2010).

### 3.5.2.1 European Region

Tourist arrivals from Europe to Libya have increased during the period of 2004-2007; and that increase has been explained by lifting UN sanction in 2003. The main international visitors in Libya are Italian, French, and Germans; however, the UK market has considered the lowest arrivals in this group to Libya, as the figure 3-13 shown:



**Figure 3-13 The main tourist European nationality (2004-2010).**

Source: (" information and Tourism Statistics Institution, the National Libyan Board," 2010).

Italy saw the largest number of tourists to Libya over the period of 2004-2010. Its share saw a sudden decrease in 2008; and following that year its share declined gradually particularly in 2009 and 2010. In contrast, French arrivals increased progressively in 2009 and its share was bigger than Italian arrivals. In 2010, all arrivals from four European markets decreased as illustrated in Figure 3-13.

Furthermore, other European markets as illustrated in the Table 3.7, such as Spanish, Austria, Belgium, Switzerland, Netherlands, and Poland have

increased through 2004-2006, whereas Spanish tourists continued to increase and reached its peak in 2007 with 5,469 tourist arrivals.

**Table 3-7 The other tourist of European nationalities (2005-2008).**

| Country     | 2004 | 2005  | 2006  | 2007  | 2008  |
|-------------|------|-------|-------|-------|-------|
| Spain       | *    | 2,126 | 4,279 | 5,469 | 1,589 |
| Austria     | 1133 | 2,334 | 4,151 | 3,285 | 1,330 |
| Belgium     | 850  | 2126  | 4279  | 2,382 | 1,407 |
| Switzerland | 1025 | 1,931 | 3,195 | 2,402 |       |
| Netherlands | *    | *     | *     | 1,718 | 835   |
| Poland      | *    | *     | *     | 1,640 | 1,050 |

Source: (" information and Tourism Statistics Institution, the National Libyan Board," 2010).

\* Notes to the data is unavailable

### 3.5.2.2 Other region Markets

Table 3.8 has indicated that other tourist arrivals from different regions, such as Japan and the USA, over the period of 2004-2008. Both of the Japanese and American arrivals to Libya have increased through this period reaching a high number in 2006 with 3014 and 1677 respectively.

**Table 3-8 The other nationalities international arrivals to Libya (2004-2008).**

| Country | 2004 | 2005 | 2006 | 2007 | 2008  |
|---------|------|------|------|------|-------|
| Japan   | 944  | 2187 | 3014 | *    | 1,006 |
| USA     | 778  | 2846 | 1677 | *    | *     |

Source: (" information and Tourism Statistics Institution, the National Libyan Board," 2010).

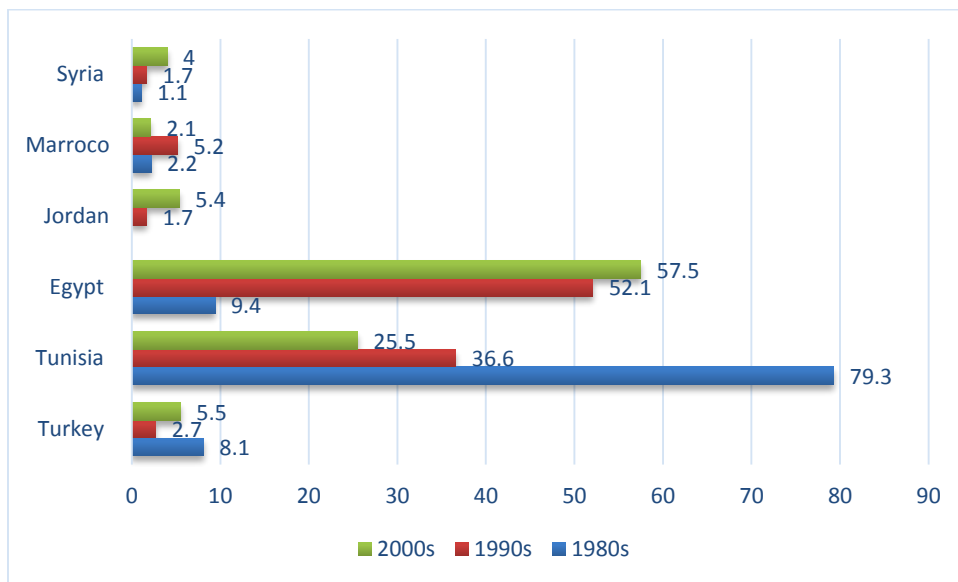
The international tourist reports have not included the arrivals from Egypt and Tunisia or even visitors form Niger, Chad and Sudan. Those visitors have entered Libya without passports and visas. The main reasons for those visitors

to enter Libya were to seek employment or was for passing through to Europe (Khalifa, 2010).

### 3.6 Other Tourist Indicators

#### 1.1.1.1 The Main Countries for Outbound Libyan Tourists

This section has focused on the number of Libyan arrivals for some Islamic Southern Mediterranean countries, such as Egypt, Tunisia, Jordan, Syria and Turkey in different decades. Figure 3-14 shows the growth of the Libyan outbound through six countries in the last three decades. In the 1980s, the share of the Libyan outbound was highly distributed between boarding countries, which are Tunisia and Egypt. Tunisia accounted for the highest share of about 79.3% of total Libyan outbound, followed by Egypt with 9.4%. The low share was attributed to the political tension between the two countries.



**Figure 3-14 Average of Libyan outbound tourist to the ISM countries (1980s-2000s).**

Source: (Nosier, 2012; UNWTO).

In contrast, in 1990s, the share of the Libyan outbound tourists had a dramatic decreased in Tunisia and Turkey with 25.5 % and 2.7% respectively. As a result of that, Egypt saw a sharp increase with 52.1%, while the share of

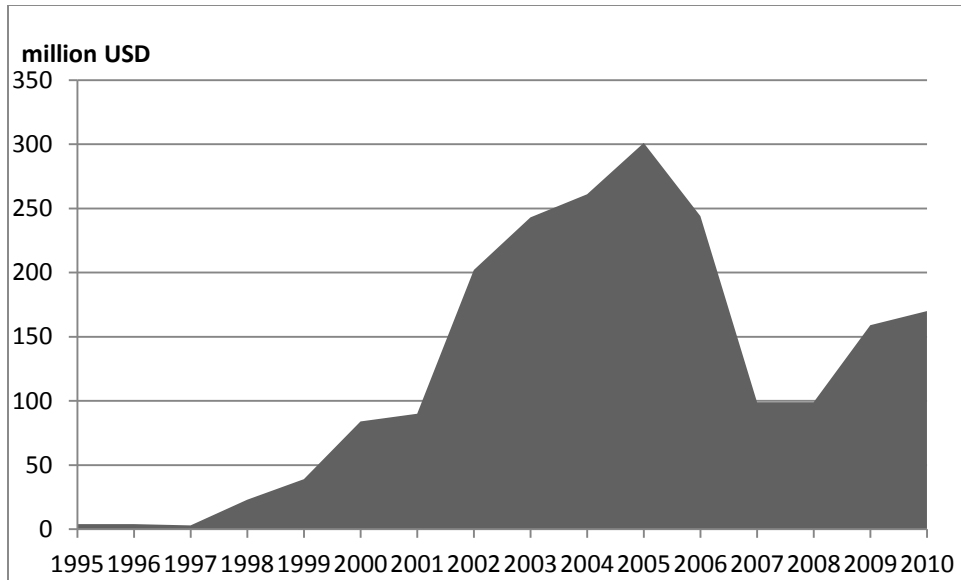
outbound in Morocco was doubled to be 5.2%. Moreover, in the 2000s, Egypt dominated the share of the Libyan outbound in the ISM countries with a 5.4% increase. Consequently, in Tunisia the number of Libyan tourists plunged to 25.5%, whereas, Turkey, Jordan and Syria increased, but Morocco saw setbacks to the same level in 1980s.

### **3.7 Tourism expenditure**

Tourism expenditure is considered the most indicators that have been required by the tourism industry. It has been used to assess and monitor the impact of the tourism on the national economy and on the various sectors. Thus, this section has focused on the tourism expenditure indicators, firstly, for all of the Libyan tourism outbound and their expenditure out of the country. Secondly, this section has indicated to international tourism expenditure in Libya. Then, the study has identified channels of primary tourism expenditure categories, such as, accommodation, food and beverage, travel agency and tour operator restaurant. Furthermore, this section has identified the price and other factors that could affect the demand in tourism expenditure in Libya.

#### **3.7.1 International Tourism Receipts (Tourism Expenditure)**

The IMF and UNWTO have reported that the international tourism receipts and expenditures have been made by international inbound visitors. These expenditures include payment to the national carriers for international transport. Moreover, the receipts have included other payments, such as goods and services received in the destination country. As reported in Figure 3-15, international tourism receipts in Libya grew rapidly from 1990 to 2005 to achieve the highest international receipts over the period with 261\$ million in 2005.



**Figure 3-15 International tourism receipts in Libya (1995-2010).**

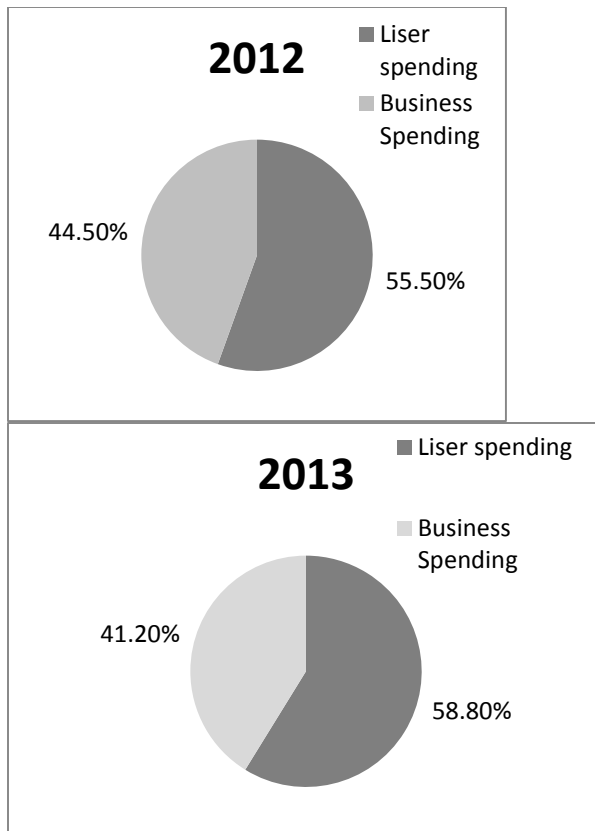
Source: (UNWTO) various issues.

Moreover, there was a quick recovery in 2002 to 2005, but in 2006 there was a slight decrease of international receipts accounted for 244\$ million. Both 2007 and 2008 witnessed no improvement and the trends became stable with 99\$ million. In the period of 2009 and 2010, international tourism receipts grew to exceed 159 and 170\$ million respectively.

### **3.7.2 Kind of Spending**

As shown in Figure 3-16, these are main kinds of the tourism spending for inbound and domestic tourists in Libya through 2012 and 2013.





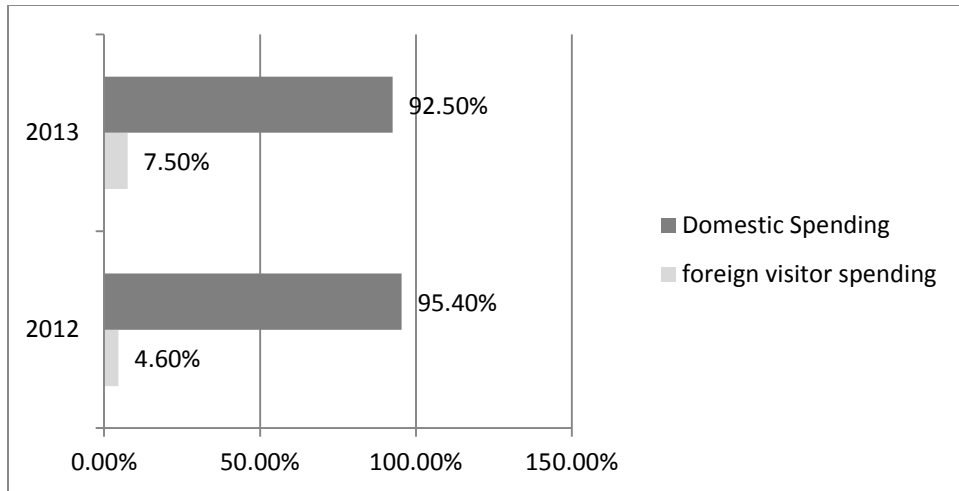
**Figure 3-16 The main kind of tourist spending**

Source: (WTTC, 2013, 2015).

In 2012, the Leisure spending was greater than on business which constituted 55.0% and 44.50 respectively. Moreover, in 2013, tourist spending on business dropped to reach 41.2%; whereas, spending on leisure increased by 3.3%.

### **3.7.3 Foreign visitor and Domestic Spending**

Foreign visitors and domestic visitors represent the main components of the tourism expenditure. As shown in Figure 3-17;



**Figure 3-17 Foreign and domestic spending for 2012 and 2013**

Source: (WTTC, 2013, 2015).

Foreign visitors spending increased in 2013 with 7.5%, compared to 2012. In contrast, domestic tourist visitors decreased by 2.9% in 2013.

There are three expenditure categories relating to tourists in the hosting country. Therefore, this section aims to focus on the channels of tourism expenditure in Libya. According to the criteria that are already adopted in the reports of European Commission (2004 and 2007), there are substantial factors that have structured the tourism industry, which are classified as follows.

#### **3.7.4 Accommodation**

Accommodation, such as hotels and similar establishments are the most important key element of the tourism market. the reason behind that is because hotels have a high proportion of tourist expenditure (Sharpley & Vass, 2006).Hotels in Libya are considerably varied; some of them are public and the others are privately owned by local investors, whether companies or individuals.

**Table 3-9 Accommodation capacity in Libya (2000-2010).**

| <b>Year</b> | <b>Number of Hotels</b> | <b>Number of rooms</b> | <b>Number of beds</b> |
|-------------|-------------------------|------------------------|-----------------------|
| 2000        | 194                     | 11,815                 | 19,969                |
| 2001        | 225                     | 12,405                 | 20,967                |
| 2002        | 225                     | 12,405                 | 20,967                |
| 2003        | 226                     | 12,704                 | 21,704                |
| 2004        | 226                     | 12,704                 | 21,704                |
| 2005        | 245                     | 12,439                 | 23,051                |
| 2006        | 256                     | 13,162                 | 25,471                |
| 2007        | 268                     | 13,638                 | 26,432                |
| 2008        | 277                     | 13,916                 | 27,723                |
| 2009        | 303                     | 15,414                 | 28,760                |
| 2010        | 305                     | 15,799                 | 29,200                |

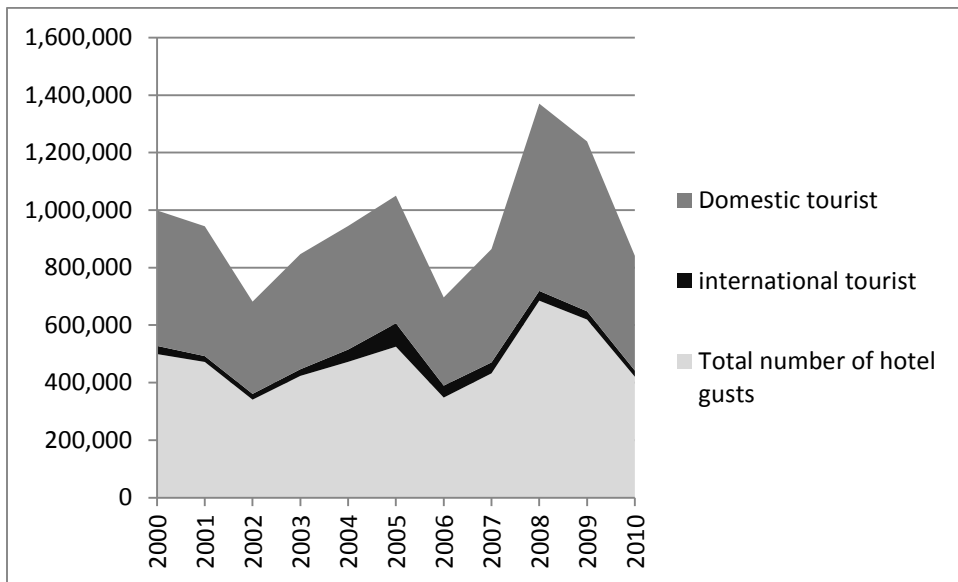
Source: (" information and Tourism Statistics Institution, the National Libyan Board," 2010).

As reported in Table 3-9, the number of hotels in Libya reached with 305 hotels in 2010. Hence, the number of rooms and beds increased with 15,799 rooms and 28,200 beds in the same year. This result can be attributed to the development of the tourism industry in the last three years before the civil unrest. According to (" information and Tourism Statistics Institution, the National Libyan Board," 2010) the number of classified hotels and rooms achieved 138 and 9,557 respectively. The number of the classified hotels is as listed in Table 3-10.

**Table 3-10 Classified accommodation in 2010**

| Hotels/ motels     | Number     |
|--------------------|------------|
| Five star          | 6          |
| Four stars         | 13         |
| Three star         | 35         |
| Two stars          | 35         |
| One stars          | 14         |
| Three stars motels | 14         |
| Two stars          | 13         |
| One star           | 8          |
| <b>Total</b>       | <b>138</b> |

Source: (" information and Tourism Statistics Institution, the National Libyan Board," 2010).



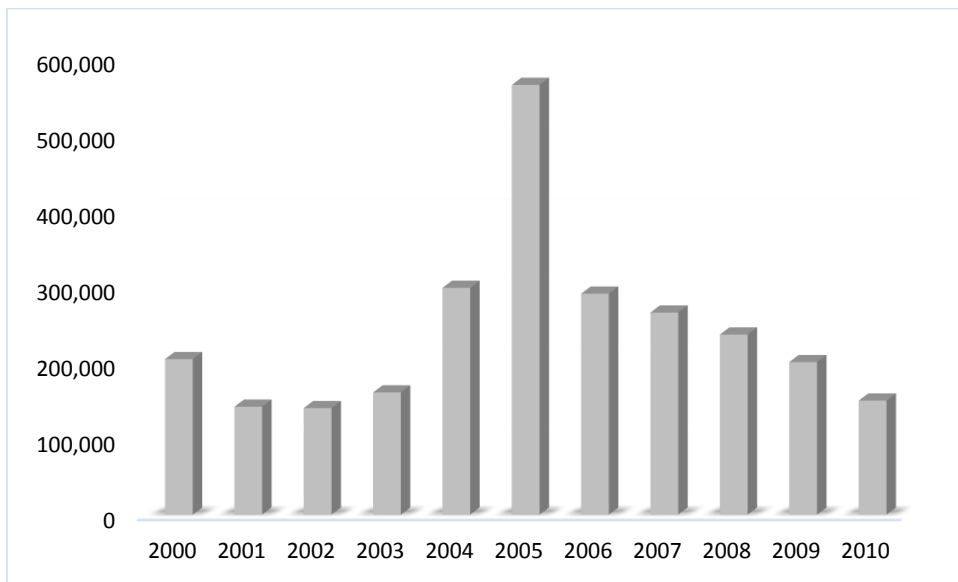
**Figure 3-18 Number of the guests in hotels and similar establishment (2000-2010).**

Source: (" information and Tourism Statistics Institution, the National Libyan Board," 2010).

In Figure 3.18 shows that the number of domestic tourists in hotels was greater than the number of the international tourists. Hence, there was a huge gap between international tourism and domestic tourism. However, in 2006, both domestic tourism and international tourism decreased to reach the lowest number.

#### 3.7.4.1 Tourist Night and Length of stay

As it is illustrated in Figure 3-19 The number of tourist nights in Libya has highly fluctuated over the period of 2000-2010. From 205,114 nights, tourist nights decreased to more 31% in 2002. However, in 2003, the number of the tourist nights began to rise again to reach its height in 2005 with 564,233 nights. Following that, the number of tourist nights decreased gradually with its lowest number in 2010, with 150,444.



**Figure 3-19 Number of the tourist nights (2000-2010).**

Source: (" information and Tourism Statistics Institution, the National Libyan Board," 2010).

The declining number of tourist nights is attributed to the high prices of the accommodation, such as hotels. Therefore, many arrivals preferred to come

via Cruise trip. The average length of stay is 7 days, and the daily average of tourist spend is around 80-100\$. Moreover, the high price is considered another main of taking the cruise instead of the rooms in hotels.

In terms of the above, hotels in Libya are considerably varied. Some of them are public and the others are privately owned by local investors - either companies or individuals. However, the standards of some hotels are not at the level of international hotels. Also, the numbers of accommodations are not close to the main tourist attractions, such as archaeological sites and the coastal area. Furthermore, Lanquar (2011) reported that the number of hotel, rooms and beds have been considered a small number compared with other destination in the same region, such as Egypt, Tunisia and Morocco. In the past few years, the Libyan government forced many hotels to cancel all tourist reservations and remain just for government purposes, such as meetings and conferences.

Khalifa (2010) discussed that Libya needs to compete internationally. It must establish five-star hotels with higher capacities. However, there has been massive investment regarding this. In terms of quality, prices, occupancy and food, hotels have a lack of good management except in some hotels located in Tripoli. Regarding the prices in hotels and occupancy, the hotels in the main cities are fully occupied for most of the year, whereas the small cities are full in the tourist season. The average occupancy sometimes reaches between 90% and 100%. The GBTTI has determined hotel prices into maximum and minimum prices for each category which are: the cost of single room £60 – £90 for a single room; £75 -£110 for a double room, while the suites cost approximately £110; hence, the prices are higher than Libya's competitors (Khalifa, 2010).

### 3.7.5 Tour Operators and Travel Agents

Table 3.11 lists the number of tour operators and travel agencies over the period of 2000-2010 in Libya. In 2005, the number of tour operators jumped to 334, and similarly, travel agencies increased roughly 50% in both 2005 and 2006.

**Table 3-11 Number of the tour operator and travel agency (2000-2010).**

| Year | Tour Operator | Travel Agency |
|------|---------------|---------------|
| 2000 | 19            | *             |
| 2001 | 19            | *             |
| 2002 | 31            | *             |
| 2003 | 54            | 8             |
| 2004 | *             | *             |
| 2005 | 334           | 17            |
| 2006 | 528           | 33            |
| 2007 | 657           | 50            |
| 2008 | 763           | 65            |
| 2009 | 866           | 91            |
| 2010 | 623           | 100           |

Source: (" information and Tourism Statistics Institution, the National Libyan Board," 2010).

\* Notes to the data is unavailable,

However, in 2010 there was 28% decrease in number of the tour operator with 623, whereas, travel agencies had a slight growth with 100 agencies. Ali (2013) highlighted that agencies in the private sector have a more flexibility than public agencies, particularly in dealing with sudden changes, which act on consumer desires. Also he assumes that private agencies seek to gain high profits as a result of that, keeping its productivity up to date and higher by

hiring tour consulates and expert advisers. Furthermore, these kinds of agencies connect with their customers faster and easily.

### **3.7.6 Food and Beverage**

The food and beverage industry, such as restaurants, bars and catering activities, all are represented the highest economic share of the tourism industry value (BV et al., 2009).

In terms of food and beverage, Libya's hotels, restaurants and cafés offer many types of food in different presentation of serving with many types of soft and hot drinks. However, they do not offer alcohol for cultural reasons. The total number of cafés and restaurants was 2,734 in 2010, and the number has increased to data, but there are no statistics released whether from the Libyan government or from tourism ministry. Despite the large number of restaurants, there are only a few that are of an acceptable standard to international tourists. Moreover, Khalifa (2010) found that Libyan hotels do not seem to be identified for tourists' needs or food preferences and Libya has not yet increased the quality of its food.

### **3.7.7 Transportation**

There are many kinds of transportation for tourism purposes in Libya, which differ from place to place, such as, planes, ships, buses, taxis, private cars and vans. However, the number of tourist arrivals via cruise increased rapidly during 2006 and 2007. This number saw a sudden change for both 2008 and 2009, but in 2009 the international tourist via this mode recovered immediately in 2010, as shown in Table 3.12 below.



**Table 3-12 Number of tourist arrivals and trips via Sea**

|                  | 2005 | 2006   | 2007   | 2008  | 2009  | 2010   |
|------------------|------|--------|--------|-------|-------|--------|
| Number of trip   | 69   | 113    | 83     | 28    | 27    | 29     |
| Tourist arrivals | *    | 83,938 | 67,972 | 8,218 | 6,951 | 10,546 |

Source: (" information and Tourism Statistics Institution, the National Libyan Board," 2010).

Note: \* is not available

The increasing number of tourist arrivals by cruise is due to the poor condition of the Libyan airport and the facilities being outdated, which does not meet international standards. In this context, there is a need to seek opportunities to ensure accessibility, affordability and service quality facilitated by a liberalized international air policy. Therefore, Libya has made legislation that would push forward attempts to have Tripoli airport and free zones on the coast act as regional hubs ("African Development Bank Group," 2011). Moreover, new agreements with other countries must be continued and existing agreements should be updated. The Libyan government must integrate national transportation systems and invest further in new infrastructure at the border in order to improve the efficiency and reliability of the transportation system (Abuharris & Ruddock, 2003; Khalifa, 2010).

### **3.7.8 Distinctive Product**

To maintain arrivals in order to increase their spending, it has required more effort to expand the length of visitors' stay in the host country, and provide and create new tourism products for visitors to consume and encourage them to spend more money. This has been considered one of the main factors of increasing tourism demand. Therefore, there is a need to develop special-

interest attractions, such as, conventions and conferences, business travels and intensive tours, which may help visitors to stay longer. In terms of that, there just one created source in Libya, which is called the Great Man-Made River project. According to Khalifa (2010), there is no indication from Libyan stakeholders that there are any new created sources. However, according to (Miles, 2011) stated that:

*“The Libyans should develop higher-end adventure and cultural tourism which, although it might bring in less revenue than the low-end mass tourism of neighboring Tunisia, will be far more sustainable.”*  
(para.16).

As a result of that, Libya has many opportunities that need to be developed in terms of the tourism industry, whilst not necessarily being in competition with the three top destination countries in the region as Tunisia, Egypt and Morocco. More will be explained regarding this in the next chapter.

### 3.8 Summary

Tourism contributions to the Libyan economy fluctuated over time as a consequence of Libya's policy with Western countries and civil unrest. Consequently, the impact of these events on the Libyan economy and tourism in particular is a huge.

These impacts on tourism's contribution to GDP were positively attributed on the economy in Libya over the time period and it was the highest share in 2005 with over 6%. However, from 2006 to 2008, there was a sudden decrease, reeling between 3% and 4%, to return in 2009 at slightly over 4%. In terms of the balance in service, tourism in Libya reflected strongly on the service on the balance starting from 2005 until 2010, with the highest growth accounted for in 2010 with 82.6%, compared to 1990, which was the lowest rate recorded with 11.9%. As a result of that, the weight of the tourism growth in Libya may become greater if we compare it to the non-oil GDP. Furthermore, the main purpose of visiting Libya, as noted previously for leisure and business, but leister was bigger than visiting for business.

In general, the trend of the number of the tourist arrivals in Libya increased after the international sanctions were removed in 2003. The international tourist arrivals in Libya have grown rapidly from 2000 to 2007, and international arrivals increased rapidly from 81,319 in 2005 to 125,480 visitors in 2006, with an average of approximately 4%. However, due to visa constraints in November 2007, when all the international arrivals were required to have an Arabic translation page in their passport, this action caused an almost 20% decreases in the following year. The main region of generating tourists to Libya is Europe and the number of tourists increased during the

period of 2004-2007, due to the reason stated above. Additionally, Italy, France and Germany are main European nationalities that visited Libya.

Tourism expenditure or international receipts, in Libya had growth rapidly from 1990 to 2005 to achieve the highest international receipts over the period with 261\$ million in 2005. In the period of 2009 and 2010, the international tourism receipts grew to exceed 159 and 170\$ million respectively.

With regards to accommodation, the number of hotels in Libya increased, with 305 hotels in 2010. Hence, the number of rooms and beds also increased to 28,200 beds in the same year. This result is attributed to the development of the tourism industry in the last three years before the civil unrest. As noted, domestic tourism in hotels was greater than the number of international tourists; thus, there was a huge gap between international tourism and domestic tourism. The number of the tourist nights and length of stay of international tourist overnight increased more 50% in 2005. After that, the number declined due to high prices of the accommodation. Therefore, in the following year, the number of tourists who came by cruise increased gradually. What is more, the average of length stay is 7 days and the average of tourist daily spend is around \$80-100.

The second factor of tourism expenditure is the tour operator and agency. The number of tour operators and travel agencies increased approximately 50% in both 2005 and 2006. Whereas, in 2010 there was 28% decrease in the number of the tour operators, but travel agencies saw a slight growth. What is more, the total number of cafés and restaurants was 2,734 in 2010 and this has continued to grow. Nevertheless, there are no any statistics that have released, whether from the Libyan government or from the tourism industry. Besides, the increased number of tourist arrivals by cruise was due to both high price and poor conditions of the Libyan transportation system. With regards to

creating tourism products, as stated in the previous note, there is no indication from Libyan stakeholders that there will be any new created sources such as the Great Man-Made River project

## **Chapter 4: Tourism Led Growth Literature**

### **4.1 Introduction**

This chapter states the hypothesis of tourism led growth literature in order to build a framework and empirical basis of the study. The rest of this chapter is organized as follows: Section 4.2 there will be a discussion of the Tourism – Led Growth background.

### **4.2 Tourism-Led Growth Hypothesis**

As with the export-led growth hypothesis, a tourism-led growth hypothesis would assume the existence of various opinions for which tourism would become a major determinant of the overall long-run economic growth. In a more traditional sense, McKinnon (1964) stated that it should be argued that tourism brings in foreign exchange, which can be used to import capital goods in order to produce goods and services, leading in turn to economic growth.

In other words, it is possible that tourists provide a remarkable part of the necessary financing for the country to import more than it exports. If those imports are capital goods or basic inputs for producing goods in any area of the economy, then, it can be said that earnings from tourism has played a fundamental role in economic development. Bhagwati and Srinivasan (1979) and Krueger (1980) reported that international tourism has contributed to income increase in at least two additional ways as the export-led growth hypothesis postulates. Firstly, it contributes in enhancing efficiency through competition between local firms and those corresponding to other international tourist destinations. Secondly, it contributes in facilitating the exploitation of economies of scale in local firms (Helpman & Krugman, 1985).

Moreover, growth in the tourism industry does not outpace the economy, but grows faster than other crucial industries. As a result of that, the importance of

this industry relates directly to the primary sources of generating revenue, job creation, non-government sector growth and infrastructure development (Johanson, 1999). In terms of that, there are nearly 266 million jobs enhanced by Travel and Tourism in 2013. In fact, the ability of the tourism industry to generate high levels of employment has continued to ensure the importance and value of this industry as a tool for economic development and job creation (WTTC, 2015). Because of the benefits of tourism, which are mentioned above, in addition to increasing the exchange rate and income and taxes, many countries promote their economic growth by engaging that sector. Hence, the relationship between economic growth and international tourism has long been of interest and has been empirically investigated in the export-led (i.e. tourism-led) growth literature.

Many empirical studies have examined the type of the relationship and some of them show an existing relationship between tourism and economic growth. However, other studies show contradictory results regarding the tourism led growth hypothesis. The effects of international tourism on developing countries have also long been of interest to both scholars and policy makers (Clancy, 1999). We classified this chapter into two categories; developed countries and developing countries. In addition to this, see the impacts of tourism on growth in both categories by applying various methodologies to end with different results.

In the last decades, there has been increasing number of studies examine the effects of tourism activities on GDP and the role of tourism on economic growth for particular individual countries or group of countries. One of these studies that have been released recently by Brida, Cortes-Jimenez, and Pulina (2016) present a review of approximately 100 studies on TLGH classified by the region destination. Their study confirmed the TLGH, with few exceptions, and the validity of the TLGH is consistent with the fact that tourism activity considers as one of the lever mechanism of the economic growth. However,

the authors concluded that the need a further expand the validation of the TLGH by analyzing different types of tourism as well as other countries that are not characterized by tourism models (Brida et al., 2016).

This study has classified these studies under two sections which are developed and developing countries, and under each section is classified by analysis approach, in order to see the diversity of using the methodology for different types of countries.

### **4.3 Developed Countries**

#### **4.3.1 Time Series**

The pioneers of the study of Tourism Led Growth (TLG) were Balaguer and Cantavella-Jorda (2002), who used three variables: real GDP, international tourism preservation and effective exchange rate in the period 1975 to 1977. This was applicable to the economy, and Spanish data were used and the use of co-integration tests show that it proposed a relationship between tourism and economic growth. The results of the causality test of Granger (1988) show the unidirectional relationship between tourism and economic growth and its impact support the TLGH. Cho (2001) concentrated on tourism forecasting and its relationship with leading economic indicators for different countries than Hong Kong. This investigation applies three forecasting techniques; namely, exponential smoothing, univariate Autoregressive Integrated Moving Average (ARIMA), and adjusted ARIMA to predict travel demand (i.e., the number of arrivals) from different countries to Hong Kong. According to the analysis, the results show that ARIMA and adjusted ARIMA are more suitable and can be applied to forecast the fluctuating series of visitor arrivals.

Dritsakis (2004) analyses the same hypothesis in 2004 for the Greece case between (1960 -2000). The methodology which he used was the same as Balaguer and Cantavella-Jorda method, both a co-integration test proposed by



Johansen (1995) and Granger's causality test with ECM (Error Correction model). His findings proved the causal relationship between tourism and economic growth as a bio-directional relationship. However, Oh (2005) published a study, built on a bivariate model with two variables; economic growth and tourism receipts in South Korea during (1975-2001). The outcomes verify that there is one method of Granger causality (1988) test, which is driven from economic growth to tourism. Hence, the TLGH in the South Korea case is not supported. H. J. Kim and Chen (2006) set out the same study on Taiwan for both, a double period analyses annual (1956- 2002) and quarterly period (1971- 2003). The reason for choosing this country was because it has the similar characters with South Korean and the author used the same methodology of Oh. However, the results of the Granger causality test show the existence of the bidirectional relationship between tourism expansion and economic growth, concluding that the study has a robust positive relationship between variables at play. The authors pointed that some factors, which distinguish one economy from another as a result of the diverging results. These factors are the different economic systems and the size of the two economies (South Korea, Taiwan). A study conducted by Hazari and Sgro (1995) for small economies benefiting from international tourism demonstrated that this factor might have a positive effect on their economic growth. In addition, the authors pointed to the predominance of small and medium-sized companies in Taiwan, compared with big corporations in the Korean case.

Louca (2006) conducted a study on the island of Cyprus, with an analysis of the relationship between incomes obtained from the tourism industry and tourist arrivals, with three categories of supply-side expenditure (hotels & restaurants' and 'advertising & promotion expenditures). His findings present strong evidence of a positive relationship between tourism and economic growth. Moreover, he points out that the expenditure policy has a positive

impact on the income of the tourism industry. Another study in which Cyprus was taken as a case was carried by Katircioglu (2009a) who examined the relationship between tourism and economic growth for the period (1960-1950). In this study there were variables in order to analyze long-term growth between each variable, which were: international tourism, international trade (exports and imports, both jointly and separately) and economic growth. The author applies the Autoregressive Distributed Lag (ARDL) model developed by Pesaran, Shin, and Smith (2001). The empirical results showed that a long term relationship exists between the variables, and the causal analyses showed that economic growth stimulates the growth of international trade and number of international arrivals. On the other hand, international trade stimulates international tourists' arrivals. The reason for that, as the author points out, greater economic growth leads to generate and increase R&D (Research and Development), which allows for devoting and orienting the resources into advertising and promoting the tourist facilities to improve this industry, hence attracting more tourists. Moreover, imports boost investments in different economic sectors, and a result of these investments appears in new international tourist arrivals.

Another study in the same year measured tourism via imports of capital goods to affect economic growth conducted by Nowak, Sahli, and Cortés-Jiménez (2007) in Spain's economy in the period (1960-2003), for variables (real GDP, tourism receipts and manufacturing products). There is a new hypothesis called TKIG, which involves tourism financing of capital goods and imports, which then, affects economic growth. The methodology is used in this study in a similar manner to the previous study, using seasonality, co-integration test by Johansen (1995), and Granger's Causality test suggested by Granger (1988) based on the error-correction model. The authors concluded that TKIG has a lot of supporting evidence in this study. A different model used by Parrilla, Font, and Nadal (2007) in Spain's Balearic case is called an accounting model,

which measures the contribution of different production factors to economic growth. Their investigation affirms that the orientation of the economy towards tourism activities was driving economic growth.

Lee and Chang (2008) analyze the relationship between tourism receipts and international tourist arrivals, GDP and exchange rate during the period (1995-2003) in Taiwan. This research supported the results of H. J. Kim and Chen (2006), who were concerned with a bidirectional relationship. Interestingly, the results show that the stability of the relationship could be affected by exogenous variables, such as economic crisis, political changes or tourist incidents. Pradhan and Subramanian (2003) reach this result by applying three-phase procedures. Katircioglu (2009a) analyzed the TLGH in Malta, and found support for the output-driven tourism hypothesis. The verification of TLGH for the Trentino-Alto Adige/Südtirol region where located in the northeast of Italy. The study is conducted by Brida, Pereyra, Risso, Devesa, and Aguirre (2008), who found that the elasticity of the GDP with respect to tourism is higher than with countries which have a traditional destination (e.g. Spain and Portugal). However, the elasticity is found to be lower than with countries that have a high tourism potential when compared with other developing countries such as Mexico or Mauritania.

C.-H. H. Tang and Jang (2009) studied a perspective of econometrics methodology, but with a different approach. They analyses the TLGH at a sub-industry level, and used the data of USA for the period 1981- 2005 for four tourist industries (airlines, casinos, hotels and restaurants) and GDP. The authors take into consideration the results obtained more precisely in this way due to the relationship between economic dynamism and tourism. They found from this study a bidirectional relationship between GDP and four industries. The authors explained that the USA's economy is not tourism-oriented, and a causal relationship was calculated between four industries. Additionally, they

found the main industry which benefits from economic growth and affects other industries, is airlines if the latter increased led to the other industries also increased. The authors notice that there is a chain of interrelationship between sectors which could be useful for developing economic policies. Chen and Chiou-Wei (2009) re-examined a previous study in Korea and Taiwan with an exponential bivariate GRACH in mean model, which allows them to examine and find the causal relationship between tourism and economic growth. The authors did not take into account tourism demand affected by issues related to the security and health<sup>1</sup>, while they took into account the causal relationship between the variables. In the case of Taiwan, the authors found a unidirectional relationship between tourism and economic growth, whereas in other previous studies for Taiwan they found a bidirectional relationship between the variables, which is not seen here. In the case of Korea, the results were very different from those obtained by Oh (2005). A reciprocal relationship was found to be attributed to the uncertainty in analysis and real exchange rate.

Cortes-Jimenez and Pulina (2010) conducted a joint study on Spain and Italy, and used in their investigation two advanced models, which are the Johansen co-integration test and the Granger causality test, with additional variables such as physical and human capital. They pointed out in their findings those variables that were crucial in the investigation of TLGH. As a result of that, the TLGH was supported in Italy but in Spain there is a bidirectional causal relationship, which could be attributed to the stronger tourism sector in the Spanish economy. S. Katircioğlu (2010a) and the other study (2010b) included human capital with tourism in order to give rise to the growth in North Cyprus. Along with same line of including human capital and including additional variables such as physical capital and trade liberalization, this was study

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<sup>1</sup> Epidemic diseases, wars, natural disasters, terrorism and political instability (S. S. Kim & Wong, 2006).

analyzed by Jin (2011) for Hong Kong case. The author used an impulse response function and the result found a short relationship between tourism and economic growth and no evidence of a long relationship. However, this study did not apply a causality test, which makes these results less reliable (Pablo-Romero & Molina, 2013). From a different perspective, Schubert et al. (2011) carried out the study on Antigua and Barbuda<sup>2</sup> of the dynamic model formed by agents, who were inter-temporally in improving decisions and AK production functions that represent tourism. The analysis of co-integration and causality confirms the results of the theoretical model, and there was a clear unidirectional relationship from tourism to economic growth.

Eeckels, Filis, and Leon (2012) analyze the relationship between cyclical components, which are: tourism and economic growth in the case of Greece through the period (1976-2004). The methodology used a spectral analysis, which enables a time series to be decomposed in different periodicities. The results reveal that TLGH is supported in this study because of the cyclical component of tourism's income affecting the cyclical component of GDP. Massidda and Mattana (2012) studied causality between the variables of tourism, trade, and growth and also the transmission of the mechanism on Italy by using structural vector error (SVECM) model for the quarterly time span (1987q1-2009q4). Their findings show that there is unidirectional long run causality running between economic growth to trade and from trade to tourism, whereas there appears to be bidirectional causality between GDP growth and trade. The latter influenced rapidly to real GDP shock, and the GDP does not recover and stabilize quickly because it required much more time to achieve noticeable results. The authors suggest two policies that support national destinations in the world market. One policy is direct via GDP-tourism

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<sup>2</sup> Antigua and Barbuda is an island in the eastern region of the Caribbean Sea which is specialized in the provision of tourist services (Pablo-Romero & Molina, 2013)

feedback, and the other policy is indirect through increasing trade opportunities. A study published by Albaladejo Pina and Martínez-García (2013) pointed out the role of quality of tourism services by using a theoretical model and endogenous tourism. They found that improving the quality of tourism services increased the tourism arrivals in the data of Spain through 1970-2010. In addition to this, the quality of accommodations has a positive impact on its long run growth rate. The reverse of this is that changes in economic growth lead to growth in tourist arrivals. As a result of their investigation, they prove a reciprocal causal relationship between economic growth and tourism growth.

#### **4.3.2 Panel Data**

Lanza, Temple, and Urga (2003) analyzed the relationship between tourism and economic growth in panel data for 13 Organizations for Economic Cooperation and Development (OECD) countries in the period between 1977-1992. They used a model of small open economics by Lucas (1988) and applied the econometrics model for the demand formulation of tourism expenditure. The results show that the productivity of potential growth in the tourism sector is less than in other sectors. Despite this, the authors concluded that countries that are specialized in tourism have an effect on economic growth in the long term. Algieri (2006) re-examined the study of Lanza et al. (2003). However, in 2003, his results were more conclusive than Lanza's results. The study set out to investigate the relationship between the specialization in tourism with economic growth from 25 endogenous countries with a high growth rate of tourism and per capita income ratio. The author used Lucas's model (1988) and noted that the ratio of tourism sector was above the growth of the manufacturing sector. Also the authors highlighted an increase of 1% in the world GDP which leads to increase 5.8% of tourism receipts. The other work focused on the heterogeneity problem by Lee and Chang (2008) for OECD and

non-OECD countries. They analyzed the relationship between growth and tourism for these countries by applying Fully Modified OLS (FMOLS) for heterogeneous co-integrated panels (Pedroni, 2000). They found that tourism has a significant impact on GDP in both OECD and non-OECD countries, and for causality the OECD countries have a unidirectional relationship and bidirectional relationship for non-OECD countries. To conclude, many small countries specializing in tourism can be associated in the long run with fast economic growth (Algieri, 2006; Brau, Lanza, Pigliaru, & Markandya, 2005).

Proença and Soukiazis (2008) tested the relationship between tourism and economic growth and the existence of regional convergence in Portugal during the period 1993-2001, and the region which obeyed the investigation classified as Nomenclature of Territorial Units for Statistics (NUTS) III. The authors used the NUTS of the European Union, and they concluded that the capacity of the accommodation has a strong impact on the increase per capita income in those NUTS III regions. Cortes-Jimenez and Pulina (2010) analyzed the hypothesis of economic growth in Italy and Spain (1990 -2004) for all the regions of these countries, not just with the regions affected by international tourism. The region was classified by authors as coastal, inland and Mediterranean. The findings show the importance of coastal and Mediterranean regions to the international tourism and to the economic regional convergence. On the other hand, the inland region is more relevant to national tourism.

Other newer studies used a new approach and new variables from these studies. Clerides and Adamou (2010) conducted a study of the TLG hypothesis, which contributed to the area by using a non-linear form, using two variables - tourism receipt and economic growth in a sample of 162 countries between the period 1980-2005, focusing on specialized tourism countries. The findings reveal that the countries' specialization in tourism industry is diminishing the rate of economic growth. Therefore, high specialization reduces the growth to

a minimum, and as a result, tourism becomes an obstacle for growth. Tourism may contribute to economic growth in the first stage of the specialization of tourism, and then become contributes very little. Santana-Gallego, Ledesma-Rodríguez, Pérez-Rodríguez, and Cortés-Jiménez (2010) addressed the effect of common currency (CC) on international trade and tourism, in the case of policy purposes, then investigated the opens of trade on tourism and economic growth. After that, they studied the impact of CC on trade, tourism and income. This study included data from 179 countries divided into three groups according to the level of income. Their result showed that CC has a significant impact on both tourism and trade, and those variables may have a considerable effect on the level of income in these countries, particularly on middle-and high income economies.

Nissan, Galindo, and Méndez (2011) tested the TLGH in the period between 2000-2005 for the cases of Denmark, Finland, France, Germany, Italy, Japan, the Netherlands, Spain, Sweden, the UK and the USA. The authors applied a supply model, including the tourism sector as a productivity factor in the production function, as well as other variables considered in this study: the effect of income on tourism, entrepreneurship activity and money supply. The results showed that tourism expenditure is boosted by economic growth, and entrepreneurship and income have a positive effect on tourism. However, they revealed that an expensive monetary policy has a negative impact on tourism due to increasing prices. Ultimately, Marrocu and Paci (2011) in their analysis of a sample of 199 European regions is pertinent to the EU 15 member countries in addition to Switzerland and Norway. In this study, the tourism flow is considered a determinant of the total regional productivity. The results show that tourism flow enhances regional efficiency by considering tourism flow as a channel of knowledge to allow local enterprises to improve their efficiency, thus enhancing overall regional productivity and growth.



### **4.3.3 Cross Sectional Analysis**

Brau, Lanza, and Pigliaru (2007) applied cross sectional methodology for a data sample of 143 countries during the period 1980-2003, taking into account the differences between the countries: OECD countries, oil countries, countries that specialize (or not) in the tourism industry. The empirical results show that small specialized countries are growing quicker than other countries. However, Figini and Vici (2010) re-examined the Brau, Lanza, and Pigliaru Brau et al. (2007) study, and attempted to analyze the relationship between tourism and economic growth. The authors found contrasting results with the previous study, which shows that there is no empirical evidence that tourism contributes to economic growth in specialized tourism countries. The authors refer to the positive effect of tourism in the previous study in the 1980s, due to expensive natural resources. But onward, the resources tend to slowly disappear. The authors did not consider tourism as a treatment of economic growth (Pablo-Romero & Molina, 2013).

## **4.4 Developing Countries**

### **4.4.1 Time Series**

In 2004, Durbarry examined the TLGH on the island of Mauritania during the period of 1952 and 1999, and included a model using five variables, which are tourism receipts, capital stock, human capital, manufactured exports and real sugar exports. The application of this methodology, which is co-integration test suggested by Johansen, (1995) and Granger's causality test proposed by Granger (1988), together with an error-correction model, and the findings were supported the TLGH hypothesis. Demiröz and Ongan (2005) investigated the causal relationship between tourism receipts and economic growth during (1980 – 2004) in Turkey. The author applied the same methodology of Dritsakis (2004), and the results were a bidirectional

relationship between the variables. Gunduz\* and Hatemi-J (2005)'s study for the period 1963 to 2002 applied the causality test leverage bootstrap test instead of the Granger causality test. The empirical results of their study obtained the unidirectional relationship from international tourism, which is taken here as international tourism arrivals instead of international tourism receipts <sup>3</sup>to economic growth. A study by Khalil, Kakar, and Malik (2007) for Pakistan's economy used Granger's co-integration and causality methods(Granger, 1988). Their results were a co-integration between tourism receipts and GDP and a bidirectional causal relationship is said to exist.

In 2008, a study re-examined the Turkish economy through (1963-2006), which conducted by Kaplan and Çelik (2008). The authors found a stable bidirectional relationship between tourism and economic growth. Their study highlighted the importance of this sector to the Turkish economy due to considering this sector as one of the main resources for foreign currency. Zortuk (2009) came to the same conclusion as Kaplan and Çelik by implementing similar methodology, but studying a different period (1990-2008), and applying number of tourist arrivals as a measure of tourism activities. However, Katircioglu (2009b) conducted the same study for the same country and for an identical time period (1960-2006) in 2009, a year later after Kaplan an Çelik's results. The author ended up with different results, which could be due to using a different methodology (Pablo-Romero & Molina, 2013).

The investigation of the TLGH in previous studies has been repeated, but with different economics. Brida, Lanzilotta, and Risso (2008) studied Latin America with similar methodology, and their study focused on Mexico (1980-2007). In this case, the authors used the causality test suggested by Toda and

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<sup>3</sup> Note: Due to multi-co-linearity problem

Yamamoto (1995). The results show that tourism has a significant contribution on the growth of the Mexican economy. Also, in the same year, Brida, Lanzilotta, et al. (2008) investigated the TLGH for the variables (Uruguay's GDP and tourism receipts from Argentinean tourists who represents a high portion of tourism receipt this country). The findings show that the causal relationship is unidirectional, which is that tourism receipts lead to GDP growth. This result, according to the authors, is supported by McKinnon (1964), who found the causal relationship between tourism expenditure to GDP per capita. Brida, Lanzilotta, Lionetti, and Risso (2010) focused on the same country in the same period and found similar results. Brida and Risso's (2009) study was for Chile case where they analyzed the TLGH by applying the impulse response test in order to observe the negative impact of tourism initially and later continued to have a positive impact. Risso, Barquet, and Brida (2010)'s study also supported the TLGH for Colombia. Moreover, R. Croes and Vanegas (2008) for the Nigerian case, analyzed the hypothesis of TLGH and found a unidirectional relationship between tourism and economic growth.

Similar analyses targeted on different countries were created throughout 2010 and 2011. Payne and Mervar (2010) were among these studies. Their aim was to identify the causality relationship from GDP to tourism receipts via the Toda–Yamamoto causality test. Cortés-Jiménez, Nowak, and Sahli (2011) studied of the causality test was similar to Odhiambo (2011) for Tanzania and He and Zheng (2011) for the Sichuan region in China. All of these studies applied the VAR model and impulse–response function and variance decomposition method. For the case of the China province (Sichuan), the author found that the economy suffers from limitations of development and lower tourism weight. Furthermore, another study conducted by Brida, Punzo, and Risso (2011) revealed that no causality relationship existed in the Brazil case in the period (1965-2007). TLGH verified by Katircioglu S. Katircioglu

(2010a); (2011) , Belloumi (2010),Fuad MM Kreishan (2010); (2011) and Mishra, Rout, and Mohapatra (2011), For Singapore, Tunisia (1970-2007), Jordan (1970-2009), and India (1978-2009) respectively, a similar methodology is used, as well as other further variables, namely Current Account Deficit (CAD). The empirical results of all these studies found a unidirectional relationship between CDA and GDP and between tourism. Moreover, S. Malik, Chaudhry, Sheikh, and Farooqi (2010) for the Pakistani case noticed a unidirectional relationship between tourism and economic growth in Pakistan.

In their study, Akinboade and Braimoh (2010) demonstrated a long and short unidirectional relationship between international tourism earnings and real GDP in a verification of the TLGH in South Africa by Akinboade and Braimoh (2010). During the same year, another study for Barbados case found a bidirectional causal relationship between tourism and output. These results are consistent finding which was obtained by Lee and Chang (2008). Brida, Monterubbianesi, and Zapata (2011) examined the TLGH in five regions in Colombia within the period 1990-2006, and their results confirmed the TLGH. However, the degree of tourism specialism is different between regions, which is the justification made by authors for the differential of the elasticity in the GDP between regions.

There are many of studies during 2010 and 2011 which test the TLGH with a wide variety of methodologies. For instance: Gokovali (2010) applied OLS to identify the contribution of tourism to economic growth in Turkey between (1985-2005). The growth function was estimated in relation to capital labor and tourism receipts. The finding was for high elasticity of tourism in this country. In another Turkish case study conducted by Arslanturk, Balcilar, and Ozdemir (2011), the authors calculated certain variables such as political or institutional changes, for the causality test between tourism and economic

growth. The authors implemented an error correction model and found no causality between the variables, and they demonstrated that by applying the error correction model. The authors claimed that if a variable coefficient model and moving average were applied, the GDP had no predictive capacity on tourism receipts, which contrasts with the evidence of causal relationships between tourism and economic growth since 1980. Nevertheless, it has been stated that when applying the correction model, the results indicate a causal relationship between tourism receipts and economic growth during the period of 1964-2006, and this result is completely in contrast with Arslanturk et al. (2011).

For investigations of TLGH of the Malaysian case, three studies were conducted. The first one calculated by Lean and Tang (2010) in the period between 1989-2009 used Toda and Yamamoto (1995), and other causality test introduced by Dolado and Lütkepohl (1996). The authors also examined the persistence of causality by applying a moving subsample windows test, and observed a causal relationship and validated of the TLGH. C. F. Tang (2011) observed that the unidirectional causality is continuous during the period 1995-2009. In the previous study; he divided the tourism market in accordance with the tourists' countries of region into 12 sub-markets, applying the correction model. The findings showed that tourists arrivals belong to five markets affect economic growth in the long term for the Malaysian economy, but in positive way. Kumar Kumar and Kumar (2012) discovered that in the Fiji case, there was a relationship between information and communication technology (ICT), tourism and growth by applying the production function, the conventional Cobb-Douglas production function, with Hicks-neutral technical progress<sup>4</sup>. The authors found unidirectional from capital stock to ICT and from

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<sup>4</sup> Hicks-neutral technical progress is a change in the production function of a business or industry, which satisfies certain neutrally economic conditions. In this case which the

ICT to tourism and from tourism to real GDP per capita income. These findings consider the ICT impact as significant on tourism, and hence on economic growth.

On the other hand, another study calculated the opposite hypothesis of TLGH to see which economic growth is generated by tourism was conducted by Adnan Hye and Ali Khan (2013) for 12 sub-markets on Pakistan. Their methodology used rolling window bound test for examining the stability of the causal relationship from tourism income to economic growth. In contrast, they pointed out that this result did not support the year 2006, 2007 and 2008, due to an earthquake and the war on terrorism.

Moreover, there were studies that analyzed the verification of the TLGH during 2012 and 2013. Among these studies which have confirmed the hypothesis are: Amaghionyeodiwe (2012) for Jamaica case; Srinivasan, Kumar, and Ganesh (2012) for Sri Lanka; Kibara, Odhiambo, and Njuguna (2012) for Kenya; Arslanturk (2012) for Turkey; C. F. Tang and Abosedra (2014) for Lebanon by using just 15 observations and ARDL model; Surugiu and Surugiu (2013) for Romania are particularly worth noting. However, in 2014, Coşkun & Özer reexamined the TLGH in Turkey over the period 1992-2014 quart data, and applied structural breaks unit root test, co-integration analysis and VCEM based Granger causality test; beside that the growth and tourism uncertainties derived from GRACH models. Their finding supports the reciprocal causal hypothesis in long-run as well as in short run (Coşkun & Özer, 2014).

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changes in technical progression does not affect the balance of labour and capital in the production function.

#### 4.4.2 Panel Data

A series of studies have examined the relationship between tourism and economic growth by using the panel data technique. In general, these studies analyzed various variables with different methodological approaches. Eugenio-Martin, Martín Morales, and Scarpa (2004) used a different methodology, which was through Arellano & Bond's estimator for dynamic panel data (Doornik, Arellano, & Bond, 2002), for 21 Latin American countries. These countries had a different relative degree of income: high (7), medium (11) and low (3), between 1985 and 1998. They concluded that tourism is quite significant in medium and low-income countries in affecting economic growth. Gokovali and Ozan (2006) analyzed TLGH for Mediterranean countries, where included Libya for the period 1987-2002, and they utilized fixed effect and random effect models. Thus, their findings verified the TLGH, as well as other factors, such as capital and labor.

T Fayissa, Nsiah and Tadasse (2008) conducted a study of tourism industries for 42 sub-Saharan African countries, the authors introduced traditional factors of economic growth and the estimation which they used is for fixed variable effects. Moreover, the authors re-examined the model by using (Doornik et al., 2002) Arellano & Bond (2002), including the endogenous nature of traditional growth variables by using instrumental variables (IV)<sup>5</sup>. Their empirical findings showed that an increment by 1% of international tourism expenditure means an increase in GDP per capita by 0.04% (Fayissa et al., 2008).

Sequeira and Maçãs Nunes (2008) applied a proper technique to investigate the relationship between tourism and economic growth for sets of countries,

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<sup>5</sup> Instrumental Variables method is used to estimate causal relationships when controlled variables, and allow consistent when the explanatory variables are correlated with the error term of a regression relationship(Wiki).

which are recognized by its specialization of degree in tourism. In this investigation they applied the GMM estimator, which is more suitable for larger samples and reflect the effects of indigeneity which vary with the time. This is presented by Blundell and Bond (2000) and the LSDV estimator is corrected by Bruno (2005), which takes into account the indigeneity due to fixed effects. The results of this study showed that economic growth in these countries does not determine the degree of the specialization in tourism in these countries, whereas the degree of tourism in these countries is considered a decisive factor. On the contrary, the investigation was conducted by Holzner (2011) who used a non-linear model for 143 countries. The results of these cross-countries showed that countries specialize in tourism growth faster than others. Whereas, the results of the panel data proposed that tourism has a positive impact on the aggregate of the output of nations. And for Trans log production, the results showed the existence of a relationship between tourism capital and physical capital. As a result of that, the author suggested a complementary relationship between tourism promotions policies and with other policies, aiming at reinforcing other economic activities, such as infrastructure.

Narayan, Narayan, Prasad, and Prasad (2010) analyzed the TLG hypothesis for a group of Pacific islands, which were strongly specialized in the tourism industry. The authors apply Pedroni (2000)'s panel data co-integration, and the results verified the TLGH. However, the authors point out that some factors affect the growth of tourism in these regions. For instance, there is a heavy dependency of these countries on food imports, political instability, natural disasters and lack of public infrastructure. Seetanah (2011) worked on a similar study of 19 islands, which reached the same conclusion. He also points out that the effect of tourism in these countries is greater than in developed countries. Another study examines the causal relationship of TLGH for 9 Caribbean countries. It uses the panel error correction model and found bidirectional



causality between tourism and economic growth. Ekanayake and Long (2012) analyzed the TLG hypothesis for a panel of 140 developing countries categorized into six regions (East Asia, Europe, Latin America, Middle East and North Africa, South Asia and Sub-Saharan Africa) in the period 1995-2009. Their results did not support the TLG for the whole of the sample or any group of the countries. On the other hand, Sak and Karymshakov's study (2012) was for a panel of 135 countries where divided into 11 groups. Their results show that the TLG is verified in East Asia, South Asia and Oceania, and there is bidirectional causality in Europe, GLT causality in America, Latin America and Caribbean countries, and no causality in the Middle East and North Africa, Central Asia and Sub-Saharan Africa.

#### **4.4.3 Cross Sectional Analysis**

Singh (2008) applied cross-sectional data and examined the relationship between tourism and economic growth for a sample of 37 small developing islands for two categories investigations. The first was to find a relationship between tourism expenditure per capita and economic development through econometrics estimation. The other investigation was to find multiple effects of increasing tourism expenditure. The author found that there is a positive relationship between tourism expenditure and economic development. Additionally, he found that the impacts of multiplying effects are limited due to an insufficient relationship between differences in economic sectors. Po and Huang (2008) tested the hypothesis by using a non-linear model for a selected sample of 88 countries divided into three groups according to tourism receipts and GDP. The results showed that if tourism receipts are below 4.03% or above 4.57% , then the TLG is verified. Otherwise, the TLG was not supported or evidenced (Po & Huang, 2008).

#### **4.5 Summary**

In summary, classifying countries into developed and developing countries with three major methodologies has been applied in order to verify the TLGH. These methodologies were: time series, panel and cross sectional data. The generally accepted argument on the contribution of tourism in economic growth must be verified. However, there are studies that have not proved TLGH. Despite the increasing importance of the tourism industry all over the world, particularly for the non-oil sector, tourism expenditure in relation to non-oil growth has not been investigated in the literature. As a result of that, this study has conducted an investigation of TNOG.

## **Chapter 5: Investigation of non-oil GDP leading the Growth of Tourism expenditure**

### **5.1 Introduction**

Most of the studies identified a co-integration between tourism and economic growth, but the causality direction has been varied. Due to differences in estimation techniques and data in a proxy variable selection, existing empirical studies have shown mixed results and contradictory causality. In addition, Ozturk (2010) stated that the differences in the characteristics of the country, such as differences in policy, economy, culture and institution, are the main reasons for these results. Therefore, much of the literature has conducted an estimation of growth models. Although no single growth model has utilized non-oil growth and tourism expenditure. Our model has included these two variables to examine Tourism Led Non-Oil Growth (TLNOG) for the Libyan case. It is unreasonable to apply the outcomes of other countries to develop tourism policies and effective growth of the Libyan economy. Thus, the TLNOG study for Libya is imperative and essential.

This study will shed light on tourism expenditure as a proxy of tourism and non-oil GDP as a proxy of growth. One plausible explanation is that, firstly, the GDP in Libya is dominated by the oil sector; secondly, tourism expenditure is considered a main component of the non-oil GDP sector. The literature has examined tourism with growth, and there are no studies that have attempted an investigation of tourism linked to its main component, which is non-oil revenue. As a result of that, this study is considered the first study that attempts an investigation of the validity of TLNOG in Libya for the time period 1995-2010. The results of this study, complete with the results in the qualitative approach (see next section) will not contribute only in the literature, but will

also guide policy makers as an initial framework to undertake potential reforms to the current economic and tourism development.

To achieve this particular goal, this study applies the bounds tests approach, which is recommended by Pesaran et al. (2001), to investigate the presence of a long-term relationship between tourism and non-oil revenue via a co-integration test applies. A granger causality test is used to determine the direction of causality between tourism and non-oil GDP growth. Due to the finite sample of this study ( $n = 16$ ), the critical values of the standards are inappropriate because tests tend to reject the null hypothesis. Therefore, the critical values (CVs) for a small sample proposed by P. Turner (2006) are used in this study. The appropriate critical values ensure that the results of this study will be more accurate and reliable.

This section follows the following structure. First, it provides the specification of the model, then the methodology of the unit root and Auto Regressive Distributed Lag (ARDL) approaches. The next step is the Error Correction Model (ECM), and finally the Granger Causality test.

## **5.2 Specification of the Model**

In this model, the study has run the ARDL model, using 16 observations to find out the relationship between the variables. The variables applied in this model are only two variables. The reason behind that is a small sample, as a result of that, the study would not add an extra variable, such as political instability as a dummy variable. The variables used here in the ARDL model are: tourism expenditure and non-oil GDP. To compute the critical values, this study has followed P. Turner (2006) procedures to avoid sample size bias in our co-integration tests, and use the ARDL model to check for co-integration between non-oil GDP and tourism expenditure in Libya. The research estimates the two equations. In equation (5.9), the dependent variable is log

non-oil GDP. In equation (5.10), the dependent variable is Log Tourism expenditure.

### **5.2.1 Dependent Variable**

The dependent variable; namely, tourism expenditure, can be classified as tourist consumption. It is defined as the total consumption expenditure made by visitors during their trip. Tourism expenditure data is considered the most important measure that is used to capture the international tourism demand in the literature. Wang, Rompf, Severt, and Peerapatdit (2006, p. 333) also point out that tourism expenditure is “typically scrutinized by policy makers, planning officials, marketers and researchers for monitoring and assessing the impact of tourism on the local economy”. Additionally, the study used tourism expenditure, because the data collection methods did not change in Libya for the period subject of study (1995-2010), compared to the Arrivals of non-resident tourists<sup>6</sup>. Tourism expenditure (TE) in a given period ( $t$ ) is used as a proxy of tourism income.

### **5.2.2 Independent Variable**

In the previous tourism growth hypothesis literature, no attempt has been made to investigate the effect of tourism expenditure on non-oil GDP. All the literature measures the effect of tourism on GDP, and because of the dominant oil-GDP in the whole Libyan economy, the research tried to avoid this sector in our model here to see the effect of non-oil GDP on tourism and vice versa.

In our econometrics model, the lagged value of tourism expenditure is included as an independent variable to capture the short run behavior of the data.

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<sup>6</sup> Tourist arrivals were collected as Arrivals of non-resident visitors at national borders for the period 1995-2004 and arrivals of non-resident tourists in hotels and similar establishments after 2004.

### **5.3 Data Source**

Since the current research requires macro-economic data to answer the research question and test the research hypothesis, the research depends on this section of the methodology on secondary data, and the data on the tourism expenditure in Libya, as well as non-oil GDP. One source of secondary data is required; tourism expenditure in Libya is obtained from international resources, which is the WTO. For other sources of secondary data, non-oil GDP is collected from the reports of Libyan Central Bank for 2010.

#### **5.3.1 Data Transformation**

The two variables in the model are transformed to log form. The transformation of the natural logarithm may be useful for the normal distribution of data. The estimation forms are elasticity coefficients of the explanatory variables in tourism demand, and the difference in the files is close to the growth rate, so that the results are interesting and easy to interpret. That is because the elasticity is a free unit; measuring the effects of a change of 1% in an explanatory variable on the dependent variable, independent of each variable unit (Pindyck, 1991).

### **5.4 The Model**

In recent decades, the estimation of economic relations methods has changed considerably. The process of estimating the standard regression model, Ordinary Least Square (OLS), is based on the assumption that the mean and variance of each variable in the model are constant over time - that is, they are fixed variables. However, most of the time series of macroeconomic variables which are considered non-stationary, have stochastic trend behavior and are auto-correlated over time, so the mean and variance of the series are usually not constant over time. Therefore, the inclusion of non-stationary variables in the regression equation by the ordinary least squares method gives misleading results and spurious regression (Newbold & Granger, 1974). R2 very high

(greater than DW) and significant coefficients. It can be obtained even when there is no significant relationship between the variables in the regression. The high level of correlation between the variables in the regression trend truly reflects the existing components in a non-stationary series, instead of the causal link between the real variables in the model (Lee & Chang, 2005).

However, graphic inspection can give a general idea of the trend of the performance of the series, and their difference cannot differentiate between deterministic and stochastic trends in the data. Therefore, looking only at time series plots is not enough to tell if a series is stationary or non-stationary. Autocorrelation tests can also give indications on the state of integration of the series, but it is simply correlation and more sophisticated models that suggest the relationship between a variable and delays of itself than a model regression is required. This can be achieved using unit root tests.

#### **5.4.1 Unite Root Test**

As Granger and Newbold (1974) pointed out, the results may be superior if the data is non-stationary or no co-integrated. Therefore, two-unit root tests are implanted in this study in order to determine the order of integration for each variable or series. These tests are the Generalized Least Square (GLS) version of Dickey Fuller (DF-GLS) test and Kwiatkowski–Phillips–Schmidt–Shin (KPSS) test. The present study performed the DF-GLS test and KPSS unite root test to determine the order of the integration of each series. With regards to the small sample size issue, where is ( $n = 16$ ), Cheung and Lai (1995) and Sephton Sephton (1995) suggested applying the adjustment critical values of DF-GLS and KPSS tests respectively, with a response surface procedure. Moreover, Pesaran, Shin, and Smith (1999) revealed the bounds testing approach must have superior performance in small samples.

### 5.4.2 Modified Dickey Fuller -Generalized Least Square (DF-GLS)

In order to determine the order of integration of each series, this study has performed two tests, which are DF-GLS and KPSS tests. Elliott, Rothenberg and Stock (1996) have suggested an efficient test, which is a modified Dickey-Fuller test, by using GLS. They explained that this modified test is the best overall performance with regards to small sample size; high power and superior size properties, compared with the standard Augmented Dickey Fuller test (ADF). Moreover, the (DF-GLS) test has considerably improved the power, particularly when a known mean or trend is present (Elliot, Rothenberg, & Stock, 1996). Essentially, the test is an ADF test, except the time series which is transformed to GLS regression before applying the test. However, as Elliot et al. (1996) noted that this test has a significantly greater power than other versions of the ADF test. The DF-GLS test for an unknown mean is based on the regression below:

$$(1 - L)y_t = \beta_t y_{t-1} + \sum_{j=1}^p \beta_j (1 - L)y_{t-j} + \varepsilon_t \quad (5.1)$$

Where  $y_t$  is the time series of the variable of  $\bar{p} = 1 + c > T$ , where  $\bar{c} < 0$  is given by

$$y_t = y_t - z_t \beta$$

With  $z_t = 1$ , and  $\beta$  is the least-squares regression coefficient of  $\tilde{y}_t$  on  $\tilde{z}_t$ <sup>7</sup>

The DF-GLS test statistics is given by the  $t$ -ratio for testing  $H_0: \beta_t = 0$

, against the alternative hypothesis  $H_1: \beta_t < 0$

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<sup>7</sup>  $\tilde{y}_t$  being defined  $\tilde{y}_t = [y_1, (1 - \bar{p}L)y_2, \dots, (1 - \bar{p}L)y_T]$ , and  $\tilde{z}_t = [z_1, (1 - \bar{p}L)z_2, \dots, (1 - \bar{p}L)z_T]$ .



#### 5.4.2.1 Kwiatkowski–Phillips–Schmidt–Shin (KPSS)

Kwiatkowski, Phillips, Schmidt and Shin (1992) have devised an alternative to the DF test for stationary of a time series. The KPSS is a test of nonstationary used with different critical values by testing the null hypothesis of the observable variables, which is stationary in the model.

$$y_t = \alpha + \partial_t + \delta \sum_{i=1}^t z_i + \varepsilon_t \quad (5.2)$$

$t=1, \dots, T$

$$y_t = \alpha + \partial_t + \delta z_t + \varepsilon_t,$$

Where:  $\varepsilon_t$  is a stationary series, and  $z_t$  is an i.i.d (independent and identically distributed random variable) stationary series with mean zero and variance one.

The KPSS test of the null hypothesis,  $H_0: \delta=0$ , against the alternative hypothesis that  $\delta$  is non-zero. Under the null hypothesis  $\alpha$  and  $\partial$  that can be estimated by the OLS equation;

$$e_t = y_t - a - b_t,$$

Where;  $e_t$  denotes to the  $t$  OLS residual, using these residuals the partial sum:

$$E_t = \sum_{i=1}^t e_i, \quad t = 1, \dots, T. \quad (5.3)$$

Where  $E_t=0$ , as a result of that the KPSS test will be:

$$KPSS = \frac{\sum_{t=1}^T E_t^2}{T^2 \widehat{\sigma^2}}, \quad t = 1, \dots, T. \quad (5.4)$$

Where:  $\sigma^2 = \frac{\sum_{t=1}^T e_t^2}{T} + 2 \sum_{i=1}^L (1 - \frac{j}{L+1}) r_j$ , and  $r_j = \frac{\sum_{s=j+1}^T e_s e_{s-j}}{T}$ , under the normality disturbance  $\varepsilon_t$ , the KPSS statistic is an LM statistics.

### **5.4.3 Autoregressive Distributed Lag Model (ARDL)**

This study has applied bound test procedures, which was developed by Pesaran, Shin, and Smith (1996) through ARDL framework. The main advantage of the bound test is applicable to studies that have a small sample size. Moreover, co-integration methods, as Engle and Granger (1987) and (1988); Johansen (1995) point out, are not reliable for a small sample size, such as in our study. Previous studies have applied the bound test, such as Pattichis (1999) with 20 observations, (Narayan & Smyth, 2003a, 2003b) with 31 observations (Narayan & Smyth, 2004) with 31 observations, C. F. Tang and Abosedra (2014) with 16 observations. The purpose of analyzing the effects is to receive the long-term balance and short-term dynamics simultaneously; moreover, two determinants have been used for the period (1995-2010). The ARDL model is used and the Engle-Granger causality has also been applied in this section, as an equation co-integration approach.

#### **5.4.3.1 Selection of Co-Integration Approach**

Until the early 1990s, the tourism literature has been dominated by tourism static regression. This approach suffers from several statistical problems, such as spurious regression, because it assumes that all variables are a stationary model. It has been shown in the literature that the data on the variables of tourism demand are mostly non-stationary. Therefore, the mean is zero and the variance is infinite. Therefore, the OLS assumptions are violated and no reliable estimates and regression tend to be false. In addition, the performance of the prediction of these models was found to be poor and cannot compete with the simpler time-series models, as suggested by Martin and Witt Martin and Witt (1988) and Witt and Witt (1995).

While attempting to tackle the issue of spurious regression, analysts have utilized different variables in the model to acquire stationary variables.

However, for this situation, the imperative data is identified and the long-run examination is lost. The co-joining methodology is extremely alluring, since it holds the long-run relations and receives exceedingly predictable parameters over the long run (Stock & Watson, 1988). Additionally, the related ECM gauges the short-run relations; moreover, the pace of modification toward the long-run equilibrium can be measured. Be that as it may, there are a few limitations, which are that integration and co-integration tests need to be overcome to apply this approach.

#### 5.4.3.2 The ARDL Co-Integration Procedures

The ARDL model is a method to test co-integration and examine the presence of a long-run relationship between time series for enhancing the robustness of the Granger causality test. Pesaran et al. (1999) and Pesaran et al. (2001), in his methodology of the ARDL model/ bounds test the advantages of the number of features that overcome the conventional co-integration test. Some of these advantages for instance are: this test can use a mixture of  $I(0)$  and  $I(1)$  data. However, the variables have to be non  $I(2)$ , as such, the data the methodology will be invalid. To check if the series are  $I(2)$ , it uses ADF or KPSS tests, and does not require a prior unit root test. In addition, this approach allows ARDL to have a different number of defaults for each regressor to capture the DGP in a particular frame (Feridun, 2009). Moreover, this approach can be applied to a small sample, and the co-integration results may not change by changing to the data frequencies as Hakkio and Rush (1991) reported in 1991, as well as Haven-Tang and Jones (2008) affirmed that interpolated data cannot enhance the power of the test. In contrast with the Java Modelling Language (JML) method, which is applied for a large sample size (Tang (C. F. Tang & Abosedra, 2014)? The ARDL approach is contrary to the EC approach. The error terms in the co-integrating equation are an Independent and Identically Distributed (IID) random variable. Standard errors of estimated elasticities are normal series, therefore, the standard critical values can be used

and diagnostic tests may be performed to evaluate the statistical behavior models (Chen & Chiou-Wei, 2009).

*“This approach has allowed to usage stationary data at various levels, such as, I (1) and I(0), and it has been applied on small sample size and provide the long and short-run empirical results simultaneously*  
 “(Salleh, Othman, & Sarmidi, 2011, p. 250)

The ARDL (p,) model has been written by Pesaran (1997) and Pesaran et al. (2001), as follows:

$$\varphi(L, P)y_t = \alpha_0 + \sum_{i=1}^k \beta_i (L, q_i)x_{it} + \partial' w_t + \mu_t \quad (5.5)$$

Where:

$$\varphi(L, P) = 1 - \varphi_1 \partial_1 L^1 - \varphi_2 \partial_2 L^2 - \dots - \varphi_p L^p, \text{ and}$$

$$\beta_i(L, q_i) = \beta_{i0} + \beta_{i1} L + \beta_{i2} L^2 + \dots - \beta_{iq} L^{q_i}, i= 1, 2, \dots, k,$$

Where:  $y_t$  the dependent variable;  $\alpha_0$  is an intercept;  $L$  is the lag operator;  $w_t$  is  $s \times 1$  vector of deterministic variables, time trends; and the  $x_{it}$  in the equation (5.5)  $i$  is independent variable, where  $i = 1, 2, \dots, k$ . where  $y_t = y_{t-1}, \dots, y_{t-p}$ ;  $x_{it} = x_{i,t-1}, \dots, x_{i,t-q}$ , where  $x_{i,t-q}$ ,  $q$  indicates to the lag of the variable  $i$ .

The long-run equation with regards to the constant term can be formulated as follows:

$$y = \alpha_0 + \sum_{i=1}^k \beta_i x_i + \partial' w_t + v_t, \quad \varphi = \frac{\alpha_0}{\varphi(1, p)} \quad (5.6)$$

The long –run coefficient for a response of  $y_t$  to the change of unit in  $x_{it}$  is estimated by:

$$\beta_i = \frac{\hat{\beta}_i(1, \hat{q}_i)}{\varphi(1, \hat{p})} = \frac{\hat{\beta}_{i0} + \hat{\beta}_{i1} + \dots + \hat{\beta}_{i\hat{q}}}{1 - \varphi_1 - \hat{\varphi}_2 - \hat{\varphi}_{\hat{p}}} \quad (5.7)$$

Where:  $i=1,2,\dots,k$ ,  $\hat{q}_i$  and  $\hat{p}$  are the selected estimated values of  $p$  and  $q_i$ .

The error correction has been presented in the ARDL model, and it can be obtained from Eq (5.5), in terms of the lagged variable and first differences of  $y_t$ ,  $x_{1t}$ ,  $x_{2t}, \dots, x_{kt}$  and  $w_t$ :

$$\begin{aligned} \Delta y_t = & \alpha_0 - \sum_{j=1}^{\hat{p}-1} \varphi_j * \Delta y_{t-j} + \sum_{i=1}^k \beta_{i0} \Delta x_{it} - \sum_{i=1}^k \sum_{j=1}^{\hat{p}-1} \beta *_{ij} \Delta x_{i,t-j} \\ & + \partial' \Delta w_t - \varphi(1, \hat{p}) ECM_{t-1} + \mu_t \end{aligned} \quad (5.8)$$

Where:  $\Delta$  is the first difference variable;  $\varphi_j *$ ,  $\beta *_{ij}$  and  $\partial'$  are coefficients that are related to the short-run dynamic relationship of the model convergence to equilibrium, and  $\varphi(1, \hat{p})$  measures the speed of the adjustment while  $ECM_{t-1}$  is an error correction term defined by:

$$ECM_{t-1} = y_t - \hat{\alpha} - \sum_{i=1}^k \hat{\beta}_i x_{it} - \partial' w_t$$

The bound test procedure has two stages. The first stage is to establish the existence of a long-run relationship, and the second procedure is to estimate the long-run relationship. A prior investigation of a long-run relationship has been predicted by the theory among the variables in the equations (5.9) and (5.10), these equations have been presented below are estimated the long-run and short-run coefficient by using ECM also to find Granger causality, model for Non-oil GDP and tourism expenditure, in equations (5.5) and (5.8).

$$\begin{aligned} \Delta \ln NOIL_t = & \alpha_{NOIL} + \sum_{i=1}^n b_{NOIL} \Delta \ln NOIL_{t-i} + \sum_{i=1}^n b_{NOIL} \Delta \ln TE_{t-i} \\ & + \partial_{1NOIL} NOIL_{t-1} + \partial_{2NOIL} TE_{t-1} + \epsilon_t \end{aligned} \quad (5.9)$$

$$\Delta \ln TE_t = \alpha_{TE} + \sum_{i=1}^n b_{TE} \Delta \ln TE_{t-i} + \sum_{i=1}^n b_{TE} \Delta \ln NOIL_{t-i} \quad (5.10)$$

$$+ \partial_{1TE} TE_{t-1} + \partial_{2TE} NOIL_{t-1} + \epsilon_t$$

Here:  $\Delta$  is first difference operator,  $\alpha$  is an intercept;  $n$  is the maximum number of the lags in levels of the variables; for the independent variables in the right side of the equation is represents the variable in one lag and in differences variables with  $n$  lags. The parameters  $b_{NOIL,TE}$  have matched the short-run relations; whereas  $\partial_{NOIL,TE}$  corresponds to long-run behaviours,  $\epsilon_t$  is error term.

When the long-run relationship has existed by performing a Wald test, which is considered the first step for testing causality in the ECMs model through the parameters in the equations (5.9) and (5.10) or F-statistic to test if the lagged variables in the level are jointly significant in the UECM equations, and ascertain if the long-run relations exist or not. The null hypothesis among the variables in the Equation (5.9) is ( $H_0: \partial_{1NOIL} = \partial_{2NOIL} = 0$ ) has indicated in the:  $F_{NOIL}(NOIL, TE)$  against the alternative hypothesis ( $H_1: \partial_{1NOIL} \neq \partial_{2NOIL} \neq 0$ ). Similarly, the null hypothesis for testing the non-existence long-run relationship in the equation (5.10) is denoted by  $F_{TE}(TE, NOIL)$ . The co-integration and ECM have been described together as the whole balance in the long run and short-run dynamics at a time. Although the equilibrium with regards to the long-term behavior of tourists is more importance for policy makers and planners, the short-run dynamics are also very important in the short-term prediction of the business and administrative decisions Song, Witt, and Li (2008).

However, studies that have been applying the Toda-Yamamoto (Y-T) method for conducting Granger non-causality by predicting the histories of the variables (dependent and independent). Moreover, we need to test the absence of the Granger causality by estimating VAR model as follows:

$$NOL = \alpha_0 + \alpha_1 NOL_{t-1} + \dots + \alpha_p NOL_{t-p} + \vartheta_1 TE_{t-1} + \dots + \vartheta_p TE_{t-p} + v_t \quad (5.11)$$

$$TE = b_0 + b_1 TE_{t-1} + \dots + b_p TE_{t-p} + \sigma_1 NOIL_{t-1} + \dots + \sigma_p NOIL_{t-p} + u_t \quad (5.12)$$

Then, testing the null hypothesis  $H_0 : \vartheta_1 = \vartheta_2 = \dots = \vartheta_p = 0$ , which means TE does not Granger-causes NOIL, against the alternative hypothesis  $H_a : \vartheta_1 \neq \vartheta_2 \neq \dots \neq \vartheta_p \neq 0$ . Similarly, the null hypothesis in the equation (5.12); rejection the null hypothesis is a support for the presence of Granger causality. The reason behind applying Toda and Yamamoto (1995) , and Lütkepohl and Breitung (1996), known as the TYDL method is associated with leverage bootstrap critical values<sup>8</sup> is the small sample that has been used in this study. However, C. F. Tang and Abosedra (2014) performed this test for small data sample and they found that the same results were concluded by applying the Granger causality test by using ECM. Therefore, they re-tested the co-integration and Granger causality by dropping one observation in order to confirm the robustness of the estimation results. Hence, they found the same conclusion. To enhance our results, the study has conducted the Toda-Yamamoto approach for causality to obtain the reliable results<sup>9</sup>

#### 5.4.3.3 Critical Values CVs

The bound test approach has been applicable irrespective of whether the variables are purely  $I(0)$ , purely  $I(1)$  or mutually co-integrated; while the exact critical value of the test statistics is not available for arbitrary mixes  $I(0)$  and  $I(1)$  variables. Pesaran et al. (2001) provided bounds on the critical value for

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<sup>8</sup> Leveraged bootstrap critical values test is found that improving the robustness of the causality test in particular to small sample (Mantalos, 2000; Hacker and Hatemi-J 2006).

<sup>9</sup> The result table can be seen in the appendix

the asymptotic distribution of F-statistic, which depends on the number of regressors, and whether the ARDL model contains intercept or intercept and trend. Therefore, there are two sets of CVs that have been reported by Pesaran (1997), Pesaran et al. (2001) are generated for large samples of 500 and 1000 and 20,000 and 40,000 respectively. They give lower and upper bounds on the critical values, so the complicated of F-statistic is; if it falls below the lower bounds then the conducted variables would be  $I(0)$ , which means no co-integration, exists. And, if F-statistic exceeds the upper bounds, that means there is co-integration between the variables, but if the F-statistic falls between the bounds, then the test is not decisive.

However, these CVs cannot be applied to small sample sizes (Narayan (Narayan & Smyth, 2004; S. Narayan & P. K. Narayan, 2004), 2004a, and b). As a result, Narayan (2004a); P. K. Narayan and S. Narayan (2004) compared the critical values that are generated with 31 observations and the CVs reported by Pesaran et al. (2001). He found upper critical value with four regressors, which are 35.5% higher than for 1000 observations. Therefore, (Narayan, 2004a; P. K. Narayan & S. Narayan, 2004) listed a new set of critical values for small sample sizes, which range from 30 to 80 observations. Moreover, Narayan and Narayan (2005) used 28 observations and extracted appropriate critical values from (Narayan, 2004b; Narayan & Smyth, 2004) . In contrast, it is a crucial point to indicate that this study has used 16 observations. Hence, it has employed the response service procedures that have been proposed by P. Turner (2006) in order to derive proper critical values for the presented small sample study (C. F. Tang & Abosedra, 2014), and the critical value bounds have been calculated via the equation (5.11), which is:

$$C_i(p) = \beta_0 + \frac{\beta_1}{T} + \frac{\beta_2}{T^2} \quad (5.11)$$



Where:  $T$  denotes the total number of observations;  $C_i(p)$  indicates to the response surface critical values;  $\beta_0$  denotes the asymptotic critical values,  $\beta_1$  and  $\beta_2$  indicate the response surface coefficients. If the F-statistics for co-integration exceeded the upper critical value, then the variables are co-integrated, but if the F- statistics falls between the bounds the variable are not co-integrated.

When the bounds test foinds a co-integration, the study can estimate the long-run equilibrium relationship between the variables. Once it has been established, the long-term relationship is the first step by using the bounds test. The long term and short-run relationships can be associated with the estimate in the next stage. Firstly, determining the optimum number of lags for all level variables in the ARDL model by using appropriate information model standards. Then, it can proceed to estimate ARDL (p, q), and the limitations of summations in equations below from 1 to p, and 0 to q respectively. Hence, the number of lag should be determined by using one or more of the Akaike Information Criteria (AIC), Schwarz criteria (SC), etc. These criteria are based on the high likelihood value, but each criterion is varied from the other from the penalization.

Eventually, the models must be checked statistically for their reliability. Some of diagnostic tests should be applied, such as the Jarque and Bera (JB) normality test of the residuals. Lagrange multiplier (LM) test is used to detect the higher order autocorrelation (Godfrey, 1991). The Autoregressive Conditional Heteroscedasticity (ARCH) is a test for heteroscedasticity (Engle, 1982). Brown, Durbin, and Evans (1975) reviewed that the structural instability of the long-run and error correction coefficients can be analyzed Cumulative Sum of Recursive Residuals (CUSUM) and Cumulative Sum of Square of Recursive Residuals (CUSUMQ) tests.

## **Chapter 6: Presentation, Analysis and Discussion of the Findings**

### **6.1 Introduction**

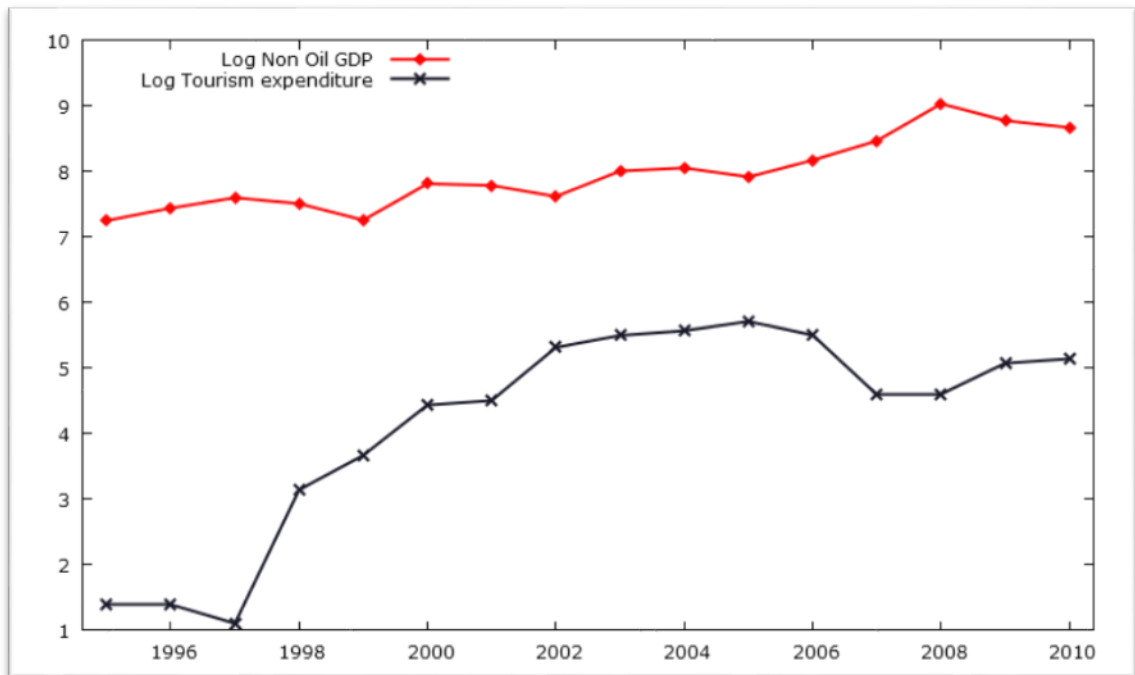
This section of the study aims to identify the potential growth of tourism on non-oil growth in libyan tourism market during the period (1995-2010). The section also aims at investigating of whether the relationship between tourism expenditure and non-oil growth have short or long run relationship. In addition, this chapter will examine the causality between the variables by investigating the following hypothesis: Non-oil growth leads the growth of tourism expenditure; Tourism leads the growth of non-oil growth; or they have unidirectional relationship. This chapter presents analysis and discuss the empirical findings.

### **6.2 Econometrics Empirical Findings**

As this study stated in the methodology chapter, tourism expenditure is considered in this investigation a proxy of the income and non-oil GDP a proxy of economic growth.

#### **6.2.1 Time Series Unit Root**

The study specified the information criteria for choosing optimal lag by applying the Schwarz information criteria, because it is more efficient in small samples. In addition, in order to check for the presence of unit root in the data were DF-GLS and KPSS tests are applied. In **Figure 6-1** we can see the log of non-oil GDP and tourism expenditure in Libya for the period 1995-2010. In both variables, we suspect the presence of unit root in the data. Hence, in order to avoid spurious regression, the study followed Newbold and Granger (1974) and checked for the stationary between the two variables.



**Figure 6-1** time series plots of the non-oil GDP and tourism expenditure in Libya in the logarithm

Source: Author

**Table 6-1 the unit root results**

| <b>Variables</b>          | <b>DF-GLS (H0: non stationary)</b>               | <b>KPSS (H0: stationary)</b> |
|---------------------------|--|------------------------------|
| Log Non- Oil GDP          | -0.924 (1)                                       | 0.793 (1)***                 |
| Δ Log Non- Oil GDP        | -4.610 (0)***                                    | 0.098 (0)                    |
| Log Tourism expenditure   | -1.367 (1)                                       | 0.630 (1)***                 |
| Δ Log Tourism expenditure | -3.360 (0)*                                      | 0.0915 (0)                   |
| Significance level        | Adjusted critical values for a small sample (16) |                              |
|                           | Cheung and Lai (1995)                            | Sephton (1995)               |
| 1%                        | -3.770   | 0.203                        |
| 5%                        | -3.518   | 0.150                        |
| 10%                       | -3.047   | 0.126                        |

Notes: The number in parentheses indicates the optimal lag order and the bandwidth for the DF-GLS and the KPSS tests, respectively.

\* Significant at the 10 % level, \*\*Significant at the 5% level and\*\*\*Significant at the 1% level.

Source: Author

The results are presented in Table 6-1. As this study worked only with limited observations (T=16) with adjustments of the critical values, as suggested by Cheung and Lai (1995) and Sephton (1995) for the DF-GLD and KPSS test respectively. As we expected at 10 % significance level, both tests suggest that the non-Oil GDP and Tourism expenditure are integrated of order one I (1).

### 6.2.2 Time series co-integration (ARDL) Model

The study followed Pesaran et al. (2001) method by using the ARDL model for checking co-integration between non-oil GDP and tourism expenditure in Libya. A bound testing approach was applied for small samples as suggested by Pesaran et al. (1999); and two equations were estimated. In Equation 1, the dependent variable is log non-oil GDP. In Equation 2, the dependent variable is Log Tourism expenditure. To avoid the sample size bias in our co-integration tests, the study performed a surface response procedure introduced by Paul Turner (2006) to compute the critical values. The results of our tests are displayed in Table 6-2.

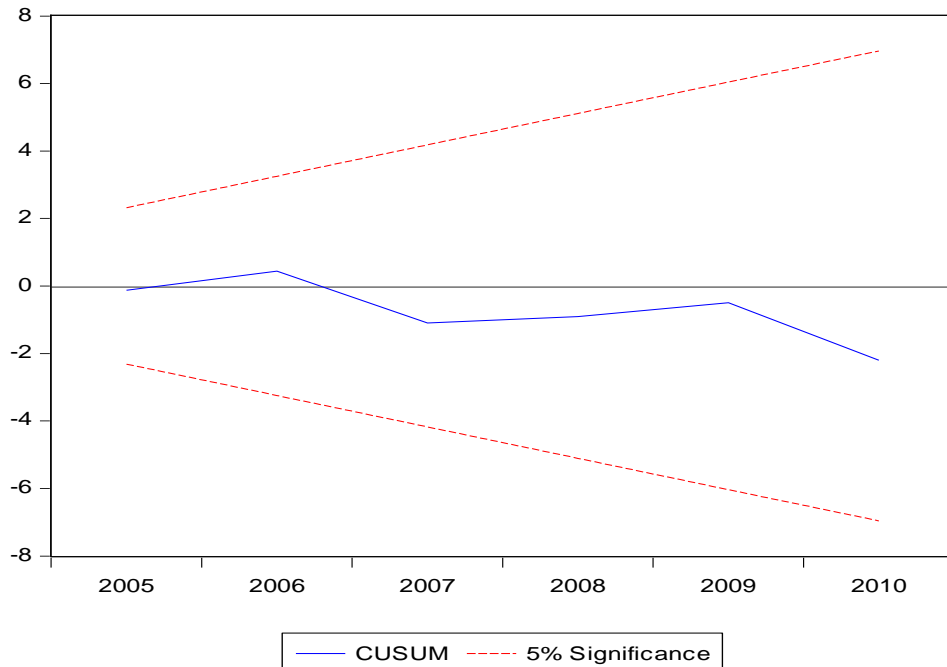
**Table 6-2** The result of the ARDL co-integration

| <b>Bounds test</b>       | F (log non- oil GDP  Log Tourism expenditure)    | F (Log Tourism expenditure  log non-oil GDP) |
|--------------------------|--|--|
| Optimal lag order        | (2,2)  | (2,2)  |
| F-statistics             | 0.67   | 10.131815**                                  |
| <b>Significant level</b> | Adjusted critical values for small sample (T=16) |  |
|                          | Lower bound I(0)                                 | Upper bound I(1)                             |
| 1%                       | 9.839  | 11.485                                       |
| 5%                       | 6.012  | 7.202  |
| 10%                      | 4.609  | 5.572  |
| <b>Diagnostic tests</b>  | <b>Statistics</b>                                |  |
| R-squared                | 0.40   | 0.91   |
| Adjusted R-squared       | -.196  | 0.82   |
| F-Statistics             | 1.6749   | 24.572***                                    |
| Chi-square (Serial)      | {2} : 0.029                                      | {1}: 2.068                                   |
| AIC                      | 5.93   | 0.476440                                     |
| SC                       | 6.23   | 0.780643                                     |

Source: Author's calculation. \* Significant at the 10 % level, \*\*Significant at the 5% level and\*\*\*Significant at the 1% level.

The most relevant results from Table 2 are the F (log non-oil GDP| Log Tourism Expenditure) from Equation 1, which is equal to 0.2643 and is smaller than the upper bound critical value at 10%, which is insignificant. This allows us to not reject the null hypothesis of no-co-integration relationship between Non-Oil GDP and Tourism expenditure in Libya. Moving to Equation 2, when the dependent variable is Log Tourism Expenditure in the first differences, the result shows that the F statistic is 24.57, which is greater than upper bound critical value at 1% (11.485). Hence, the study can reject the null hypothesis that there is no co-integration relationship between tourism expenditure and non-Oil GDP in Libya at 1% significance level. As a result, there is one co-integration between the variables.

As a result, there is a least one co-integration relationship between the Non-Oil GDP and the Tourism Expenditure in Libya. Hence, this result answers the first question of whether or not there is a long relationship between tourism and non-oil growth? The answer as stated above and the test suggests a long-run relationship between the two variables. More clearly, the results above indicate that tourism and non-oil GDP has a long-run relationship. In addition, this model is normally distributed and has no serial correlation; and the adjusted R-squared is high with 0.91 and no ARCH affect. Moreover, the result of the CUSUM is a stability test indicating the stability of the model at 5% level significance for the entire period of the estimation as shows in the figure:



**Figure 6-2 Stability result at 5%**

Source: Author.

In general, this result is in line with the earlier tourism led growth (TLGH) studies. Balaguer and Cantavella-Jorda (2002) identified that there was co-integration between real GDP, tourism receipts and exchange rate. All these studies have supported the research findings for existing co-integration between the tourism and economic growth, such as Durbarry (2004), H. J. Kim and Chen (2006). Furthermore, some studies, such as Katircioglu (2009b) and Schubert et al. (2011) applied the same method as this study for co-integration, but with different variables which represent economic growth as international trade, AK respectively.

However, the present results differ compared with some other author's studies. For example, Katircioglu (2009a) found that there is no relationship between tourism and economic growth in Turkey. The diversity of the findings may be attributed to a different methodology applied. Similarly, Zortuk (2009) reached

the same conclusion as Kaplan and Çelik (2008) by using the same methodology, which is that there is no co-integration.

### **6.3 Causality Estimation**

The findings show that tourism expenditure and Non-Oil GDP are co-integrated in Libya. Hence, the results imply that there may be at least one way of causation. However, the direction of the causality is unknown. Therefore, the study conducted the causality test and the findings as shown in Table 6.3

#### **6.3.1 Long-run causality estimation**

The causality test was conducted in order to examine whether any long-run causality exists between the variables, which are non-oil GDP and tourism expenditure. The results of the causality analysis in Table 6.3 indicate that  $\epsilon_{t-1}$ , which is error correction (ECM) derived from long-run co-integration, is negative (-0.592) and significant at 5%. which means that this test suggests that there is a long run causal relationship running from NOIL to TE.



**Table 6-3 The results of the long and short causality**

| <b>Granger Causality tests</b>                                      |                                    |                                      |
|---|------------------------------------|--------------------------------------|
|   | <b>Dependent Variable</b>          |                                      |
|   | <b>Equation (1)</b>                | <b>Equation (2)</b>                  |
| expenditure   | $\Delta \log \text{ non- oil GDP}$ | $\Delta \text{ Log Tourism}$         |
| <b>Short Turn</b>   |                                    | LR statistics                        |
| $\sum \Delta \log \text{ non-oil GDP}_{t-k}$                        | -                                  | 7.365535**<br>(p-value = 0.0153)     |
| $\sum \Delta \text{ Log Tourism Expenditure}_{t-k}$                 | 0.009639<br>(p-value=0.9904)       | -                                    |
| <b>Long Run</b>   |                                    | Coefficients [t-statistics]          |
| $\epsilon_{t-1}$  | -1.044 [0.0890]                    | -0.592 [0.0001]**                    |
| <b>Joint Short and Long run</b>                                     |                                    | LR statistics                        |
| $\sum \Delta \log \text{ non-oil GDP}_{t-k}, \epsilon_{t-1}$        | -                                  | 11.87(p-value=0.001)***              |
| $\sum \Delta \text{ Log Tourism expenditure}_{t-k}, \epsilon_{t-1}$ | 0.936 (p-value =0.511)             | -                                    |
| <b>Diagnostic tests</b>   |                                    |                                      |
| <b>Test Statistics</b>  |                                    |                                      |
| R-squared   | 0.400863                           | 0.855889                             |
| Adjusted R-squared  | -0.027091                          | 0.783833                             |
| Chi-square(H0 : Normality)  | 3.821 (p-value=0.147)              | 0.525 (p-value=0.768)                |
| Chi-square (Serial)   | {2}::0.611<br>(p-value=0.041)      | {2}:0.794814<br><br>(p-value=0.6721) |
| CUSUM   | The model is stable at 5%<br>level | The model is stable at<br>5% level   |

Source: Author. \*\*\*significant at 1%, \*\* significant at 5%

On the other hand, the findings show that that there is no long-run causal relationship in terms of tourism expenditure as an independent variable. So, tourism does not cause Granger non-oil GDP in the long-term because the  $\epsilon_{t-1}$  is positive and insignificant. As a result, the research findings show that there is a uni-directional causality relationship between non-oil GDP and tourism for Libya. The test diagnostic result in Granger causality models demonstrates

that ECM equations have no serial correlations and ARCH. In addition, the residuals are normally distributed, which means that the P-value cannot reject the null hypothesis. In terms of the long-run causality between the variables, the way of causation is that Non-Oil GDP growth leads Tourism expenditure in Libya. It is not a surprising result, considering the economic system in Libya.

### **6.3.2 Short-run causality estimation**

The causality test for the short-run in both variables suggests that they have a short-run bi-directional causality relationship. The non-oil GDP for two lags jointly does cause tourism expenditure. However, tourism expenditure for two lags is jointly caused by non-oil GDP, because the p-value is significant. The non-oil GDP for two lags does jointly cause tourism expenditure. Therefore, there is a bi-directional causal short-run between the variables in the second equation.

The research findings show an existing uni-directional Granger causality in the long-run relationship which means that NOIL leads the growth of tourism expenditure in the Libyan case, as is expected. Overall, this is consistent with Oh (2005) published a study, which is built on a bivariate model with two variables; economic growth and tourism receipts in South Korea during (1975-2001). The outcomes verified that one way of Granger causality (1988) test is driven from economic growth to tourism. Hence, the TLGH in the South Korea case is not supported. In some cases, the results that are revealed by Capó, Riera Font, and Parrilla et al. (2007) in Spain's Balearic case for measuring the contribution of different production factors to economic growth. They affirm the orientation of the economy towards the tourism activities was driving the economic growth. C.-H. H. Tang and Jang (2009) studied the perspective of econometrics methodology and used a different approach. The authors analysed the TLGH at a sub-industry level; and found that there is a bidirectional relationship between GDP and four industries, and causal

relationship was calculated between four industries. The studies found that the main industry that benefits from economic growth and affects the other industries is airlines. If the airline grows, industry also grows. As a result, there is an interrelationship chain between sectors, which could be useful for developing economic policies.

There are some empirical studies that partially support these research findings, such as the studies conducted by Demiröz and Ongan (2005), Khalil et al. (2007), Kaplan and Çelik (2008), and Lee and Chang (2008), who investigated causality and found that there is a bidirectional relationship between economic growth and tourism. However, other authors applied different causality tests and their results proved the TLGH, which is inconsistent with the present research findings. For an example, Gunduz\* and Hatemi-J (2005) applied leverage bootstrap tests instead of Granger causality tests and Brida, Lanzilotta, et al. (2008) used Toda and Yamamoto test. While Nowak et al. (2007) conducted the Granger causality test, with a new hypothesis called TKIG, which is tourism financing the capital goods imports and then affecting the economic growth, and the results of TKIG was supported by evidence.

These finding suggests that there is a long-run causal relationship between the non-oil GDP and tourism in the Libyan industry. This result contributes to the gap between the two sectors that will help Libya achieve a high growth and development by working together. Also, the second finding indicates that there is a bi-directional relationship in the short-run period. Hence, these findings answer the second questions of this study.

#### 6.4 Summary

This chapter has discussed the empirical literature of the TLG hypothesis, which was classified into two categories; developed and developing countries. These studies have been reviewed since 2002 for a set of important factors to identify the causality between the economic growth and tourism. However, these studies are more sensitive to selecting the model. In general, the results of the investigation of the TLG indicated that tourism contributes to economic growth and vice versa. In contrast to the effects of tourism on economic growth, which are different from studies between countries and also for the same country. In addition to that, remarkable results from a number of studies have noticed that TLG is more remarkable in developing countries than in developed countries. Therefore, this study has displayed this evidence to observe the analysis techniques particularly for countries that have taken the exogenous variables. For example, political instability, terrorism and poor infrastructure are taken into consideration. Thus, there is no establishment of tourism led growth for Libya; and there is just one study that attempted to investigate the TLGH through a panel study that tended to disregard country specific features. Furthermore, the panel analysis did not establish the direction or causal linkages between tourism and economic growth. Hence, a case study can better simplify definite causal conclusions than is possible in panel approach, particularly for a small market. Besides, the literature has not paid attention to examining tourism's contribution to the non-oil GDP, or the so called non-oil revenues, especially for oil countries, where the tourism sector has not had a remarkable effect on the economic growth in those countries.

In terms of above, all the empirical studies have investigated the hypothesis, but there is no completion to state the proper strategy in particular for those

studies that found no relationship to exist between tourism and economic growth.

In terms of the above, the findings show that tourism expenditure does not cause non-oil GDP, whether in short or long-run. As a result, this study goes to a further investigation in order to find out a coherent strategy that could be applied in this case. In terms of that, this study conducts further investigation by applying the qualitative method, which is through interviews, for ascertaining the factors that could help grow tourism expenditure in order to cause growth for the Libyan economy in Libyan stakeholder perceptions. Furthermore, this study needs to take into account other factors in our investigation, which are affected by the Libyan tourism stakeholder's perceptions, by creating a new strategy. This investigation is based on the BOS strategy, through exploring in-depth the factors that should shape growth in the tourism industry, based on the BOS.

## **Chapter 7: The Blue Ocean Strategy**

### **7.1 Introduction**

In this chapter the study has been applied the BOS as a foundation to understand econometrics models. Therefore, this chapter will identify the characteristics and the tools of the BOS, which are the most important for future of the growth in the tourism market. In addition, this chapter reviews tourism market strategies in the Libyan context in order to understand the structure and the ability of the Libyan tourism industry for developing its market; hence, it will increase and recover international tourism demand.

This chapter has been classified the sections as following: section 7.2 discusses the concept of the BOS. Section 7.3 BOS development. 7.4 value innovation, 7.5 sustainability of the BOS. 7.6 Analytical tools, 7.7 formulating BOS, 7.8 reaching beyond existing demand. 7.9 Executing BOS, 7.10 studies related to the BOS. 7.11 The BOS for tourism industry. 7.12 Background of recovery tourism strategies. Finally, section 7.13 Literature of the international tourism strategies.

### **7.2 Blue Ocean Strategy Concept**

Conventional business strategy models have focused on competing inside an existing red ocean to beat the competition. The characteristics of the red ocean strategy are well defined. One of these characteristics accepts the industries' boundaries and conditions and understands the role of competition. Business strategies are based on the cost of leadership, differentiation, or focus on achieving a sustainable competitive advantage and long-term success in a chosen area or industry (Porter, 1990). In terms of that, most of the current industries and companies present in the red ocean. Those companies and industries, in this space are competing together to grabbing a greater share of

limited demand; hence, the market share is low and the profitability and growth are low either (Kim & Mauborgne, 2004, 2005a, 2005b, 2005c).

But, the concept of blue oceans emerged on the first time by Hill in 1988, who is a Professor at Michigan university and considered as first person who presented the Blue ocean idea. He argued that the Porter's idea is incomplete, in order for the companies to achieve a sustainable comparative advantage they have to apply a combination of cost and differentiation strategies (Hill, 1988). Moreover, Nordström and Ridderstråle (1999) raised this issue, and claimed that competitiveness strategy is not the strategy, and companies and industries need to develop strategies that create excitement and play differently with companies. Then, the BOS was developed by Kim and Mauborgne, who are professors of strategy in the Institute European de Administration de Affairs (INSEAD). They suggested a new innovative philosophy, which away from the bloody rivalry and expands the Blue ocean. As a result, they make many of assumptions to dominant global business, and place new horizons in front of leaders, managers and organizations strategies.

The Blue Ocean is a metaphor of untapped market, infact wide market, which is still not discovered. Therefore, the blue ocean strategy is based on ideas of the industry's value creation in uncontested markets (Kim & Mauborgne, 2005b), the authors defined the market space is known as the most of the industries are in existence today, and that represents the red ocean. Whereas, the blue ocean denoted all the industries that are not in existence today. So, the BOS strategy is aiming to create new customer values at low cost and new offerings in an uncontested market space. Hence, the BOS is an innovation to create a new demand or to make the market options and replacement for the current markets' customers. It means that products innovation, such as goods or services, or style of presentation of the products will lead to create value for the market. Simultaneously, all the activities that have less value for the current

future markets are avoided from the carousel (Golpayegani, 2009; Kim & Mauborgne, 2005a, 2005b). However, many reviews have pointed to the usefulness of this approach as a compelling case for a pursuing industries and businesses. Starting strategy with a creative, not combative, approach, as a strategy that is not only original but also practical and leads to powerful results (Lindič, Bavdaž, & Kovačič, 2012). This is compatible with the views of Penrose (1959) both competitive strategy and BOS have avoided intense competition.

The competitive strategy is based on the distinctive resources of the industry, which limits copying and leads to a sustainable competitive advantage and great profits. BOS has placed an emphasis on learning and managing (Kim & Mauborgne, 2005a). Moreover, the BOS is considered as a general option for management through “value innovation” industries which will be able to discover sufficient untapped markets, as a result of creating new consumer demand and finally growing, whilst avoiding clashing with competitors (Kim & Mauborgne, 2005a, 2005b, 2005c). The main point of BOS is to redefine the industry from relying on imitation or incremental improvement over competitors in order to searching for new customers and creating new value. However, the competitive strategy argues that there is no longer a guarantee that abundant untapped markets will be available. Kim and Mauborgne (2005a) emphasized that an industry can create an uncontested market space in which the industry is the first in the market, which in turn gives it a temporary monopoly power. It can quickly create economies of scale and exploit a positive feedback effect, which offers the company an opportunity to grow more quickly.

Kim and Mauborgne (2004, 2005), and Sheehan and Vaidyanathan (2009) affirmed that the creation of a new market space has been successful in different varied industries. In addition, Robertson and Langlois (1995) found



that small industries have been able to attain strong positions. As a result of that, this is evidence that the blue ocean strategy can be found at boundaries of any industry and it is not limited to a specific industry as well. However, Van Stel, Thurik, and Burke (2008) discuss that the effects of two strategies are different in both the short and long term. Thus, the BOS dominates in the short term, while competitive strategy dominates in the long term. Such that profits are positively related to the number of firms in the short term, but negatively related in the long term. As shown in Table 4-1, the blue ocean strategy has moved from competition among companies, industries and markets within the same marketplace, to reconstructing market boundaries and creating new customer demand. That is, it has attempted to develop an uncontested marketplace. Features of the so-called red ocean strategy include competing in an existing market space, beating the competition, exploiting existing demand, making value-cost trade-offs, and aligning a firm's activities with its strategic choices of differentiation or reduced cost (Kim & Mauborgne, 2005b).

**Table 7-1 Red Ocean Strategy VS BOS**

| <b>Red Ocean Strategy</b>  | <b>Blue Ocean Strategy</b>  |
|--|---|
| Compete in existing marketing space.   | Create uncontested market space.  |
| Beat the competition.  | Make the competition irrelevant.  |
| Exploit existing demand.   | Create and capture new demand.  |
| Make the value-cost trade off.   | Break the value-cost trade off.   |
| Align the whole system of a firm's activities with its strategic choice of differentiation or low cost | Align the whole system of a firm's activities in pursuit of differentiation and low cost. |

Source: ( Kim & Mauborgne, 2005b).

### **7.3 Blue ocean strategy development**

BOS is considered as a new strategy. In 2004, Kim & Mauborgne affirmed that the BOS is a tool for creating brand equity in 10 years at least. Kim and

Mauborgne (2004) said that there is ample opportunity for growth that is both profitable and rapid by creating blue ocean through two ways. One is to launch completely new industries, and the second one is to create within a red ocean when a company expands the boundaries of an existing industry. The authors suggested that the appropriate unit of analysis is the strategic move, which is the set of the managerial action and decisions involved in making a major-creating business offering (Kim & Mauborgne, 2004a , 2004b). In 2005, they differentiated strategy and innovation, and make clear the demand and the importance of business strategies. Moreover, they developed the concept of value innovation which which is considered as the corner stone of the BOS. Kim and Mauborgne (2005c) found that the strategic moves have delivered products and services that opened and captured new market space with a significant leap in demand. Furthermore, they argued that the BOS should be a dynamic not a static process in order to create a new market space. Hence, the company or industry that creates the BOS should be keeping its profits and growth sanctuary by swimming or drifting as far as possible in the blue ocean, and making itself a moving target and distanced away from potential imitators as long as possible. And the company has to create a blue ocean again to break away from the competition. Moreover, the BOS shows the industry or the companies not just to create and capture blue oceans but how to monitor when it is time to reach out for a new blue ocean. As a result, this way of the BOS presents a dynamic iterative process to create uncontested market space across time (Kim & Mauborgne, 2005a, 2005b, 2005c). Kim and Mauborgne (2005c) noted that any strategy whether red or blue has a risk. The blue ocean strategy is risk minimization not risk taking, so when creating a blue ocean strategy beyond red ocean strategy, there are two kind of risks which are formulation risks (such as search risk, planning risk, scope risk, and business model risk), and execution risks (organizational and management risk). Creating blue

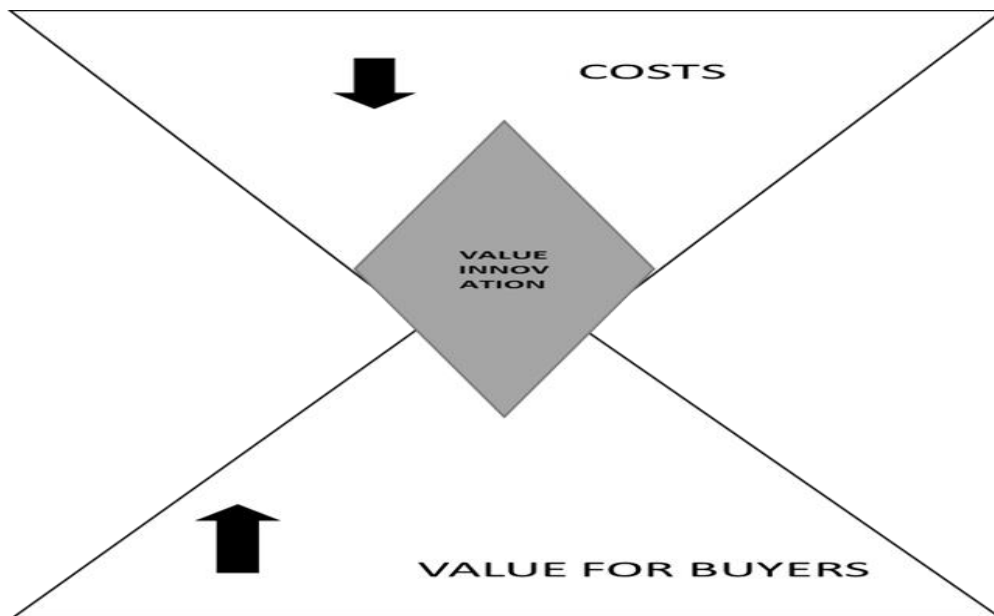
oceans guide the companies and industries in a way that is both opportunities maximizing and risk minimizing.

Kim and Mauborgne (2007) stated that for creating a new demand it has to fully understand the market environment; therefore, in 2009 they suggested that two types of strategy: structuralism strategies that assume that the operating environment is given, and reconstructionist strategies that seek to shape the environment. Whichever type of strategy is chosen, success will depend on creating an aligned set of strategic propositions targeted at three different sets of stakeholders: buyers, shareholders, and the people working for or with the organization. Structuralism strategies require that the three propositions — the value, the profit, and the people propositions — focus on delivering either low cost or differentiation. Reconstructionist strategy propositions align around delivering both (Kim & Mauborgne, 2009). In 2017, the authors have released a new book called Blue ocean Shift, they developed a brief understanding of how the process of new market creation and growth that unlocks people's creativity as much as their confident to act. So "The new book sets out to help find the right starting point and construct the best possible team. Following that, the authors offer market-creating tools to help a company or organization better understand where it is and where it could venture to seize new growth. They then assist reimagining the market boundaries, and developing and choosing "blue ocean moves."

#### **7.4 Value Innovation**

Value innovation is the cornerstone of the blue ocean strategy, and it is concerned with creating a leap in value for buyers and companies by aligning innovation with utility, cost and price. Value without innovation tends to focus on value creation on an incremental scale; something which has improved value, but is not sufficient to make you stand out in the marketplace. Innovation without value tends to be technology driven, market pioneering, and futuristic

(Kim & Mauborgne, 2005c); therefore, the concept of value innovation, focused equally on both innovation and value. The simultaneous pursuit of differentiation, low cost, and value innovation are created in the region where a company's actions favorably affect both its cost structure and its value proposition to buyers as seen in figure (7.1).



**Figure 7-1 the value innovation in the BOS**

Source: (Kim & Mauborgne, 2005c).

Moreover, cost savings are made by eliminating and reducing the factors an industry competes on. Buyer value is lifted by raising and creating elements the industry has never offered. Over time, costs are further reduced as scale economics kick in due to high sale volumes that supplier value generates. In terms of that, BOS never applies competition as a bench mark; it creates a new market place and makes the competition irrelevant through creating a leap of value for buyers and the industry itself. With regards to trade off, industries can create high value at a high cost or create plausible value at a low cost. However, BOS can track both differentiation and low cost together ( Kim & Mauborgne, 2005c) . Thus, industries should raise the standard of activities,

increase the industry standards and offer consumers higher value than the competitors. Industries should also provide value at low cost and must reduce and eliminate other activities. Hence, the blue ocean strategy is created and as long as functional and operational activities are integrated, the company will continue (Kim & Mauborgne, 2005a).

### **7.5 Sustainable blue ocean strategy**

Kim and Mauborgne (2009) suggested that there are two types of strategy: structuralism strategies that assume that the operating environment is given, and reconstructionist strategies that seek to shape the environment. In terms of that organizations and managers, they have to consider environmental attractiveness, the capabilities and resources that can call on, in addition to whether the organization has a strategic orientation for competing or innovating. Consequently, whatever the strategy the organization choose, success will depend on creating an aligned set of strategy propositions targeted at three different sets of stakeholders: buyers, shareholders, and the people working for or with the organization. Where the approaches diverge is in the nature of their proper alignment. Structuralism strategies require that the three propositions are (Kim & Mauborgne, 2009):

- 1) The value proposition is achieved when the offering utility buyers' minus offering utility's price.
- 2) The profit proposition is produced when the revenue of the organization minus offering's cost.
- 3) The people proposition is the positive motivation and incentives put in place for people needed to support and implement the strategy.

Thus, the structuralism strategies focus on delivering either low cost or differentiation. Whereas, Reconstructionist strategy propositions align around delivering both. Hence, to make a high-performance and sustainable blue ocean strategy is to ensure that value, profits and people are perfectly aligned

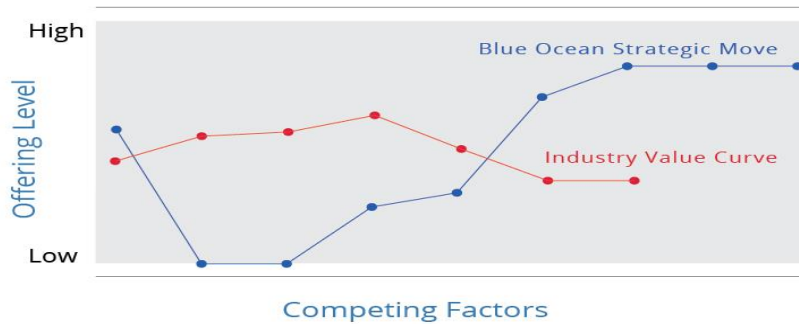
with the responsibility of different executives in each functional area . Dubai is considered as an example of doing its reconstructionist blue ocean strategic move-aligning the three propositions around differentiation and low cost, and that has brought Dubai unprecedented profitable growth (Kim & Mauborgne, 2009).

## **7.6 Analytical Tools**

### **7.6.1 Stagey Canvas**

A strategy canvas, a diagnostic and action-focused tool, clearly shows the extant and potential features of products in an industry, as well as the extant and potential competitors offering such features. According to Kim and Mauborgne (2005c) the companies have to draw up their strategy canvas rather than producing a strategic plan. The strategy canvas has been considered as a diagnostic and framework in order to establish a compelling BOS. The purpose of the strategy canvas is to capture of the current situation of the known market space, and this allow to understand that the competition is currently investing, and the current competitive factors of industry on products, service, and delivery, the existing competitive offerings on the market that customers could receive it.

As seen in the figure (7-2), the horizontal axis of the strategy canvas represented the range of factors the industry competes on and invests in. Whereas, the vertical axis captured the offering level that buyers get across all these competing factors. The high score indicates that company offers buyers more, and hence invests more for particular factor. As a result, this can lead to understand the industry 'strategic profiles or the so called value curves, which considers the basic component of the strategy canvas is a graphic depiction of a company's relative performance across its industry factors of competition (Kim & Mauborgne, 2005a).



**Figure 7-1 Strategy Canvas**

Source: (Kim & Mauborgne, 2005a).

The fundamental shift of the strategy canvas of an industry is changing the strategic focuses from current competition to alternatives, and from customers to noncustomers of the industry. Hence, the industry gain insight into how to refine the problem and thereby reconstruct buyer value elements that build across industry boundaries (Kim & Mauborgne, 2005c) . Preparing strategic canvas that can help the industry or organization transform its strtageies to blue oceans. In order to create a new blue ocean strategy which is so called a four-action; therefore, this study applied the BOS framework that may lead to increase the growth in the tourism industry (Kim & Mauborgne, 2005a) .

### **7.6.2 The Four Actions Framework**

Kim and Mauborgne (2005a) recommend a four-action framework in order to deliver guidelines to create a new blue ocean strategy. To reconstruct buyer value elements in crafting a new value curve, Kim and Mauborgne developed the four actions framework in order to break the trade-off between differentiation and low cost and create a new value curve. The authors proposed that firms should raise the standard of activities higher than the industry standards and offer consumers higher value than competitors. In order

to deliver value at low cost, firms need to reduce and eliminate other activities. The key is to offer excellent quality in only one or two areas.

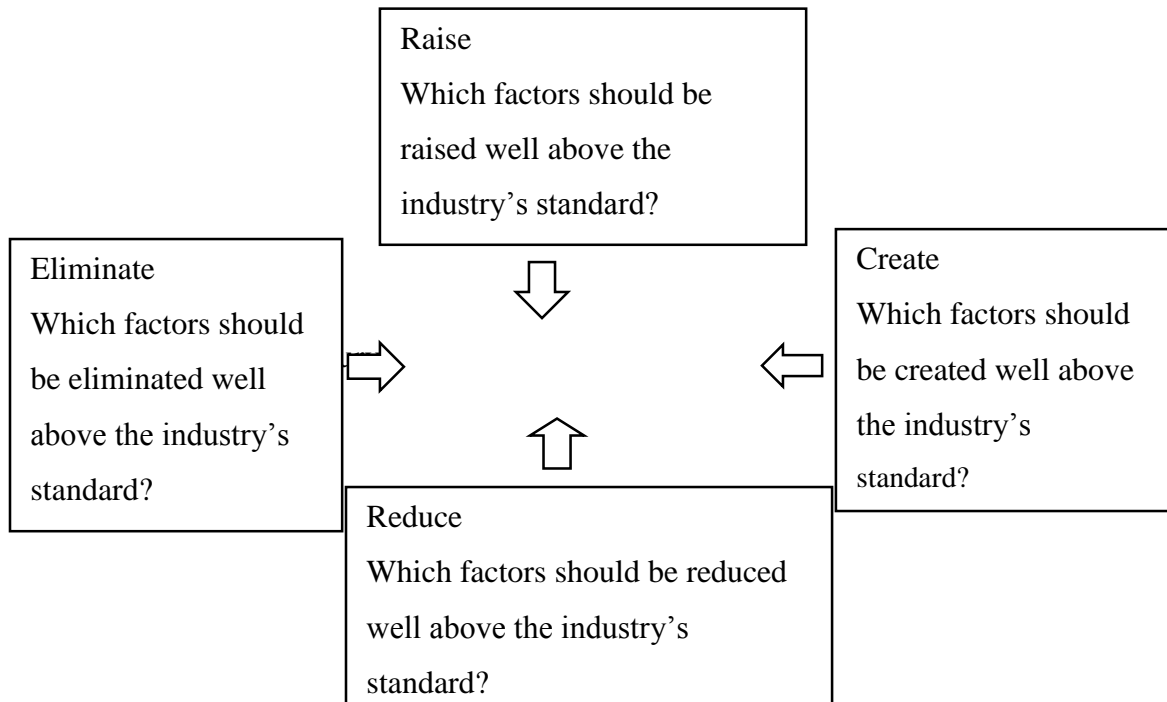
The four actions are as follows:

1. Raising a small number of factors or activities in the value chain above the industry standard.
2. Reducing factors or activities that are below the industry standard.
3. Eliminating factors or activities, which the industry takes granted.
4. Creating innovative factors or activities.

The challenges of an industry's strategic logic are based on the four key questions as seen above in Figure 7-3. The authors found that managers rarely set out to eliminate and reduce their investment in factors that the industry competes on. The first question considers the factors that companies or industries have long competed on and no longer have value or even detract value from. The second question is to determine whether or not products or services have been over-designed to beat the competition. For example, industries or companies that have increased their cost structure for no gain. The purpose of the first two questions, with regards to eliminating and reducing, is to understand how to drop the cost structure vis-à-vis competitors. The result of the first two questions is mounting cost structures and a complex business model.



Figure 7-2 The four actions framework



Source: (W Chan Kim & Mauborgne, 2005a).

The third question is to uncover and eliminate the compromises that customers are forced to make in the industry. The last question assists in discovering entirely new resources of value for buyers to create new demand and shift the strategic pricing of the industry. The last two questions provide the industry with insight regarding how to lift buyer value elements across alternative industries to offer buyers an entirely new experience, while simultaneously keeping the industry's cost structure low. The two actions of eliminating and creating forces the industry to go beyond value maximization exercises with existing factors of competition. Elimination and creation prompt industries to change the factors themselves; hence, making the existing rules of competition irrelevant. The aim of applying the four actions framework to the strategy canvas of the industry is to reveal a new look at an old perceived truth (Kim & Mauborgne, 2005a).

### 7.6.3 Eliminate-Reduce-Raise-Create (ERRC) Grid

The ERRC considers a second analytical tool for the creation of a blue ocean strategy. It is a supplementary tool to the four actions framework as seen in Figure (7-3). The grid pushes industries or companies to create a new value curve by driving them to fill in the grid with four actions. The grid gives the industry four immediate benefits and pushes the industries to break the value-cost-trade-off by pursuing differentiation and low costs.

**Figure 7-3** ERRC Grid

|  |   |
|--|---|
| Eliminate  | Raise   |
| Which factors that the industry has long competed on should be eliminated? | Which factors should be raised well above the industry's standard?        |
| Reduce   | Create  |
| Which factors should be reduced well below the industry standard?          | Which factors that should be created that the industry has never offered? |

Source: (Kim & Mauborgne, 2005b).

The ERRC tool pushes the industries to focus on raising, creating and lifting their cost structure and re-considers any over-engineering products and services. It is easy for managers to understand at any level and create a high level of engagement in its application. Completing the grid is a challenging task. It has led the industries to scrutinize each factor of the industry it competes with and discover the range of implicit assumptions that they have made unconsciously in competing (Kim & Mauborgne, 2005b).

### 7.7 Formulating a blue ocean strategy

According to Kim and Mauborgne (2005a) in order to have a successful blue ocean strategy, the company or industry has to follow few principles that can

help to identify the risks, planning, scaling on the business model. As a result, companies have to follow six principles, which are distributed between formulating strategy and executing strategy in order to find the best strategy, determine the market alternatives, and develop the blue ocean.

### **7.7.1 Reconstructing Market Boundaries**

In order to consider the industry from a new perspective and challenge existing boundaries, an industry can begin by asking itself where the process begins for the customer and where it ends. The industries must look at alternative industries, strategic groups within industries, and the chain of buyers, complementary product and service offerings, as well as the functional or emotional appeal to buyers during the time period, in order to receive some insights for reconstructing the market and create new blue ocean markets. This can help to lead the way for expanded value chains, as well as completely new markets. Also, this principle deals with mitigating search risk by identifying the possibilities that exist from the haystack, so identifying commercially compelling blue ocean opportunities (Kim & Mauborgne, 2005c).

### **7.7.2 Focus on the Big Picture, not in the Number**

Current traditional strategies focus on present industry conditions and competition with a focus on the overall picture, but not on the numbers that enable a company to “think outside the box” and create a clear picture of how to break from the competition. To see the “Big Picture” several actions were developed by Kim and Mauborgne (2004), which are listed below. The principle proposes a visual four step plan for creating and capturing blue oceans. The focus on the big picture can also be seen as an alternative to the existing strategic planning process. Moreover, the focus should remain on what the customers really need, and how this can be provided successfully. As a result, Kim and Mauborgne (2005c) notified that this principle tackles how to

mitigate the planning risk of investing lots of time and efforts but delivering red ocean move.

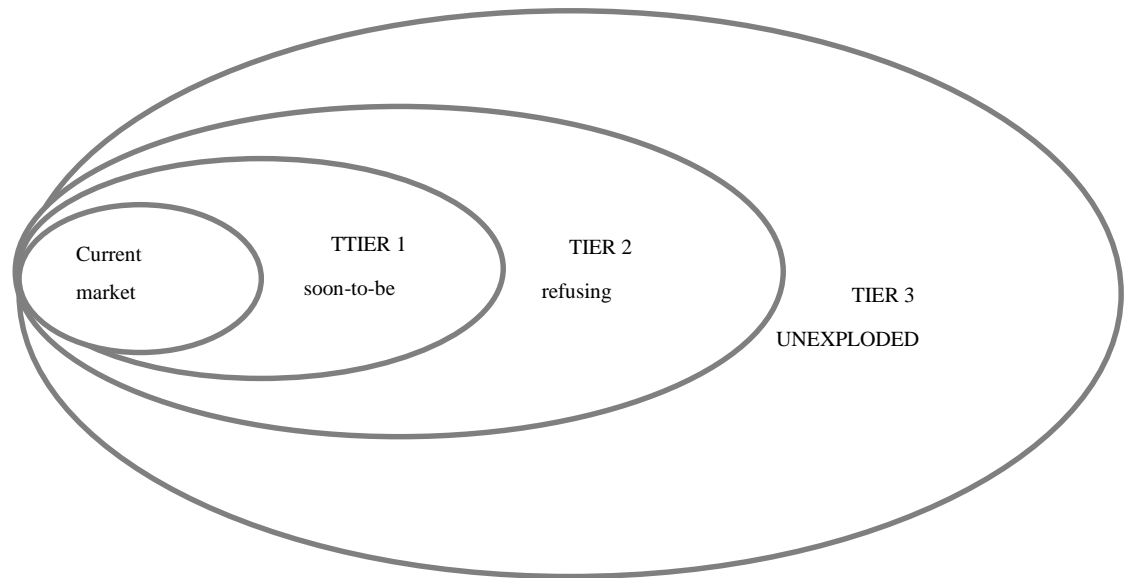
## **7.8 Reach beyond Existing Demand**

A normal business practice is to keep a focus on the current customers and a consequent focus on greater market segmentation. The true growth potential is beyond these existing customers to where potential future customers are. To achieve a blue ocean, this is where the company needs to keep its focus. Reach beyond existing demand addresses the scope risk of aggregating the greatest demand for a new offering (Kim & Mauborgne, 2005c).

### **7.8.1 The Three Tiers of Noncustomers**

There are three tiers of noncustomers that can be changed into customers, and as Kim and Mauborgne (2005a) classified non-customers into three different tiers.

**Figure 7-4** Three tiers of non-customers



Source: Kim and Mauborgne (2005a).

As seen in the Figure 7-5 , the first tier is ‘Soon-to-be’, which represents future customers who are just waiting for the products to be improved, or with minor modifications they will buy it. This tier also includes non-regular customers who choose the industry’s product or services because of nothing better is available in the market, also the non-customers will give better advices than actual customers. Therefore, companies and industries should try to find what the customers need and what they look for in order to satisfy them with a new adapted products and services; hence, bringing new customers. As a result of that, the new blue ocean strategy will be created from there. The second tier is ‘refusing’ represents non-customers who think that the product or service of the company is not affordable or not adapted to their demand. Therefore, to expanding the market, the companies ‘s goal here is to understand what their issues are and how to fix them, and that may lead to bring a lot of new customers. Finally, the third tier is ‘unexplored’ which indicates to non-customers who never thoughts about the company or industry’s products or

services due to their needs being fulfilled by other markets. Thus, the companies or industries can see on a bigger plan and offer beyond an existing demand, hence a blue ocean will be created (W Chan Kim & Mauborgne, 2005a) .

### **7.8.2 Get the Strategic Sequence Right**

According to Kim and Mauborgne (2005a) companies have to focus on utility for the buyer, price, costs, share the new vision and make the vision understood by all employees. This focus has to be sequential in order to get the best results, and if any of these factors are fully achieved, the company will have a viable blue ocean strategy concept. If not it has to rethink in order to make it right. More clearly, the sequence in which all strategic plans are to be executed needs to be lined correctly to offer maximum value for the customers. All the experience of the buyer need to be laid out in the right order and executed in this same order. The idea is to keep the customer experience in mind as the true process. Also, it tackles business model risk by building a robust business model to ensure making a healthy profit on your blue ocean idea (Kim & Mauborgne, 2005c).

## **7.9 Executing Blue Ocean Strategy**

### **7.9.1 Overcome key organization hurdles**

Any internal organizational struggles and issues should be resolved in order to successfully implement any strategy one has chosen. A lack of teamwork and a focus on individual departmental thinking will only create further hurdles. Process gaps between departments should be bridged as soon as possible. Therefore, (Kim & Mauborgne, 2005c) cleared that this principle mitigates organization risk by knowing how to knock over organization hurdles in executing a blue ocean strategy.

### **7.9.2 Build Execution into strategy**

The key to long-term success is to create great customer experiences as your core business. This implies that the implementation of the blue ocean strategy should be built into the organization's ongoing processes. The employees must be encouraged to always think creatively and provide empowerment to bring forth improvements where needed. So, motivating people to execute blue ocean strategy to the best of their abilities that overcome management risk (Kim & Mauborgne, 2005c).

### **7.10 Studies related to the BOS**

There are many studies that have been applied the BOS for different purposes, and they show that BOS is a good strategy that can lead to high growth such strategies can be enacted at any, or all of , firms, regional or international level. Ceilter by the private company, public organizatio or govermental level. The table 4-1 below has stated these studies:

**Table 7-2** Studies applied the BOS

| Author-Year                        | Focus & Research context   | Data analysis   | Conclusion  |
|------------------------------------|--|---|---|
| Colin C. Butler (2008)             | -To investigate approaches to a blue ocean strategic formulation and implementation by both the SME sectors and analysis key differences between the firms of different sizes. | A large scale survey was distributed to 300 managers from the cities of Abu Dhabi and Dubai. The samples included SMEs and MNEs | The results found that the SMEs sector holds the primary principles of blue ocean strategy more favorably than large firms.   |
| Burke, Van Stel, and Thurik (2009) | To investigate the prevalence of blue ocean versus competitive strategy in Dutch retail industry.  | Empirical model for 41 shops in the Dutch retail sector over sample period (1980- 2000) and Average profit and number of firms. | The result shows that BOS and competitive strategy are both coexist in Dutch retail industry within the same competitive theoretical framework, and the dominance is not categorical but determined the market conditions in which the firms operate. |



|  |   |   |   |
|--|---|---|---|
| <p>Jussani, de Castro Krakauer, and Polo (2010)</p>  | <p>to inform strategic decisions is important for firms on the path to competitiveness, and to provide an overview of four strategies; blue ocean, Ansoff's matrix, Porter's generic strategies, and Hax and Wilde's delta model.</p>   | <p>Applying the scientific reading approach in order to draw a matrix among the four strategies.</p>  | <p>firms seek to develop their competitiveness through the process of strategy formulation. The study found that each strategy has a character that fit for each type of firms and environment.</p> |
| <p>Parvinen, Aspara, Kajalo, and Hietanen (2010)</p> | <p>-investigates the role of totally new value creation mechanisms in a company's sales strategy. Using value creation and strategic marketing as theoretical approaches, the study looks at the way in which blue ocean strategy is proliferated to sales management activities, and business results.</p> |   |   |
| <p>Lu and Thawattharee (2011)</p>                    | <p>To analyze how to use value innovation to create competitive advantage and get market leader position by using blue ocean strategy framework to case study IKEA in Nanjing</p>   | <p>Depth interview of local costumers, co-workers &amp; managers, and applying SWOT analysis in order to see the conditions of for macro environment of local market.</p> | <p>The value innovation for customers &amp; company lead IKEA successful applying its BOS globally and get leading the market.</p>  |

|                      |  |   |   |
|----------------------|--|---|---|
| Lindič et al. (2012) | To discuss the shortcomings of economic policies approach that focus on companies of specific sizes that operate in specific industries and focus on specific business activity, and propose another based on blue ocean strategy. | The study empirically tested the BOS propositions on Slovenian and on line retailer Amazon companies' using empirical data. | <p>1. The findings show a correlation between rapid growth and blue ocean strategy, confirming and exploring new market spaces lead to higher growth.</p> <p>2. The results show that fast growth is independent of both company size and industry, and to achieving high growth not only through technology pioneering but through value innovation.</p> <p>3. Their findings call for a shift in focus to include value innovation, creation of uncontested market spaces, and intra-industry cooperation and collaboration</p> |
|----------------------|--|---|---|

|                                       |  |   |   |
|---------------------------------------|--|---|---|
|                                       |  |   | between companies of different sizes  |
| Pitta and Pitta (2012)                | -to address the issue of the inordinately high failure rate of new products that only tend to increase as competition intensifies in an industry. to avoid that through incorporating blue ocean strategy. | Applying Six paths analysis early in the process of NPD ideas. And four actions frameworks in to a strategic opportunity development (SOPD) matrix. | incorporating BOS could reduce the failure of new product and create products that are not emulated easily.   |
| Eskandari, Miri, and Allahyary (2015) | to solve the problem facing organizations in different areas of management in Iran during global stagnation.   | The study is a kind of applied research and the method of doing it is A description and analysis and library studies of BOS is applied.             | The study conclude that the good blue ocean strategy cannot be imitated, and it can provide favorable conditions for growth and development of national and industrial of Islamic Republic of Iran. |

|                         |   |                                   |   |
|-------------------------|---|-----------------------------------|---|
| Mumin and Zainol (2015) | To identify what are the causes of abandoned residential housing projects in Malaysia, examining how it affect the affected home buyers, and to suggest the solutions from blue oceans strategy | The BOS four actions were applied | The finding revealed that from BOS will create healthier housing industry that is free abandonment and protect the home buyers from being victimized by private developers. |
|-------------------------|---|-----------------------------------|---|

Source: Author.

### 7.11 BOS for Tourism industry

There are very few studies of BOS being used in tourism research. Some of these studies have adopted the blue ocean strategy for growth and development, and even during a crisis in tourism industry. In terms of tourism industry and hotels industry and hospitality in particular, there are some few studies have adopted the BOS (Starwood , 2007).

Starwood hotels and restores have been exploring blue ocean thinking since 2004, but INSEAD knowledge has discovered that the company has been taking a step-by-step approach to implementing the concept of the BOS. The problem was that the hotel project team and Six Sigma black belts found it hard to come up with new solutions and break away from the competition. Therefore, Starwood hotels see that it is more important in finding blue puddles, lakes or rivers at this stage rather than blue oceans. It was through a leadership development course at INSEAD that member of group’s executive committee were first revealed to the strategic concept. some work on the Blue Ocean Institute website (e.g. Starwood Hotels case scenario); Starwood hotels decided to look at the opportunities with the BOS amalgam by developing a

process thorough the staffers which are trained in BOS, and focusing effectively on non-customers four mounths earlier to apply it to the two projects (Starwood, 2007).

The first project experienced in hotels in Italy and Malta by targeting non-customers, and the company implanted the research into what families' desire on vacation through focusing on children not parents. Then the company developed special offers and rates to attract families, based on what the children want from a vacation. Some work on the Blue Ocean Institute website ; The second project implanted with similar target of non-customers. Starwood's Westin hotel has a scheme called Heavenly Bed, and it offered as other hotels their beds for sale. The Starwood researched into hotel bed retail market and found that there is a little innovation in this industry , and it could be the opportunity for Starwood to market their sleep experience through talking to the people who purchase of beds not to who stayed in hotels. Thus, that has led to the interesting observations and the opportunities that Starwood can work on it. Hence, the concept of the BOS is spreading very fast throughout the organizations and hotels which are coming up with their own ideas. Also Starwood, (2007)said that there are four projects in infant stages in terms of integrating them into operational innovation by coming out of them with some blue puddles, lakes, blue rivers, meanwhile learn and have a couple of blue oceans there it is very worth and should continue on.

Yang (2012) highlighted the characters of BOS in selected hotels in Taiwan by applying a four-element grid. Therefore, the author asked the four questions rhetorically of BOS to offer the practitioner a great insight into the hotel industry in Taiwan, and it provided a valuable insight into the status of a business situation and how it may be changed and improved. According to the author, reconstructing the buyer value elements enables stakeholders to create customer value, innovative product and service offerings for customers;

consequently, resulting to an uncontested marketplace. Moreover, the author stated that to focus on the needs of consumers and an exclusive market for product can challenge product developers and strategies.

The author found that creating value for hotels can reinforce the income of the industry and strengthen market positions in the hotel marketplace. In addition, it could create new value by delivering new offerings in a new uncontested market marketplace; hence this will lead to development of hotel products and tourist packages for international and domestic tourists (Yang, 2012). The author said that there are many areas of hospitality that were not identified for elimination, change or creation, and this knowledge has value. Finally, the researcher concluded that all the strategies that have been adopted by hotels in terms of the price and product and market have been considered as a key concept of the blue ocean strategy, which are value and innovation.

Ahmat, Abas, Ahmad-Ridzuan, Radzi, and Zahari (2015) explored the ability of creating new market space that is uncontested and has to be done by the firms and organization through steering away from the satisfaction of the current products, services and management, by understanding the business environment and configuration. Also, they insisted to examine the impact of BOS' tools and framework in hotels performances especially the objective or financial performance. ERRC has considered as an extension of the four actions tool which can also be assumed as a version of the SWOT analysis. However, through eliminating and reducing factors, the BOS allows the firms to keep track of the product and services differentiation and low cost to break the value-cost trade off (Ahmat et al., 2015).

In terms of recovering tourism industry, during the global economic crisis, Croatia set a number of challenges for the creation of an adequate tourism policy and decided that it was time for a blue ocean strategy. Changes in the global market had less of an impact on the intensity of travel and more on

tourism consumption (Blažević, Tubić, & Brdar, 2012). Therefore, the Croatian tourism industry thought about how to attract potential tourism, through its unique natural and historical heritage. Hence, the Croatian tourism industry focused on moving from mass tourism to the culture cities and development of its regions. It has been important to create the identification of Croatian tourist in order to increase the competitiveness and facilitate its position in the tourism market.

Blažević et al. (2012) conducted a study on 25 cities which are related to tourists in Croatia. Their study aimed to identify the crisis management responsibilities in the depression economy, which are a condition for the competitiveness of tourist destinations and the potential for opening the blue ocean strategy to Croatian tourism. As a result of that, they found that the impact of the economic development has increased activities in many sectors and in some of selective tourism forms, such as tourism culture. Hence, tourism culture is included within the trip to the cultural resources. The researcher explains that tourism emerges when it moves from offering clean sea and city depending on the surrounding area to a period where the regions live off the culture and heritage cities. Moreover, these cities have affected the development of a city region and the other areas to more widely affect the country itself. Moreover, the researcher concluded that the blue ocean strategy has been seen in Croatian tourism culture, such as camps, marines, for its value in the customer (Blažević, et al.2012).

### **7.12 Background of Recovering Tourism Strategies**

The four conditions for the proper development of the tourism industry locally or internationally are peace, safety, security and stability. Therefore, they are considered the fundamental determinants of growth and development, and without them, the tourism countries cannot compete with the generating markets even if they have the components of success.

A great number of studies have been carried out on the effect of exogenous factors, such as political instability, crime and terrorism within the tourism system. Central to all of these is the idea that risk, perceptions of risk, or the potential of risk, significantly affects tourist demand and behavior. In a comprehensive review of studies on the impact of terrorism and political instability. The severe negative effects of political instability on the tourist sector have been widely documented on some countries; such as China (in the wake of the Tiananmen Square incident), Egypt, Turkey and Israel. In the 1990s the international tourism sector was detrimentally influenced by the Gulf War (Pizam & Ellis, 1999; Seddighi, Nuttall, & Theocharous, 2001).

Furthermore, crimes in destination countries are another factor that has negatively influenced the tourism sector. Pizam and Ellis (1999) noted how acts of crime against both tourists and local residents and/or political or known figures in tourism destinations such as New York City, Spain or Mexico, have led to a decline in the number of tourists. Moreover, Sönmez (1998) and Ferreira and Harmse (2000) argued that crimes can give a negative image of a destination country, and they can deter people from travelling there.

Researchers have highlighted the pivotal role of media as an external actor in the tourism system in terms of factors such as political instability, crime or war. Coverage of terrorism and political instability (as an example) by the media has the potential to form an image. For example, negative media coverage can easily influence the formation of a position (Sönmez, 1998). Thus, the perception of tourists in a destination is shaped strongly by the media (Pritchard & Morgan, 2001; Uysal, 1998).

Macroeconomic factors, such as changes in disposable income in source markets and falling or rising exchange rates, have been shown to be important exogenous determinants of demand (Sinclair, 1998; Uysal, 1998). Other



external factors that can affect tourism flows to a destination are natural disasters. For instance, earthquakes, and social factors, such as hygiene levels can have an impact on tourism (Mathieson & Wall, 1982). All of these factors also affect producers. Therefore, the role and effect of external factors and actors are important. This section has focused on the strategies and policies that some global countries have taken through the periods of tourism crisis and recovery.

There is a huge growth of awareness within the tourism crisis literature over the past five years. Case studies of destinations have shown challenges and offered several crisis management strategies. Each destination faces different challenges in order to overcome a negative image, such as the declining numbers of tourists, which leads to a drop in revenue and growth. The solutions for one country may not an effective solution for another. However, strategies that have been applied to recovering tourism crises from political issues and terrorism are triggered and still needed to be identified (Sönmez, 1998). Such relatively rapid recovery and development of tourism act as an economic measure reactivation.

#### **7.12.1 Promoting and Hosting Spotlight Events strategy**

In a study of negative image caused by civil unrest and terrorism, Witt and Moore (1992) investigated whether promoting special events which created enough tourism interest would outweigh Northern Ireland's negative external image. They stressed the need for more attention to "overcome negative images of a destination caused by terrorism" (Witt and Moore,1992\_64) (p:64). They pointed out that staging special events alone is not enough, and they advised that such efforts must be supported with heavy promotions. Following the conflict in Chiapas, Mexico, the tourism minister exerted aggressive recovery efforts, which converged on efforts to increase domestic tourism by re-establishing confidence in Chiapas. One million letters were sent

to businesses in Mexico, entreating them to hold their meetings and conferences in the city's new convention centers. As incentives, businesses were offered tax breaks for using Chiapas hotels, and hotel prices were lowered to more competitive levels (Pitts, 1996).

Another example is in Israel after the Operation Peace of Galilee in 1981 when the government worked to reduce the cost of trip with the national airlines and hoteliers, and they were more cooperative. This protect policy helped the national airline in the short term, but it hampered a rapid recovery of tourism in Israel after the crisis. With regards to the internal political violence between Israel and Palestine, there were no actions taken by tourism industry to recover from the crisis. In this case, the private sector decided to act by organizing all tourism services and convincing the government to allocate an additional budget for specific marketing campaigns (Mansfeld, 1999).

The aim of hosting spotlight events is to encourage positive news to shift the international media attention from negative news about the country. One of the most famous examples of using spotlight events to improve a place image was the Nielsen use of the 1936 Olympic Games to project a positive image of their regime (Nielsen, 2001). Since then, many places have used Summer Olympics and Winter Olympics, the World Expo, the cultural Capital of Europe title, etc. These events focus attention on a particular location for a short concentrated period, allowing the destinations to promote certain chosen images to the international media. In 1990, Beijing hosted the Asian Games and used media attention to improve China's image after the Tiananmen Square massacre (C Michael Hall & O'Sullivan, 1996).

Egypt has attempted to deal with its terrorism problem through increased security and aggressive marketing and promotion efforts. Egyptian police

adopted preventive and proactive measures that eventually helped them to find and arrest terrorist leaders. After Egyptian terrorists targeted foreign visitors, the Egyptian police force adopted countermeasures against terrorism based heavily on tight criminal actions aimed at protecting the country, in general and the vulnerable tourist industry in particular (civil police officers were placed on all transportation vehicles used by tourists) (Wahab, 1996). The Egyptian tourism ministry re-evaluated its marketing strategy, and then set new objectives, including heavy advertising. For example, Egypt hosted a series of international special events to draw world and industry attention away from the terrorism. Similarly, Northern Ireland has attempted to overcome its negative image created by Irish Republic Army (IRA) terror by promoting local music, dance, literature and theatre festival (Witt & Moore, 1992).

#### **7.12.2 Media strategy**

Negative media coverage of a destination can contribute to the “outer field” of potential travelers’ perceived environment. Ehemann (1977) described how objects that are value laden statements which used in communication and education training to mean statements in questions filled by the speaker’s value. For example, “Ireland is a turbulent country” are used by print media, which can convey a value judgement regarding a destination, and can potentially contribute to a negative evaluation of that destination. Ehemann’s statement “behaviour is geared to the perceived world, however distorted it may be” (Ehemann, 1977, p. 28) alludes to the power of mass media over public perception and the fact that perceptions represent reality for most individuals. In Chiapas, Mexico, as part of crisis management efforts, recommendations were made to produce and distribute videos of other destinations that suffered a similar fate, demonstrating their return to peace and stability and developing slogans to the same effect to aid recovery efforts (Pitts, 1996). In Egypt, Wahab (1996) argues that a promotion alone is insufficient to draw world and industry

attention away from terrorism. Furthermore, he recommends maintaining good contacts with members of the international media. The reason for providing comprehensive information to international tour operators, travel agents and the press is to evaluate travel risks in their proper context and wisely guide tourists away from the high-risk areas.

Moreover, in 2002, Bali suffered a severe crisis in the decline of international visitors due to serious bombings, which were targeted at tourists specifically. In early 2005, the country recorded a significant high number of international visitors, which exceeded the expectations of the government. The authorities of Bali took steps to improve the destination image by applying the market strategies based on multimedia and intensive uses by the governments and cooperation with internal and external organizations. These strategies involved creating alliances with the media in order to restore tourists' confidence in the destination (Ali, 2013). The Pacific Asia Travel Association (PATA) undertook a proactive public relations campaign through TV, radio, and online media. In addition, PATA worked closely with international offices in America and Europe in order to reduce panic among potential tourists. Moreover, a three-month project called the Project Phoenix launched a "Welcome Back" campaign on CNN, and other campaigns were launched in "BBC World" and National (Ali, 2013).

### **7.12.3 Create Symbols and Logos strategy**

Symbols and logos, which are the components of marketing campaigns, are also important. Thus, the destination in transition may also need to change its symbol. Pitts (1996) discussed how the developing slogans in Chiapas positively affected the aid recovery efforts. Spain re-branded itself by using Joan Miro's bright and lively "Espane" painting as a national logo and as a symbol of the nation's post-Franco optimism. Slogans are also the most effective methods of improving the image of the country. A good slogan may

be used for many years and through several campaigns; it can lay out a destination's vision, reflects its spirit, and creates enthusiasm and momentum (Avraham, 2004). A destination undergoing a change could create or replace its slogan, emphasizing this together with its new look, as in the case of Thailand with "Amazing Thailand", or Malaysia, whose slogan includes "Malaysia, Truly Asia".

#### **7.12.4 Employing Counter-Messages strategy**

Launching a counter-message in order to fight a negative image and preserve a positive one is also known as a "counter-message offensive" (Kotler, 1993). Sent counter-messages are geared toward changing the negative components of the image, so that the destinations are no longer perceived as unsafe, unstable or dangerous. Avraham and Ketter (2008) claim that a country that has suffered from terrorist attacks, which were covered in the international media in the context of number of victims, blood and chaos, can create a campaign that is totally different from these images.

Tunisia adopted an advertisement campaign after a terrorist attack in 2002. The campaign aimed to inspire "peace and tranquility" in visitors (Avraham, 2004). Tunisia did not use this strategy for very long, but many countries, such as Syria, Israel, Northern Ireland, among others tried to promote the fact that they are safe for tourists.

Moreover, India is perceived as a major tourist destination, but for most Americans, India is associated with epidemics, floods and poverty. In 2001, the Indian Tourist Bureau launched a campaign aimed at creating a counter-message image. In the campaign, India is presented as a peaceful, beautiful and spiritual place. Repositioning India as counter to the common stereotype is an efficient way to change the negative image of the country. The "counter –

message offensive” has also been used for other issues beyond security, such as health problems (Avraham & Ketter, 2008).

### **7.13 Literature of the International Tourism Strategy in Libya**

Development of the tourism market has played a fundamental contribution to the economy of Libya is an emerging destination country in the North African region, and it has been considering tourism for economic diversification. Therefore, many Libyan studies have focused on important strategies that can be developed in order to deliver the best strategy to the policy makers.

In 2003, Abuharris and Ruddock investigated the important issues that have hindered the development of the tourism sector in Libya, and they analyzed the challenges that hinder the growth of international tourism in the country. The authors aimed at improving plans and policies of the tourism industry in Libya. Therefore, they adopted a triangulation method by conducting interviews, questionnaires and observations. The sample targeted 36 tour operators and travel agencies in the UK in order to find out the reasons of why Libya possessed a minor share of the tourism market in the UK. Moreover, for the purpose of finding the image and the expectations of international tourist about Libya and the degree of satisfaction, the other sample of questionnaires was delivered to 282 international tourists. The interviews were directed to tourism stakeholders in Libya. The sample included five from the Libyan General Board of Tourism, five local tour operators and seven local hotels.

The researchers suggested strategies that Libya should undertake in order to enhance its tourism sector and reduce its dependency on oil revenue. They found that that Libya is less known as destination country in UK market due to an absence of promotional activities and public awareness. Therefore, they suggested increasing investments to market Libya in the UK. The authors indicted the role of the government in policies and strategies for leading

tourism development, particularly in developing the tourism product. One of the strategies which they suggested, was to market Libya within other African countries for multi-destination packages.

In terms of staying and increasing tourism expenditure, the researchers discussed that it is important to develop new special-attractions that will help the visitors stay longer. Furthermore, their results showed negative results in terms of ticket, air flight and shopping prices which are considered too high for tourists. Therefore, they suggested offering value for money, and more competitive with destination countries in the region. Hence, tourists can be encouraged to spend more time in the country.

According to the (GTTI (2006) , Libya is focusing on education and cultural tourists, instead of targeting mass tourism like its neighboring countries, and it is not aiming at selling the country cheap. In addition to awareness and knowledge about the tourist products and improving the image of Libya as a tourism destination among international tourism market, this depends heavily on a well-designed marketing research and Libya is far behind compared with other competing destinations in the region (U. UNWTO, 2007).

Naama (2007) analyzed the human resources development (HRD) issue that relates to the Libyan hotel sector by applying a partnership approach between governmental educational institutions and hotel sectors. Moreover, the researcher aimed to develop and support a model of workforce planning for the Libyan hotels sector, as an international competitive destination. The researcher adopted previous interviews for hotel managers and academic Libyan staff in three hospitality institutions in order to highlight all the issues that relate to the Libyan Tourism Minister Plan (LTMP). Hence, the researcher followed another interview, but this time with the Libyan government, such as the Minister of tourism, manager of the Tourism Investment and Promotion

Board (TIPB), and the manager of Investment and Marketing in the tourism sector. The purpose of these interviews was to explore the weakness and deficiencies in LTMP in terms of HRD and to identify government strategy in the short and long term.

The findings of the study indicated that there were a number of interrelated issues that challenge Libyan tourism and hospitality development. The poor image of employment in this sector is due to diverse reasons, such as low average of payment; negative image about tourism, culture and religious perspective particularly for women's role. Furthermore, the media has a fundamental role for enhancing and supporting public awareness, which includes the importance of tourism toward the economy and society in the curriculum of the schools that can increase the degree of the awareness among young people. The output of the Libyan hotels and education institutions were not inadequate for the needs of Libyan tourism and hospitality industries requirements in terms of quality and quantity. Therefore, many initiatives were taken to enhance human and physical resources of the existing hotel education institutions (HEIs), as well as expand HEIs network across Libya in order to promote secondary and higher education. Additionally, the researcher concluded that the official government ensured the engagement of the private sector in reforming and driving the education sector so that it meets the requirements of the tourism market. Finally, the researcher indicated that the constructive partnership between all the stakeholders from the government, education and private sector to focus on the development of the workforce by putting the right people in the right jobs based on their experience and skills.

Khalifa (2010) widely explored the challenges that faced Libya in competing with internationally-competitive tourism destinations by developing a sustainable competitive destination model (SCDM) to SCDM2. The model undertaken includes the most important elements and issues of a competitive destination, such as image, accessibility, supporting resources, comparative



advantage, local community and management and planning, in order to deliver a sustainable competitive destination and guideline for Libya as a new destination to compete effectively and sufficiently in the global market. The data was collected and applied from the main stakeholders in Libyan tourism product, such as government officials, tour operators, hotel managers, tourists and local communities. The author applied five qualitative methods which are: focus group, interviews, semi-structured interviews, document analysis, audio-visual materials and participant observations. However, to identify the challenges that faced the Libyan market, the author applied a SWOT analysis or the so called strengths, weaknesses, opportunities and threats. The researcher focused on destination image through the demanding side of sustainable competitive destination model SCDM2; whereas, the supply side focused on the destination elements.

The researcher concluded that Libya has major challenges in delivering appropriate prices and high quality products in order to compete with the Middle East and North African countries (MENA), in addition to Libya's image in the UK in comparisons with MENA competitors. He concludes that British tourists sampled revealed that there are no similarities between Libya and those countries, unless in language and religion. However, the study revealed that the UK tour operators still consider the Libyan tourism market as linked with high risk. Lastly, in terms of management and marketing, the author indicated strengths and weaknesses of the tourism industry, and he gave the potential opportunities and kinds of threat that could affect the destination to destination marketers and management.

E. Jones (2010) conducted a study regarding political change and tourism in Libya. The research found that Gaddafi was controlling all aspects of the Libyan political life. Hence, any reforms could not be done without his backing. Integrating tourism as a part of reforming agenda varied in terms of the infrastructure and partnership between local and foreign investment.

Moreover, the author indicated a weak image of Libya from key resources tourism markets and complexity issues in terms of visa passport and currency, as well as security. He indicated that that Libya should be converted from comparative to competitive advantage by achieving high-quality distinctive tourism product through a plan which involved the private sector. In addition, there should be promotion and marketing activities to tackle Libya's low image in the European markets.

Bizan (2013) focused on one aspect of the tourism market, namely planning, by linking the goals and resources of an organization to its opportunities for marketing. He stated that any change of the market environment did not meet the change of the plan strategy that led to collapse of the organization. His approach focused on developing the tourism market plan model. The author concluded that the plan should be more comprehensive to assure that the goals of the organization are reached with a response to any changes in tourism market conditions. Such as, economic and political changes, published researched materials on growing or diminishing markets, technological developments, changes in leisure activities increases in the number of short break holiday takers or increased demand for special (value added). Moreover, he indicated that Libya needs to be prepared to meet the international market requirements in order to be competitive and stay in the market, such as the need for promotional and marketing activities for developing the tourism industry. Thus, an appropriate strategy should be adopted to deliver distinctive Libyan tourism products which are not provided by its competitors. Finally, the researcher concluded that securing the borders of the country and balancing between local values and demands of tourists should be considered.

Ali (2013) studied crisis impacts on the tourism industry, such as terrorism, political instability and natural disasters. He aimed at suggesting recommendations to recover Libya 's tourism industry from the impact of the revolutions. Hence, his research was based on improving Libyan image. He

analyzed the way other countries recover from crisis by using advertising approaches. Based on the experience of other countries the researcher recommended increasing the budget for promotions, creating alliances with the media, providing added value to the tourists, working on the ground (inviting famous or figures), cooperation with private agencies, targeting growing markets (Asian market as an example) and promoting events and re-opening for historical sites, as an example.

Bayoud (2013) focused on training, particularly in the hotels industry, and aimed at identifying the core issues that faced Libyan hotels in terms of training. The study conducted through the policies, plans and practices of the public sector which called Social Security Fund Investments Company (SSFIC). The researcher conducted mixed qualitative methods by collecting different data resources, such as documents which included training policies and plans, three surveys distributed to three different group into two hotels business, semi-structured interviews with managers who were responsible for training, and one-site personal observations. The researcher found major issues within the SSFIC staff, despite the majority of them attending training courses. The research identified many issues in terms of Libyan hotels in general, such as a lack of local qualified skills and trainers, non-cooperation between private and public sectors and low wages or in specific for SSFIC training, such as insufficient training analysis, absence of course review. He found that practical training was inadequate and there was a lack of training incentives for the post courses.

Elkrghli (2014) investigated market orientation in relation to the Libyan tourism business for both private and public sectors. The study aimed at assessing the conception of the Libyan tourism business for adopting market orientation. Moreover, it estimated the performance of the private and public tourism business, determined the link between market orientation and tourism business, and measured the influence of ownership and organization position

on market orientation and tourism business performance. The researcher applied a number of questionnaires, which were distributed to high level executives and clerks in the Libyan tourism business. The researcher found that there was an increase of adoption market orientation. Also the performance of the private business seemed to be better than public businesses. Furthermore, he found a positive relationship between performance of tourism business and market orientation, but it was stronger in private businesses than the public sector. Finally, he stated that market orientation in the tourism business is a fundamental element that leads to tourism performance, even for a country which is considered less competitive as Libya.

Mossa Amhemed (2014) explored the possibility of creating sustainable development in the Al-Gabel Al-Gharbi city by investigating stakeholder's perceptions on sustainability of tourism development in city of Al-Gabel Al-Gharbi as a representative of other Libyan cities. He aimed at verifying the presence of reliable tourism resources, as well as to find out the that can be provided by the stakeholders, whether alongside or against the development of the city. The researcher used mixed methods for collecting his data; a questionnaire was applied in order to shed light on stakeholder attitudes, such as residents and tourists, and interviews were conducted to discover stakeholder attitudes in the public and private sectors to support the study. The findings confirmed the presence of good tourism resources in GGC in terms of the quality and quantity of tourism product, although some sites needed some of maintenance and promotion. Moreover, there are supportive policies in terms of legalization, administrative and funding policies. In contrast, the research found a shortage of support from all stakeholders with regards to tourism development of the city. Furthermore, he indicated that identified sustainability resources in city by determine tourism demand , and the key tourism projects and its priority for development.

Alammari, Khalif, and Othman (2015) focused on the degree SMEs in private and public investors which can play a role for developing tourism industry in Libya. What is more, the researchers aimed at examining several areas which SMEs can become a main player in. In terms of methodology, the researchers conducted their research by using a SWOT analysis. Hence, they found that the main projects should be controlled by the state, and private initiatives can make a partnership with them. Also, they concluded that key players in domestic business represented the various investments of wealthy funds that are owned by the government. They indicated that the domestic businesses are more oriented in profits and professionalism than the state, and that stimulated small local players. Finally, the researchers pointed out that the potential for tourism growth in Libya is higher than Egypt and Tunisia, if the country recovered from the negative image. They argued that the new image should be more focused on culture heritage and archaeological sites.

In terms of the above, all the literature that has investigated the Libyan tourism industry focused on improving the image of the country. Hence, it can compete well and remain known in the global market as a destination country. However, Libya is a virgin tourism country and it has different elements and factors which definitely make it different from other competitors. As a result of that, this study has focused on different strategies that have not been applied in the tourism industry in Libya. This study aims at achieving two purposes; the first is to apply this strategy for more investigation in terms of the econometric results to find out the reasons and the causes of increasing the demand in tourism or vice versa. The second is to deliver the best strategy which distinguishes Libya as destination country, hence, avoiding Libya to be in the red market.

Despite the importance of strategy in Libyan tourism literature, there are no studies that have applied empirical investigation of tourism contribution to

economic growth in Libya. Moreover, this study has combined two investigations with regards to empirical investigation and strategy, which is the kind of strategy that drifts away from the red market in order to fill a gap in the Literature.

#### 7.14 Summary

This chapter has listed all the strategies that have been undertaken for some countries in order to recover its tourism industry. However, all these strategies which have been listed in this chapter belong to countries that have experience as tourism destination countries. Moreover, this chapter has introduced all the Libyan tourism strategies studies, such as image, SMEs and development, but these studies have not investigated the effect of tourism on economic growth. Furthermore, none of the above Libyan strategies have mentioned a proper strategy that fits within the current situation in Libya, but for short-term, with unique strategies based on the blue ocean strategy competition factor with other destinations. This research has aimed at looking for a strategy that makes the Libyan tourism industry identical, different, and distinctive, and away from the competition market. Therefore, this study uses a four-action framework (eliminating, reducing, creating, and raising). The first two components involve attempts by a company to enhance a low-cost advantage within an industry, whereas the latter two components enable the company to enrich its differentiation advantage. Indeed, value creation should be unique and hard to imitate. Finally, the implication of a mixed methods quantitative method (time series methodology), and qualitative method will be used to ascertain what other factors are not included in our model and could enhance and push tourism industry for growth. These have been applied in the next two chapters with regards to the qualitative approach.

## **Chapter 8: Semi-structured Interview**

### **8.1 Introduction**

Conducting interview following an econometrics analysis of the relevant data sets provide the policy makers with useful data and have understanding . In the context of Libya, many studies have undertaken the mixed method approach, such as Khalifa (2010) and Mussa (2014), who applied interviews following a questionnaire. However, this study used econometrics model with interviews.

### **8.2 Grounded Theory**

The ground theory, which founded in the 1960s in the United State in the field of the nursing studies by Barney and Strauss (1967) , has provided useful tools to learn about individuals' perceptions regarding to the particular subject, and it offers a powerful methodological framework in terms of the individuals' perceptions. Moreover, it can provide the guidelines for the data collection and analysis and a structure for coding (Strauss & Corbin, 1998).

Saunders, Chandler, Merchant, and Roberts (2000), Knight (2002) , and Robson (2011) classified three types of interviews, which are: structured, semi-structured and unstructured interviews. In this investigation, a semi-structured interview with open-ended questions is used, because this type is considered the main source of significant data. Semi-structured interviews allow the participants' flexibility in responsiveness to supply additional information, which arises by the situation. Hence, the semi-structured interview is appropriate for this study. Furthermore, Kvale (2007) stated that semi-structure interviews give the opportunity to follow-up the interviewees' answers and ask for clarification, or to probe unexpected responses.



### 8.3 Sample design and ethical consideration

Strauss and Corbin (1998) said that the main key of grounded theory is to produce enough data, so that the clarify patterns, concepts, categories, properties, and dimensions of the given phenomena can emerge. Therefore, it is essential to attain an appropriate sample size that will generate sufficient data (Auerbach & Silverstein, 2003).

*“And the appropriate sample size is based on new or relevant data to emerge regarding a category, the category is well developed in terms of its properties and dimensions demonstrating variation, and, the relationships among categories are well established and validated”* (Strauss & Corbin, 1998, p. 212)

In the case of interviews, there is no set number for when theoretical saturation occurs (Glaser & Strauss, 1967; Strauss & Corbin, 1998). One of the aspects is that sample size depends on the research question (Morse, 2000; Sobal, 2001). Many of studies are that sample size for grounded theory relies on the point of theoretical saturation (Glaser & Strauss, 1967; Locke, 2001, Goulding, 2002, Strauss & Corbin, 1998). The studies demonstrated that saturation normally occurs between 10 and 30 interviews; moreover, these additional interviews act as a form of validation of the patterns, concepts, categories, properties, and dimensions that the researcher has developed from the previous interviews (Corbin & Strauss, 1998). Thus, it would be wise to anticipate 20-30 interviews in order to facilitate pattern, category, and dimension growth and saturation. It is only through the quality of the data that meaningful and valid results are developed, so it is essential that the researcher ensure that saturation has occurred (Corbin & Strauss, 1998; Glaser & Strauss, 1967; Creswell, 1994).

The ground theory methodology applies a form of sampling, which is known as theoretical sampling, where the participants are selected based on the aims of the research. The variables or concepts are emerged by the interviewee. The researcher conducted semi-structured interviews until the achieved data

saturation. Then, the researcher received the same answers and no further contributions were offered. The sample has been selected from tourism market stakeholders which includes the public relations manager and consultants in the tourism ministry, managers of the hotels for the public and private sector, tour operators and tour guides. The total number of stakeholders is 20, and their profiles are tabled below:

**Table 8-1** the participants profile

| <b>Numbers</b> | <b>Occupation</b>  | <b>Experience</b> | <b>Coding</b> |
|----------------|--|-------------------|---------------|
| <b>1</b>       | Deputy of the Tourism Minister                                   | 16                | DT            |
| <b>2</b>       | Tourism Consultant   | 30                | TC.1          |
| <b>3</b>       | Tourism Consultant   | 15                | TC.2          |
| <b>4</b>       | Manager of information and documentation at the tourism ministry | 13                | MI.           |
| <b>5</b>       | Public relation and media at tourism ministry                    | 18                | PM.           |
| <b>6</b>       | Director of the public relation at tourism ministry              | 20                | DP            |
| <b>7</b>       | Promoter of the tourism market at tourism ministry               | 4                 | TP            |
| <b>8</b>       | Hotel Manager  | 18                | HM.1          |
| <b>9</b>       | Hotel Manager  | 20                | HM.2          |
| <b>10</b>      | Hotel Manager  | 27                | HM.3          |
| <b>11</b>      | Executive Assistant of the Hotel Manager                         | 25                | HM.4          |
| <b>12</b>      | Tourism Operator   | 25                | TO.1          |
| <b>13</b>      | Tourism Operator   | 15                | TO.2          |
| <b>14</b>      | Tour Operator  | 20                | TO.3          |
| <b>15</b>      | Tour Operator  | 4                 | TO.4          |
| <b>16</b>      | Tour Operator  | 4                 | TO.5          |
| <b>17</b>      | Tourism Guide  | 8                 | TG.1          |
| <b>18</b>      | Tour Guide   | 12                | TG.2          |
| <b>19</b>      | Tour Guide   | 10                | TG.3          |

Source: Author

This study required 19 interviewees in order to obtain a purposive sample rather than a random sample, and because this study is interested in the opinion and experiences of experts or people with direct experience. And due to the stakeholders in tourism industry are varied, so this research seeks to cover some of types of stakeholders by taking small sample in each category; for an example five tourism operators, three of tour guide, four from hotel industry, three from tourism policy maker, and four interviewees categorize under the publicity and media in tourism ministry. Moreover, the stakeholders that have been covered in this research are from different regions in Libya, such as from the East, West and Southren, in order to cover all different perspective in the tourism industry around the country. As a result, this study obtained enough qualitative data and then analysed it. In addition, the use of the qualitative data might answer the research question.

The research ethics relate to the appropriateness of behavior of the researchers in relations to the participants who are associated with the research subject. The research ethics are focused on how can plan for this research, such as, accessing the data, analyze the data, store the data and how the research findings and outcomes are presented. The definition of the ethics in the research has been defined by Breazeal, Buchsbaum, Gray, Gatenby, and Blumberg (2005) as sets of moral principles or norms that are used to guide moral choices and behavior and relationships with others. The table (8.1) listed the information about the interviewees.

#### **8.4 The Semi-structured Interview**

The open-ended questions have developed a guide to the semi-structured interviews. The blue ocean strategy was clarified before each interview, and the interview guide was delivered to the participants ten to fifteen days before the interviews were held in order to allow the respondents to think about the questions in advance but some of them took more than fifteen days. This research has interviewed questions into two sections, which were prepared for

interviewees. The questions in the first section focused on their occupation experience, and their thoughts regarding the tourism situation in Libya, and the challenges it faces. Whereas, the second section were focused on four interviews questions have been drawn verbally from Kim & Mauborgne (2005a) and developed in order for the research questions which are:

1. Which factors should the tourism industry eliminate to increase tourism expenditure?
2. Which factors should the tourism industry reduce to increase tourism expenditure?
3. Which factors should the tourism industry raise to increase tourism expenditure?
4. Which factors should the tourism industry eliminate to increase tourism expenditure?

In some cases, the respondents were promoted to give a clear answer if their answers were vague or lacking in detail.

Each question focuses on different aspects. The first section discusses all the factors that should be eliminated to increase the growth of the tourism expenditure for Libya. The second section provides discusses all the factors that should be reduced to increase the growth of the tourism expenditure. The third section is concerned with the raised factors and the discussion is provided below. The fourth section is concerned with the created factors, which are related to recovering and increasing the Libyan tourism market share.

The interview lasted approximately 90 minutes for each interviewee, and the interviews were conducted either on Viber or on Facebook. In terms of the reliability of the data collection and to overcome the threat that the researcher required from the respondents to record their answer, some of them accepted that and others preferred to write their answers for each question, while the rest of them attempted to write notes for their answers during the interview.

Moreover, the interviewees were promoted to elaborate when responses were ambiguous or details were missing.

## **8.5 The data analysis process**

### **8.5.1 Transcript reviewing**

This stage is aimed to review all the data at this point, and then re-reading the data transcripts several times to be able to understand and evaluate the interviewee's perceptions (Mehmetoglu and Altinay, 2006). Following that stage, the data were in Arabic, and then translated into English in order to analyze it. This research used the manual qualitative analysis to manage the interview data, and the study did not use software; because no software will be able to carry out the analysis of the researcher (Weitzman, 2000)

The transcripts organized, arranged and re-arranged the considerable data in a manual way as an example, each question was selected to look into the interview transcript. Then, all the significant information about the interview were put it in the first paragraphs of each transcript, and that it was from the beginning to help organizing the data efficiently. After that, looking for specific text that could be linked together across all the interview set.

### **8.5.2 Interview coding**

This stage of the data analysis process of coding is considered the first step of the data analysis, and it helps to move away from specific statement to more abstract interpretation of the interview data (Charmaz, 2006). Corbin and Strauss (1990) provided a direction for the researchers to develop the grounded theory by using three types of coding techniques to examine interviewee's account at different levels:

- 1) The authors said that open coding is where you 'sweep' through the data and marking the text (Strauss and Corbin,1998). Open coding, there are number of ways to do open coding which are line by line, sentence by

- sentence, several phrases or sentences and paragraph by paragraph. The open coding divides the data into concept and categories.
- 2) Axial coding, which puts the concepts and the categories back together by acting of relating categories to subcategories along the lines of their properties and dimensions (Strauss and Corbin,1998). The aim of axial coding is to add depth and structure to existing categories.
  - 3) Another coding is called selective coding and known as focused coding. Selective codes are applied to several lines or paragraph in transcript. And it helps to verify the adequacy of the initial concepts developed.

The research used the inside-out technique that was provided by Strauss and Corbion (1998) to have significant properties from different perspectives. The interview transcripts were coded manually with pen and paper, and all the information that is obtained from the interviews were analyzed separately in order to identify the emerging themes, which are named by each interviewee. The themes and key words were highlighted in a different color, and as more and more interviews were coded the more of the themes where emerged from some categories. Beside, the notes were written to keep track of thoughts and idea of data analysis. Then, the themes that have emerged from each interviewee have been compared across all the interviewees in order to identify the common answer that is held simultaneously by different stakeholders in the tourism industry. As a result, the listed codes was reviewed and modified continuously when more interviews were coded and memoing to clarify and develop the categories. Eventually, the codes were checked and redefined in order to be more consistent. Moreover, the coding diagram has been based on emerging categories (Mehmetoglu & Altinay, 2006). Therefore, this study has provided five coding diagrams based on stakeholder's category, which are: government, media, tour operation, hoteliers, and tour guide.

## **Chapter 9: Presenting Interview Findings and Discussions**

### **9.1 The Tourism Expenditure Investigation Based on BOS Tool**

This section focuses on the primary data that were collected as a part of the research for this thesis. It is based on the blue ocean strategy tool (ERRC) for growth and the recovery of the tourism industry in Libya. The questions have been applied in order to solve how to boost the demand on tourism through tourism expenditure; hence, increasing the growth of tourism which has found that there is co-integration but for a one-way form of non-oil GDP towards tourism expenditure no other way around in the econometrics results. Because of that, this section precedes the investigation for stakeholders of the tourism industry to find out their views and perceptions to create a blue ocean strategy for Libya in order to increase tourism expenditure and recover its tourism industry.

This section has presented the interview results in four sections that are based on the blue ocean strategy tool as stated above. Each section has focused on a different aspect. The first section discusses all the factors that should be eliminated to increase the growth of tourism expenditure in Libya. The second section presents all the factors that should be reduced to increase the growth of tourism expenditure. The third section deals with the raised factors, and the discussion has been provided below. The fourth section is concerned with the created factors, which are related to recovering and increasing the Libyan tourism market share.

The tourism stakeholders in this study are classified into five categories, which are:



## 9.2 Tourism Consultants

### 9.2.1 Elimination

#### 1. Entry Fees and Movement Restrictions

The interviewee (TC.1) pointed out that:

*“Entry fees to tourist sites should be abolished. All restrictions on tourists’ movement and visa applications should also be abolished. Security procedures should also be less strict. “*

The interviewee (TC.2) has also supported the interviewee (TC.1):

*“Tourists do not have freedom in movement and have specific route to follow in the country. It is tourists’ free movement or what is called ‘free tours. “*

#### 2. Long journey

The interviewee (TC.1) has continued discussing his view and said that it is a failure of that decision made by some companies, he said:

*“This is a fatal mistake in marketing! Accordance to the visitors’ views whom I met, they were suffering from long distance between the target locations. For an example, how you can imagine that visitors fly from Tripoli to Benghazi, then in the early morning they go to the Shahat and Sousa, after that they come back to Benghazi to fly the next day to Tripoli, then from Tripoli to Ghadames, Albohirat, Acacus by car. As a result of that, the tourists in this journey pass approximately 4000km in ten days!”*

#### 3. The Law of Tourist Company

The interviewee (TC, 1) pointed out that:

*“The law of tourist companies should also be abolished in preference of a law in the interest of tourists. Such steps will increase tourists flow to the*

*country, which will increase the income of other parties. This is because the current laws largely restrict the flow of tourists and make competition between different companies, especially local ones, very difficult. Such companies cannot work efficiently because of the poor environment of tourism in the country“*

#### *2.1 The old international protocol*

The interviewee (DT) has added another point in terms of the tourist law:

*“In terms of the law, which is related to airlines and transportation in general, I recommend abolishing the old International Protocol in granting permissions for entry and here I mean the visa granted to tourists, whether individuals or in groups.*

#### *2.2 Avoiding giving visa through the embassies and consulates*

The interviewee (DT) has clarified that:

*“A visa is supposed to be given to the arrivals as soon as they arrive to the port, airport and port jetty, but avoiding giving it through embassies and consulates”*

#### *4. State monopolisation*

The interviewee (TC.2) pointed to the monopolism of the state for the tourism sector:

*“Elimination the procedures that are related to the visa invitation and it should not be controlled by tourism companies. I cannot invite my friends from different countries. That is because the state monopolizes tourism industry and this must end”*

Eleri supports this finding of government intervention in her study (2010). She found that this factor has affected the image of Libyan tourism industry and hindered its growth.

5. *Some of the legalization in the tourism ministry list*

Interviewee (DT.1) said that:

*“We know the transformation in the tourism sector which had taken place for many years, was turbulent and useless. It was the secretariat of the tourism, then body, after that integrated in the other sectors. Finally, it became a ministry. Hence, we focused on names but ignored investments and development of the industry. As a result of that, the legalization in the tourism sector should be abolished from the list of the ministry”*

**9.2.2 Reduction**

1. *Security procedures*

The interviewee (TC. 1) pointed out that *Security procedures should also be less restricted*

1. *Unqualified workers*

The interviewee (TC.1) has said that;

*“Reduce the number of people who are not qualified as tourist guides and the number of uncategorized hotels, which will eventually reduce the blackmail of tourists and increase their trust.”*

2. *Reduce Taxes on both local and foreign investors*

The interviewee (DT) emphasized the high interest rates that are paid by the tourism investors. He said:

*“The commercial and private banks in Libya have restricted the investors with very high interest rates! Consequently, this affects the prices of accommodation, shopping and transportation, where the buyers determine the cost of tourists. Therefore, it must be considered to cancel taxes on the local and foreign investors together”*

3. *Reduce the interests for tourist borrowers*

The interviewee (DT) has stated that:

*“, there should be reduction in the interests of bank income to tourist borrowers. Libyan banks, commercial and national, are still having prejudice against investors- the interest is very high! Of course, if the tourist has the expenses for journey, transportation, tourism practises, accommodation and shopping, all of this is siting to the seller. The seller here can be a restaurant, a hotel or someone else, and the price, which increases or decreases according to bank interests, is affordable by the buyer. ”*

#### 4. *Alleviate the contraction law*

Concerning the investment law, the interviewee (DT) commented on the investment law:

*“In Libyan tourism investment law, there is a point named the contraction, which is specifically the contract condition between the two parties does not encourage investors who are often foreign investors. Moreover, in the legal sense, it is prejudice in the contracts between the public sector and the foreign private sector. Therefore, it is imperative to alleviate this law”*

The interviewee (T C.1) has supported the view of the interviewee (DT) by saying that:

*“Current laws are significantly shrinking the flow of tourists and make it difficult for companies, whether they are public or private, to compete regionally or internationally. Tourism companies act with a law that serves the interests of tourists. This will increase the stampede of tourists, which would increase income in other destinations”*

### **9.2.3 Raise**

#### 1. *The quality and international standards of the services*

*Increase the quality and international standards of the services provided; improve the services offered to tourists by direct or indirect labours; qualify tourist guides by conducting training course to them after they graduate from the university; increase the number of cafes and tourist restaurants and establish five-star tourist resorts’’(TC.2)*

## 1.1 *Qualified tourist guides*

### 2. *Enhancing the cultural and natural sites*

The two interviewees (TC.2 and DT) have stressed on the enhancing the Libyan culture and traditional industry said:

*“Enhancing the cultural, artistic and aesthetic values in the cultural and natural sites. In addition to enhancing the safeguarding and protection ways as well as focusing on the local communities that benefit from the growth and development of the tourism industry”* (TC.2)

### 3. Increased Libyan traditional industries

The interviewee (DT) informed us that:

*“Increase interest in Libyan traditional industries because tourists are not interesting in buying a Rolex watch from Tripoli markets or a Monolux water mixer from Bin Ghazi markets. Tourists are interested in buying simple items made from pottery, traditional mats or wood, which represents the Libyan folklore.*

### 4. Increase private airplanes

The interviewee (TC.1) said:

*“Increase special and private airplanes with affordable price”*

### 5. *Developing and adding more Mediterranean dishes to the Libyan Cuisine*

The interviewee (DT) discussed the Libyan cuisine.

*“Libyan cuisine has several dishes which are completely different from the Egyptian and Tunisian cuisine, so we have to take the advantage of that by developing and adding more Mediterranean dishes”*

## 6. Effective tourism education

*Raising the effective tourism education and protect the cultural heritage from robbery”*  
(TC.1)

### 9.2.4 Creation

#### 1. Establish new nature reserves

The only one interviewee (TC.2) mentioned this point, which is:

*“Establishment of new nature reserves, such as in Acacus, Masac Staffet, Alharoj, Albohirat and Owaynat mountain”*

#### 2. Visa on arrivals

The interviewee (DT) has

*For example, a visa is supposed to be given to the arrivals as soon as they arrive to the port, airport and port jetty,*

#### 3. Tourism Chamber

Interviewee (DT.1)

*“...to become a chamber or institution which has to watch and administrate itself. The chamber will work as a commerce chamber and stock finance chamber”*

In addition, the interviewee (TC.2) supported the interviewee (DT)’s view that:

*“It is important to create the body that works on the implementation of the state policy in the tourism field. Also, it will give to them enough time to work sufficiently”*

#### 4. Integration ruins department and traditional industries into tourism ministry

Therefore, the respondents commented that some industries should be integrated under tourism sector in order for the tourism sector work effectively.

The interviewee (TC.1) has said:

*“The ruins department and traditional industries should be merged into the ministry of tourism to create a kind of integration. The ruins department follows the ministry of culture and the traditional industries follow the ministry of industry. This is a structural fault! Because of that, many planners in the tourism ministry are unable to put forward plans because the planners in other ministries refuse the plan of the ministry of tourism.”*

The respondent indicated that such industries should be included under the tourism ministry. Hence, it can cause the tourism industry to take control of these industries in order to develop decisions and policies for growing the tourism industry. The integration of the traditional industry into the tourism ministry could bring about more benefits for both tourism and the traditional industries.

#### 6. Foreign promoters

The interviewee (DT) explained the needs of tourism marketing to be managed by foreign experts, not with local financing.

*“We have found that Tripoli International Fair lacked comprehensive marketing. What about marketing in tourism! It needs to deal with and have direct relationships with tourism companies and tourists themselves. In other words, this administration should be managed by foreign expertise and locally funded because we lack the Libyan promotor. Also, the Libyan media itself do not practise this marketing.”*

#### 7. Creating tourist counselling offices in the embassies

The interviewee (TC.1) pointed out that:

*“Creating tourist counselling offices in the embassies as the same as the commercial and*

*cultural offices. Of course, it should be the task of the counsellor at the embassy”*

## 8. Create eco-tourism

The interviewee (DT) said: amazing desert oasis, adventure tourism and exploration tourism”

### 8.1 Nature tourism

*“The inclusion of certain types of tourism and services that do not exist in our neighbouring countries, so it is called competition in tourism. The first thing we can do in this regard is to create eco-tourism which is represented in our amazing desert oasis, and here I am still talking about the types of tourism, such as adventure tourism and exploration tourism”*

## 9. Senior tourism

The interviewee (DT) said more a

*“Of course, there is a competitive characteristic to attract certain categories of tourists, which we call tourist psychological orientations. An example is taking care of the elderly people who enjoy the natural environment, such as the Green Mountain. ” (DT).*

## 10. Tourism of origin

*In addition, we should consider tourism of origin, which is related to veterans whether they were from the Allies or the Axis. DT*

## 9. Taking the other’s experiments.



The interviewee (DT) mentioned that:

*“. Moreover, taking the experiments of the other countries that have been success in this domain”*

10. Find a substantive mooring

The interviewee (DT) said:

*“We know that there are many kinds of tourism, such as the marinas tourism, which means mooring yachts and boats to harbour, so it is not obligatory to moor in big ports. For example, the tourists could be going to the Tobruk marina, Gargaresh or Darna marina without any complexity of entry as well as entering the cars and caravans across the mainland”*

11. The North and South Mediterranean tourism

Furthermore, concerning international trips between the north and south of Mediterranean countries, the interviewee (DT) said:

*“The tourism relationship between the north and south of the Mediterranean countries is crucial. Even though they have different religions, the Mediterranean populations are very close in their behaviour, tradition and manners. Therefore, the similarity between them is very clear. Furthermore, Libya is considered one of the Mediterranean countries, so Libya could be involved in this type of the tourism between the north and south Mediterranean tourism”*

13. Tourism research Centre

The interviewee (TC.1) explained that:

*“Establishing a tourism research centre, which is similar to the desert research centre- for example diving tourism, mountain climbing tourism and desert tourism- and the research*

*centre will be more interested in tourism than department”*

*14. Advertising in the international media*

*Concentrating on tourism media to promote tourism products to the world. That can be done by advertising in the international media and introducing tourism products and the Libyan heritage. (TC.2)*

*15. Adopting a timetable for festivals*

The interviewee (TE.2) said:

*“Adopting a timetable for festivals, such as Septimius Festival and Ghadames Festival, to be held in the 12<sup>th</sup> of January to target foreign tourists during this time, because it is the Christmas time and the majority of them like the desert. In the mountains, festivals can be held in spring. As for other cities, which are famous for natural treatment, such as Bani Walid, they can be exploited”.*

*16. Revive the old life of the ancient cities*

Another interviewee (TE.2) said:

*“Revival of the ancient cities such as Leptis Magna which is considered an integrated city and a unique model of the Romanian architecture. It should be revived to its old life. The city’s harbour and luxurious yachts should be revived, so when tourists come to Leptis Magna, they feel that they are in the second century and the city will be unique”*

*17. Organizing shows in museums*

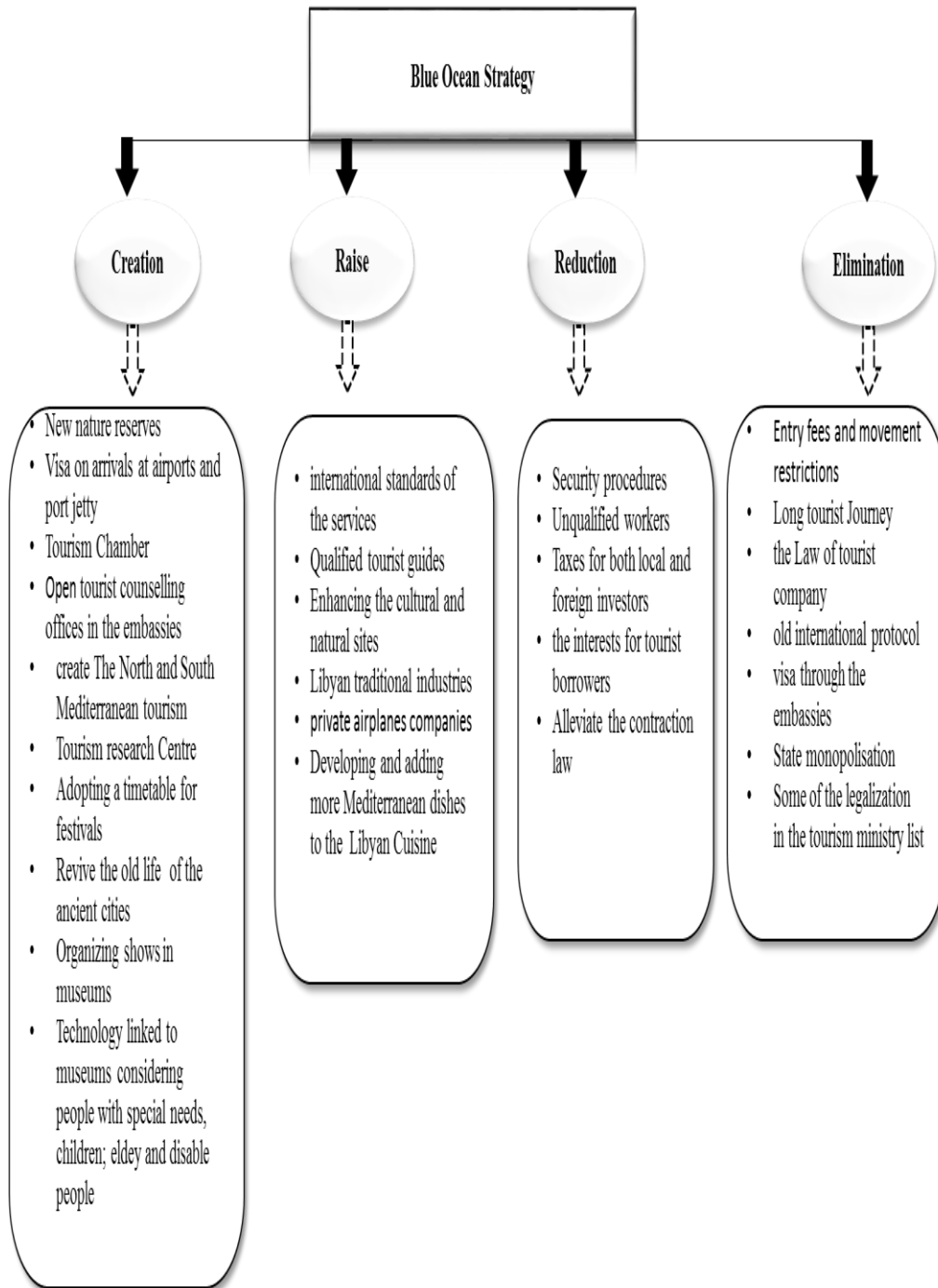
*Organizing shows, choosing one of the cities for the show and renewing the annual show for museums. For example, the hall of the museum can be designated to show the newly discovered artefacts.*

*17.1 Technology linked to museums, considering group of people who have special needs*

*Technology should be linked to museums, taking into account a group of people from society, such as children and the disabled, to whom we should explain the artefact landmarks*

Based on the empirical results, based on the stakeholders to develop the products of tourism and increase the customers through the BOS concept, which are identified into the following sections:

**Figure 9-1** the BOS for tourism consultants



Source: Author

## 9.3 Public promoters

### 9.3.1 Elimination

#### 1. Restrictions and security procedures

The interviewee (TP) stated that:

*Restrictions and security procedures on visiting Libya are of the important factors because many tourists would like to visit Libya and they are ready to apply for visa, but they find entering Libya becomes very difficult. I do not know what is the reason but security officers in the past used to apply very strict*

The interviewee (PM) has supported the view of the interviewee (TP):

*The requirements for visa application had a considerable effect on the decrease of the number of tourists from 125,000 tourists in 2007 to 35,000 tourists in 2010, according to the latest figures released by tourism police in 2010. This also decreased the number of tourists coming by sea (ship, ferry or cruise), which represents 60% of the total number of tourists in Libya*

#### 1.1 The abolition of visas

The interviewee (PM) has commented:

*“With regards to the abolition of visas, there are many complicated factors to do that. The visas in the past, from tourists’ point of view, were a major obstacle to a further influx of tourist groups. Thus, the decline in their numbers affected the economic development plans and programs that were based on the movement of tourist numbers.*

#### 1.2 Abolish restrictions on foreigners’ movement

The interviewee (TP) stated that:

*“Abolish restrictions on foreigners’ movement. Often, when a tourist comes to Libya, he is questioned about his destination and he says, for example, Acacus. If such a tourist finished his trip to Acacus and wanted to go to Waw an Namus (Oasis of Mosquitoes), the security forces prevent him and report it to their*

headquarter. Therefore, restrictions on tourist's movement inside Libya should be abolished.”

### 1.3 Abolish tourists' group system

The interviewee (MI) pointed out that:

*Abolish tourists' group system which restricts groups to 5+. If you would like to visit Libya as an individual on a tourist visa, it will be very difficult. You should come through a travel agent and within a group of more than five members.*

### 2. Overcome on the phenomenon of administrative instability

The interviewee (DP) pointed out that:

*Overcome on the phenomenon of administrative instability in the tourism sector because the changes that take place, such as changing names between ministry and organization sometimes, do not help in the stability and development of the sector as planned.*

### 3. Eliminate Law No 9 for investment

*Eliminate Law No 9 for investment and issue a new investment law special to tourism. (MI)*

## 9.3.2 Reduction

### 1. Administrative procedures related to tourism police

The interviewee (PM) has commented:

*“There are also some administrative procedures related to tourism police and accompanying tourist groups, for example, there should be a tourism police officer accompanying every tourist group. In the same context, there are other factors which also affect the development of tourism, or*

*rather the work associated with the tourism sector environment”*

## *2. Reducing the price of Tours*

The interviewee (MI) pointed out that:

*“Reducing the price of Tours. For example, a camp in the desert, such as Dar Awich, Bab Al-sahara and Dar Ghadames, their prices are from 180 euros, and in terms of classification and services quality, they range between 3 to 4 stars. Because there are no monopolistic parties, there are not competitive prices. Therefore, most of the tourist groups do a tour and stay for two or three days in a ferry for just 70 euros, which is better than staying for a night in a hotel for 180 euros”*

Also, the interviewee (TP) stated that Reduce pricing of hiring tourist resorts and hotels

*“The most important thing to reduce is hiring tourist resorts and hotels. Different from all others, tourists are exploited in higher prices because they are foreigners and do not know anything about this country. If the prices of hotels, food and living in general are reduces, the tourism sector in Libya will witness a considerable increase in demand.”*

## *3. Reduction number of tourists with high profits*

The interviewee (PM) explained the procedures that had been undertaken by the government:

*“The prices of tourist tours are so high compared with other countries in the region, but the plan that the state has adopted in terms of the tourism development plan is selected tourism. Target number one in tourism should attracting 4.6 million tourists by 2025, which is less number of tourists will more profit. It seems they take into account the natural characteristics such as the desert, which represents about 90% of the country's territory, but it is a fragile and sensitive environment. The desert is a hot attractive area to tourists and the majority of Libya is desert, which means desert is the main theme of tourism in Libya. Hence, with the large influx of visitors to the fragile sensitive desert will make it lose its advantage as a result of contamination or tampering with the cultural monuments. This already happened in one or more locations, such as in the Acacus Mountains and other locations, where has been encroaching on drawings and engravings,*

*and the robbery of movable heritage which belongs to the prehistoric civilizations, such as stone fireplaces, arrowheads and other stone tools”*

The interviewee (PM) has added another significant point for targeting less tourists:

*Another problem for the targeted number of tourists (4.6 million) is the shortage in water, which should be taken into account. (PM)*

#### 4. Long journeys

The interviewee (PM)

*“Tourists’ trips should target Libya region by region, so that a tourist visits a certain region at a certain time during his/ her trip. However, we find that some tourism companies take the tourist on tours to different distant regions in the south, north, east and west of Libya, which has an effect on the focus of tourists because of the long journeys they go through. This might also affect their decision of repeating the visit again to the same region. This is a big mistake in marketing. According to the opinions of the tourists that I have met, they suffer from the long distance between the different destinations. For example, imagine that you would fly today from Tripoli to Bin Ghazi, and in the morning, you would go to Shahat, Sousa, and then to Bin Ghazi. The next day, you would travel fly from Bin Ghazi to Tripoli, and from there you would travel by car to Ghadames, the lakes, and then to Acacus, which means you would travel around 4000 km in ten days. Such kind of journeys should be abolished for ever.”*

### 9.3.3 Raise

#### 1. Increase the quality of Libyan tourism products

The interviewees (DP) and (PM) agreed that the quality and the efficiency of the tourism product should be the best internationally, and the (PM) focused on the tourism companies and transportation

#### 2. Increase the number of qualified labour force

*Tourism needs qualified labour force who is prepared to work professionally. This labour force should be big in number, which is a big challenge. (PM)*

#### 3. Facilitate the entry of tourists’ equipment and vehicles



The interviewee (TP) stated that:

*One of the factors is to facilitate the entry of tourists' equipment and vehicles because many tourists have their private vehicles but the government, most of the time, rejects the entry of tourists' equipment such as photography equipment, weather-testing equipment or anything else.*

4. Benefits of the local communities from tourism;
5. Rehabilitation of museums and ancient cities

The interviewee (PM) said:

*Rehabilitation of museums and ancient cities. In the last few years, a new museum, which is Libya Museum, was established in in Libya, and there were plans to establish a national heritage museum, currency museum, post office museum, military museum and marine museum. There were also development plans for Ghadames Museum, Shahat Museum, Tolmeita Museum and the Military Museum in Tobruk.*  
(PM)

6. increase the government support to
  - 8.1 the tourist festivals

The interviewee (PT) explained the importance of the international festivals to the tourism growth in Libya:

*Festivals are also very important to us. Many tourists from various countries used to crowd to attend Gatt International Festival in the south. Before the instability in Libya, a very high budget was allocated to this festival, which was very organized, amazing and successful. After the revolution, the government does not care about the festival and does not offer any material or abstract support to it.*

## 8.2 Foreign partners to invest in Libya

The interviewee (TP) said:

*“The government should increase its support to the tourism industry by giving long loans to the tourism companies as well as allowing for foreign partners to invest in Libya”*

8.3 Local investors by increasing the period of income tax on the profits for ten years

The interviewee (MI) said that:

*“Reduction of income tax on the profits of the investors for ten years instead of five years. Because the construction project of 400 rooms requires 600 workers in addition to training and operating expenses by the investor*

## 7. Reviving the culture heritage by tourism festivals

The interviewee (PM) said that:

*I think we have to improve the quality of services there and revive the cultural heritage through tourism festivals.*

## 8. Developing tourism police system (DP)

## 9. Complete the projects of sustainable tourism development. DP

## 10. Develop the tourism database

The interviewee (MI) said:

*“We have to build and develop the tourism database that may qualify us to know which the exact markets that we have to work on it! Whether it is the German or Italian market. As a result of that, we need to know to whom we should market and what the demands and tourism supply are.*

### 9.3.4 Creation

1. Choose the desert as the main theme for tourism,

The interview (PT) agreed with the interviewee (PM) about choosing the desert as the main theme for libyan tourism he explained his view as stated below:

*The United Arab Emirates has a noticeable desert tourism but there are different kinds of deserts. The desert in the UAE does not have volcanic mountains as is the case in the Libyan Desert. The Libyan Desert is diverse in mountains, arches, caves and stone towers. The desert in the UAE does not have high veins of sand. The veins of sand in Ubari Desert are higher than any veins of sand in the world. Libya is surely a piece of art!*

#### 1.1 Establish shelter facilities in the desert

The interviewee (PT) said that:

*Egypt and Tunisia have their own tourism resorts in central areas or cities. However, when you establish resorts in the middle of Accuse and the middle of other tourism sites, you save many things for tourists. As for transportation, if Libya could provide railway to the tourism sites, it would certainly facilitate the travel of tourists and it would be a distinguished characteristic in the tourism sector in Libya because no country has done that yet. The Libyan Desert needs 4x4 cars, but with the railway, many things will be easier.*

#### 1.2 Camel riding tours

The interviewee (PM) agreed with the (PT) in terms of the establishing resorts in the desert but he also added crucial point that these facilities should be compatible with the environment

standard. Moreover, he said that to focus on the camel riding tours:

*We also need to establish shelter facilities in the desert compatible with the environmental standards. We need to focus on environmental tours riding camels PM*

### 1.3 Adopting diversity programmes linked between the beach and desert

The interviewee (PM) explained more about that:

*We need to connect the beach with the desert through programs that guarantee diversity. I do not mean here long journeys but connecting tourism beach facilities with tours to the close areas, such as Khums to Tarhuna, Tripoli to Gharyan, Sabratha to Jabal al Gharbi, Soussa to Jabal al Khadar and the area before the desert, and Sirte to the area before the desert.*

### 1.4 organizing racing sports in the desert

#### 1.3.1 Marathon

*We also need to organize sports activities in the desert, such as marathons, which were successful in the past in attracting many participants PM*

#### 1.3.2 Parachute and glider

*Veins of sand are famous for being very high and windy. This area is very suitable for parachute and glider, and I think if they look for racing in Libya it is suitable for such kind of racing because the wind factor and the temperature are very suitable for such racing. Fortunately, Algeria tried parachute but they did not organize a racing. If we organize a parachute or glider racing in Libya, it would have international attention and attraction. One thing, which they do not have anything*

*similar to it, is Gaberoun Lake; it makes Libya distinguished. (TP)*

1.4 Establishing nature reserves in Acacus, Msac Stuffet, Haruj, the Lakes and *Jebel Uweinat (mountain)*; (PM)

2 Organizing dates for tourism festivals in Libya. (PM)

3 Custom exemption for five years

*There also should be custom exemption on items from the start of the project until the end and five years after the beginning of trading. The single window system for the organization of investment promotion and tourism does not have any role to play in this law. There is no special treatment to the investor in tourism because tourism has speciality in the mentioned things. (MI)*

4 Show the cultural values of the Romanian fortification along the road from Punjame in east to Ghadames in the west.

*We also should show the cultural values of the Romanian fortification along the road from Punjame in east to Ghadames in the west (PM)*

5 Focus on sea sports

*There also should be focus on diving sports and all sea sports PM*

6 Establish a rail network to the tourist areas

The interviewee (TP) pointed:

*“Regarding the transportation in the desert, we know that the desert needs four-wheel drive cars, but if Libya provides a rail network to the tourist areas, certainly, the journey to the desert will be easier for tourists. Moreover, there are not any neighbouring countries that have done it before, so it will be an imprint on*

*the Libyan tourism sector and facilitate many problems*

9. Providing an Internet connection in all the tourist sites and linking it with the satellite

*“Providing an Internet connection in all the tourist sites and linking it with the satellite. Many tourists are afraid or scared and hesitate from going to the tourist sites, but if the means of communication are available, or at least the local coverage of the Libyan networks is available in those sites, that will attract all the Libyan tourists before other tourists”(TP)*

These factors, as the interviewees have stated, could attract and increase the number of tourists, whether they are local tourists or foreign tourists.

10. Attract the CEOs

*Attract the CEOs of big companies in the countries which have high a number of people travelling abroad and set visit programs (DP).set visit programs for the CEOs to visit tourist attractions in Libya*

11. Promoting domestically and internationally.

The interviewee (TP) has stressed on the importance of increasing media promotion of tourist sites:

*“Media promotion of tourist sites in Libya is considered one of the most important factors and, I repeat it again, many tourists thought that the tourist sites they saw are not in Libya, but in other countries. This is due to the absence of Libyan media promoting Libyan culture and heritage. For example, the Lake of Cypron in Libya; is unmatched in all North African countries, many of the tourists think that it is in Algeria or Morocco. Moreover, they do not know such landscapes or the locations, which are well known in the western media.*

*Therefore, media promotion is the most important factor to increase the demand of tourists”*

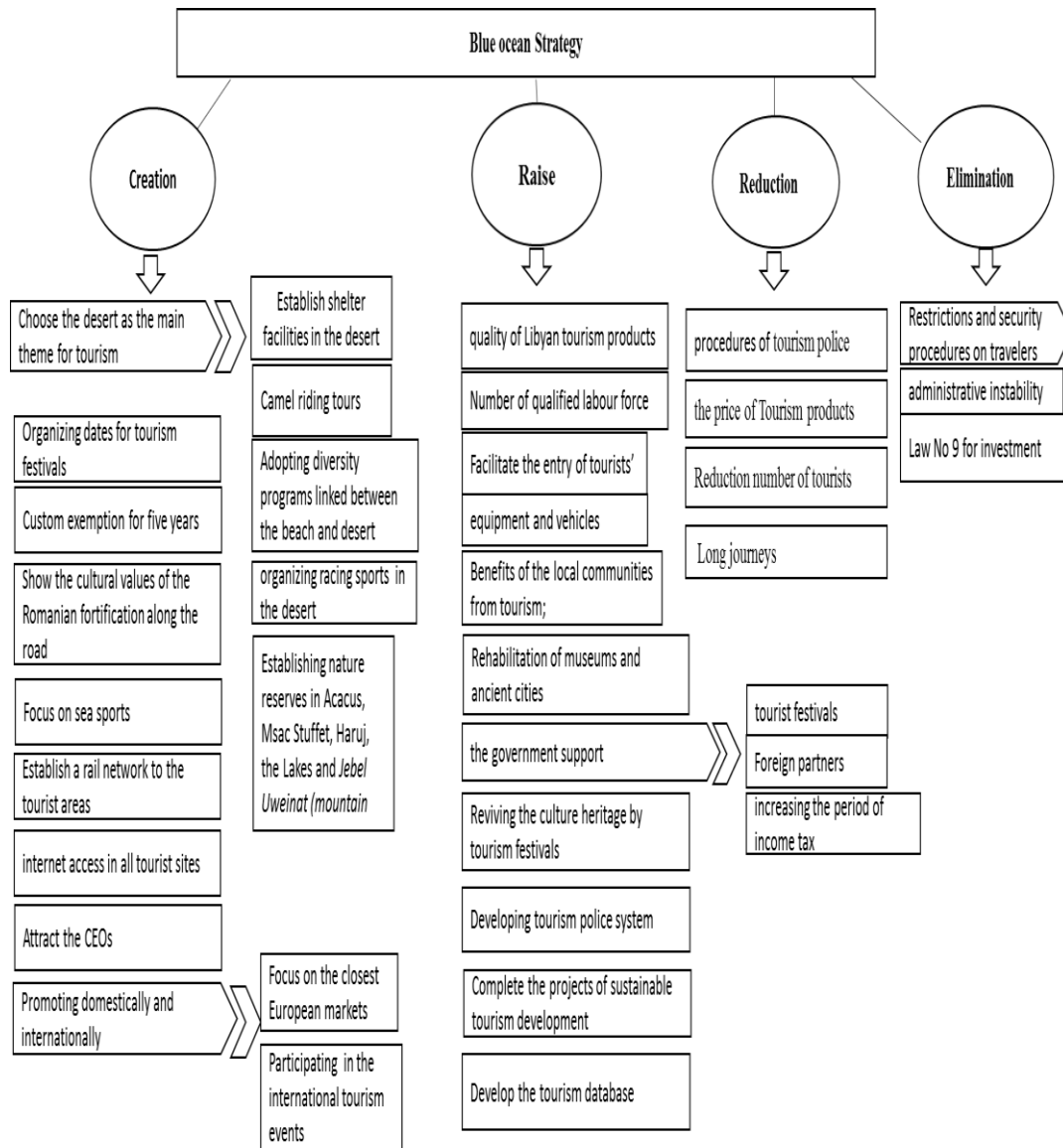
The interviewee (PM) emphasized that:

*“The tourism should be promoted domestically. Domestic tourism is a key component of tourism marketing, and it is also considered more stable and less volatile for the sudden changes, which means that we need to develop and prepare a clear plan to take the advantage of the Sahel-Saharan and cultural heritage”*

15.1 Focus on the closest European markets (PM).

15.2 Participating in the international tourism events DP

**Figure 9- 2 The BOS of the public promoters**



Source: Author



## 9.4 Hoteliers

### 9.4.1 Elimination

#### 1. Visa procedures

##### 1.1 Frequent stamping fees

The interviewee (HM.1) has discussed the harassment procedures even after getting the visa that:

*“Before the revolution of February 17<sup>th</sup> 2011, the visa procedures were complex for foreign tourists. Tourism companies, not the government, also covered the expenses of tourism police. The fees for stamping passports should also be abolished. Moreover, in the past, it was compulsory for every tourist who was in Libya at that time to have their passports stamped for a maximum period of one week at the Passport Office.”*

##### 1.2 Long procedure for tour groups

The interviewee (HM.3) said:

*“As a hotel owner, I do not take tour groups due to the large number procedures that are required by the authorities. This is complex and long work! So, I prefer to deal with individuals and I escape deals with the groups as a result of large spending. Thus, as an entrepreneur, the hotel only allows me to take people from the boarding”*

##### 1.3 Eliminate the restriction on individual visa

The interviewee (HM. 2) explained the visa group:

*“Entering Libya with a tourist visa for one person is so difficult. It was compulsory that tourists who came to Libya as groups are not individually controlled via the tourism companies”*

## 2. External Security harassment on the tourist activities

The other interviewee (HM.1) stressed that:

*“As A hotel manager, there was harassment by the external security groups. They forced us through a degrading way to hand them lists of tourists as soon as they arrived. (HM.1)*

Moreover, the interviewee (HM.1) said:

*It is very important to abolish restrictions that affect the comfort of tourists. If we would like to organize a celebration in a hotel, it is very important to apply for a permission from the foreign security, which of course hinders our work. Therefore, it is obligatory to remove these restrictions that conflict with the comfort of tourists. We hope that this will be removed in order for tourists to be more convenient and have more freedom ”*

In terms of above, the interviewee (HM.2) added a point about security services, saying that:

*“The interference of security forces in the activities that bring tourists should be decreased. Because the security services imposed their forces who accompany tourists and control the movement of the tourists who feel are undesirable. Hence, their numbers had been shrinking continuously until the revolution”*

## 3. Dominance the booking by the local companies

The interviewee (HM.1) said:

*It was forbidden to deal with foreign companies, just local companies. It means that a foreign company deals with a local company which works on the behalf of the foreign company, such as booking, inside Libya. It was very rare to deal with foreign companies*

*because of the strict control of the security forces in Libya in the past. There was also too much fees to obtain a visa to Libya, in contrast with the Tunisian visa which was very simple and cheap.*

In addition, the interviewee (HM. 2) has pointed about these companies for controlling the sector and why:

*“The monopolism of several companies dominating the Libyan public hotel industry by dealing directly with them in order to have a big discount. Moreover, there was two private companies that monopoly the public hotels”*

#### 4. Remove Reservation Deposit,

The interviewees (HM.1, HM.2 and HM.3) have indicated to requirement to deposit during tourist reservations in the hotels, which is forced by the security services. As a result, giving a deposit by the visitors to the hotels had a negative impact on tourists, due to financial reasons and security reason too. The interviewee (HM.1) said:

*“The hotels forced the tourism companies to pay a deposit for two reasons: the first one for booking confirmation, and the second reason - for deducting from that deposit in case of booking cancellation. Moreover, this is definitely not good at all for dealing with tourist companies”*

In the same way, the interview (HM.1) added that:

*“Some hotels take the tourist passport from a reception for two reasons; the first reason is a security procedure to take information about the tourist, and the other reason is a financial aspect. Moreover, hotels when the tourist stay in hotels they take deposit about 100 euros as well as three overnight stays”*

Therefore, the interviewee (HM.1) said that this factor is considered the most important factor that should be eliminated, because the tourist companies are negatively impacted and suffer from taking these costs, instead, the government should be concerned about these fees.

#### 5. Prevention the law of femels overnight stay alone,

The prevention of females from staying at night in hotels had a quite an impact on tourism receipts and growth in Libya. This factor has mentioned through the interviewee (HM. 3) who has indicated:

*“Regarding law, there is also prevention of females from overnight stay at hotels if they are alone. Moreover, the most of the hotels in Libya cannot accept any female if she will stay alone at hotel”*

The issue is that most hotels are supposed to be not host any females for accommodation, unless they are being married or accompanied by relatives. As a result, this condition has negatively affected the revenue of most hotels.

#### 6. Avoiding political intervention in the tourism demand

*“There was political intervention in the tourism demand. For example, every year there was a political prevention for certain nationalities of tourists for entering the Libyan country. As an example, the government prevented tourists from Switzerland to enter Libya after a fight of Hannibal Gaddafi with a Moroccan maid in a hotel in Switzerland. In the same year, the government prevented tourists from Switzerland to enter Libya. Another example, one of the sons of Gaddafi wanted to enter Austria with his Tigers. As a result, the Austrian authority prevented him from entering. Following the Austrian authorities’ action, the Austrian tourists were banned from entering into Libya. This means it must abolish the intervention of politics in tourism”. (HM.1)*

### **9.4.2 Reduction**

1. Reduce the long process of hosting tourist groups

The interviewee (HM.3) explained that:

*“Reduce routine in work performance. For example, as a hotel owner, I do not host groups of tourists because of the many required routine procedures related to their stay and the required permission process from the regulating parties, which is a very long process. The hotel also does not have a high guests’ capacity, so I prefer individual guests more than groups. I also avoid any deal with groups because of the high required spending so, as a hotel owner, I am allowed to take only individuals from the boarding.”*

## 2. Adjusting the Dollar prices

The interviewee (HM.4) commented that:

*“Adjusting the Dollar prices in the market and providing it in the banks. We know that there is a shortage in the banks which clearly does not exist, but as hostellers, we need to buy equipment and supplies from abroad, so we buy it at high cost. Also, if we buy food locally, the prices are so high due to marketing controlling the prices, which is also based on the Dollar prices”*

## 3. Reduce Spicy food

The interviewee (HM.3) said:

*“Reduce spicy food in our menu to cope up with the European tourists.*

## 4. TV channels don’t meet the culture of foreign dwellers in hotels

*Another point is the TV channels which do not meet the culture of foreign dwellers. (HM.3)*

## 5. Reducing somoking in the public area

*“Reducing smoking in the public area will increase our health environment as well as take into consideration the satisfaction of our tourists” (HM.3)*

## 6. Reduce hotel prices

*Hotel prices should be discounted in Libya because we noticed hotel prices here are higher compared to Tunisia, as an example.*  
(HM.1)

#### **9.4.3 Raise**

1. Increase the financial facilities with the convenient instalments

The interviewee (HM.3) commented that:

*“An increase of the financial facilities for establishing hotel projects at the tourist areas. If we do projects in Senao or Ghadames, the state should give us financial facilities with the convenient instalments.*

2. Facilitating the administrative procedures between the urban planning sector and the state.

*In addition to facilitating the administrative procedures, which is in particular between the urban planning sector and the state. To conclude with, as the private sector, we need to have the financial facilities and streamlining of the procedures for investors”*

3. More law regulations and legalizations for improving hotels activities

The interviewee (HM. 2) held a view that:

*“We need more law regulations and legalizations whose absence cause paralysis in hotel activity in general.”*

4. Paying more attention to the traditional industries

The interviewee (HM.1) held the view that:

*“Pay more attention to traditional industries, open new factories and run courses for the development of these industries because they are attractive and tourists’ demand for them is unusual.*

- 4.1 Opening new industries
- 4.2 Run courses and training
- 4.3 Increase the mentoring on tourism industry

The interviewee (HM.3) stressed on above point and explained his view that:

*“Currently, there is exploitation in the traditional industry; there should be mentoring of private production in Libya.”*

- 5. Increase natural environmental reserves and protations

Concerning the maintenance of tourism products, the interviewee (HM.3) said:

*“Increase natural environmental reserves and protect them from tampering by tourists”*

- 6. Paying attention for the Eco-tourism- the environment surrounding of Tripoli Airport

*Eco-tourism- the environment surrounding economy. Tripoli Airport, which is in the centre of the country, has been neglected for year so it should have more care and attention. (HM.3)*

- 7. Increase government support to the private sector

The interviewee (HM.3) said that government should increase its support to the private sector, especially in customs and taxes. (HM.3)

- 8. Providing more tourist vehicles

The majority of the participants commented on the tourist facilities, such as the hotels. One of the participants is the hotel manager (HM.1) has said:

*“Libya suffers from a lack of hotels and tourist vehicles; we note that most of hotels are located in the capital city Tripoli, but they are very few in the tourist cities, such as Ghadames, Gatt, Sabratha and Alkumous.*

In addition, the interviewee (HM.1) said that the desert faces the same issue for lacking modern desert cars, and such these care just controlled by the government and security parties.

*Modern desert cars should also be provided to activate tours in the desert. In the past, such cars were provided by only the government and security parties.*

#### 9. Increase the expenditure on airports and harbours

Regarding the airports and harbours, the interviewee (HM.1) said:

*“The expenditure on airports should be increased and that can lead to increase the number of local and international flights, which are considered the backbone to transfer tourists. There should also be more care about harbours”*

#### 10. Open doors for hotels investments

*Furthermore, the situation of the hotels in the tourist cities does not meet with requirements of the global tourism market. The door for investments to build hotels in Libya should be opened. (HM.1)*

#### 11. Providing quick installation camps

*There should also be more care about desert tourism and provision of quick installation camps. (HM.1)*

#### 12. Raise the training and awareness about the hospitality

*We notice that there are not enough training institutions for hospitality and its services, so there should be such institutions to qualify chefs and assistants. There should also be training courses to students on uploading/unloading, care taking and*



*reception because there is dependence on foreign workers for these services. (HM.1)*

a. Holding conferences

The interviewee (HM.2) suggested defining the importance of tourism by holding on-going seminars. He has also said that:

*“Seminars should be held and open to all Libyan citizens to know more about the importance of tourism for bringing about investments because citizens do not know about this thinking and how to benefit from it at the personal level.*

13. Cooperation between the hotels managers in neighbouring countries

*There should also be cooperation with hotels managers in Tunisia and neighbouring countries to benefit from their experiences. (HM.1)*

14. Increasing Support for qualified cadres

About the lack of adequately qualified labour are available for recruitment in the tourism sector. It is important that increase the capacity of personal and social skills with how to learn and work independently. Knowledge of foreign languages and specific knowledge and skills linked to technological innovation and information technologies penetration of the sector are often listed as lacking.

*Academically and scientifically qualified cadres should be supported and increased. Equipment could be easily provided, but the human workforce is the main problem in the services industry. A qualified cadre to offer services does not exist in Libya at all. If typical qualified workers to be provided, they should*

*be foreigners from outside the country, which is not beneficial because of their very high salaries. (HM.2)*

#### 14.1 More foreign speakers

*Foreign languages should also be learned because we hardly find people who talk foreign languages in Libya. (HM.1)*

#### 14.2 Raising the rights of the tourist cadres

The interviewee (HM.2) said:

*“It should be increased the rights and uplifting of the cadres, such as tourist guides and mediators”*

#### 15. More care about maintenance work and hospitality provision. (HM.2)

The interviewee (HM.4)

*There should be private companies that prepare hotels.*

#### 16. More experts in relaxation and organizing trips

*A workforce specialised in relaxation and organizing trips to visitors should be increased and cared about. (HM.4)*

#### 15 Increasing the promotion internationally

*Increase the promotion of archaeological sites in Libya and there should be participation in all international fairs in Madrid, Milan, Tokyo, Berlin and others. (HM.1)*

#### 16 Allowing visitors come by sea

*The position of Libya as the fourth shore to Italy should be exploited and allow tourist to come in large numbers by sea, which will increase the demand on the tourist product. (HM.1)*

### 9.4.4 Creation

1. Make the learning process job-related

*It is just workers looking for any kind of work. As for graduates from hospitality institutions in Libya, they are not been disciplined at all and lack morals. The majority of them fail psychologically and prefer office work to any other hospitality work. For example, they refuse to work in an embassy or the management of food catering; they refuse to work in sheltering and supervising the cleanliness of hotel rooms; they refuse to work in the kitchen or reception (HM.2).*

2. Making Partnership with tourism companies in neighbouring countries

*There should also be partnership with tourism companies in Tunisia, Algeria and Egypt, so the tourist can come from the USA or Australia and visit three countries in just one journey. (HM.1)*

3. Making Libyan traditional coffees in hotels

The interviewee (HM.3) said:

*“Making a coffee shop in the Libyan traditional way in the hotels.*

4. Adopting a buffet programme in the hotels

4.1 Making North African cuisine buffet weekly

*There should be a weekly buffet of Moroccan, Tunisian or Egyptian cuisine in the hotels” (HM.3)*

4.2 including a wide range of food

The interviewee (HM.1) has said:

*“In the desert hotels, such as Ghadames hotel, the meal is fixed and most of these meals are fatty and not offered to all tourists. Moreover, the hotels prefer the meal program because it does not cost them a lot. Whereas, the buffet program is considered higher than meal program but preferred by the majority of the tourists. The buffet program has a wide range of food that could be better for particular tourists who are vegetarian and do not like to eat spicy or fatty foods, and so on. As a result, the buffet program could eliminate all the issues that are mentioned above”*

5. Make a special menus for people with diet and diabetes

Another point that has been mentioned by the interviewee (HM.4):

*“Offering a new diet and diabetes dishes and make special menus for such people.”*

6. Offering special services

6.1 Organizing tourist’s birthday parties

The interviewees (HM.3 and HM.4) pointed towards creating special services in hotels. The interviewee (HM.4) said:

*“Organizing tourist’s birthday parties in most of the hotels, we need to target a particular segment of the tourists that would not happen unless we apply the legalized law. In this regard, increasing alcoholic drinks will increase the number of tourists.*

6.2 Organizing tourist trips for the hotel’s guests

*Another point in terms of offering special services in hotels is organizing tourist trips for the hotel guests, and this increases it in the future. (HM.4)*

6.3 Creating sport clubs in hotels

*Furthermore, creating sport clubs in hotels will increase the expenditure of tourism and provide specialized workers in relaxation. The expenditure will increase more” (HM.4)*

#### 6.4 Creating a package for the brides and grooms

Moreover, the interviewee (HM.3) said:

*“Creating a package for the brides and grooms, starting from sport clubs to celebrating the anniversary.”*

#### 7. Establish private Hotel schools with different language

The interviewee (HM.3) said:

*“The hotel schools should have different languages in order to have an effective connection between the customer and tourist. There should be dependence on the skills of the local staff. (HM.3)*

However, the interviewee (HM.2) pointed out that these schools should be private schools, in order to ensure the quality of employment amongst who will graduate from these schools. The interviewee said:

*“The hotel institution or schools must be created and controlled by the private sector. From my point of view, this is an effective solution, because the public schools do teach them only for attaining graduation certificates. The private sector is seeking to raise the level of income and increase their profits. Hence, with existing competition in the market, the hotels would have intervened to get the best training for their staff, and they will bear the expenses when they are seeing encouraging results”*

#### 8. Twinning between the hotels

*Another point that is the twinning between the hotels, such as hotel scholars, to provide services and hotel occupations” (HM.3)*

#### 9. Integrated the awareness of the cultural in the curriculum of elementary and intermediate schools

The interviewee (HM.2) said:

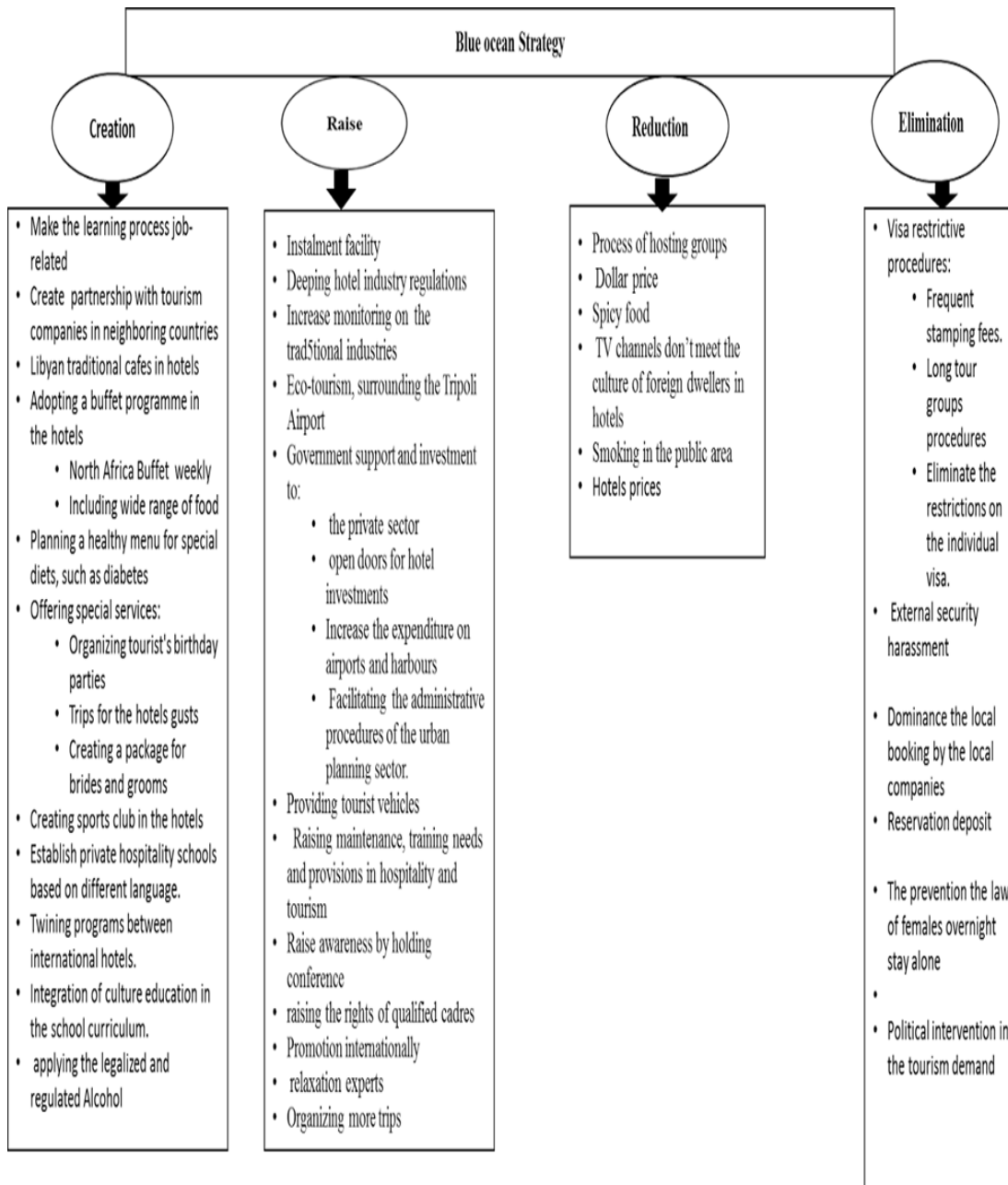
*“The mentality of tourism, learning new foreign languages and increase the interest of knowing more about other cultures should be integrated into the curriculum of the elementary and intermediate schools.”*

10. Applying legalized law regards to alcohol drinks

The interviewee (HM.4) Increase alcoholic beverages with under control

*We need to target a particular segment of the tourists that would not happen unless we apply the legalized law. In this regard, increasing alcoholic drinks will increase the number of tourists.*

**Figure 9-2** the BOS for Hoteliers



Source: Author

## 9.5 Tour operators

### 9.5.1 Eliminate

#### 1. Abolishing stamped and visa fees after entering

The interviewee (TO, 2) added point related to the visa's fees:

*“There is money paid called the weekly tax. It means that the tourist has to stamp the passport and pay the money after a week. After obtaining the visa and entering Libya, tourists have to go every week to the passport office to stamp the passport and pay money. Sometimes, tourists are in the desert and the time is too late, so it confuses them. Therefore, it must be abolished if the tourist entered Libya and paid the visa fees.”*

#### 2. Avoiding tourism police accompanying tourists

Interviewee (TO. 2) stressed the character of tourism police officer is that of an annoying and uneducated person:

*“Tourism police should be abolished because they are uneducated and an obstacle and a barrier for tourists. He has no culture, language or even knowledge about tourists' traditions. He becomes a source of amusement and sarcasm by tourists. Tourism police also controls the journey, which is a disaster. Tourism police can come in patrols, but not accompanying tourists or always close to them.”*

#### 3. Abolition of red tape and bureaucracy in the tourism sector

The respondent (TO.2) commented about the bureaucracy, which has affected the tourism sector. Some of the plans have remained for a long time in government institutions, he said:



*“Abolition of red tape and bureaucracy with long procedures in most government officials that are related to the tourism sector.”*

### **9.5.2 Reduction**

#### **1. Reduce prices of the tourism products**

##### **1.1 Reduce tourist restaurant prices up to 50 %**

*Reduce the prices of tourist restaurants from 25 and 30 Libyan Dinars to 15 and 10 Dinars. (TO.2)*

##### **1.2 Reduce the price of internal flights. (TO.2)**

##### **1.3 Shrinking Full package trips**

The full package trip considers another factor that may hinder increasing tourists; hence, their expenditure. The interviewee (TO.1) pointed out:

*“Eliminating the full package for tourists and it should be as Tunisia, where it is supposed that the tourist should choose what he or she likes. For example, some of them take only a room or choose bed and breakfast (B & B), half board or full board and others may choose accommodation (without launch or dinner) with transportation and ticket fees for the archaeological sites only”*

Limiting the kinds of trip and offering them just one choice that makes an undesirable option, even though they take this option. In that case, the interviewee above has explained the examples that stakeholders should follow (such as Tunisia), in order to afford these kinds of the services.

*In most companies, full package is necessary for desert trips, but at the beach, it is not necessary. By this way, I give you a cheaper price, which will increase the number of tourists, because tourists usually like to buy their things in person so this will make markets busier. (TO.1)*

### 9.5.3 Raise

#### 1. Adjusted hotel classification

The interviewee (TO.1) emphasized about the classification of hotels.as well how will adjusted their prices:

*“Adjusted accommodation prices of some hotels, which means we can see the most expensive is 3-stars while the cheap hotel is classified as 4-stars. For instance, Four Seasons Hotel at Omar al-Mukhtar Street which is classified as 4-star hotel is cheaper than 3-star hotels”*

#### 2. Support tourism prints and publications

The interviewee (TO.1) said:

*“Support tourism prints and publications. This is considered the most important factor. In Tunisia, as an example you can find printed on the couscous with six languages from the north to the south. In addition, you can find publications on the traditions with five or six languages “*

#### 4. Increase promotion in all the Libyan embassies

*There should be promotion about Libya in all the Libyan embassies.*  
TO.1

#### 6. Raising the right concept of tourism in line with Islamic religion

The interviewee (TO.5) pointed out that

*“Raising the right concept of tourism which should be adopted in the Libyan society and in line with Islamic religion, and not contrary to the manners and traditions of the Libyan society. Consequently, this will add a*

*distinctive character to Libya among the Mediterranean basin countries.*

7. Regular maintenance for the ancient cities

The interviewee (TO.2) said:

*“Majority of the ancient cities need to be maintained regularly”*

8. Raising the entertainment investments, such as Cinemas, Theatres, Public parks, Night club

The investment that should be raised is entertainment places, which have been commented on by the interviewee (TO.4), who said:

*“The provision of entertainment venues such as cinemas, theatres, huge public parks and night clubs to enjoy their night.”*

9. Participating residents in tourist projects and traditional industries

The interviewee (TO.5) said:

*The aim should be to social development to every local community living in or near to the areas of tourism development. The residents of these areas should participate in tourist projects which will take place, and the small projects and traditional industries in these areas should be supported.*

#### **9.5.4 Creation**

1. Targeting young researcher and universities groups

*“Tourism exploration should target young researchers and university groups, such as graduation ceremonies”*

2. Opening the Tibesti Road

In addition, about opening the Tibesti Road, the interviewee (TO.2) said:

*“If mines were removed, safety prevailed and Tibesti road was opened, it could change desert tourism movement in the world because Tibesti is undiscovered part of the world.”*

### 3. The transit point to Africa

The interviewee (TO.2) said:

*“Another type of tourism is transit flights, especially to Africa. The transit will make Libyan airports a transit point, even for just days; with the availability of commercial trade will make Libya an important station in all of Africa. Staying in the airports, even for hours, brings foreign currency to the country”*

### 4. Complementary tourism with neighbouring countries

Interviewee (TO.2) pointed out that:

*“Complementary tourism with neighbouring countries should receive more attention, if tourists from distant places, such as the USA, Canada and Australia, need to visit the North African countries (Libya, Tunisia and Egypt), we can send them to the Egyptian companies as an example and vice versa”*

### 5. Increase variety of the tourist products

#### 5.1 Economic forums conferences

The interviewees (TO.2, TO.4) discussed the same points as the interviewee the interviewee (TO.4), who said:

*“Libya should move to hold an important factor for new tourism by attracting conferences and forums. For instance, economic forums, political or environmental conferences”*

#### 5.2 Open local airports to be international

The interviewee (TO.2) suggested:

*“All the local airports should be opened as international airports. If the tourists need to come down to the desert, they should come to Tripoli! Why do not tourists fly to Gatt, directly to the desert or Sabha airport? Also, if they need to visit Shahat, why should they stay for a day in Ben Ghazi? They have to go directly to Shahat “*

### 5.3 Revive the anniversary of the El Alamein Battle

*There is also cemetery tourism, which has its tourists near Tubruk, and in the anniversary of the El Alamein Battle, there is a celebration that attracts the relatives of the dead people. In the anniversary of El Dada when there was air drop by the Allies against the Normans, a big festival is held in the south of France every year. (TO.2).*

### 5.4 Ethnic culture

*There should be better exploitation of the Tuareg, Topo and Amazeigh people and show their heritage to the world to show diversity in Libya. . (TO.2)*

### 5.5 Waw Al-Namus

*The focus should be on promoting things that do not exist in the world, but in Libya such as Waw Al- Namus.*

### 5.6 Create international cultural festivals and economic fairs

*We should create international cultural festivals such as Asilah in Morocco- Derna and Shahat are better than Asilah- or art festivals such as Carthage.*

### 5.7 organizing international sports

*As well, as sports competitions such as rally, diving, kayaking, marathons, airships, rallies and cycling. (TO.2).*

6. Create tourism bank

Due to the financial difficulties that face the local and foreign investors, a wide impact on not increasing the number of investments in Libya has appeared. Therefore, the interviewee (TO.5) suggested opening a bank that exists only for tourism investments. He explained his view as follows:

*“Opening the tourism bank will give loans for the all the companies and factors that have been categorized under tourism character, and it will direct investment to sustainable development. Regarding that, the tourism bank will reduce the taxes and giving an exemption for such projects from any custom duties on the material imports, whether to be completed or run.*

7. Createing province tourism suitable to its environment and social structure

*There should be respect and consideration for differences between provinces and create for each province tourism suitable to its environment and social structure. The society should be a mirror that reflect the economic prosperity in the societies of these provinces.*

This implies giving each tourist city its own character, which could lead these cities to gain an advantage in development and attracting more visitors.

8. Creating more option in the investemnt between the private and public sectors

*‘Creating options in the investment between the private and public sector in terms of partnership, contributing and funding*

9. Changing the laws related to the hospitality

*If the government want to encourage the policy of gaining income from tourism, the government should work on changing the laws related to hospitality, letting, restaurants and hotels. TO.1*

**Figure 9-3 The BOS for tour operators**

| Elimination  | Reduction   | Raise   | Creation   |
|--|---|---|--|
| <ul style="list-style-type: none"> <li>• stamped fees of visa after entering.</li> <li>• Tourist police.</li> <li>• Red tap and bureaucracy</li> </ul> | <ul style="list-style-type: none"> <li>• Price of tourist products:</li> <li>• tourist restaurant by 50%</li> <li>• internal flight prices</li> </ul> | <ul style="list-style-type: none"> <li>• Adjust hotel classifications</li> <li>• Support tourism publications.</li> <li>• Increase marketing Libyan tourism abroad through embassies.</li> <li>• Raising the concept of the Islamic tourism.</li> <li>• Regular maintenance to the ancient cities.</li> <li>• The investment on the entertainment.</li> <li>• The investment on the entertainment.</li> <li>• Participating residents in tourist projects and traditional industry.</li> <li>• Investment between private and public sector.</li> </ul> | <ul style="list-style-type: none"> <li>• Targeting young researcher and university's groups.</li> <li>• Opening the Tibesti road.</li> <li>• Transit point to Africa</li> <li>• Complementary tourism with neighbouring countries.</li> <li>• New forms of tourism :               <ul style="list-style-type: none"> <li>• Economic forums conference.</li> <li>• International culture festivals.</li> <li>• International sports.</li> <li>• Province tourism</li> </ul> </li> <li>• Creating tourist bank.</li> <li>• laws related to the hospitality</li> </ul> |

Source: Author



## 9.6 Tour Guides

### 9.6.1 Eliminate

#### 1. Security procedures

##### 1.1 On the tourist movement

The interviewee (TG.1) stated that the movement restrictions that prevent tourists from visiting a city or visiting particular places:

*There should be security procedures at the personal level to give tourist the chance to explore the city at night. Tourists usually like to explore the city at night after they finish their tours to ruins and archaeological sites during the day. In other words, it is difficult for tourists to go around at night. I remember that tourists always used to ask me to go out and purchase something for them. It is true that some shopkeepers exaggerate in prices in tourist cities, which makes tourists reluctant to buy their products.*

##### 1.3 Visiting some archaeological sites.

*Some strict security procedures to visit some archaeological sites should be abolished. For example, in Leptis Magna, tourists are not allowed to visit hunting baths and Villa Seleen although these are the most stunning archaeological sites. This is just the tip of the iceberg. (TG.1)*

##### 1.4 eliminating escort tourism police the tourist

(TG.2) indicated about the police officer should be away at particular point and does not be closer to them, the interviewee (TG.2) said:

*“The tourist police should not escort the tourists and be close to them just from the query point, because they are harassing tourists in eating and drinking time”*

### 1.5 Controlling visa invitation by tourism companies

The interviewee (TG.4) discussed invitation friends. In addition to, how it is difficult when you have foreign friends and you cannot invite them to your country. He commented about the issues of how he was struggling to invite his friends:

*“There are some procedures that are concerned with the invitation of people. This kind of procedure had been controlled only by tourism companies. Sometimes, I had to invite my friends from different countries to come to Libya, but I could not. This is very annoying to me”*

The respondents have clarified that the procedure is controlled via the tourism companies only. As a result, normal people may not qualify to invite their friends who live outside of Libya.

### 2. Eliminating tourist traditional route

*Tourists’ route, which is usually planned by tourism companies, is very limited. This traditional route should be cancelled and replaced with a new route that gives tourists bigger chance and time to view more ruins and attractions. Tourists’ route inside Libya should cancelled or re-planned to tourists the chance to see everything things about tourism in Libya, which will increase tourists’ spending. (TG.1)*

### 3. Cancelling the contracts with the Egyptian and Tunisians tourism companies for hosting tourists

*“Frankly, some of the Libyan companies in most times request help from the Egyptian and Tunisians tourism companies for hosting large numbers of the tourists. This reduces the rate of t profits, so the cooperation with these companies or*

*making contracts with them must be cancelled” (TG.1)*

### **9.6.2 Reduction**

#### **1. Travel card journeys**

The interviewee (TG.2) said:

*“Some journeys which are called ‘travel card journeys’ should be decreased. There are some kind of tourists who have organized journeys and pay more for hotels. Another kind of tourists have travel card journeys but follow the map, so they benefit more than they pay. This latter kind of journeys has started to increase.”*

### **9.6.3 Raise**

#### **1. Increasing and developing commercial markets and traditional industries**

The interviewee (TG.3) commented on the places where the buyer can sell their goods, whether they are craft or local products, saying that:

*“The places where tourists can spend more, such as commercial markets and traditional industries to supply the local products, were and are still virtually non-existent. So, it must be increased and developed. As an example, like here, during the tourist season when tourists visit lakes and the desert, the Tuareg buyers came from Niger to Libya for selling their African products”*

#### **2. Increasing number of hotels in the tourist cities**

The interviewee (TG.1) said:

*Increase the number of hotels, especially in cities which have archaeological sites. Tourists always visit some cities, such as Leptis Magna*

*and Sabratha, in a hurry to come back to the capital before night because there are enough good quality hotels in these cities. (TG.1)*

3. Increasing number of the tourist guides who speak Russian, Spanish, Portuguese and others

*There should be increase in the number of people who speak more than one language because there is shortage in tour guides who can speak foreign languages, such as Russian, Spanish, Portuguese and others. (TG.1)*

1. increase in the participation in international tourism fairs

*..., there should be more increase in the participation in international tourism fairs so that companies can know more about archaeological sites in Libya. (TG.1)*

2. Increasing salary of the local workers

The interviewee (TG.2) said:

*“As the right of focusing on the trained local workers but we have to give them a decent income”*

#### **9.6.4 Creation**

1. Adopting cultural tourism

2. finding tools of persuading, influencing skilled people to visiting Libya

The interviewee (TG.1) mentioned that:

*“Libya has wonderful distinctive archaeological sites, and Libya is considered the land of civilizations. Frankly, it has archaeological sites that cannot be described. We need some experts and consultants and physiologists to study the psychology of the Western tourists, and the techniques of*

*persuasion in order to urge people and persuade their peers to come to Libya”*

3. Adopting new polices by the government for encouraging tourism revenue

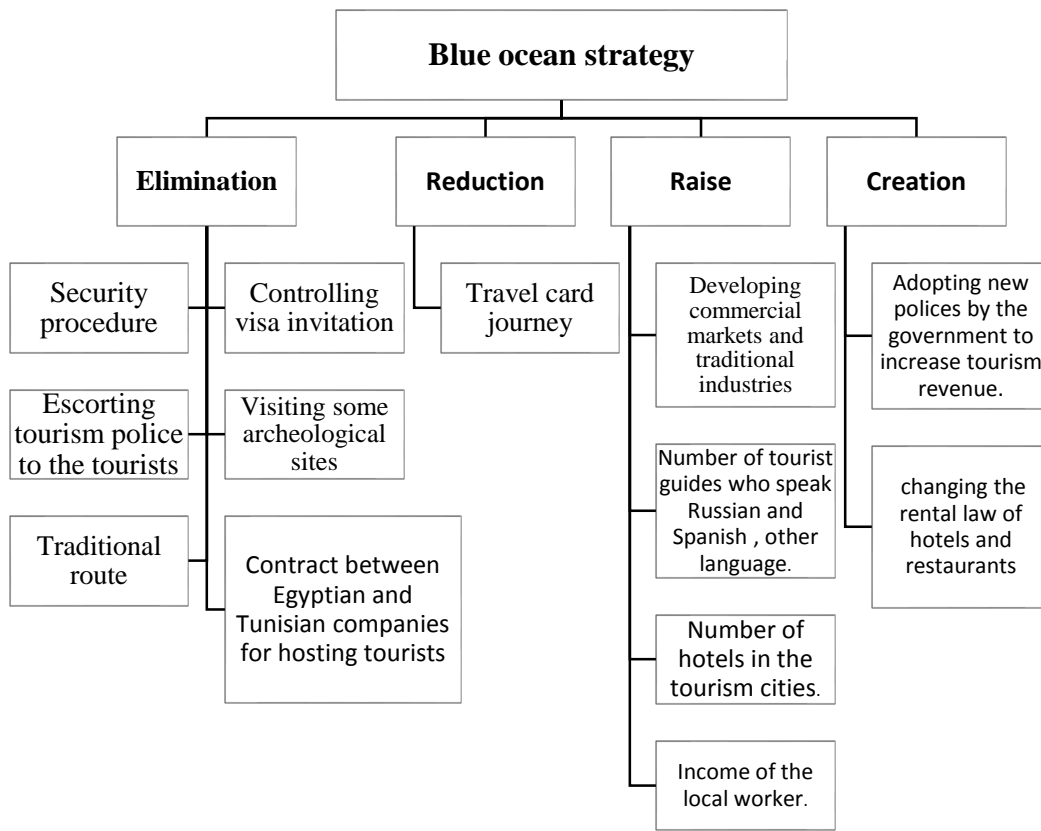
The interviewee (TG.2) said:

*“The government should adopt new policies that encourage income from tourism.*

3.1 Change the rental laws of hotels and restaurants

*Moreover, it should take upon itself to change the laws of hotel and the rentals of the restaurants and hotels” (TG.2*

**Figure 9-4 The BOS for tourist Guides**



Source: Author.

## **9.7 Identifying Libyan BOS characters for Growth in the hospitality and tourism sector**

Based on the results of the econometric analysis, there exists no relationship between tourism expenditure and non-oil GDP growth, which in turn causes the growth of tourism expenditure. Hence, a completion analysis continues an in depth exploration of the aspects that shape the growth of tourism receipts. The findings of this study have a slight difference between each stakeholders and they are based on concept of the BOS. The concept of the BOS for increasing the tourism growth in terms of five stakeholders are; consultants, public promoters, hoteliers, tour operators and tour guides. Therefore, this study conducts further analysis based on the BOS conception and aims to identify the characteristics of the BOS in order to increase tourism expenditure; hence, increasing the growth and recovering the Libyan tourism market.

### **9.7.1 Creating value added and value innovation**

The blue ocean strategy is based on ideas of the industry's value creation in uncontested market space in order to create new customer's values (demand) at low cost and new offerings (supply); hence, the BOS (Kim & Mauborgne, 2005b). It means that products innovation, such as goods or services, or style of presentation of the products will lead to create value for the market (Kim & Mauborgne, 2005a, 2005b). Ahmat et al. (2015) explored the ability of creating new market space that is uncontested, and has to be done by the firms and organization through steering away from the satisfaction of the current products, services and management, by understanding the business environment and configuration. Wherese, the literature suggests that the Libyan tourism industry should compete well in order to increase its share with destination markets. As a result, many studies supported this view, such as those conducted by Khalifa (2010) , GBTTI (GTTI (2006), Bizan (2013), Abuharris and Ruddock (2003). The authors conclude that Libya needs

preparation in order to be more competitive. As a result, this means that Libya should compete in the red ocean, rather than focus on other strategies that are derived away from this competition in order to increase tourism growth; hence, increasing its share in the tourism market. The research findings identify the BOS' character through the stakeholders' prospective, and find that cost savings are made by eliminating and reducing factors that Libya competes on. Furthermore, create value by raising and creating elements of the Libyan tourism industry has never offered, in order to increase tourism expenditure, and hence increase growth.

The present study indicates that the BOS concept is value-added through the two findings, which are hotelier's perspective the development of hotels services by offering special services and packages. Such as, developing Libyan cuisine, Libyan traditional coffee, buffet, special dishes, and developing the hotel package, along with new market segmentation, offering special services, adopting buffet program in hotels, planning healthy food for special diets and diabetes, organizing tourism birthday, trips, creating package for the brides and grooms, creating sport clubs in hotels and applying the legalized and regulated Alcohol, and developing the hotel package, along with new market segmentation. Yang (2012) found that creating value for hotels can reinforce the income of the industry and strengthen market positions in the hotel marketplace. In addition, it could create new value by delivering new offerings in a new uncontested market marketplace; hence this will lead to the development of hotel products and tourist packages for international and domestic tourist. From consultant's perspective: technology linked to museums considering people with special needs. As a result the appropriate unit of analysis is the strategic move, which is the set of the managerial action and decisions involved in making a major-creating business offering (Kim & Mauborgne, 2004). Moreover, Kim and Mauborgne (2005c) found that the strategic moves have delivered products and services that opened and captured



new market space with a significant leap in demand. The true growth potential is beyond these existing customers to where potential future customers are. To achieve the BOS, is what the company needs to keep its focus. Reach beyond existing demand addresses the scope risk of aggregating the greatest demand for a new offering ( Kim & Mauborgne, 2005c).

### **9.7.2 Creating value-cost trade-off**

About trade off, industries can create high value at a high cost, or create plausible value at a low cost. However, BOS can track both differentiation and low cost together (Kim & Mauborgne, 2005c). Moreover, cost savings are made by eliminating and reducing the factors an industry competes on. In terms of the concept of BOS, this study finds another factors that in line with the BOS concept, which are: from tour operators' perspective that reduce the prices of the tourist restaurant prices up to 50%, and internal flights; and from hotelier's perspective the dollar prices and hotel prices, smoking in the public area, spicy food. However, from the government promoters said that reduction of the number of the tourist can lead to decrease the costs and high value for the customers. From the consultant's perspectives, such as, reducing the taxes for both local and foreign investors, and the interests for tourist borrowers. These findings provide a value-cost-trade off, but at the same time, increase the potential of tourists in Libya by consolidating tourism requirements. Moreover, providing affordable prices is consistent with Abuharris and Ruddock (2003) and Khalifa (2010) who are in line with Kim and Mauborgne (2004). Abuharris and Ruddock (2003) indicated that there are negative findings that exist in terms of tickets, air flights and shopping prices, which are considered very high for tourists. Hence, he suggested offering value for money in order to encourage tourists to spend more time in the country.

However, the findings of integration between multi-regional tourist companies are inconsistent with Khalifa (2010) because the present findings show that the western tourists saw Libya as similar to Egypt and Tunisia. Therefore, these

findings suggest making an alliance between the regional companies, while Khalifa (2010) concludes that there are no similarities between Libya and those countries apart from language and religion, with regard to British tourists. Other studies, such as the GBTTI (2006) and Bizan (2013), conclude that selling Libya with high price is inconsistent with the present study's findings.

### **9.7.3 Segmentation, Targeting and Positioning**

Buyer value is lifted by raising and creating elements the industry has never offered. The industries must look at alternative industries, strategic groups within industries and the chain of buyers, complementary product and service offerings, as well as the functional or emotional appeal to buyers during the time, in order to receive some insights for reconstructing the marketing and create new blue ocean markets. This can help lead the way for expanded value chains, as well as completely new markets (Kim & Mauborgne, 2005c). The results of this study are: increase partnership with tourism companies in neighboring countries, and attracting the CEOs), twining programs with the international hotels. Creating the North and South Mediterranean tourism from hoteliers and consultant's perspectives. Another point is that promoting domestically and internationally (focus on the closet European markets, participating in the international events). As a result, these findings in line with the BOS concept is considered as a general option for management, through "value innovation" industries which will be able to discover sufficient untapped markets, as a result of creating new consumer demand and finally growing tourism.

### **9.7.4 Blue Ocean as a recovery strategy**

The aim of this study is to identify that the blue ocean is a recovery strategy for the Libyan tourism industry. The findings show that non-oil GDP causes growth in the tourism sector, which means that the impact of the economic

activities may lead to increasing the growth of many sectors in some selective forms, such as tourism culture. This study concludes that new market segmentation and Adopting tourism culture (tour guides stakeholders), choose the desert as the main theme for tourism, organizing dates for tourism festivals, and show the culture value (government marketers), creating province tourism suitable to its environment and social culture, revive the anniversary of the El-Alamein battle, Ethnic culture, Waw Al-Namous (tour operators). Reviving the old life of the ancient's cities, organizing shows in museums. Adopting a timetable for festivals (consultants) developing tourism culture, such as enhancing cultural value, developing the craft industry and increasing the religion tourism, are all in line with Blažević, et.al.(2012). Interestingly, these results are seen as the BOS for the Libyan tourism industry and they are consistent with Alammari et al. (2015) in their studies in which they indicated that a new image that should be focused on Libya's culture heritage and archaeological sites. In addition, this study is partially consisted with the studies of (Avraham & Ketter, 2008) and (Galili, 2002) about new market segmentation.

However, the literature suggests that recovering the tourism industry can be achieved by improving the image of the country through the media, such as Ehemann (1977), Wahab (1996), Naama (2007) and (Ali, 2013), or through running special events, for instance, Hall and O'Sullivan (1996), Wahab (1996) and (Nielsen, 2001). Surprisingly, the present study finds that using these tools is useful for re-branding the Libyan tourism sector, and Libya is soon to declare its stability. Thus, an increase in investments in Libya will lead to recovery and the speed development of the tourism industry. Therefore, the importance of economic activities has a high impact on tourism industry development (Blažević, et. 2012), and in increasing the shares of private investment, whether it is foreign or local, through removing the restriction on investments. In line with Abuharris and Ruddock (2003), Khalifa (2010) and

Alammari et al. (2015), who found that increasing investment, plays a key role in developing the tourism industry both domestically and internationally. Another factor for the development of the tourism sector which comes through the development of employment is in line with Naama (2007). The author finds that enhancing the human and physical resources of the existing hotel education institutions and engaging with the private sector in reforming and driving the education sector could help with meeting the requirements of the tourism market. As well as including the importance of tourism in the curriculum of schools, this could also increase the degree of awareness among young people.

## **Chapter 10: Conclusion**

### **10.1 Introduction**

This chapter is divided into six sections. Section 10.2 provides a summary of the key research findings that have emerged from the data analysis and findings discussion. Section 10.3 identifies the research contributions to knowledge made by this study. Section 10.4 presents the limitations of the research. Then, further research is suggested in section 10.5. Finally, recommendations for policy makers are provided in section 10.6.

### **10.2 Summary of the key findings of the research**

This section restates a summary of the key research findings relating to the existence of a long-run relationship for tourism expenditure (relating to the first objective in this research); bi-directional long-run causality (relating to the second objective); exploring in depth the factors that shape growth, based on the blue ocean strategy (relating to the third objective); and finally, recovering the tourism industry based on the BOS (relating to the fourth objective).

### **10.3 The existence of long-run for tourism expenditure and non-oil GDP**

The purpose of this study was to investigate the relationship between tourism expenditure, which is treated as a proxy of tourism income, whereas non-oil GDP was treated a proxy of economic growth. A long run relationship between tourism expenditure and non-oil growth through the period (1995-2010) was found in the Libyan case. This aim was identified through the ARDL model for co-integration. The findings show that there is one co-integration between the variables.

#### **10.4 Non-oil GDP Causes Tourism in Long-run**

The second major finding is that there is just one causal relationship between tourism expenditure and non-oil growth from one side that came from non-oil growth, which in turn caused the growth of tourism expenditure. Therefore, the purpose of this study was to find out the causality, in case that the causality relationship existed but was a bi-directional long-run causality relationship. Hence, the TLNG is not found in this study.

#### **10.5 Exploring in depth the factors that shape the growth based on the blue ocean strategy**

The other aim of this study was to find out the factors that could shape the growth of tourism in Libya by applying the Blue Ocean Strategy tool. The factors were revealed to help increase the growth of tourism expenditure in Libya through eliminating, reducing, raising and creating factors from a stakeholder's perspective.

#### **10.6 Recovering tourism industry based on the BOS**

This study aimed to discover the strategy that could help the tourism industry and policy makers in recovering the tourism sector after the deterioration of the image of this sector. The study indicated that Libyan tourism should be treated as a blue ocean country by enhancing the Libyan culture and heritage. As well as the study also showed that opening investment for both locals and foreigners would improve the Libyan image immediately.

#### **10.7 The Contribution of the Thesis**

The study has provided four contributions as following:

### **10.7.1 Contribution to the TLGH:**

Despite the fact that the tourism industry plays a fundamental role in the world economy, the previous literature has paid little attention to the empirical investigation of the tourism contribution to Non-Oil Growth (NOG), and economic growth in general. As a result, this study has provided an empirical of TLNOG investigation, and this could have contributed towards bridging the gap between the TLGH literatures. The commonly accepted argument on the contribution of TLNOG needs to be verified empirically as well. Therefore, this research has verified the relationship between tourism expenditure and non-oil growth and the latter is led to cause tourism expenditure.

### **10.7.2 Contribution to the BOS**

In the literature, there are few studies that have investigated the impact of the BOS strategy on the tourism industry. Thus, this study has contributed towards the BOS, given that there is not enough literature that has studied the growth of tourism with regards to the BOS framework. As a result, this study has contributed to the BOS in terms of both tourism growth and tourism recovery at the same time.

### **10.7.3 Contribution through TLGH & BOS**

The study has conducted two methodologies to understand both the growth of tourism industry and recovering the industry by applying the BOS. Applying the BOS method based on the TLNGO results has considered the first study that combined two methods in order to recover and increase the growth of the industry. Hence, expanding economic diversification in the future.

## **10.7.4 Contribution to Libya**

### 10.7.4.1 Contributing to the theory

The study has been used to measure tourism income by applying tourism expenditure, which has been used in the wider literature of TLGH. However, the majority of the Libyan tourism literature has not paid attention to investigating TNOG, which links tourism expenditure directly to the non-oil sector or to economic growth in general. Hence, this study has been the first study applying this variable within TLGH studies. Thus, this study has contributed to the theory by applying non-oil GDP. Besides that, the Libyan tourism literature has not examined the BOS yet in the tourism market.

### 10.7.4.2 Practice

The research has carried out mixed methods:

The first one is time series. The TLGH literature has shown that there just one study carried out for Libya with a panel method; however, the investigation was not complete due to a lack of sources. The panel method tends to disregard a country's specific features and the analysis did not establish the direction or causal linkages between tourism and economic growth. Hence, a case study with time series approach is more possible than the panel approach, particularly for a small market.

The other one is applying the ERRC tool. This study provides evidence of a recovery strategy for Libya in the context of the BOS. The investigation is focused on how the BOS could be the best strategy for developing the tourism industry to become a unique industry and so a key growth factor for Libya in the future. Also, it is a solution that will be delivered to the economic policy makers in order to recover and develop Libyan tourism industry. Thus, this is a contribution towards providing a strategy that could help in the recovery of the tourism sector and increase growth at the same time.



## 10.8 Limitations and further research

The study shows a clear trend and clear indication of the variables in order to provide guidance for policy makers in both the short and long-term. This study has found two issues and maybe with further study in the future they could be addressed.

10.8.1.1 The number of the observations in the time series method was relatively small and did not represent the industry comprehensively. Moreover, there was a lack of resources and information regarding tourism from the Libyan tourism industry. Thus, this study may not show significant results. Furthermore, the data of tourism expenditure, which were provided by the Libyan tourism industry, are incomplete. This is due to the fact that obtaining information in Libya was incredibly time consuming and took far more time than was expected. Only a 16 years were available, which restricted the researcher to choosing only one independent variable in the model. Such variables that might have been included in that model, such as hotel prices of the hotel, degree of security, international sanctions, regime policy, exchange rate and inflation. Further study will need to take into account all the issues that affect the tourism industry in Libya, whether they are policies of the government or international sanctions and terrorism, rather than just causality. Also, further research is needed with a greater focus on the relationship between capital goods imports, transportation and foreign direct investment.

10.8.1.2 Despite the fact that the researcher attempted to contact some of stakeholders for the purpose of the data collection, there were some difficulties in contacting all of them. Some of them apologized for not being able to do the interview. However, others were responsible to answer all the interview questions. Further researches are needed to cover the high growth that related

to the BOS application in Libyan hotels industry, comparison study between local and foreign hotels, tourism transportation and enterprises. Moreover, further reserch could apply the the tools of the blue ocean shifts.

### 10.9 Recommendations

These findings suggest seven courses of action, which are as follows.

- 1) Based on the importance of the co-integration and causality results, which show a long term relationship between tourism and non-oil GDP, and on the marketing strategy, the government should pay attention to increase their investments, in particular tourist investment, for the next period (projects, infrastructures, etc.). This would also cause growth of other sectors, such as construction and services, which would grow together in the same line.
- 2) The short-run causality between tourism and economic growth, which represents the non-oil GDP, has a good prediction for policy makers particularly in the short-term. It can achieve this through understanding the percentage of developing the number of tourism through the earlier stages in the investment.
- 3) The government and tourist suppliers can decrease the prices of tourist services in order to attract more visitors, and also remove the restrictions on investment for both local and foreign investors. In terms of the supply, the policymakers should adopt a pricing policy to deliver Libya as a blue ocean country.
- 4) The policy makers should decrease the visa requirements for visiting Libya for tourist purposes or investment. This procedure would help

Libya to develop its image gradually, in particular through investment, in order to become a destination investment.

- 5) Improving the quality of tourism services in Libya along with the marinating the tourism product and enhancing the culture.
- 6) The policymakers should adopt the BOS strategy in order to shift the tourism industry from the competitive market to the blue ocean market, and create irrelevant competition. Therefore, They must look for new visitors, who are away from the current competitive market. This can be recognized through the BOS concept in Libya.
- 7) It is a good indication to policy makers, because the stability of the relationship between the tourism and non-oil GDP could be affected by economic crisis and political change and tourism incidents. This is done by providing BOS as a strategy for recovering the tourism sector in Libya and overcoming the challenges.

In terms of the above, the blue ocean strategy is considered the best strategy regarding the Libyan case. Thus, the government should adopt this strategy in order to offer the Libyan tourism product as a unique product.

## Appendix AARDL Model for Co-integration, nonoil GDP as dependent variable

### Choosing optimal lag of the ARDL model

Dependent Variable: D(INNOILGDP)

Method: Least Squares

Date: 05/23/16 Time: 11:55

Sample (adjusted): 1998 2010

Included observations: 13 after adjustments

| Variable           | Coefficient | Std. Error            | t-Statistic | Prob.    |
|--------------------|-------------|-----------------------|-------------|----------|
| C                  | 3.896858    | 5.160693              | 0.755104    | 0.4788   |
| D(INNOILGDP(-1))   | 0.497366    | 0.519489              | 0.957414    | 0.3753   |
| D(INNOILGDP(-2))   | 0.473116    | 0.467736              | 1.011503    | 0.3508   |
| D(INTE(-1))        | -0.219726   | 2.045853              | -0.107401   | 0.9180   |
| D(INTE(-2))        | 0.215390    | 1.976653              | 0.108967    | 0.9168   |
| INNOILGDP(-1)      | -1.036966   | 0.577471              | -1.795702   | 0.1227   |
| INTE(-1)           | 1.180565    | 1.334277              | 0.884798    | 0.4103   |
| R-squared          | 0.401607    | Mean dependent var    |             | 0.613674 |
| Adjusted R-squared | -0.196787   | S.D. dependent var    |             | 3.692290 |
| S.E. of regression | 4.039282    | Akaike info criterion |             | 5.933744 |
| Sum squared resid  | 97.89481    | Schwarz criterion     |             | 6.237948 |
| Log likelihood     | -31.56934   | Hannan-Quinn criter.  |             | 5.871217 |
| F-statistic        | 0.671141    | Durbin-Watson stat    |             | 2.257172 |
| Prob(F-statistic)  | 0.679780    |                       |             |          |

Dependent Variable: D(INNOILGDP)  
 Method: Least Squares  
 Date: 06/01/16 Time: 11:54  
 Sample (adjusted): 1998 2010  
 Included observations: 13 after adjustments

| Variable           | Coefficient | Std. Error            | t-Statistic | Prob.    |
|--------------------|-------------|-----------------------|-------------|----------|
| C                  | 3.896858    | 5.160693              | 0.755104    | 0.4788   |
| D(INNOILGDP(-1))   | 0.497366    | 0.519489              | 0.957414    | 0.3753   |
| D(INNOILGDP(-2))   | 0.473116    | 0.467736              | 1.011503    | 0.3508   |
| D(INTE(-1))        | -0.219726   | 2.045853              | -0.107401   | 0.9180   |
| D(INTE(-2))        | 0.215390    | 1.976653              | 0.108967    | 0.9168   |
| INNOILGDP(-1)      | -1.036966   | 0.577471              | -1.795702   | 0.1227   |
| INTE(-1)           | 1.180565    | 1.334277              | 0.884798    | 0.4103   |
| R-squared          | 0.401607    | Mean dependent var    |             | 0.613674 |
| Adjusted R-squared | -0.196787   | S.D. dependent var    |             | 3.692290 |
| S.E. of regression | 4.039282    | Akaike info criterion |             | 5.933744 |
| Sum squared resid  | 97.89481    | Schwarz criterion     |             | 6.237948 |
| Log likelihood     | -31.56934   | Hannan-Quinn criter.  |             | 5.871217 |
| F-statistic        | 0.671141    | Durbin-Watson stat    |             | 2.257172 |
| Prob(F-statistic)  | 0.679780    |                       |             |          |

## Serial correlation test

Breusch-Godfrey Serial Correlation LM Test:

|               |          |                     |        |
|---------------|----------|---------------------|--------|
| F-statistic   | 2.350410 | Prob. F(2,4)        | 0.2113 |
| Obs*R-squared | 7.023552 | Prob. Chi-Square(2) | 0.0298 |

Test Equation:

Dependent Variable: RESID

Method: Least Squares

Date: 06/01/16 Time: 11:57

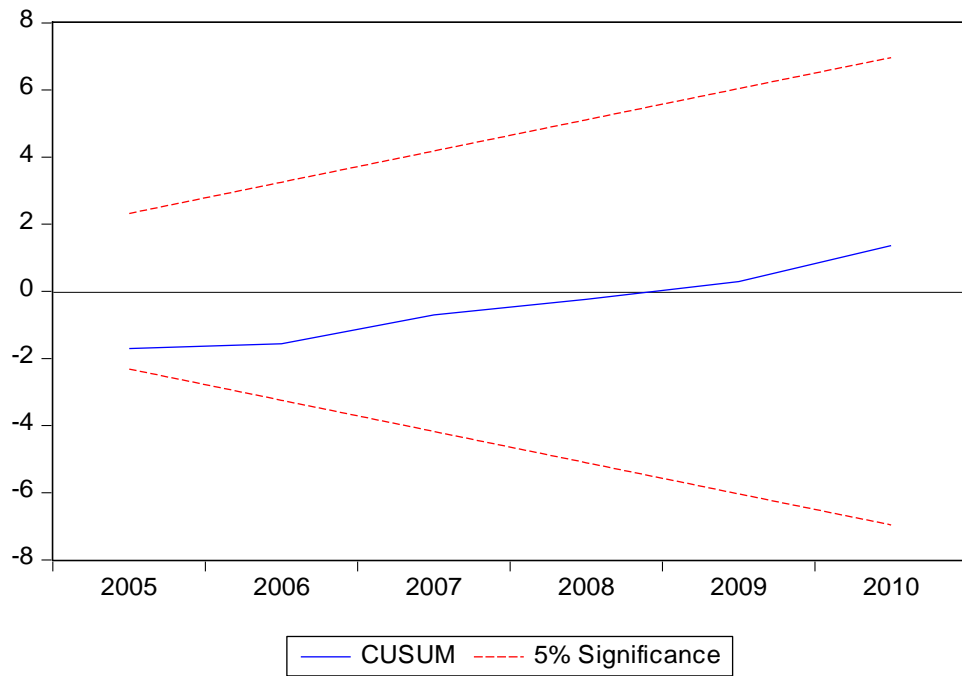
Sample: 1998 2010

Included observations: 13

Presample missing value lagged residuals set to zero.

| Variable           | Coefficient | Std. Error            | t-Statistic | Prob.    |
|--------------------|-------------|-----------------------|-------------|----------|
| C                  | -3.831314   | 4.706075              | -0.814121   | 0.4613   |
| D(INNOILGDP(-1))   | 0.026442    | 0.753064              | 0.035113    | 0.9737   |
| D(INNOILGDP(-2))   | 0.608540    | 0.740849              | 0.821409    | 0.4576   |
| D(INTE(-1))        | 0.535953    | 1.722200              | 0.311202    | 0.7712   |
| D(INTE(-2))        | 0.868265    | 1.698933              | 0.511065    | 0.6362   |
| INNOILGDP(-1)      | 1.207667    | 0.735122              | 1.642813    | 0.1758   |
| INTE(-1)           | -1.957659   | 1.452169              | -1.348093   | 0.2489   |
| RESID(-1)          | -2.046913   | 1.050320              | -1.948848   | 0.1231   |
| RESID(-2)          | -1.763827   | 1.371085              | -1.286446   | 0.2677   |
| R-squared          | 0.540273    | Mean dependent var    |             | 5.47E-16 |
| Adjusted R-squared | -0.379180   | S.D. dependent var    |             | 2.856204 |
| S.E. of regression | 3.354283    | Akaike info criterion |             | 5.464314 |
| Sum squared resid  | 45.00486    | Schwarz criterion     |             | 5.855432 |
| Log likelihood     | -26.51804   | Hannan-Quinn criter.  |             | 5.383921 |
| F-statistic        | 0.587603    | Durbin-Watson stat    |             | 2.333691 |
| Prob(F-statistic)  | 0.758117    |                       |             |          |

### Stability test



### Estimating long-run by the Wald test:

Wald Test:  
Equation: Untitled

| Test Statistic | Value    | df     | Probability |
|----------------|----------|--------|-------------|
| F-statistic    | 1.674975 | (2, 6) | 0.2643      |
| Chi-square     | 3.349950 | 2      | 0.1873      |

Null Hypothesis:  $C(6)=C(7)=0$   
Null Hypothesis Summary:

| Normalized Restriction (= 0) | Value     | Std. Err. |
|------------------------------|-----------|-----------|
| C(6)                         | -1.036966 | 0.577471  |
| C(7)                         | 1.180565  | 1.334277  |

Restrictions are linear in coefficients.



## Appendix B Estimation Long-run causality

Dependent Variable: D(INNOILGDP)  
 Method: Least Squares  
 Date: 06/01/16 Time: 12:40  
 Sample (adjusted): 1998 2010  
 Included observations: 13 after adjustments

| Variable           | Coefficient | Std. Error            | t-Statistic | Prob.    |
|--------------------|-------------|-----------------------|-------------|----------|
| C                  | -0.207724   | 1.358025              | -0.152961   | 0.8827   |
| D(INNOILGDP(-1))   | 0.508682    | 0.465677              | 1.092349    | 0.3108   |
| D(INNOILGDP(-2))   | 0.483623    | 0.418380              | 1.155942    | 0.2856   |
| D(INTE(-1))        | -0.169606   | 1.817330              | -0.093327   | 0.9283   |
| D(INTE(-2))        | 0.215974    | 1.831150              | 0.117945    | 0.9094   |
| ECT2(-1)           | -1.044293   | 0.529155              | -1.973511   | 0.0890   |
| R-squared          | 0.400863    | Mean dependent var    |             | 0.613674 |
| Adjusted R-squared | -0.027091   | S.D. dependent var    |             | 3.692290 |
| S.E. of regression | 3.741970    | Akaike info criterion |             | 5.781139 |
| Sum squared resid  | 98.01637    | Schwarz criterion     |             | 6.041885 |
| Log likelihood     | -31.57740   | Hannan-Quinn criter.  |             | 5.727544 |
| F-statistic        | 0.936696    | Durbin-Watson stat    |             | 2.264712 |
| Prob(F-statistic)  | 0.511442    |                       |             |          |

## The serial correlation model :

Breusch-Godfrey Serial Correlation LM Test:

|               |          |                     |        |
|---------------|----------|---------------------|--------|
| F-statistic   | 2.223763 | Prob. F(2,5)        | 0.2038 |
| Obs*R-squared | 6.119892 | Prob. Chi-Square(2) | 0.0469 |

Test Equation:

Dependent Variable: RESID

Method: Least Squares

Date: 06/01/16 Time: 12:36

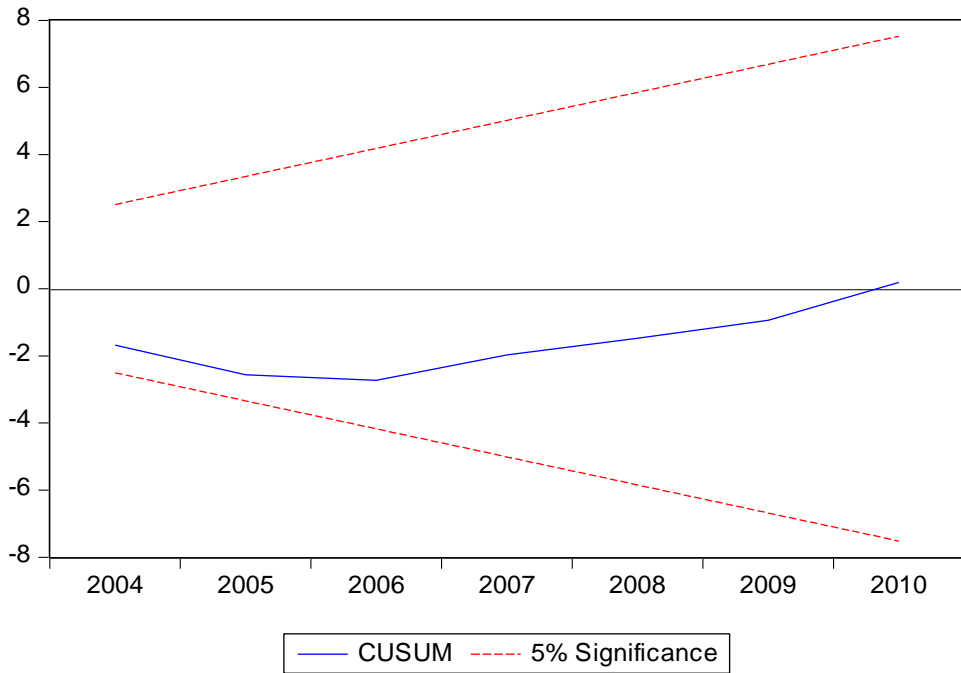
Sample: 1998 2010

Included observations: 13

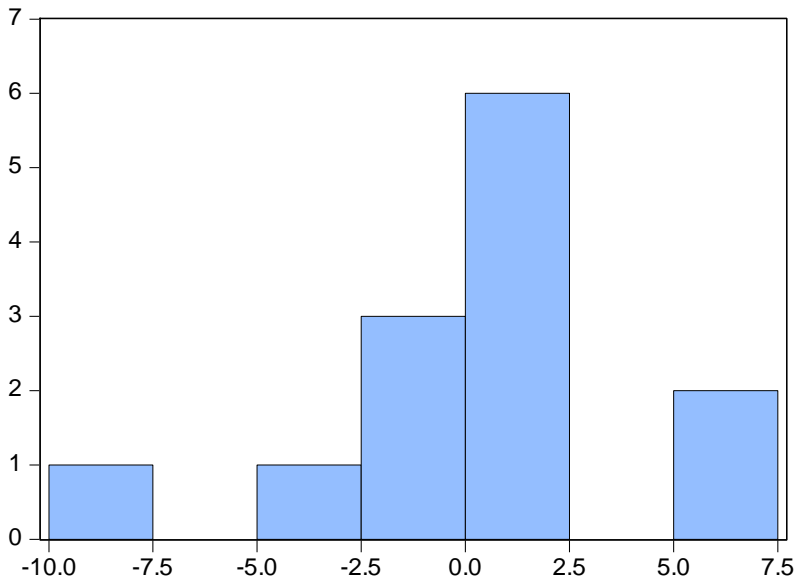
Presample missing value lagged residuals set to zero.

| Variable           | Coefficient | Std. Error            | t-Statistic | Prob.    |
|--------------------|-------------|-----------------------|-------------|----------|
| C                  | -1.786120   | 1.487482              | -1.200768   | 0.2836   |
| D(INNOILGDP(-1))   | 0.265885    | 0.675361              | 0.393694    | 0.7100   |
| D(INNOILGDP(-2))   | 0.483801    | 0.703930              | 0.687287    | 0.5225   |
| D(INTE(-1))        | 1.050470    | 1.641727              | 0.639857    | 0.5504   |
| D(INTE(-2))        | 0.842754    | 1.660980              | 0.507384    | 0.6335   |
| ECT2(-1)           | 1.015268    | 0.663380              | 1.530447    | 0.1865   |
| RESID(-1)          | -1.955942   | 0.994797              | -1.966171   | 0.1064   |
| RESID(-2)          | -1.311528   | 1.218895              | -1.075997   | 0.3311   |
| R-squared          | 0.470761    | Mean dependent var    |             | 2.73E-16 |
| Adjusted R-squared | -0.270174   | S.D. dependent var    |             | 2.857977 |
| S.E. of regression | 3.220997    | Akaike info criterion |             | 5.452516 |
| Sum squared resid  | 51.87410    | Schwarz criterion     |             | 5.800178 |
| Log likelihood     | -27.44136   | Hannan-Quinn criter.  |             | 5.381056 |
| F-statistic        | 0.635361    | Durbin-Watson stat    |             | 2.037914 |
| Prob(F-statistic)  | 0.717871    |                       |             |          |

### Stability test



### Normality test



|                   |           |
|-------------------|-----------|
| Series: Residuals |           |
| Sample 1998 2010  |           |
| Observations 13   |           |
| Mean              | -2.73e-16 |
| Median            | 0.125201  |
| Maximum           | 5.546475  |
| Minimum           | -8.016996 |
| Std. Dev.         | 3.519200  |
| Skewness          | -0.471635 |
| Kurtosis          | 3.588210  |
| Jarque-Bera       | 0.669363  |
| Probability       | 0.715566  |

## Heteroskedasticity Test: ARCH

|               |          |                     |        |
|---------------|----------|---------------------|--------|
| F-statistic   | 0.754444 | Prob. F(1,10)       | 0.4054 |
| Obs*R-squared | 0.841822 | Prob. Chi-Square(1) | 0.3589 |

Test Equation:

Dependent Variable: RESID^2

Method: Least Squares

Date: 06/13/16 Time: 10:42

Sample (adjusted): 1999 2010

Included observations: 12 after adjustments

| Variable           | Coefficient | Std. Error            | t-Statistic | Prob.    |
|--------------------|-------------|-----------------------|-------------|----------|
| C                  | 15.59235    | 6.889143              | 2.263323    | 0.0471   |
| RESID^2(-1)        | -0.265481   | 0.305647              | -0.868588   | 0.4054   |
| R-squared          | 0.070152    | Mean dependent var    |             | 12.30656 |
| Adjusted R-squared | -0.022833   | S.D. dependent var    |             | 19.72100 |
| S.E. of regression | 19.94487    | Akaike info criterion |             | 8.974833 |
| Sum squared resid  | 3977.979    | Schwarz criterion     |             | 9.055651 |
| Log likelihood     | -51.84900   | Hannan-Quinn criter.  |             | 8.944911 |
| F-statistic        | 0.754444    | Durbin-Watson stat    |             | 2.087279 |
| Prob(F-statistic)  | 0.405436    |                       |             |          |



## Appendix C Short –run causality

Tourism expenditure lag 1 and 2 jointly cannot cause nonoil GDP:

Wald Test:

Equation: Untitled

| Test Statistic | Value    | df     | Probability |
|----------------|----------|--------|-------------|
| F-statistic    | 0.009639 | (2, 7) | 0.9904      |
| Chi-square     | 0.019279 | 2      | 0.9904      |

Null Hypothesis:  $C(4)=C(5)=0$

Null Hypothesis Summary:

| Normalized Restriction (= 0) | Value     | Std. Err. |
|------------------------------|-----------|-----------|
| C(4)                         | -0.169606 | 1.817330  |
| C(5)                         | 0.215974  | 1.831150  |

Restrictions are linear in coefficients.

**(2) ARDL Model for Co-integration, Tourism expenditure as dependent variable.**

## Appendix D Choosing optimal lag of the ARDL model

Dependent Variable: D(INTE)  
 Method: Least Squares  
 Date: 05/23/16 Time: 12:00  
 Sample (adjusted): 1998 2010  
 Included observations: 13 after adjustments

| Variable           | Coefficient | Std. Error            | t-Statistic | Prob.    |
|--------------------|-------------|-----------------------|-------------|----------|
| C                  | 2.083301    | 0.337031              | 6.181340    | 0.0008   |
| D(INTE(-1))        | -0.111655   | 0.133609              | -0.835683   | 0.4353   |
| D(INTE(-2))        | 0.217076    | 0.129090              | 1.681588    | 0.1436   |
| D(INNOILGDP(-1))   | -0.103815   | 0.033926              | -3.060013   | 0.0222   |
| D(INNOILGDP(-2))   | -0.024734   | 0.030547              | -0.809728   | 0.4490   |
| INTE(-1)           | -0.582775   | 0.087138              | -6.687956   | 0.0005   |
| INNOILGDP(-1)      | 0.101692    | 0.037713              | 2.696465    | 0.0357   |
| R-squared          | 0.910219    | Mean dependent var    |             | 0.288423 |
| Adjusted R-squared | 0.820437    | S.D. dependent var    |             | 0.622525 |
| S.E. of regression | 0.263794    | Akaike info criterion |             | 0.476440 |
| Sum squared resid  | 0.417525    | Schwarz criterion     |             | 0.780643 |
| Log likelihood     | 3.903143    | Hannan-Quinn criter.  |             | 0.413912 |
| F-statistic        | 10.13815    | Durbin-Watson stat    |             | 2.322094 |
| Prob(F-statistic)  | 0.006297    |                       |             |          |



## Appendix E Serial correlation model

The d(inte) ARDL model has no serial correlation as stated below:

Breusch-Godfrey Serial Correlation LM Test:

|               |          |                     |        |
|---------------|----------|---------------------|--------|
| F-statistic   | 1.540388 | Prob. F(2,4)        | 0.3191 |
| Obs*R-squared | 5.656172 | Prob. Chi-Square(2) | 0.0591 |

Test Equation:

Dependent Variable: RESID

Method: Least Squares

Date: 05/23/16 Time: 12:07

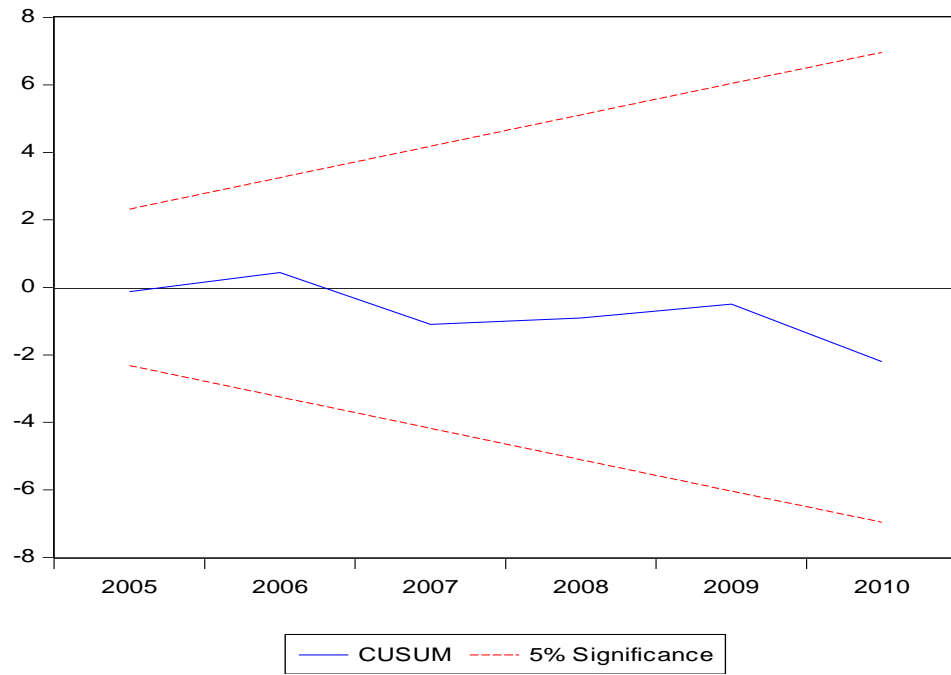
Sample: 1998 2010

Included observations: 13

Presample missing value lagged residuals set to zero.

| Variable           | Coefficient | Std. Error            | t-Statistic | Prob.    |
|--------------------|-------------|-----------------------|-------------|----------|
| C                  | -0.123211   | 0.320850              | -0.384013   | 0.7205   |
| D(INTE(-1))        | -0.001424   | 0.134538              | -0.010581   | 0.9921   |
| D(INTE(-2))        | 0.056386    | 0.126236              | 0.446674    | 0.6782   |
| D(INNOILGDP(-1))   | -0.010763   | 0.032164              | -0.334620   | 0.7547   |
| D(INNOILGDP(-2))   | -0.014560   | 0.030583              | -0.476063   | 0.6589   |
| INTE(-1)           | 0.037730    | 0.083824              | 0.450114    | 0.6759   |
| INNOILGDP(-1)      | -0.000825   | 0.034797              | -0.023703   | 0.9822   |
| RESID(-1)          | -0.923783   | 0.591980              | -1.560496   | 0.1937   |
| RESID(-2)          | -0.793319   | 0.633053              | -1.253164   | 0.2784   |
| R-squared          | 0.435090    | Mean dependent var    |             | 8.54E-17 |
| Adjusted R-squared | -0.694730   | S.D. dependent var    |             | 0.186531 |
| S.E. of regression | 0.242829    | Akaike info criterion |             | 0.213043 |
| Sum squared resid  | 0.235864    | Schwarz criterion     |             | 0.604162 |
| Log likelihood     | 7.615222    | Hannan-Quinn criter.  |             | 0.132650 |
| F-statistic        | 0.385097    | Durbin-Watson stat    |             | 1.398707 |
| Prob(F-statistic)  | 0.883188    |                       |             |          |

**Stability test :**



## Appendix F Long-run relationship :

Long-run relationship between the variable via Wald test:

Wald Test:

Equation: Untitled

| Test Statistic | Value    | df     | Probability |
|----------------|----------|--------|-------------|
| F-statistic    | 24.57242 | (2, 6) | 0.0013      |
| Chi-square     | 49.14483 | 2      | 0.0000      |

Null Hypothesis:  $C(6)=C(7)=0$

Null Hypothesis Summary:

| Normalized Restriction (= 0) | Value     | Std. Err. |
|------------------------------|-----------|-----------|
| C(6)                         | -0.582775 | 0.087138  |
| C(7)                         | 0.101692  | 0.037713  |

Restrictions are linear in coefficients.

### ECT model :

Dependent Variable: D(INTE)

Method: Least Squares

Date: 05/23/16 Time: 12:36

Sample (adjusted): 1998 2010

Included observations: 13 after adjustments

| Variable           | Coefficient | Std. Error            | t-Statistic | Prob.    |
|--------------------|-------------|-----------------------|-------------|----------|
| C                  | 0.536031    | 0.099565              | 5.383731    | 0.0010   |
| D(INTE(-1))        | -0.111132   | 0.126255              | -0.880218   | 0.4079   |
| D(INTE(-2))        | 0.231415    | 0.118951              | 1.945460    | 0.0928   |
| D(INNOILGDP(-1))   | -0.114290   | 0.025247              | -4.526900   | 0.0027   |
| D(INNOILGDP(-2))   | -0.033094   | 0.024179              | -1.368722   | 0.2134   |
| ECT(-1)            | -0.592851   | 0.080120              | -7.399501   | 0.0001   |
| R-squared          | 0.906463    | Mean dependent var    |             | 0.288423 |
| Adjusted R-squared | 0.839651    | S.D. dependent var    |             | 0.622525 |
| S.E. of regression | 0.249282    | Akaike info criterion |             | 0.363571 |
| Sum squared resid  | 0.434989    | Schwarz criterion     |             | 0.624317 |
| Log likelihood     | 3.636790    | Hannan-Quinn criter.  |             | 0.309976 |
| F-statistic        | 13.56735    | Durbin-Watson stat    |             | 2.181444 |
| Prob(F-statistic)  | 0.001735    |                       |             |          |



## Appendix G Serial Correlation Test

The model has serial correlation as tabled below:

Dependent Variable: D(INTE)

Method: Least Squares

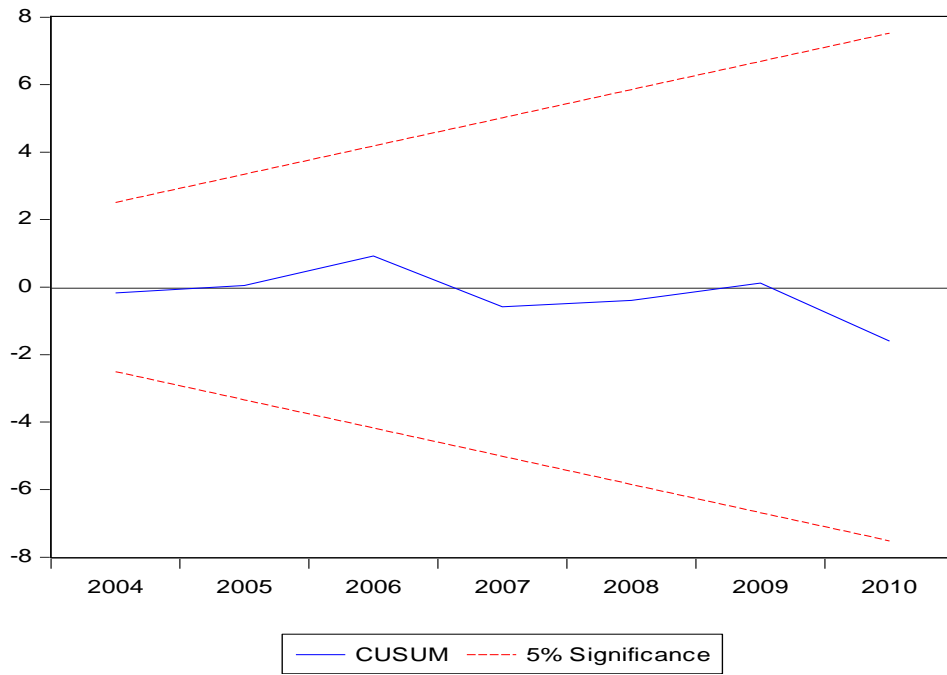
Date: 05/23/16 Time: 12:36

Sample (adjusted): 1998 2010

Included observations: 13 after adjustments

| Variable           | Coefficient | Std. Error            | t-Statistic | Prob.    |
|--------------------|-------------|-----------------------|-------------|----------|
| C                  | 0.536031    | 0.099565              | 5.383731    | 0.0010   |
| D(INTE(-1))        | -0.111132   | 0.126255              | -0.880218   | 0.4079   |
| D(INTE(-2))        | 0.231415    | 0.118951              | 1.945460    | 0.0928   |
| D(INNOILGDP(-1))   | -0.114290   | 0.025247              | -4.526900   | 0.0027   |
| D(INNOILGDP(-2))   | -0.033094   | 0.024179              | -1.368722   | 0.2134   |
| ECT(-1)            | -0.592851   | 0.080120              | -7.399501   | 0.0001   |
| R-squared          | 0.906463    | Mean dependent var    |             | 0.288423 |
| Adjusted R-squared | 0.839651    | S.D. dependent var    |             | 0.622525 |
| S.E. of regression | 0.249282    | Akaike info criterion |             | 0.363571 |
| Sum squared resid  | 0.434989    | Schwarz criterion     |             | 0.624317 |
| Log likelihood     | 3.636790    | Hannan-Quinn criter.  |             | 0.309976 |
| F-statistic        | 13.56735    | Durbin-Watson stat    |             | 2.181444 |
| Prob(F-statistic)  | 0.001735    |                       |             |          |

## Appendix H Stability Test



## Appendix I Eliminate Serial Correlation

Because the model has LM , we drop inte (-2):

Dependent Variable: D(INTE)

Method: Least Squares

Date: 05/23/16 Time: 12:47

Sample (adjusted): 1998 2010

Included observations: 13 after adjustments

| Variable           | Coefficient | Std. Error            | t-Statistic | Prob.    |
|--------------------|-------------|-----------------------|-------------|----------|
| C                  | 0.578973    | 0.112726              | 5.136095    | 0.0009   |
| D(INTE(-1))        | -0.067396   | 0.144249              | -0.467224   | 0.6528   |
| D(INNOILGDP(-1))   | -0.111670   | 0.029272              | -3.814915   | 0.0051   |
| D(INNOILGDP(-2))   | -0.037915   | 0.027925              | -1.357727   | 0.2116   |
| ECT(-1)            | -0.581728   | 0.092789              | -6.269376   | 0.0002   |
| R-squared          | 0.855889    | Mean dependent var    |             | 0.288423 |
| Adjusted R-squared | 0.783833    | S.D. dependent var    |             | 0.622525 |
| S.E. of regression | 0.289435    | Akaike info criterion |             | 0.641954 |
| Sum squared resid  | 0.670183    | Schwarz criterion     |             | 0.859242 |
| Log likelihood     | 0.827301    | Hannan-Quinn criter.  |             | 0.597291 |
| F-statistic        | 11.87817    | Durbin-Watson stat    |             | 1.605560 |
| Prob(F-statistic)  | 0.001908    |                       |             |          |



## Appendix J Serial Correlation Test

The model now has no lm:

Breusch-Godfrey Serial Correlation LM Test:

|               |          |                     |        |
|---------------|----------|---------------------|--------|
| F-statistic   | 0.195363 | Prob. F(2,6)        | 0.8276 |
| Obs*R-squared | 0.794814 | Prob. Chi-Square(2) | 0.6721 |

Test Equation:

Dependent Variable: RESID

Method: Least Squares

Date: 05/23/16 Time: 12:48

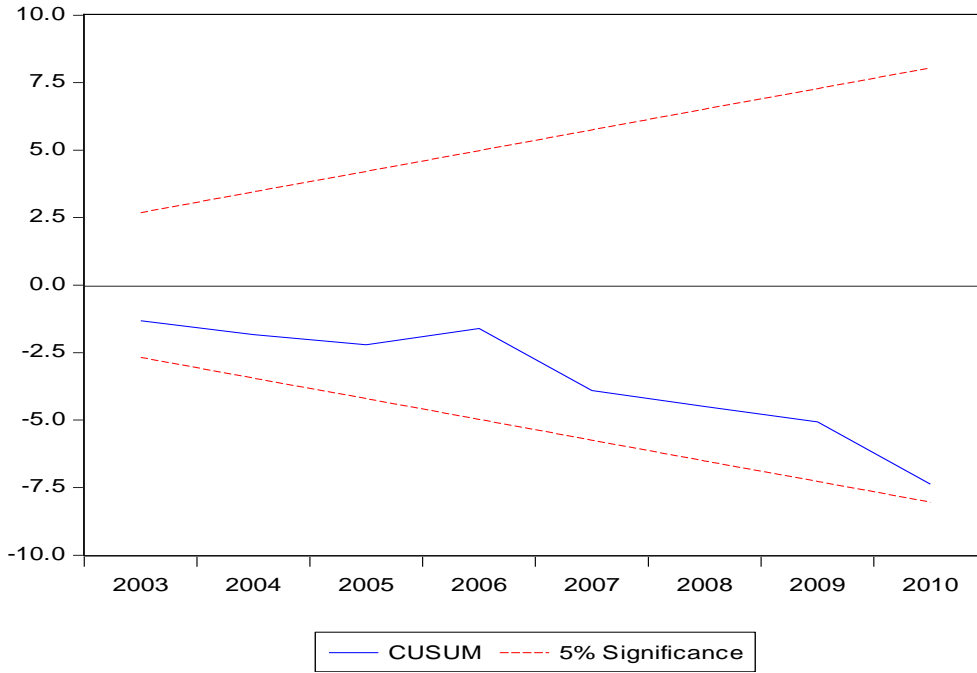
Sample: 1998 2010

Included observations: 13

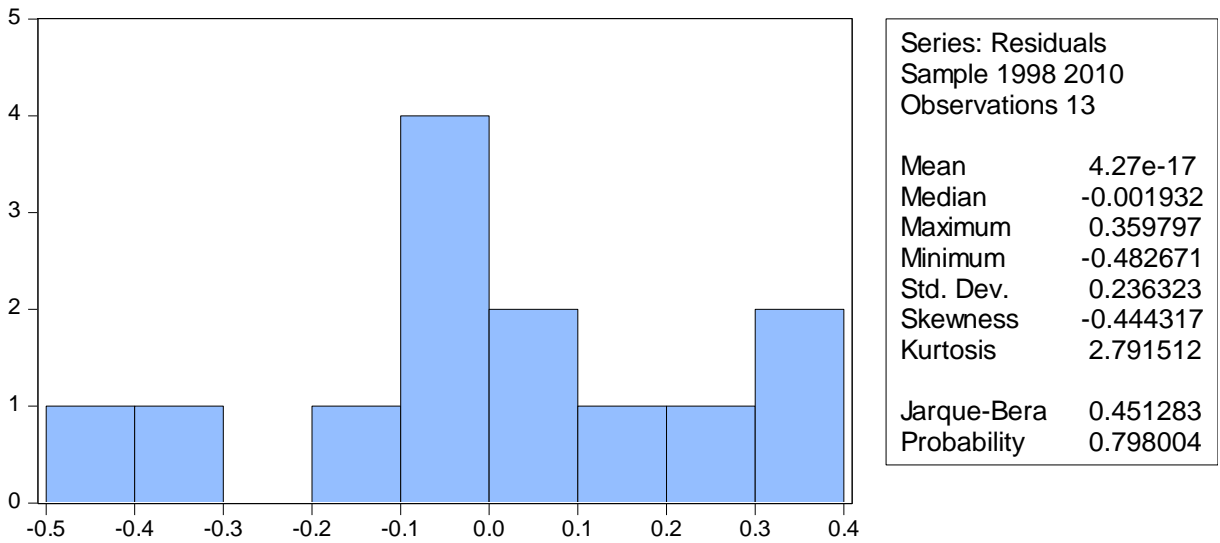
Presample missing value lagged residuals set to zero.

| Variable           | Coefficient | Std. Error            | t-Statistic | Prob.    |
|--------------------|-------------|-----------------------|-------------|----------|
| C                  | -0.016548   | 0.131670              | -0.125674   | 0.9041   |
| D(INTE(-1))        | 0.011882    | 0.186064              | 0.063862    | 0.9512   |
| D(INNOILGDP(-1))   | -0.002740   | 0.033374              | -0.082105   | 0.9372   |
| D(INNOILGDP(-2))   | 0.001768    | 0.032098              | 0.055089    | 0.9579   |
| ECT(-1)            | -0.008540   | 0.112424              | -0.075958   | 0.9419   |
| RESID(-1)          | 0.060492    | 0.593357              | 0.101950    | 0.9221   |
| RESID(-2)          | 0.330988    | 0.534930              | 0.618751    | 0.5588   |
| R-squared          | 0.061140    | Mean dependent var    |             | 4.27E-17 |
| Adjusted R-squared | -0.877721   | S.D. dependent var    |             | 0.236323 |
| S.E. of regression | 0.323833    | Akaike info criterion |             | 0.886558 |
| Sum squared resid  | 0.629208    | Schwarz criterion     |             | 1.190761 |
| Log likelihood     | 1.237376    | Hannan-Quinn criter.  |             | 0.824030 |
| F-statistic        | 0.065121    | Durbin-Watson stat    |             | 1.804025 |
| Prob(F-statistic)  | 0.997919    |                       |             |          |

## Appendix K Stability Test



### Normality test



## Heteroskedasticity Test: ARCH

|               |          |                     |        |
|---------------|----------|---------------------|--------|
| F-statistic   | 0.991144 | Prob. F(1,10)       | 0.3429 |
| Obs*R-squared | 1.082119 | Prob. Chi-Square(1) | 0.2982 |

Test Equation:

Dependent Variable: RESID^2

Method: Least Squares

Date: 06/13/16 Time: 10:36

Sample (adjusted): 1999 2010

Included observations: 12 after adjustments

| Variable    | Coefficient | Std. Error | t-Statistic | Prob.  |
|-------------|-------------|------------|-------------|--------|
| C           | 0.072256    | 0.026816   | 2.694531    | 0.0225 |
| RESID^2(-1) | -0.450351   | 0.452359   | -0.995562   | 0.3429 |

|                    |           |                       |           |
|--------------------|-----------|-----------------------|-----------|
| R-squared          | 0.090177  | Mean dependent var    | 0.055848  |
| Adjusted R-squared | -0.000806 | S.D. dependent var    | 0.073248  |
| S.E. of regression | 0.073277  | Akaike info criterion | -2.238125 |
| Sum squared resid  | 0.053695  | Schwarz criterion     | -2.157307 |
| Log likelihood     | 15.42875  | Hannan-Quinn criter.  | -2.268047 |
| F-statistic        | 0.991144  | Durbin-Watson stat    | 1.786785  |
| Prob(F-statistic)  | 0.342942  |                       |           |

## Appendix L Causality Test

Waled test for non-oil can cause tourism

Wald Test:

Equation: Untitled

| Test Statistic | Value    | df     | Probability |
|----------------|----------|--------|-------------|
| F-statistic    | 7.365535 | (2, 8) | 0.0153      |
| Chi-square     | 14.73107 | 2      | 0.0006      |

Null Hypothesis:  $C(3)=C(4)=0$

Null Hypothesis Summary:

| Normalized Restriction (= 0) | Value     | Std. Err. |
|------------------------------|-----------|-----------|
| C(3)                         | -0.111670 | 0.029272  |
| C(4)                         | -0.037915 | 0.027925  |

Restrictions are linear in coefficients.

## Appendix M Toda Yamatota causality:

### A. Var model at level:

Vector Autoregression Estimates

Date: 06/01/16 Time: 13:36

Sample (adjusted): 1997 2010

Included observations: 14 after adjustments

Standard errors in ( ) & t-statistics in [ ]

|   | INTE                                 | INNOILGDP                            |
|---|--------------------------------------|--------------------------------------|
| INTE(-1)                                | 0.771908<br>(0.27318)<br>[ 2.82566]  | 0.208690<br>(1.93288)<br>[ 0.10797]  |
| INTE(-2)                                | -0.109208<br>(0.24039)<br>[-0.45430] | 0.429745<br>(1.70089)<br>[ 0.25266]  |
| INNOILGDP(-1)                           | 0.008464<br>(0.04660)<br>[ 0.18164]  | 0.547619<br>(0.32971)<br>[ 1.66091]  |
| INNOILGDP(-2)                           | 0.063903<br>(0.04952)<br>[ 1.29053]  | -0.192690<br>(0.35036)<br>[-0.54998] |
| C                                       | 1.106216<br>(0.49332)<br>[ 2.24237]  | 3.397399<br>(3.49053)<br>[ 0.97332]  |
| R-squared                               | 0.871355                             | 0.368068                             |
| Adj. R-squared                          | 0.814180                             | 0.087210                             |
| Sum sq. resids                          | 2.334660                             | 116.8808                             |
| S.E. equation                           | 0.509320                             | 3.603713                             |
| F-statistic                             | 15.24001                             | 1.310511                             |
| Log likelihood                          | -7.326801                            | -34.71982                            |
| Akaike AIC                              | 1.760972                             | 5.674260                             |
| Schwarz SC                              | 1.989206                             | 5.902494                             |
| Mean dependent                          | 4.577218                             | 9.216730                             |
| S.D. dependent                          | 1.181528                             | 3.771939                             |
| Determinant resid covariance (dof adj.) |                                      | 3.331314                             |
| Determinant resid covariance            |                                      | 1.376716                             |
| Log likelihood                          |                                      | -41.96819                            |
| Akaike information criterion            |                                      | 7.424027                             |
| Schwarz criterion                       |                                      | 7.880496                             |

## Appendix N Select the optimal lag:

VAR Lag Order Selection Criteria  
 Endogenous variables: INTE INNOILGDP  
 Exogenous variables: C  
 Date: 06/01/16 Time: 13:38  
 Sample: 1995 2010  
 Included observations: 15

| Lag | LogL      | LR        | FPE       | AIC       | SC        | HQ        |
|-----|-----------|-----------|-----------|-----------|-----------|-----------|
| 0   | -65.17447 | NA        | 26.60868  | 8.956595  | 9.051002  | 8.955590  |
| 1   | -47.41949 | 28.40797* | 4.296386* | 7.122598* | 7.405818* | 7.119581* |

\* indicates lag order selected by the criterion  
 LR: sequential modified LR test statistic (each test at 5% level)  
 FPE: Final prediction error  
 AIC: Akaike information criterion  
 SC: Schwarz information criterion  
 HQ: Hannan-Quinn information criterion

VAR Lag Order Selection Criteria  
 Endogenous variables: INTE INNOILGDP  
 Exogenous variables: C  
 Date: 06/01/16 Time: 13:40  
 Sample: 1995 2010  
 Included observations: 14

| Lag | LogL      | LR        | FPE       | AIC       | SC        | HQ        |
|-----|-----------|-----------|-----------|-----------|-----------|-----------|
| 0   | -58.81899 | NA        | 20.35160  | 8.688426  | 8.779720  | 8.679976  |
| 1   | -43.56126 | 23.97643* | 4.128521* | 7.080180* | 7.354062* | 7.054827* |
| 2   | -41.96819 | 2.048235  | 6.135736  | 7.424027  | 7.880496  | 7.381772  |

\* indicates lag order selected by the criterion  
 LR: sequential modified LR test statistic (each test at 5% level)  
 FPE: Final prediction error  
 AIC: Akaike information criterion  
 SC: Schwarz information criterion  
 HQ: Hannan-Quinn information criterion

VAR Lag Order Selection Criteria

Endogenous variables: INTE INNOILGDP  
 Exogenous variables: C  
 Date: 06/01/16 Time: 13:42  
 Sample: 1995 2010  
 Included observations: 13

| Lag | LogL      | LR        | FPE       | AIC       | SC        | HQ        |
|-----|-----------|-----------|-----------|-----------|-----------|-----------|
| 0   | -49.47024 | NA        | 9.424887  | 7.918499  | 8.005414  | 7.900634  |
| 1   | -35.18705 | 21.97415* | 1.969234  | 6.336468  | 6.597214* | 6.282873  |
| 2   | -30.42378 | 5.862475  | 1.871403* | 6.219044  | 6.653620  | 6.129719  |
| 3   | -26.12666 | 3.966576  | 2.120555  | 6.173332* | 6.781739  | 6.048277* |

\* indicates lag order selected by the criterion

LR: sequential modified LR test statistic (each test at 5% level)

FPE: Final prediction error

AIC: Akaike information criterion

SC: Schwarz information criterion

HQ: Hannan-Quinn information criterion

## Appendix O Var model

Vector Autoregression Estimates

Date: 06/01/16 Time: 13:45

Sample (adjusted): 1999 2010

Included observations: 12 after adjustments

Standard errors in ( ) & t-statistics in [ ]

|                | INTE                                 | INNOILGDP                            |
|----------------|--------------------------------------|--------------------------------------|
| INTE(-1)       | -0.262432<br>(0.63654)<br>[-0.41228] | 9.401993<br>(8.03205)<br>[ 1.17056]  |
| INTE(-2)       | 0.501303<br>(0.27112)<br>[ 1.84899]  | 0.037458<br>(3.42110)<br>[ 0.01095]  |
| INTE(-3)       | 0.131603<br>(0.29711)<br>[ 0.44294]  | -4.407935<br>(3.74904)<br>[-1.17575] |
| INNOILGDP(-1)  | -0.019384<br>(0.03319)<br>[-0.58403] | 0.169603<br>(0.41880)<br>[ 0.40497]  |
| INNOILGDP(-2)  | 0.090256<br>(0.03155)<br>[ 2.86095]  | -0.207378<br>(0.39808)<br>[-0.52095] |
| INNOILGDP(-3)  | 0.080546<br>(0.06198)<br>[ 1.29959]  | -1.131763<br>(0.78206)<br>[-1.44716] |
| C              | 3.244012<br>(1.35008)<br>[ 2.40284]  | -10.11092<br>(17.0356)<br>[-0.59352] |
| INTE(-4)       | -0.270206<br>(0.19711)<br>[-1.37086] | 3.013177<br>(2.48716)<br>[ 1.21149]  |
| INNOILGDP(-4)  | 0.001485<br>(0.05112)<br>[ 0.02905]  | -1.306841<br>(0.64509)<br>[-2.02584] |
| R-squared      | 0.940784                             | 0.728335                             |
| Adj. R-squared | 0.782873                             | 0.003894                             |
| Sum sq. resids | 0.242733                             | 38.64818                             |
| S.E. equation  | 0.284449                             | 3.589251                             |
| F-statistic    | 5.957699                             | 1.005375                             |
| Log likelihood | 6.376926                             | -24.04482                            |



|                |          |          |
|----------------|----------|----------|
| Akaike AIC     | 0.437179 | 5.507470 |
| Schwarz SC     | 0.800859 | 5.871150 |
| Mean dependent | 4.963272 | 9.929621 |
| S.D. dependent | 0.610446 | 3.596260 |

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|   |           |
|---|-----------|
| Determinant resid covariance (dof adj.) | 0.506249  |
| Determinant resid covariance            | 0.031641  |
| Log likelihood                          | -13.33463 |
| Akaike information criterion            | 5.222438  |
| Schwarz criterion                       | 5.949798  |

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VAR Granger Causality/Block Exogeneity Wald Tests

Date: 06/01/16 Time: 13:47

Sample: 1995 2010

Included observations: 12

Dependent variable: INTE

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| Excluded  | Chi-sq   | df | Prob.  |
|-----------|----------|----|--------|
| INNOILGDP | 9.914698 | 3  | 0.0193 |
| All       | 9.914698 | 3  | 0.0193 |

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Dependent variable: INNOILGDP

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| Excluded | Chi-sq   | df | Prob.  |
|----------|----------|----|--------|
| INTE     | 2.676923 | 3  | 0.4442 |
| All      | 2.676923 | 3  | 0.4442 |

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