

Tourism Development and Economic Growth: Evidence from Northern Cyprus

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ABSTRACT

There have been ongoing discussions and studies about the relationship between development of tourism in the economies of small islands and their related economic growth. In spite of the fact that solid empirical evidence that proves the nexus between tourism development in these regions and their economic growth exists, a large portion of it has remained unexplored such as the impact of bank loan disbursements on economic growth. Hitherto, limited attention has been paid to the specificity of the role of tourism-related loan or financial inducement in economic growth.

This thesis examines the short-run and long run relationships between bank loan disbursements to the tourism sector and economic growth in North Cyprus. We structurally derive empirical equations for co-integration and error correction models by extending the original Solow growth model. The empirical findings suggest unidirectional causality from loans disbursed to the tourism sector to economic growth in North Cyprus for the period under study.

Additionally, we show that tourism-related loan, human and technological advancement all spur economic growth in the short- and long-run. These findings' main policy implication is that long-term complementary policies in the domestic banking system can increase access to financial sources for tourism enterprises and, consequently, promote tourism-led economic growth, especially in small tourism-dependent economies where capital sources are scarce.

Keywords: Tourism sector, Bank Loans, Economic growth, Co-integration models, Granger Causality, Small Island Economies

ÖZ

Küçük ada ekonomilerinde turizmin gelişmesi ve buna bağlı ekonomik büyüme arasındaki ilişki hakkında tartışmalar ve çalışmalar devam etmektedir. Bu bölgelerdeki turizm gelişimi ile ekonomik büyüme arasındaki ilişkiyi kanıtlayan kesin ampirik kanıtlar olmasına rağmen, banka kredilerinin ekonomik büyüme üzerindeki etkisi gibi büyük bir kısmı keşfedilmemiş olarak kalmıştır. Şimdiye kadar, ekonomik büyümede turizmle ilgili kredi veya finansal teşvik rolü sınırlı kalmıştır.

Bu makale, Kuzey Kıbrıs'ta turizm sektöründe banka kredisi kullanımları ile ekonomik büyüme arasındaki kısa ve uzun vadeli ilişkileri incelemektedir. Solow büyüme modeli ilgili çalışmaya göre geliştirilip, eşbütünleşme ve hata düzeltme metodları uygulanmıştır. Ampirik bulgular, incelenen dönem için turizm sektörüne verilen kredilerden Kuzey Kıbrıs'taki ekonomik büyümeye doğru tek yönlü nedensellik olduğunu göstermektedir.

Ayrıca, turizmle ilgili kredilerin, beşeri ve teknolojik ilerlemenin kısa ve uzun vadede ekonomik büyümeyi teşvik ettiği de gösterilmektedir. Bu bulguların temel politika sonucu, yerel bankacılık sisteminde uzun vadeli tamamlayıcı politikaların turizm işletmeleri için finansal kaynaklara erişimi artırabileceği ve sonuç olarak, sermaye kaynaklarının kıt olduğu küçük ve turizme bağımlı ekonomilerde turizme dayalı ekonomik büyümeyi geliştireceğini göstermiştir.

Anahtar Kelimeler: Turizm sektörü, Banka Kredileri, Ekonomik büyüme, Eşbütünleşme modelleri, Granger Nedensellik, Küçük Ada Ekonomileri

To my family

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LIST OF SYMBOLS AND ABBREVIATIONS

ADF	Augmented Dickey Fuller
BC	Bidirectional Causality
DF-GLS	Dickey Fuller GLS
EDTG	Economic-Driven Tourism Growth
GDP	Gross Domestic Product
KPSS	Kwiatkowski Phillips Schmidt Shin
LDCs	Less Developed Countries
LLABR	Log (summation of exogenous rates of growth in the labor force (n), technological progress (g) and depreciation rate)
LRGDP	Log (fixed capital formation, % of GDP)
LSENR	Log of Secondary-level Enrolment Rate
LTLOAN	Log (loan disbursements to tourism sector, % of GDP)
NC	No Causality
PP	Phillips Perron
SIDS	Small Island Developing States
TLG	Tourism-Led Growth
VAR	Vector Auto-Regression
VECM	Vector Blunder Revision Model

Chapter 1

INTRODUCTION

1.1 Background of the Study

There have been on going conversations about the relationship between the status of the development of tourism in the economies of small islands and their related economic growth. In spite of the fact that solid empirical evidence that proves the existence of nexus between tourism development in these regions and their economic growth, a large portion of it has remained unexplored. the role of access to funds and other resources that are essential in maintaining this relationship Cannot be overemphasized (Oh, 2005; Demiroz & Ongan, 2005; Cortes-Jimenez & Pulina, 2010; Apergis & Payne, 2012; Kouchi et al., 2018; Fayissa et al., 2008; Khoshnevis Yazdi, 2019; Akadiri et al., 2019; Roudi et al., 2019; Aslan, 2014).

It is worth highlighting that the Turkish Republic of Northern Cyprus supplies a suitable environment for the research being conducted. This is basically for two reasons, firstly the state has only been recognized by Turkey and not any other country within the international community since its creation in the 1970's and secondly, over time, there have not been many other options to encourage the growth of its economy other than the exploitation of tourism and its inept potentials. Hence, small economies in islands such as Malts, Cyprus and other coastal regions which also depend highly on tourism could gain insight and learn lessons from a variety of sectors that are

booming courtesy the tourism inspired growth of Northern Cyprus (Alola & Alola, 2018, 2019).

1.2 Rationale of the Study

The motivation for this thesis stems from observations in the real world, that while tourism is a sector which is capital-intensive on one hand, and hence needs investments from either private or public sectors which would be substantial (Ahmad, 2015), on the other hand, there might be significant contribution to the economic growth of the system via the domestic banking sector as revealed through empirical evidence (Fethi & Katircioğlu, 2015; Bailliu, 2000). Provided that a lot of small economies recognize the sector of tourism as one of its main sectors, reasonable questions such as whether or not there exists a relationship between the two can elevate the rate of fertile investments in the sector of tourism and all these would in due course lead to economic growth.

1.3 Purpose of the Study

This research work attempts to explore whether or not there is a causal nexus between loans being disbursed to the tourism sector and associated economic gap- thereby filling the gap. In respect to this gap, time-series data from TRNC between the years 1977 and 2016 would be explored and a relationship between the development of tourism and growth of the economy would be established. While the influence of educational tourism, casinos and bank loans would be discussed, emphasis would be laid on the influence of bank loans in the tourism sector on the growth of TRNC's economy, this is because there is limited data on the part of casinos and the effects of educational tourism have long been over-flogged.

There would be two parts of this research, the first would be the development of a theoretical model using a reinforced version of the Solow growth model and the second involves the use of advanced econometric techniques which include the Johansen method, an error correction model (ECM), and autoregressive distributed lag bound tests (ARDL) to investigate the short/long-time relationships between all the variables. The purpose for the first part is to establish empirical equations by utilizing necessary theories in economics to model and construct the appropriate relationship between the variables being inspected.

Results would reveal that from the bank loans being disbursed to the sector of tourism which ultimately would resuscitate the growth of the economy, there is a unidirectional causality. Regardless, it was proven via the empirical results derived that the relationship basically exists in the long-run and evidence of impact within the short-run does not exist. Thus, the deviations and variations from equilibrium in the long-run in economic growth as measured by the real Gross Domestic Product per worker, all revealed from the error correction model, are corrected every year using a speed of adjustment of 55.8% towards equilibrium using a series of partial adjustments in the short-run. These discoveries infer that the loans from the banking sector to the sector of tourism have contributed to the maintenance of the growth of the economy in the tourism sector of the Turkish Republic of Northern Cyprus. As regarding the implication of policies for other countries, these discoveries point out the need for the implementation of robust long-term policies that would support the flow of capital from the sector of banking to the sector of tourism.

1.4 Significance and Contribution of the Study

There are three major contributions of this research literature, the first of which is modelling. The investigation of the relationship between disbursed funds in the form of bank loans and economic growth were investigated using the augmented slow growth model. Secondly, this research aims to highlight the importance of gaining access to financial resources for example bank loans within the tourism sector and for small economies most emphatically those in small islands where loans are very important, the required growth- this is a necessary contribution to existing literature on tourism. When compared to other sectors in the same economy, access to capital and other form of resources are necessary for the sustainable development of tourism over a period of time. Capital from domestic sources in the economies of small islands is insufficient in financing capital investments that would definitely be used in the development and implementation of large-scale tourism projects. At times like this, the economies of these small islands try to compensate for the absence of domestic funds by exploiting foreign direct investments (FDI's) (Khoshnevis Yazdi et al., 2017). In TRNC's situation, courtesy international economic embargoes, it has been daunting accessing international capital markets (Günçavdi & Küçükç, 2009), thus, alternative capital sources have remained loans gotten from domestic banks. Valuable lessons from this de-facto state could therefore be learned by governments of other small islands with tourism dependent economies, especially when it comes to the creation and implementation of tourism development related strategies and policies (most importantly during times when foreign capital market sources are inaccessible). Thirdly, it is imperative to note that this research aims to contribute to already existing literature on points that enlighten the terms of sustainable economic growth, i.e.,

because bank loans are very difficult to secure and so this present development of the activities within the economy of the tourism sector is a plus.

The importance of underlining the notice that bank loan concepts could be promoted, and also casinos may contribute positively, alongside the entrance of international students who wish to study at TRNC universities cannot be overemphasized. If we are to be primarily concerned about the important literature, the scenarios associated with casinos and tertiary institutions have already been investigated for the economic growth of Northern Cyprus, hence, we can only focus on important bank loans within TRNC's tourism sector.

1.5 Structure and Timeline of the Study

This research is constructively divided into various sections, the first chapter focuses on establishing the premise and objectives of the research in the form of an introduction, brief discussions on the background, rationale, purpose, significance and contribution of the study are provided within this chapter. Other parts of this research are structured into sections, the second section is a brief literature review and a general overview of the state of tourism in Northern Cyprus, headings such as tourism development, tourism and small islands and different channels of tourism are discussed conclusively within this section. The third section explains the theoretical model utilized in the research, empirical methodologies are discussed in the fourth section and while results are presented in the fifth section, the sixth section provides a concrete conclusion of the study.

Chapter 2

LITERATURE REVIEW

The United Nations World Tourism Organization defines tourism as a phenomenon, this phenomenon could be socio-cultural or basically economic. It primarily involves people's movement through places/states/countries outside of their regular/usual habitat for a variety of purposes which include education, health or pure recreation (International Recommendations for Tourism Statistics, 2008). Ahead of food, pharmaceuticals, automobiles, tourism has been discovered to be amongst the top three largest exports globally, and as at 2016 it contributed to approximately 7% of total exports in the world (Haroon Rasool, 2021). Most published books and articles (this inclusive) are basically interested in the economic aspects of tourism, that is, perceiving tourism as a business, it is however recommended that researches consider tourist encounters and are inclusive of the social interactions associated with tourism (Simone Abram, 1997). It is imperative to note that the development of tourism, whether it is in a small island developing states or in developed regions, adds to the GDP of the region involved. The importance of tourism development can therefore not be overemphasized.

2.1 The Relationship Between Tourism Development and Economic Growth in International Communities

Several research articles and scientific literatures have assessed the nexus between the development of economies and tourism, some of which have limited their scope in order to get a broader picture. Popular conclusions were that, although the growth of

tourism and development of an economy might face different circumstances, with the right policies and strategies implemented with high degrees of coordination, significant improvement to both sectors would not be mutually exclusive (Juan Ignacio, 2020). The World Tourism Organization presented data that as at the year 2013, foreign tourism receipts were almost \$1075 Billion and tourist arrivals were approximately 1.087 billion, hence tourism contributed to the GDP and it was equally estimated to grow by over 10.8% by the year 2026 (Global travel and tourism economic impact update, 2016). This information is definitely beyond numbers, as they reveal the strength of economies and the inherent potential of tourism which could be valuable in changing and solving some changes in the world – most likely, socio-economic growth and the development of other sectors.

For some created and non-industrial nations, the travel industry is one of the top businesses. Thusly, governments in these nations support interests in the travel industry as a motor for monetary improvement given that travel industry can be a significant wellspring of unfamiliar trade income. Non-industrial nations are considerably more subject to the tourism sector since their innovative outskirts do not let them to compete with developed countries in exporting other products (Sinclair, 2002). Moreover, tourism is not only a good source of accumulating foreign exchange earnings for host countries, but it also provides employment opportunities for local communities. Thus, investing in tourism industry provides host countries with opportunities of higher earnings and employment. In other countries, revenues from international tourism are crucial sources of revenue in conjunction with export revenues (Katircioglu, 2010). As Oh (2005) indicates, the generated revenues from tourism sector help governments not only to balance their current account deficits, but

also to improve their balance of payments. Moreover, empirical evidence shows that re-distribution of tax revenues from tourism industry among different sectors of the economy leads to improvements in capital goods, consequently triggering economic growth (McKinnon, 1964).

One of the pioneering theoretical studies assessing the connection between tourism industry and economic growth was conducted by Lanza and Pigliaru (2000). The authors developed a Lucas-type model with two sectors: tourism and natural resources. In their model, production in the tourism sector is dependent on natural resource endowments. They show that nations with generally significant degrees of normal asset blessings will have some expertise in the travel industry and, in this manner, experience quicker paces of development. Two unique characteristics were discovered in some tourism specializations, which were they had shown growth rates above average and they were small countries, this supported the discovery that countries with higher ratios of receipts of international tourism to GDP possessed these characteristics.

An investigation conducted by Chou (2013) explored whether economic growth was affected by government spending or not. The author uses a dataset of 10 transition countries over 23 years. There is therefore a positive nexus between the money spent by the government on the sector of tourism and associated economic growth, as revealed in the results of some countries. While the findings support the existence of economic growth promoted by money spent on tourism in the case of Latvia, Slovakia and Cyprus, other countries in the sample tend to show a reverse relationship. The author argues that the findings highlight the heterogeneous nature of tourism spending and growth relationship among different countries.

There has been attempt to analyse the nexus between economic growth and tourism via several previous empirical studies, and these were based on 4 major hypotheses (Chatziantoniou et al., 2013), these hypotheses include no causality, Tourism-led growth (TLG), bidirectional causality (BC) and economic-driven tourism growth (EDTG). The postulation that between tourism and the growth of an economy, that there are unidirectional causalities were extracted from the TLEG and EDTG hypotheses. BC and NC on the other hand suggest that the natures of these nexuses are not uni-directional, while NC suggests that there is no relationship between tourism and economic growth, BC emphasizes on the two-way causalities between monetary development/economic growth and tourism.

In understanding the concept of tourism led growth, we discover that major hypothesis is based on the inflow of revenue into the host country primarily facilitated by the tourism industry. The revenue or inflow stimulates local businesses to improve their competencies and provides suitable funding for imports (Balaguer and Cantavella-Jorda, 2002). In addition, public programs for eradicating unemployment given the concentrated nature of the travel industry can be helped by the improvement of areas related to tourism itself as revealed in past literature and related research (Brida and Pulina, 2010). A sneak peek into the development of tourism in developing countries has revealed that there has been a substantial increase in their participation, primarily via international tourism. The development of tourism (as previously mentioned) could be seen as an avenue for promoting the growth of economies, alleviating poverty and promoting the security of food. In 83% of developing countries, tourism is actually a major export and it is the primary most important origin of foreign revenue and exchange after petroleum and related products. Surprisingly, the growth rate of tourism

in lower/middle income countries that are still developing alongside a minimum of fifty least developed countries has been twice the average growth rate in the world recently and almost three times the growth rate for countries with high income (Richardson, 2010). That being said, the United Nations World Tourism Organization revealed that the arrival of tourists in these regions doubled from between the years 1973 and 2000 (UNWTO,2002). It could therefore be said that in the sub-Saharan Africa, tourism is responsible for an estimate of 55% of exports from the service sector (UNWTO, 2004). In Mali, for example, data from the World Travel and Tourism Council (2010) revealed that the arrival of visitors in the form of tourists doubled within twenty years, precisely between 1997 and 2007, and that the impact of this tourism on the Malian economy is approximately \$223 million USD, that is about 2.1% of their GDP- hence, there future of tourism looks very bright and positive for Mali.

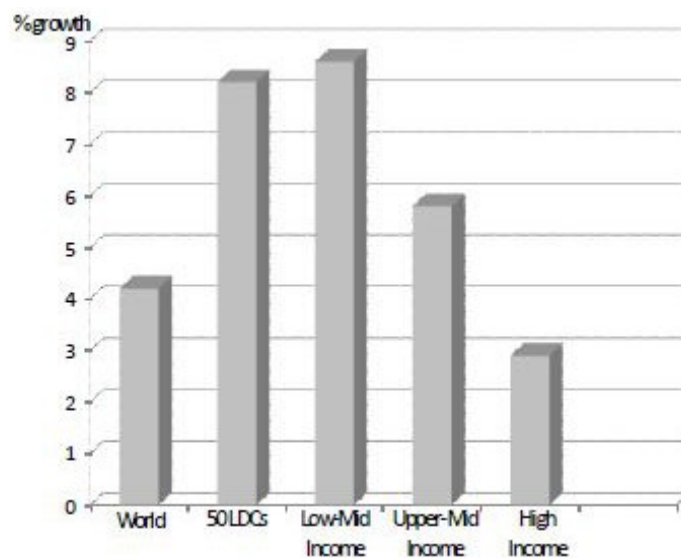


Figure 1: Annual growth in tourism arrivals by category of country, 1990-2005 (Source: UNWTO)

Several other studies have tried to discover if for different countries, Tourism-led Growth (TLG) would still be valid, and an example is that seen in Spain which derives

a lot of revenue from global tourism. An analysis was conducted by Balaguer and Cantavella-Jord (2002) to evaluate whether or not a pattern of tourism-led growth was followed by the Spanish economy. The result of these perceptions was the approval of a hypothesis based on tourism led growth. On the contrary, there was an attempt by Gunduz and Hatemi-J (2005) to navigate speculations about TLG, to discover if it was adequate and occurring in Turkey. It was established from their observational discoveries that there was and is a unidirectional causality inter-relating the industry of tourism and the development of the Turkish economy. Other researchers like Ongan and Demiroz (2005), utilized a different approach to evaluate the TLG hypothesis in Turkey, it was the Johansen technique. These researchers postulated a BC between the growth rate of the Turkish economy and the flow of tourism. It is obvious that the results of these two researches are parallel and they contradict each other; another researcher, Katircioglu (2009), went ahead to review the validity of the TLG once more and discovered that compared to both studies previously mentioned it would be difficult to establish TLG in the long run in the Turkish economy. Further tests were conducted for Malta and South Cyprus in different studies by Katircioglu (2009b, 2009c) in order to confirm the validity of the TLG hypothesis. The legitimacy of the TLG theory was proven for Malta, while there wasn't any obvious significance for Southern Cyprus. Therefore, questions related to the existence of this relationship in different economies have been debated by several researchers in different literature pieces and all discoveries were inconclusive.

The EDTG hypothesis is another approach useful in investigating the association between economic growth and tourism, in this system, it is established that properly planned strategies, efficient investments associated with factors of production, and

well-functioning organizational structures possess the advancement of tourism as elements. A mixture of all of these factors would provide an affirmative economic environment that would stimulate tourism related development, especially if the resources available are sufficient and there is a degree of political stability. Studies were conducted in Croatia by Payne and Mervar (2010) who were primarily interested in assaying the link between tourism and the development of the Croatian economy. Similarly, Kožić (2019) conducted a research to discover whether or not if tourism had any influence on the quality of human resources in Croatia and his findings revealed that the development of the tourism industry affected the willingness of the youths in Croatian towns to study, thereby leading to a significant increase within the tourism sector. Researchers like Li et al (2018), were focused on evaluating the negative effects of tourism on economic growth in their literature reviews.

What they discovered upheld the EDGT theory, because it provided enough proof that supported unidirectional causality from economic growth to international tourism. However, there is some observational proof that supports the speculation of bidirectional causalities, an example is that posed by Dritsakis (2004) who peeked into speculations surrounding BC using Greece as instance specifically between the years 1960 and 2000, his research involved the utilization of co-integration tests, Granger's causality test and a mistake amendment model. Results propped the existence of BC between international tourism and the economic growth of the country, Greece. In total, these discoveries illustrate that tourism and the growth of an economy support each other.

Another study being assessed was that by Kim and Chen (2006), the correlation between the promotion of tourism in Taiwan and its GDP development between the

years 197 and 2003 were examined. Results from this examination revealed the same premise that tourism and economic growth Granger-causes one another. More recently, Bilen et. al (2017) also examined the causal relationship between the growth of the economy of 12 Mediterranean nations from 1995 till 2012 and the development of tourism within these states – results from this study support a primitive long and short run bidirectional theory of causality. Furthermore, the researchers, Sak and Karymshakov (2012) attempted to discover whether or not there was any causal relationship or link between the GDP and receipts from the tourism industry, by reviewing data from 135 nations between 1995 and 2008. Although they used a variety of titles and headings of causalities for different cities across varying topographies, their outcomes illustrated that there was an absence of causality for countries in Asia, the Middle East, Sub-Saharan Africa, North Africa and Central Asia.

Further reviewed literature, like that by Antonakakis et. al (2015) revealed the fluctuation of the link between tourism and economic growth from time to time, they debated that these alternations are not only related to size but it incorporates the overall direction of this nexus. The results of this research article posed that while a country might have benefits from growth inspired by tourism within a period, it might experience growth driven by other economic factors at another period. Moreover, their discoveries explained that countries such as Greece, Spain and Cyprus experienced severe impacts on their tourism inspired growth during the financial crisis of 2010 – Hence, the variation of time has to be carefully considered as an important factor for the implication and creation of policies within the tourism industry. Several forms of available literature have also discussed opportunity costs associated with the development of tourism, most of them suggest that in spite of the existence of proof

affirming the positive effect of the development of tourism on host countries and communities, the development of tourism can also lead to negative impacts which might include negative environmental externalities.

2.2 Tourism in Small Island Developing States

Small Island developing states (SIDS) have been defined to be a group or cluster of 20 non-United Nation Members and 38 United Nation member states, of the UN regional commissions which experience distinct socio-economic and terrestrial weaknesses/vulnerabilities. There are three regions that make up SIDS, they are: the Pacific, the Atlantic, Indian Ocean and South China Sea (AIS) and the Caribbean, in the UN conference on environment and development held in 1992 at Rio de Janeiro, Brazil, the SIDS were identified as regions in need of special care in reference to the environment and development. Totally, there are about 65million people in the SIDS and these accounts for less than a percent of the world's population and yet these groups of people face all sort of economic challenges.

Economies of islands are usually characterized with shortage of resources, lack of diversification, reliance on imports associated with subsistent sector. As Prasad (2008) indicates, small islands typically build up their economic integration on the basis of aid and remittances and they participate in preferential trades. As a result of these restrictions, many small islands have concentrated their economic strategies on the services sector. Considering the scale of sectors in small islands compared to big countries, services sector holds a high share in the economies of small islands. Small islands are typically more dependent as compared to larger states. One possible reason could be their natural and climatic attractions which act as a comparative advantage (Briguglio, 1995). The connection between the travel industry and financial

improvement has been concentrated by different investigations. With regards to monetary turn of events, one would frequently utilize (GDP) or gross public item (GNP) per capita as an intermediary to assess the overall degree of abundance in a particular country. A typical way to deal with assess the degree of dependence of an economy to the travel industry is estimating the proportion of receipts from worldwide the travel industry to the GDP (Bojanic and Lo, 2016).

Results from a study done by Adamou and Clerides (2010) reveal that many islands, including small island developing states, hold high levels of tourism reliance. Moreover, it is stated that benefits from tourism appear to be diminishing as countries attempt for higher levels of economic development. It is also worth notifying that tourism development in small islands is often followed by some negative impacts. Air pollution and environmental issues is another problem that can also happen in the case of small islands. These countries often lack a well-developed infrastructure to match the required capacity as tourism growth occurs. Problems such as traffic congestion and air pollution are a direct outcome of such situation which has negative impact both on the satisfaction of local communities and visitors (du Cros, 2007). Another impact can be on the labour market. Accessing to qualified labour force is a challenge for the hotel-casino industry in small islands. For instance, in case of Macao, as a solution to this problem, the government has let importing of labours, amounting to an equal share with local labours by 2010 (Gu, 2008). Local communities are not happy with labour importing issue since the imported labours are supposedly working for a cheaper salary leading to a decrease in wage rates. By the way, hotels and casinos prefer imported labour because they can minimize their operation costs. Also, it is argued that the wage rate is not the only factor affecting the preference of the hotel-casino firms, but also

there is a shortage of skilled human resource in the local labour force. Albeit the commitment of the travel industry area to financial development has been concentrated by various examinations, Katircioglu (2009a, b, c) contends that this assortment of writing is as yet uncertain about the effect of global the travel industry on monetary development. It is important that the global travel industry can add to the monetary development of little island states yet over-dependence on the travel industry is certifiably not a practical improvement procedure for little islands (Katircioglu et al., 2014). This phenomenon can incur high opportunity costs on their economies due to their import-dependency. In other words, developing tourism sector requires investments which are associated with importing expenditures for various items such as construction materials, consumption goods and external debts (UNEP, 2002). The economic growth of some small islands such as Malta and South Cyprus has been empirically investigated in order to understand the impact of tourism (Katircioglu, 2009a; 2009b). From the results of the study, there has been a huge benefit for South Cyprus courtesy the affirmative relationship between economic growth and the sectors of international tourism. Additionally, he argued that there has been bidirectional causation in case of Malta, which implies that an expansion in Malta tourism industry triggers economic growth and economic growth stimulates an expansion in tourism industry (Katircioglu, 2009b).

While taking a note of the colossal impact of the tourism business at a general/overall level, cultivating a model for monetary advancement for countries which are primarily small islands and whose economies depend upon on the travel business becomes more feasible. An in-depth consideration of the responsibilities/commitment of the business of traveling on the GDP (Gross Domestic Product) based on information from the

World Travel and Tourism council (WTTC, 2013), reveal countries with a high dependence on this form of business, they include: Barbados (36%), Anguilla (59%), Aruba (85%), Seychelles (58%), English Virgin Islands (85%), Cook Islands (49%), Vanuatu (51%), past/former Dutch Antilles (48%), Fiji (38%), St. Lucia (37%), Antigua and Barbuda (60%), Macau (95%), Maldives (78%). Several data on specific variables such as the limited proportion of terra firms or a partially forceful avenue for the development of tourism have been suggested by several research articles, basically our research model structure was attempting to survive and eventually overcome (Chao, Hazari, and Yu, 2010; Chao, Hazari, Laffargue, Sgro, and Yu, 2006, 2008; Schubert and Brida, 2008; Brida, London, and Rojas, 2013). The intuition is that as a composite, the travel business is conveyed by motels/inns which work in a monopolistic competition and use land and different organization for their benefit and/or promotion. However, the model planned by Hazari and Sgro (1995), proposed a powerful development model of exchange that investigates the inter-relationship between tourism development, accumulation of capital, per capita consumption and standard terms of trade.

Several studies have discovered a positive relationship among the business of traveling, tourism and monetary improvement in both made and agrarian/agricultural countries (Hye and Khan, 2012; Kreishan, 2010; Parrilla et al., 2007; Balaguer and Cantavella-Jorda', 2002; Sequeira and Nunes, 2008; Lee and Chang, 2008). Tourism is especially imperative to monetary growth and this cannot be overemphasized in minor expressions and small states, some of which are depicted by restricted segments like human resources. Thus, countries with productive economies, almost similar to those found in the Caribbean, have gotten enthusiastically subject to the business of

movement (Gunduz and Hatemi-J, 2005; Katirciog˘lu, 2009; Thacker et al., 2012; Brau et al., 2003). Over a long time, the movement business has been the primary chief of the economy of the Caribbean's with essential spotlight on its view and fundamental regular assets of sun, ocean, and earth. The weight/volume to crush inadequate market revenue and insufficient market demand is provided basically by the advantages of tourism in Caribbean countries, this alongside an elevation in healthy rivalry by the encouragement of new market entrants which eventually would facilitate an increase in the standard of living and possibly the quality of life/individual fulfilment on the island (Croes, 2006).

Eventually, important inferences were revealed in the study conducted by Huybers and Skerritt (2005) that utilized a quantitative/computable assessment method in exploring the effect of the travel industry/tourism on the monetary improvement of 37 rural countries. The study inferred that the travel industry influences monetary improvement in agricultural states & the region seemed to possess a greater immaterial factor value than various spaces of the economy. The premise of their examination was to address the effect of global the travel industry inside the host local area where the financial additions surpass those inferable from homegrown the travel industry. Similarly, Eugenio-Martin et al. (2004) utilized and implored the ASB (Ramirez Arellano–Security board) perspective with yearly information to delineate and emphasize that in twenty-one (21) Latin American and Caribbean nations, the travel industry fundamentally affected development, all the more so for low-and center pay nations; this contends that determinants extracted from objective decisions from sightseers could and should be concentrated at a full-scale level. The analysis suggested that travel industry improvement could add to the monetary development of a country in

the event that it is under a Gross domestic product capita. Also, the result suggested that for such low-income nations, there are sufficient degrees of frameworks, instruction, and advancement to draw in vacationers. As for the situation with these examinations, a couple of Caribbean little states are shrouded in the investigations. In reference to the last investigation (which utilizes a comparative methodology), attention is placed on Spanish American nations of which approximately three (3) little Caribbean islands were handled. The interests in research and investigation rely more on contemporary information that goes across a more extensive period.

Hence, in small islands, objections to the travel industry/tourism are remarkably situated to be sensitive and proactive about the advancement of tourism in their networks (Jordan, Vogt, Kruger, Grewe, 2013, Carlsen and Head servant, 2011). As districts with clear cut geographic limits that are relatively unmistakable, isolated from the standard/territory, and with little populaces, little island objections make and support very close defensive networks with particular social characters (Cross and Nutley, 1999). Inhabitants find it hard to disregard or keep away from the certain impacts of improvements that might be as a result of the tourism travel industry, and this is partially due to the separated idea of island objections. (Nunkoo and Ramkissoon, 2010; Hamzah and Hampton, 2013). Choices with respect to little island objective the travel industry advancement and coming about impacts can possibly influence the emotional prosperity of occupants living in island the travel industry objections (Douglas, 2006).

2.2.1 Tourism in Small Island Developing States: Related Development

The travel business and/or tourism consolidates any exercises by open or private affiliations associated with working toward meeting the aspirations of the travellers

and tourists. Pearce (1989) described/illustrated the business of traveling and tourism improvement as 'the measure of dynamic cycles, activities, and results starting from the association/relationship between the performers related with the movement with a conclusive target of providing the occupants of a goal/aim with the chance to choose/select their own new development.' The advancement of tourism has for a long while been viewed as a driver of monetary promotion/success useful for protests on small islands with resources that are viewed as charming to likely travellers/tourists (Shareef and McAleer, 2005; Scheyvens and Momsen, 2008b). The business of tourism/traveling is routinely advanced as a monetary panacea/nostrum for some movement industry protests, and complaints on these small islands are something similar. The tourism/travel industries improvement/advancement moreover can impact/affect sensations/feelings of neighbourhood small islands, through dynamic changes to social systems and typical resources (Lim and Cooper, 2009). Social systems might aid the ability to investigate downtown districts during top travel industry periods with high tourist influx- in any case, this is called gridlock or garbage grouping and expulsion from inhabitants' and travellers'/tourist waste (Green, 2005). Natural resources negatively impacted according to various perspectives, including the advancement of establishments and superstructures. Such impacts are consistently particularly observable to inhabitants of small islands considering their little geographical impression/unique topographies (Hamzah and Hampton, 2013).

When confronted with the possibility of improving the travel industry, small island objections to the dynamics of the travel industry are tested by the levels of progress that are attracted to the local area (Scheyvens and Momsen, 2008a). For instance, while others might wish to keep up with characters peculiar with a small settlement, a couple

of organizations might be accessible for the redevelopment of an area. Feeling and being immersed in the socio-cultural values of a local area is one component in dynamic interactions that frequently assumes a significant/important part in the prosperity/advancement of people's emotions (Andereck, Valentine, Knopf, and Vogt, 2005). While there are numerous developments that the travel industry attracts in the small area, one sort of the tourism arrangement that takes into account a lot of local area information and talk about local area prosperity is shared through arrangements and development within the tourism industry (Jamal and Getz, 1995; Jordan et al., 2013).

Overall, new development is a central point for networks of the tourism industry that changes the pattern, thus expanded money related, and social endeavours (Gunn, 1988). The progression of tourism and traveling has much of the time been viewed as a constrained action, gotten done with little commitment from the greater parts of neighbourhood/inhabitants or industries that have little interest in traveling (Moscardo, 2011). The movement business improvement, regardless, necessities to hold quick to close land-use plans and drafting resolutions, may require normal impact assessments required by government workplaces, and should stick to neighbourhood progression plans and monetary improvement procedures (Go, Milne, and Shaves, 1992). Tenant commitment on the movement business organizing matters should be accumulated and applied with extraordinary thought. Inhabitant data may be from a layman's viewpoint and may don't have a segment of the establishment and specific data required later in unique. Any organizing cycle, including shared, uses human judgment to pick the best an ideal chance to demand inhabitant data and a short time later apply that commitment to an orchestrating report and finally practice (Ritchie, 1993).

Unmistakable social legacy and a one-of-a-kind indigenous habitat are a portion of the similar benefits of Little Island Creating States (SIDS), which draw in enormous quantities of guests consistently (UNWTO, 2012; 2020). Having perceived the expected commitment of the travel industry to financial development and business age, and because of restricted freedoms for monetary broadening, SIDS people group have attempted to support the travel industry as an improvement elective (Bojanic and Lo, 2016; Pratt, 2015; Schubert et al., 2011; Seetanah, 2011). In any case, the negative social and natural impacts of the travel industry have been progressively perceived (Buckley, 2012; Gossling, 2002; Neto, 2003; Skillet et al., 2018). Territory misfortune in SIDS beach front regions because of the travel industry improvement is a significant danger for mangroves, estuaries, reefs and foreshore biological systems (Bernard and Cook, 2015). Likewise, if on the one side, the travel industry can decidedly impact the socio-social setting in have nations for instance through has visitors' association (Das and Chatterjee, 2015), on the opposite side it can compromise legacy, social character and prosperity (Coria and Calfucura, 2012; Container et al., 2018; Pratt et al., 2016; Sharpley, 2014; Charm et al., 2015). Endeavours to advance the manageability of the travel industry area have for some time been pushed in strategy and examination circles (UNWTO, 2017; Buckley, 2012; UNWTO, 2012). Regardless of SIDS weakness to ecological and financial stuns (Scandurra et al., 2018) and their regularly over-dependence on the travel industry (Schubert et al., 2011; Narayan, 2010), this area, when reasonably oversaw, can possibly make a huge commitment towards the accomplishment of a scope of Manageable Improvement Objectives (SDGs) (UN, 2015). Supportable the travel industry, for instance, could be important for a public methodology to ration SIDS marine and earthly territories and biodiversity (SDGs 14 and 15), especially the notorious coral reefs. It could likewise advance stronger

metropolitan arranging, while at the same time protecting social and public legacy (SDG 11). Strategies that advance supportable the travel industry may thusly make new positions (SDG 8) and help lessen disparities (SDG 10). Maintainable the travel industry ought to thusly be viewed as a chance for SIDS to upgrade their financial development, yet additionally give biodiversity security, and advance and save nearby culture.

The travel industry can influence the personal satisfaction (QoL) of residents of an objective by making occupations, creating pay, expanding traffic (and gridlocks), and expanding residents' aggression, to give some examples (Perdue, Sirgy, and Uysal, 2012). A unique disposition of tangible and nontangible measurements which effect and characterizes the lives of individuals is what is referred to as Quality of life (Sen, Stiglitz, and Fitoussi, 2009). Written materials in the field have generally focused on the quality of estimation of whatever is developed (Sirgy 2011). From a singular perspective, quality of life has consistently been characterized by target possessions like surroundings and assets, both of which are independent of an individual's mindfulness. Then again, QoL has additionally been conceptualized as far as its passionate substance as estimated by sentiments and discernments about existence.

Due to reasons such as receptiveness of their economies, relative inappositeness, and costs related with production & exchange, numerous economies of small islands have decided to pursue the development of tourism (Lewis-Cameron and Roberts, 2010). Tourism development can expand the quality of life in the economies of small islands by giving scope impacts & rivalry in these spots, with more prominent attending purchaser decision and exchange transparency (Seetanah 2011; Croes 2006). The Global conference on the sustainable development of small island developing states in

April 1994, noted right around twenty years prior that reasonable Tourism development needs the thought of the quality of life of resident islanders. Supportable Tourism development, generally, ought to make donations towards the monetary development yet ought to likewise improve the QoL of residents of objections (World Gathering on Reasonable The travel industry 1995; Commission on Maintainable Advancement 1996; Croes 2011).

Given expanded seriousness among nations and areas, the travel industry specialization has gotten crucial toward recognizing every region's one-of-a-kind attribute and resource, and in featuring their upper hands (Pena-Boquete, Fernandez, and Perez-Dacal, 2014). Maças and Neves (2008) demonstrated that greater analysts were zeroing in on the connection betwixt the travel industry distinctiveness & financial development, & travel industry distinctiveness had a positive and huge impact in numerous monetary regions: example, Gross domestic product, work situations, & instruction levels (Pena-Boquete, Fernandez and Pereira, 2009; Yang, 2012; Urtasun and Gutierrez, 2006). The travel industry drove development writing claims that travel industry specialization brings forth monetary development (Arezki, Piotrowski, and Cherif, 2009; Ridderstaat et al., 2016; Perez-Dacal et al., 2014; Algieri, 2006). These writings place that little nations and little islands have a relative the travel industry advantage, and that travel industry through exchange extends the little market through expanded interest for global the travel industry (Algieri, 2006). The development capability of the travel industry is uncovered through expanded terms of exchange (Child). The observational proof verifies these hypothetical recommendations since little islands, notwithstanding the negative forecasts of the endogenous development hypothesis, had the option to develop (Croes, 2011, 2013;

Seetanah, 2011; Holzner, 2011; Brau et al., 2007; Lanza and Pigliaru, 2003; Narayan, Narayan, Prasad, and Prasad, 2010). SIDSs appear to be especially inclined to take part in the travel industry specialization since they engage a more modest chance expense of differentiation (Croes, 2011); thus, it might be helpful for more modest estimated islands to have some expertise in the travel industry (Algieri, 2006).

The advancement of the travel industry might be a brief event and its improvement may not be economical, or the travel industry effect may change after some time dependent on the travel industry's formative phases (Kim et al., 2013), and/or request versatilities might vacillate over different opinions (Smeral, 2012). The justification of the transient issues identified with the travel industry might be because development's actuated using the escalated & expanding utilization of a singular creation element in the cases of small islands- common assets. When the greatest use of this current element's work arrives, work efficiency gets vital in deciding development, and, subsequently, the travel industry nations may develop more gradually than others. From this viewpoint, in the long haul, the travel industry might not be a practical improvement way. Algieri (2006) explored drawn out merits related with the travel industry specialization and found that efficiency, human resources, and yield per worker filled quicker in assembling than in the travel industry, this makes us question the issue of supportability of the specialization and/or development of tourism. This finding makes one wonder regarding whether there are cut-off points to the travel industry development. Clerides and Adamou (2010) resolved this particular problem and discovered that the focus of the travel industry was related with greater paces of monetary development at moderately low forte levels, and that the commitment of the industry of tourism would get negligible at greater forte levels. Vici

and Figini (2010) additionally examined the travel industry's specialization maintainability. In their investigation, which zeroed in on 1990-2005; they discovered no measurably huge connection between the travel industry specialization and financial development. As per this investigation, the travel industry specialization hugely affects monetary development at lower than higher specialization levels, proposing that travel industry is not valuable over the long haul. Palmer, Ibanez, and Gomez (2005) likewise arrived at a comparable resolution as that the travel industry cannot be extended until the end of time. Nonetheless, studies have been carried out to challenge such outcomes. For instance, Durbarry (2004) utilized an empirical approach involving co-integration to examine the case of Mauritius and discovered that the tourism/travel industry had advanced development, emphatically affecting Mauritian monetary turn of events.

Croes (2011) and Holzner (2011) likewise discovered steady outcomes that is similar to the study of Katircioglu, Durbarry, Croes' and Ridderstaat in the literature. More than one hundred and thirty (130) nations over almost forty years were examined by Holzner (2011). The study found that tourism dependent economies were encountering higher normal monetary development rates and hence failed to confront consistent losses. Croes (2011) applied a board examination to an enormous example of little island objections, finding that travel industry specialization triggers financial development over the long haul, and the travel industry specialization didn't engage consistent losses.

Governments in a lot Less Created Nations (LDCs) have, since the last part of the 1960s, zeroed in their financial advancement techniques on global the travel industry. This is seen by numerous administration organizers as a critical piece of expansion

techniques from their dependence on essential item such as fares. As such, the travel industry is viewed just like a huge supporter of Gross domestic product, direct work and government incomes (Scheyvens, 2011). Small Island Developing states in which tourism is predominant have become significant in the Caribbean, Indian Sea, and across the Asia–Pacific economies. As such, the travel/tourism industry in the most of the small island states offer over half of Gross domestic product and a vital wellspring of direct work (Royle, 2001; Hampton and Jeyacheya, 2013). The development of systems worldwide specifically for the purposes of touristic travels since the last part of the 1960s, have been facilitated by Indonesia (just like other LDC’s), at first with World Bank and other global help (Corner, 1990; Picard, 1996). Although the Indonesian island Bali has remained the predominant objective and has the biggest centralization of worldwide sightseers and the tourism related infrastructure, archipelago global tourism is semantically packed in certain islands and at the coast (Badan Pusan Statistik, 2014).

2.2.2 Impact of the Development of Tourism on SIDS

In the development of several SIDS’s, sustainable travel industry/tourism improvement programs have been recognized to contribute positively. Nonetheless, if the travel industry advancement is not as expectedly arranged and oversaw, it could unfavourably influence the climate on which the travel industry is so reliant. The travel industry, is a sector for potential development or economic growth in SIDSs. The sector offers opportunity to broaden development policies such as the economic and monetary policy in the small island developing states. Specifically, there are significant job opportunities and work openings that are associated with the development of the tourism industry in the small islands business levels (WTTC, 2015). Likewise, unskilled labour is the most available form of work within the

tourism/travel industry because available employment opportunities are labour-intensive. Therefore, the improvement of the travel/tourism industry expectedly bring about quicker and expanded job formation than what's readily available in different areas. The travel industry produces business straightforwardly in the movement and the travel industry and furthermore in enterprises giving labour and products to the business. Notwithstanding, information on direct work in the movement and the travel industry are exceptionally insufficient. In conclusion, notwithstanding, that the impact of the travel industry/tourism on the creation of jobs in SIDS's where the travel industry gives essentially to increment in public pay, is considerable (WTTC, 2015).

The upside of tourism loosens up every day and diverges into various sectors of the society in contrast to other economic sectors; this is because tourism is viewed as a pertinent and critical component for the growth of the economy (Telce and Schroenn, 2006). Various examinations have revealed that the development of tourism possesses the ability of promoting money related turn of events i.e., growth, making occupations/professions and precipitating income for the current executive's administration. e.g., a bidirectional association between tourism and the growth of the economy is supported by a tourism-based hypothesis of growth that evaluates probable relationship between the growth of an economy and tourism (Risso et al., 2010). Besides, expenses incurred by tourist are viewed as a form of export (although alternatively) and they provide vital exchange benefits for an economy that are used to the importation of capital products/goods in order to produce services and goods, that subsequently might empower monetary advancements in source countries (Balaguer and Cantavella-Jorda, 2002). The efficiency of international tourism is enhanced in the host country via healthy rivalry between establishments and other

foreign destinations of tourism. Besides, since travellers demand work and items like comfort, food, transportation workplaces and different organizations, there is an extending interest for the goods and services of local producers. From now on, one can contend that the development of the industry of tourism is followed by an elevation in total supply within the host's economy. All these when considered, might provoke an augmentation in salaries, revenue, output and employment within the country of focus (Balaguer and Cantavella-Jorda, 2002).

It is however important to note that the travel/tourism business would accept a more gigantic part in the turn of events and headway of SIDSs if sensible measures are utilized to restore various aspects of their existing economies, most especially aquaculture and cultivating, with the end goal that the region would satisfactorily fulfil traveller needs for purchaser stock from neighbourhood suppliers. These islands, with appropriate arranging and steady course of action of sufficient workplaces, for example, through development, innovation, and funds for mechanization/automation, where required, support good aquatic and agrarian activities, with the development of tourism. As inter-sectoral challenges in the SIDSs prompts extension in pay through pay and diminishes provision of work/careers to the business of tourism, thoughts can be moved towards upgrading the market of tourism, all these would stimulate all the more lethargic monetary improvement rate, and at the same time attract more significant salary burning through travellers or tourists who are willing to spend more (WTTC, 2015). When the Caribbean and Mediterranean small island states are differentiated from the African and Asia-Pacific areas, commonly, the advancement of tourism becomes more obvious. For instance, the countries Cyprus and Malta throughout the span of time have experienced movement/promotion in the business of

tourism; all these appeared in the amassed new exchange pay and huge rate segment of the movement business in the Gross homegrown item. The region has been seen as the primary wellspring of new money benefit. Data from the report of the World Bank in 2017 reveal similar development in worldwide traveller appearance/entrance and vouchers. Corresponding to this extension, the bit of the tourism business pay in GDP, toll, and import/trade unevenness has extended massively during the period 1995–2015. This was represented in sub-periods to show on ordinary the example in the movement business pays with various elements after some time. In these countries, the movement business remains a predominant industry. Neighbouring big time compensation European nations like Northern Ireland and the United Kingdom are the primary source of the tourism market, because their overall performance (in the SIDS) is primarily supported by their good geographical locations (WTTC, 2015).

In addition, the Caribbean possesses the most critical number of small islands and the witty financial performance around here, and has been by and large associated with sound improvement of the region/area of tourism. Tourism contributes legitimately to the export earnings and GDP is usually high in these areas. Notwithstanding, the SIDSs of the Asia-Pacific region has been contended to have a lopsided degree of advancement and their contribution to economic/monetary improvement/development has been lower when compared to the Mediterranean countries and the Caribbean. What's more, the least developed states are the Maldives, Vanuatu, Samoa, Kiribati, Tuvalu, and Solomon Islands. By and large, in Small Island developing states, horticulture & comparing financial exercises win. In any case, the travel industry advancement has been hindered because of lacking physical and HR. Also, disconnection from the fundamental vacationer's sources, profoundly frail aeronautics,

issues of public landownership, correspondence, high reliance on unfamiliar venture, with unfamiliar financial backers zeroing in on ideal and most beneficial places of interest has added to moderate advancement of the travel industry area (WTTC, 2015). While the travel industry improvement fills in as a panacea for monetary development, its over-dependence especially on mass the travel industry has deplorable impacts. Unnecessary dependence on a solitary significant source wellspring of vacationers, the impact of typhoons and hurricanes on the climate which a few SIDSs are found are inclined to calamitously affect the travel industry and along these lines on the travel industry-based SIDSs.

Extreme dependence on a specific type of tourist, especially in Cyprus and Malta which feed off the UK market, is financially dangerous as monetary difficulties in the source nations might affect beneficiary nations; this is in line with the 2006 report of the United Nations Environment Program. Unexpected fast the travel industry advancement can prompt social aggravation in SIDSs (WTTC, 2015). Pressing factors are applied on families and networks request because of the vertical pressing factor as far as ascend in costs of family things, groceries, and land among others. What's more, potential since a long time ago run effects could bring about a decrease in expectations for everyday comforts of greater part of the island occupants and feeling of separation because of deficient admittance to restricted land assets. A bigger number of occupants likewise lose their admittance to urgent relaxation regions and sea shores because of the select rights conceded to engineers. At times, this prompts financial misfortunes, where anglers and ranchers are contrarily influenced by the deficiency of admittance to land and ocean. What's more, unnecessary openness to outsiders can raise nerves inside the native occupants and the inclination to move fault on their guests,

consequently prompting socio-social dismissal of the travel industry improvement (WTTC, 2015)

There is an enormous grouping of composing which includes the difficulties standing up to little economies (Srinivasan, 1986; Armstrong et al., 1998; Streeten, 1993). Factors such as achieving economies of scale, high vehicle costs, the shortfall of competition in local business areas etc., can have the difficulties that they experience stressed by several examinations. Be that as it might, these characteristics don't give off an impression of being identified with authoritative difficulties, as demonstrated in a couple of careful assessments. Truth be told, in their broad exact audit, Easterly and Kraay (2000) neglected to discover more terrible monetary outcomes in the little nations of the world in correlation with their bigger neighbours. A couple of creators have also raised that little the movement business countries build up a social occasion containing great advancement/progression percentages (Brau et al., 2005), a finding which veers from the difficulties they clearly experience.

This thesis tries to provide some confirmation and give explanations regarding the association between the movement/tourism business, the country's size and monetary turn of events. Hence, two requests that are interrelated will be analysed: from one perspective, an endeavour to explain why the movement business has grown so rapidly in little economies; and from another perspective, an endeavour to explore why a faster growth rate has been experienced in small islands (tourism destinations) would be explained. Outstanding thoughts and attention will be paid to the duty of essential structural changes as a deciding component in money related turn of events, in the last case.

2.2.3 The Relationship Between the Size of Small Island Developing States, Economic/Socio-Political Factors and Tourism Development

The investigation of the connection between the size of nations and financial execution has been drawn nearer, with assorted outcomes, for a long time now. There are three significant gatherings of references in this bibliography. First and foremost, insightful works which offer some stylized realities and clarifications with respect to the troubles confronting these economies (for example Streeten, 1993); furthermore, exact examinations which utilize a wide scope of information to differentiate various speculations (Armstrong et al., 1998); lastly, contextual investigations, especially with regards to global meetings on little states (Briguglio et al., 1996; Rao, 2002). Special cases to the side, issues identified with country size have had little effect in scholastic distributions, likely because of the trouble of remembering geographic factors for financial models.

There are, regardless, different basic exclusions, provided that the regarded Handbooks, which revolve around progress and improvement, recall two works for the financial effect of size as appropriated by North Holland (Alesina et al., 2005; Perkins and Syrquin, 1989). During the last decade, various investigations have zeroed in on the issue from an exact point of view, in light of the accessibility of broad information bases. Easterly and Kraay (2000) both made an original commitment to this field, who, in a thorough observational investigation, arrived at the resolution that thinking about the customary deciding elements of development, there are no huge contrasts between the outcomes acquired during late a long time by little nations, in examination with bigger states. Similarly, creators, for example, Armstrong et al. (1998) bring up that whether they are islands doesn't represent the per capita Gross domestic product level

of little nations. The previously mentioned works appear to help the theory that size is certainly not an adequately significant deciding element in financial turn of events, and that, regardless, there are other more applicable factors which forestall the connection between the size of a country and its monetary outcomes from being obvious.

Several activities could help us with understanding why the monetary results of SIDS economies haven't been extraordinarily poor, and now and again, have also been incredibly adequate. As demonstrated by Armstrong et al. (1998), the best little states are related with the presence of exportable assets, monetary administrations (expense shelters) and, with regards to the focal point of this examination, the extension of the travel industry, while the heaviness of farming clarifies likewise the degree of improvement, albeit for this situation, in a negative way. The improvement of the travel industry in little nations is one clarification with regards to why their outcomes as far as development have been no more awful. The facts confirm that the monetary alternatives open to these nations might be more restricted, however there are additionally various benefits connected to little measure. Hence, the declaration of Easterly and Kraay (2000, p. 2024) that highlighted "SIDS's have maybe gotten over the top consideration from the writing" might be substantial if what this writing points only to do is show that little nations have issues which legitimize remuneration as help. Indeed, tracking down a political support for the compensatory help given by global associations like the World Bank is part of the premium in examining these nations (Briguglio et al., 2005). By the by, the certification may not be fitting if alluding to the financial investigation of the ramifications of size and availability. At the end of the day, while maybe size comprehended as an issue has gotten an excessive amount of

consideration, the equivalent can't be said to describe size and openness—disengagement as deciding elements in the financial conduct of nations. One of the ethics of crafted by Brau et al. (2005) is that it restores interest in little economies by underscoring the benefits delighted in by these nations when they represent considerable authority in the travel industry. This methodology assists us with understanding that for a country or area, being little or an island isn't an impediment, albeit a little size joined with availability.

Notwithstanding the serious the travel industry specialization of little nations, another stylised certainty with a considerably more noteworthy degree ought to likewise be referenced: little nations had practical experience in the travel industry have had a quick development over ongoing many years. Brau et al. (2007) arrived at the resolution that it is important to present the travel industry specialization as an autonomous variable while examining little nations, since those which have some expertise in this area are not impeded, however truth be told developed beyond some other gatherings during the period of 1980–2003.

Typically, it should be included that despite the fact that diminutiveness may establish an inconvenience for monetary turn of events, when joined by the travel industry specialization it really turns into a benefit. Moreover, these creators acquired exact proof that the more noteworthy development experienced by little the travel industry nations isn't because of the customary determinants of development (for example the convergence effect, a more noteworthy affinity to reserve funds venture or more prominent receptiveness to exchange), a discovering which builds up the theory that the deciding component of their more prominent pace of development is the blend of the travel industry specialization and their little size. Nations which most spend

significant time in the travel industry area will in general be little island states. By and by, this may just be because of the way that little nations will in general be more specific as such (in any area). Thusly, to set up a closer association among size and the movement business specialization, it is fundamental for consider two additional real factors. Above all else, how little countries are, the point at which everything is said in done, more invested in the business of tourism than bigger ones; and besides, that this forte is similarly popular/normal in areas that are not independent states. In reference to the initial question, circumstances are convincingly summarized, since the mathematical mean of the development business pay as a per centum of the Gross Domestic Product marker for 1998 in the thirty five nations with short of what 1,000,000 inhabitants for which information is accessible from the World Bank is 16.3%, contrastingly, similar averages for the one hundred and thirty nine (139) nations that outflanked the threshold of the population turned out to be approximately three percent (3.3%) (World Bank, 2001, 2005). Comparing to the resulting request, the distinctive verification of little regions inside a country looks good, given that their little size is a fiscally significant variable exactly when gotten together with accessibility inconveniences. Thusly, to inspect little areas, we looked to archipelagos and islands. In line with classifications from the European Union NUTS II (notwithstanding Sicily for reasons of size and area to the landmass), and the indicator that measures overnight stays per inhabitants in a hotel, the previously referenced thirteen island regions have exceeded the European mean of 3.3% by a wide margin and this is basically for eleven (11) of these regions, with the exception of Azores and Reunion Island as they were below the threshold. Results for the island of Balearics and the South Aegeans exceed 60.

Hence, for what reasons do little countries express interest and participate in tourism? A couple of speculations about the start of the specialization of little economies in the movement business give off an impression of being self-evident; anyway, many deciding components exist and it's hard to assess the impact of each one. If we were to organize existing hypotheses, we need to allude to each side of demand and supply. When factors identified with demand insist, initially; we ought to recall that most little nations are islands. The development of international tourism would always depend or rely on how attracted tourists are to small islands. Islands are viewed as loosening up places, aside from the hurrying around of regular daily existence. They can be viewed as heavens, uncommon spots, spots of experience, etc.⁸ Moreover, this impression of islands is certainly not a new style, yet is generally archived in writing, folklore and all-inclusive culture. This particular character is additionally valid for some little nations, whose essential area, distance or territory nature makes them particularly alluring. Also, vacationers don't make a trip to nations or locales, they travel to locations. The idea of a travel industry objective is a basic one from a natural point of view however a perplexing one as respects its definition and precise topographical distinguishing proof. As per Buhalis (2000), the idea of an objective changes from one traveller to another, contingent upon their agenda, social level, and motivation behind the visit, scholastic level and experience. For certain travellers, the objective might be a city, while others think about the country, or even the entire mainland as their objective. The geological limits of an objective are not satisfactory, in spite of the fact that objections do share something clear practically speaking: they should be recognizable. Buhalis (2000, p. 97) highlights that "visitors understand tourist destinations as unique geographical regions, with the necessary framework of

legislation and/or politics that would encourage tourism related advertising and planning”

Small islands, whether or not they possess centralized governments, have clear topographical limits, and obvious political limits which make them effectively recognizable destinations for vacationers. Hence, they are all the more effortlessly changed over into the travel destinations or items to be sold when available to the market. Being distinguished as destinations by vacationers extraordinarily benefits little nations and island regions, whether or not they possess central governments as a form of sovereignty. This is on the grounds that they are all the more effectively Underlying Change and Monetary Development identified as independent destinations, for instance, using a guide/map, than districts having a place with mainland states. From a topographical point of view, this recognizable character transforms islands into separated destinations in the travel industry and separated items in the wordings of microeconomics. Thirdly, travellers as purchasers appear to favour assortment, at both an amassed and individual utilization level, on the off chance that the individual interest shows an inclination for utilization over the long run of a changed number of objections (sign of social renown), this may profit little, novel countries.

With respect to supply, as far as it matters for them, numerous little nations (if islands) have a wide scope of assets that establish vacation spots, like environment, sea shores, natural variety, and so forth Notwithstanding, this by itself isn't sufficient to represent their specialization, given that these assets are likewise moderately bountiful in mainland as well as bigger nations. Starting here of view, in spite of the fact that we can't discuss the presence of total benefits, we can discuss the presence of solid relative

benefits, given the obstructions to creating elective exercises, particularly those of a modern nature. Therefore, in little or island nations the level of specialization in the said area is by and large more exceptional than in different districts that have an (outright) plenitude of the travel industry assets. All in all, in numerous little nations the expense of the chance of the travel industry development is low, because of the absence of speculation openings in different areas. Comparable to the presence of assets, we ought to likewise call attention to that numerous little nations and islands by and large will in general have genuinely very much evolved air terminal foundations, even, as a rule, with over-the-top limit. The improvement of worldwide the movement business has essentially been established on air transport, of which has benefitted SIDS, that are more adequately accessible when it comes to time than continental areas that are significantly less developed. A higher level of stability in politics and social cohesiveness is always observed in small islands. Likewise, they're extraordinarily appealing to international venture capitalists. Lastly, visit executives/administrators have assumed an imperative part in the improvement of the travel industry valued by island countries. Most critical island complaints on earth have been made through facilitated trips. The reliance on air transport by visit directors and tour operators can be taken as an advantage. Fostering the development of tourism and maintaining interests can be achieved by managing the control of air transportation to certain destinations that are referred to as beautiful, stable and possessing the required infrastructure for good transportation. Even though costs of transportation might be truncated by the distance to islands that are ideally tourist destinations, is it inarguable that optimal settings for the progression of activities conducted by tour operators are constituted by island destinations (Aguilo' et al., 2003).

What then are the reasons behind the rapid growth of small tourism countries? As demonstrated in the last segment, little the travel industry nations have gone through high paces of monetary development over late many years. Discovering a clarification for the idea of such financial development is vital, since it will empower us to make expectations in regards to their medium and long-haul points of view of advancement. Elective Clarifications Lanza et al. (2003) have read the explanations behind monetary development connected to the travel industry, and specifically have taken a shot at whether this development is manageable over the long haul. To determine this logical inconsistency, Brau et al. (2005) and Lanza et al. (2003) utilize an endogenous development show and reason that, from a hypothetical point of view, the model offers two sound prospects. The hopeful understanding asserts that the less serious development of efficiency in the travel industry might be remunerated from one viewpoint by an improvement in the terms of exchange favour of the area. Then again, the way that travel industry can be viewed as an extravagance decent may add to advancing fast development in both the actual area and the nations had some expertise in it. The cynical understanding says that this fast development is just transitory and depends on the expanding utilization of a particular creation factor: common assets connected to the travel industry. The evolution and advancement of how productive labour could be would become a deciding component of development, once full employment of this factor is approached, subsequently, countries depending on tourism would grow slower than others. An exact correlation of these two options has been done by Lanza et al. (2003) for thirteen OECD nations and appears to help the idealistic speculation in regards to the potential outcomes of raised economical long-haul development. In any case, the actual creators call attention to that the outcomes ought to be deciphered with alert given that, temporarily, the presence of joblessness

may diminish the improvement of the genuine terms of exchange for the travel industry objections, while the rise of new objections may have a similar outcome in the long haul. Albeit natural elements and the advancement of the terms of exchange may help clarify development in agricultural nations, a gathering to which the travel industry specific nations with a high pace of development have a place, the concurrent rise of numerous objections offering comparative items, doesn't appear to encourage an improvement in the terms of exchange. The speculation of utilizing common assets may help clarify both fast development and the exhaustion of these assets. In any case, especially on account of the nations on which we are centering here, different motivations to legitimize this wonder should exist. Any clarification for the quick development of little the travel industry nations should discover support from both development speculations and the scholarly writing on the travel industry financial matters. Nonetheless, the two methodologies will in general pressure various parts of the real world. As indicated by existing writing on the travel industry financial aspects, the quick development experienced during specific periods isn't at all amazing, given that this wonder has been read for a long time now through an exact model where fast development is non-permanent. Butler (1980) suggested an example of the travel industry development which is upheld by experimental help, however which has a feeble hypothetical base.

This example has principally been applied to tourism in coastal regions and regularly to destinations that are small islands. In the model, the travel industry objections go through different stages, some of which (the inclusion and improvement stages) bring about exceptionally fast development. In any case, the model likewise predicts that eventually, the objective arrives at stagnation point, trailed by a questionable future.

Conventional development hypotheses (unisectoral models) confirm that drawn out monetary development is because of the aggregation of components, with upgrades in productivity being exogenous. As far as concerns them, new development models pressure the additions in usefulness coming about because of the development in human resources and mechanical advancement. While customary models may offer a few defences for the quick development and ensuing stagnation of some travel industry objections, the deciding elements of development in the new hypotheses don't clarify clearly the fast financial development of little the travel industry nations, since the travel industry is a movement wherein efficiency increments gradually (Smeral, 2003) in correlation with different exercises in the modern or administration sectors. There are, be that as it may, different methodologies which have been less broadly thought about hypothetically, maybe because of their transitory nature; however, all things considered may help clarify the Structural Change and Economic Growth high development rates experienced throughout generally brief timeframes. Among these, sectoral shift is apparently a key factor. Quick specialization in the industry of tourism was fostered by minimal opportunity costs related to the development of tourism in small islands. A sharp basic change in their economies was primarily provoked by these intense specializations in the industry of tourism, the dynamism has gotten undoubtedly clear in the general responsibilities of the different sectors of the economy that add value.

2.3 Different Channels of Economic Growth Induced by Tourism

It is an undoubted fact that activities associated with tourism and the entire sector are poised on contributing to the development of the host countries, in developing countries the priority goals include an increment in foreign-exchange earnings, employment and the generation of revenue. Based on the different types of tourism,

there are different channels of economic growth which they could induce. Medical tourism, sex tourism, industrial tourism and religious tourism are several sub-sectors of the tourism sector that generate foreign-exchange earnings for the host countries. Countries such as Germany, Spain, Dominican Republic, Kenya, Colombia and the Netherlands have accrued billions of dollars in sex tourism (Chronicle, 2017), also as at 2019, no less than half a million foreigners travelled to Singapore for the purpose of medical tourism because of the high quality of health facilities and services, alongside its affordability, thereby placing the country on second place in the global index of medical tourism- all these have generated foreign exchange for the country in question (Stephano, 2020). The forms of tourism being discussed in this literature include educational tourism, casinos and tourism related to the gambling industry and funds generated via bank loans gotten either from private and/or public institutions primarily for the improvement of tourism. It is therefore imperative to note that tourism could positively influence and improve the economies of countries who are actively involved in its promotion.

2.3.1 The Influence of Educational Tourism on the Economic Growth of SIDS

In the '60's, more attention was placed on the critical role of human resources as it concerned global economic development; in considering the impact of human capital accumulation factors, economic growth models may have to be considered in order to explain the former alongside what is left in economic growth models. In reference to developing countries, improving and elevating levels of productivity required for key factors of production would be based off on the consistent reliable gathering of knowledge as this would play an important role. Discoveries alongside a cross-country economic wide method of research was utilized by Kim (1998) in order to suggest an affirmative nexus between the development of a country's economic system and how

far the workforce has gone, he basically stipulated that the productivity of labour force could be enhanced by human-capital with foreign-education alongside others who would import knowledge from developed countries to facilitate the entire process. A direct method of bringing in complicated knowledge might be by trade, which is sending students abroad for higher or tertiary education. Many students plan to go abroad to pursue their tertiary education as it is getting increasingly important. A number of benefits to the host economy such as an improvement in national revenue can be achieved by taking into consideration the fact that tertiary education is a form of tourism and with this unemployment can be reduced and more job opportunities would be created. It is therefore important to note that living standards in host economies can be significantly improved by the increasing flow of education tourism (Stevens and Weale, 2003).

Likewise, level of household revenue, socio-economic factors, parent's education etc. can serve as factors for an increase in the private demand for tertiary education (Beneito et al., 2001). It is without a doubt that individuals seek tertiary education courtesy expectations related to a higher income (Ram, 1989). In addition, exogenous factors such as opportunities of scholarship, tuition fees and credibility of the programs being offered by the host institutions might increase a demand for tertiary education; hence international students are willing to travel overseas in order to pursue their education. Educational and intellectual services have obviously evolved into a valuable asset due to the current fast rate of globalization, this makes international students repeatedly look for a variety of experiences including socio-cultural ones (Abubakar et al., 2014). Hence, many countries have been able to generate revenue from educational tourism in the form of foreign exchange.

Majority of host tertiary institutions develop their curricula based on an English language assessment in order to expand the programs that they had to offer in the market for training students. Research conducted by Rico and Loredana (2009) revealed that there was a better competition between institutions that offered courses in English when compared to other institutions, since English is a global language, they are more likely to be exposed to a higher proportion of audiences. Other research articles such as that by Abubakar et al. (2014), have analysed the reasons behind the traveling of international students from their home countries to others abroad in order to pursue their studies. North Cyprus is oftentimes considered in these studies, and motivational factors identified include notoriety, accreditation and future employment possibilities in nexus with a high standard of education are among the highest reasons and though process why students travel, the absence of projects to compare within the nation of origin is among the lower-positioned thought process.

Ambassadors for host countries in tourist destinations may be disguised in the form of international students, Lopez et al. (2016) proposed that these students could attract new visitors by inviting their family and friends; this therefore lays an importance on the essence of education tourism and tertiary education in the economic development of host countries. For example, there has been a substantial increase in tertiary education demand since the 1990's in TRNC, as earlier posed, a variety of factors ranging from socio-political, economic factors, quality of certificates, global ranking and tuition fees are valid reasons to trigger the inflow of students to any particular destination for the sake of tertiary education. For TRNC, most of the educational tourists are Turkish and other international students majorly from African and Middle Easter states (Katircioglu et al., 2014). All these have contributed to the expansion of

relevant infrastructure and facilities within the tertiary institutions in TRNC. In addition, recently, tertiary and postgraduate education has contributed a great deal to the economy of the little island by provoking unfamiliar trade revenues. The precise connection between advanced education, monetary development in TRNC and the global tourism industry were dissected by Katircioglu (2010). Results from his study revealed that the development of TRNC over the long haul would be hugely influenced by global tourism and tertiary education itself.

2.3.2 The Influence of Casinos on the Economic Growth of SIDS

If the benefits of an economy do not offset expenses, then the development of casinos would continue to contribute to economic growth. As suggested by Lapsley (2003), if gambling in the casino is inexistent, potential monetary gains would not be made as supply would be inadequate when compared to demand, most especially in situations where funds allocated for that purpose cannot be used for any other type of consumption. In other words, there would most likely be some opportunity costs in the absence of casino gambling. There have hardly been any investigations and/or experiments to discover the connection between gambling clubs and economic growth all through this decade in which the gambling club industry has grown massively. Researchers such as Benar and Jenkins (2008) and Walker and Jackson (2013) have made recommendations, while the former suggests that club presentations may produce charge incomes for governments which could be converted into interests and open projects, the latter support that gambling clubs might after all have positive influences on economic growth. Gambling clubs and casinos across 12 different states in the US between 1990 and 2010 were analysed, and it was discovered that they experienced Granger-caused-state-level-development in per capita pay.

The connection between casinos and economic growth in the US were also broken down by Lim and Zhang (2017) by the use of board information from the province level, between the periods of 2003 and 2012. In order to discover whether or not there is a nexus between the improvement of casinos and economic growth, the effect of casinos on per capita pay, work and development would be adequately gauged. The theory that there is an affirmative connection between the creation of jobs and per capita pay development was actually supported in the outcomes of the research. The researchers likewise tried to discover if these effects exist during the control for spatial impacts and they realize that regional borders did not limit the pay streams. They also provided proof from rational experiments that the revenue generated from the development of casinos might not really flow to the country or city hosting it, hence, there might be some sort of spillage to different nations and/or adjoining urban areas. A cost-benefit analysis of casinos in Iowa conducted by Chhabra (2007) reveals that the leakage of positive impacts into nearby states would amount to almost 30%. These discoveries reveal that the overall affirmative influence of the development of casinos may not necessarily be in equilibrium with different destinations.

There is also some empirical evidence that casinos tend to have an initial short-lived impact on economic growth, which disappears over time as the casinos turn into an integral part of the regional economy. Walker and Jackson (1998; 2007) investigated the impact of casinos on per capita income in a number of states in the United States for two different periods. For the period 1978-96, they find that casinos result in increases in per capita income. However, once they repeat the analysis for the same states over the period 1991-2005, they do not find any causal relationship between casinos and per capita income. The casino industry is often considered as an export

good; with many casinos operating with restrictions on the admission of local residents. Thus, the host country is able to capture the economic rents from foreign visitors through taxation. Nonetheless, there is a compromise between various degrees of duty rates and club's reaction to such rates (Philander et al., 2015). On one hand, work advantages of club advancement to nearby economy are frequently promoted as a critical determinant of their effects. Then again, non-ideal assessment rates can influence work choices by club. Thus, despite the inflow of tax revenues for the government from the development of casinos, there are some empirical evidences that changes in taxation rates can have diverse impacts on casino employment. For instance, Philander et al. (2015) report that casino taxation has an impact on employment, but this effect exists only to the point where market demand is satisfied. They conclude that lowering tax rates affects employment only up to an optimal point. If the government lowers rates beyond the optimal point, it results in marginal effects on employment.

In terms of social or economic costs of casino gambling, one would classify the costs into two broad categories: regulatory costs incurred by the government to ensure the compliance of casinos with regulations; and, externalities exposed on local communities by casino operations (Ryan and Speyrer, 1999). As identified in the relevant literature (Ryan and Speyrer, 1999; Koo et al., 2006), the costs can bring some difficulties such as increase in crime rates, increase in financial problems leading to bankruptcies and divorces. These impacts arise more concerns in case of small islands. Casino development is accompanied with some positive and negative impacts on the local communities and the economy of a country. It is believed that casino gaming has experienced a growth in recent years, contributing significantly to the tourism sector

in many countries (Wan, 2012). According to Hsu (2006), the high share of contribution coming from casino developments in the countries of the Asia-Pacific region has turned this industry as a highly valuable industry for these countries. For instance, Macao has been identified globally as one of the islands with the highest level of specialization on tourism where revenues from tourism industry amounts to 86% of Macao's GDP, out of which 90% is coming provided by casinos (McCartney, 2016). The revenues are consisted of foreign exchange earnings plus tax revenues from the casino industry.

In the framework of sustainable tourism development, it is worth noting that tourism industry is highly resource-intensive which greatly affects local communities. Despite the positive impacts of the gambling industry, there are often some negative socioeconomic, cultural and environmental impacts that can have direct or indirect effects on local communities (Wu and Chen, 2015). Moreover, hotel-casino industry in Macao suffers from the shortage of skilled human resources and insufficient infrastructure. Loi and Kim (2010) state that the importance of tourism industry's contribution to Macao's economy implies that policy makers should plan efficiently to improve the position of Macao in the international tourism market. They suggest that the hotel-casino industry in Macao has to implicate some reforms in order to survive successfully in this competitive industry. The reforms range from improving products, services and infrastructure to diversifying customer mix. North Cyprus is another example. There have been many embargoes imposed on this country since 1980s that have led to the development of the services sector in this country. However, tourism sector, which was also suffering from embargoes, had to provide a diversified mix of products to attract more tourists (Katircioglu et al., 2014). When casinos started

operating on the island, the flow of tourists increased sufficiently such that net revenues from this industry accounted for 9.69% of GDP in 2008 (SPO, 2010).

2.3.3 The Influence of Bank Loans on the Economic Growth of SIDS

A few research articles have investigated the channels through which the improvement of the sector of tourism might influence the development of the economy in those nations (Lanza and Pigliaru, 2000; Payne and Mervar, 2010; Cortes-Jimenez and Pulina, 2010; Apergis and Payne, 2012; Chatziantoniou et al., 2013; Aslan, 2014; Brida et al., 2016; Khoshnevis Yazdi et al., 2017; Kouchi et al., 2018; Cannonier and Burke, 2019; Akadiri et al., 2019; Roudi et al., 2019; Santos and Vieira, 2020; Tecel et al., 2020; Dibeh et al., 2020). Discoveries from these investigations have recommended a few channels as the fundamental drivers of financial development, remembering an increment for unfamiliar trade income, an expansion in nearby business, incited interest for neighbourhood items and benefits, and expanded efficiency of work and capital assets.

The significance of this area is featured much more for non-industrial nations, since their mechanical boondocks don't give them to rival created nations access sending out different items (Sinclair, 2002; Katircioglu, 2010; Viljoen et al., 2019). Gracious (2005) contends that the produced incomes from the travel industry area help governments balance their present record shortages as well as improve their equilibrium of instalments. This explains why many governments have prioritized public investments in the tourism sector. Empirical evidence suggests that an increased level of public expenditures in the tourism sector can effectively stimulate economic growth, but not homogenously for all countries. Chou (2013) investigates the answer to this question by looking at a dataset of 10 transition countries over 23 years. The

outcomes show that there is a positive connection between administration spending in the travel industry area and monetary development for certain nations. While the discoveries support the presence of financial development advanced by the travel industry spending on account of Cyprus, Latvia, and Slovakia, different nations in the example will in general show a converse relationship. The creator contends that the discoveries feature the heterogeneous idea of the travel industry spending and development relationship among various nations.

Thus, one can expect that governments would be interested in understanding how the inflow of various sources of capital (domestic or foreign) into the tourism sector might stimulate economic growth in local economies. Capital sources are often scarce in the developing world to domestically finance the capital investment requirements of tourism projects. Even in developed countries, local public finances are under considerable stress, emphasizing the need to rethink both expenditure and revenue policies at all government levels (Roca et al., 2014). Developing countries compete to attract foreign direct investments (FDI) to compensate for the lack of sufficient domestic funds (Khoshnevis Yazdi et al., 2017). But, access to international capital markets can be very challenging for some countries, especially for those under international economic embargoes (Günçavdi & Küçükç, 2009).

2.3.3.1 The Influence of Bank Loans on the Economic Growth of the Turkish Republic of Northern Cyprus

North Cyprus is a little Mediterranean island with restricted regular assets. Since the foundation of this state during the 1970s, North Cyprus has encountered many years of segregation from the worldwide economy because of global monetary bans (Turgut Tursoy, 2018). Throughout the long term, one of the principal effects of these bans has

been the change of the North Cyprus economy from assembling to support arranged. This change is perceptible in its macroeconomic information when one gander at the sectorial appropriation of the (GDP) over the long run. The portion of lodgings and eateries commitment to GDP was just 2.6 percent back in 1977, contrasted with the 8.4 percent portion of assembling. These figures, nonetheless, are reversed in 2016, with hotels and restaurants comprising more than 8.7 percent of GDP compared to only a share of 3.7 percent for the manufacturing sector (SPO, 2020). Obviously, the development of the economy of any country is partially because of the improvement of the policies designed to improve efficiency; therefore, savings would be directed towards more productive opportunities.

The improvement of the sector of tourism has given an incredible chance to North Cyprus to assimilate income inflows not just in home-grown cash (Turkish Lira, TL) from Turkish guests yet in addition in unfamiliar monetary standards from other global guests. As indicated by public insights, traveller appearances just from Turkey in 2016 have been 64% more than in 2010. Likewise, North Cyprus has become an alluring objective for global travellers regardless of the troubles in arriving at this objective on account of the absence of direct worldwide flights: there has been an expansion of 124% in the quantity of global vacationers arrived in North Cyprus in 2016 contrasted with 2010 (SPO, 2020). Various investigations have examined the effect of the travel industry in North Cyprus on financial development (Katircioğlu, 2010; Katircioğlu et al., 2010; Katircioğlu et al., 2014). The discoveries show that worldwide the travel industry is in a long-run harmony relationship with genuine pay development in North Cyprus. As such, albeit North Cyprus has experienced political non-acknowledgment

and financial bans since 1974, worldwide the travel industry has contributed fundamentally to the monetary development in this little island economy.

With the developing fascination of North Cyprus as a touristic objective among Turkish and the global local area, the travel industry area has gotten one of the fundamental areas in North Cyprus' economy. Incomes from the travel industry as a level of GDP added up to 19 percent in 2016 (SPO, 2020). The travel industry area, like different areas inside the economy, expects admittance to monetary hotspots for economical turn of events. Home-grown banks' advances assume a basic part in working with admittance to capital sources, particularly when unfamiliar direct ventures are compelled. During ongoing many years, there has been some advancement in such manner in North Cyprus; such as the payment or offering of credit to the sector of tourism which has expanded over time (SPO, 2020). Given that the travel industry area has gotten perhaps the main areas adding to financial development in North Cyprus, approaches set by the national bank in this little state can altogether affect the maintainability of such turns of events.

Chapter 3

BACKGROUND OF THE STUDY

3.1 Historical and Tourism Background of North Cyprus

History tells us that the northern part of Cyprus has been actively segregated from the southern part of Cyprus since the year 1983. It is common knowledge that international communities apart from the country, Turkey do not recognize TRNC. According to the State Planning Organization (SPO) census of 2010, North Cyprus population amounts to 300,000 residents. Due to the international embargoes imposed on this country, its only international trade partner is Turkey although it could have had more trade opportunities because of its strategic location in the region. The trade restrictions on this country have made this country shifting toward more of the services sector and higher education. Nevertheless, these sectors have also been suffering from difficulties in attracting enough consumers. One of the major challenges is that there is not any direct flight to North Cyprus and all flights are connected via Turkey. This section aims to demonstrate that there is an active relationship between the development of tourism in Northern Cyprus and the improvement of its economy, and that the creation of valid and helpful strategies/policies could improve either of them; this is one of the major objectives of this research work.

There are limited natural resources in the small Mediterranean island of TRNC. Since the establishment of this state in the 1970s, North Cyprus has experienced decades of isolation from the global economy due to international economic embargoes. Over the

years, one of the main impacts of these embargoes has been the transition of the North Cyprus economy from manufacturing- to service-oriented. This transition is observable in its macroeconomic data when one looks at the sectorial distribution of the gross domestic product (GDP) over time. The share of hotels and restaurants contribution to GDP was only 2.6 percent back in 1977, compared to the 8.4 percent share of manufacturing. These figures, nonetheless, are reversed in 2016, with hotels and restaurants comprising more than 8.7 percent of GDP compared to only a share of 3.7 percent for the manufacturing sector (Viljoen et al., 2019).

The development of the tourism sector has provided a great opportunity for North Cyprus to absorb revenue inflows not only in domestic currency (Turkish Lira, TL) from Turkish visitors but also in foreign currencies from other international visitors. According to national statistics, tourist arrivals only from Turkey in 2016 have been 64 percent more than in 2010. Similarly, North Cyprus has become an attractive destination for international tourists despite the difficulties in reaching this destination because of the lack of direct international flights: there has been an increase of 124 percent in the number of international tourists landed in North Cyprus in 2016 compared to 2010 (Viljoen et al., 2019). A number of studies have analysed the impact of the tourism industry in North Cyprus on economic growth (Kubickova et al., 2020; Makun, 2021; SPO, 2020). The findings indicate that international tourism is in a long-run equilibrium relationship with real income growth in North Cyprus. In other words, although North Cyprus has suffered from political non-recognition and economic embargoes since 1974, international tourism has contributed significantly to the economic growth in this small island economy.

With the growing attraction of North Cyprus as a touristic destination between Turkish and the international community, the tourism sector has become one of the main sectors in North Cyprus's economy. Revenues from tourism as a percentage of GDP amounted to 19 percent in 2016 (Viljoen et al., 2019). The tourism sector, similar to other sectors within the economy, requires access to financial sources for sustainable development. Domestic banks' loans play a critical role in facilitating access to capital sources, especially when foreign direct investments are constrained. During recent decades, there has been some progress in this regard in North Cyprus; the loan disbursements to the tourism sector have increased over time (Viljoen et al., 2019). If the tourism sector has become one of the most important sectors contributing to economic growth in North Cyprus, policies set by the central bank in this small state can have significant impacts on the sustainability of such developments.

3.2 Educational Tourism Background in the Turkish Republic of Northern Cyprus

In terms of educational tourism, North Cyprus has six universities that serve a variety of students from different countries (SPO, 2010). Along with the increase in the number of students attracted by these universities, there has been an attempt to expand infrastructure and capacity accordingly. Therefore, these universities have increased the quality of their programs more than their international competitors have. Overall, the more the higher education offered by these universities earns credibility internationally, the better the image of the country would be in the international community (Katircioglu, 2010). Consequently, higher education in conjunction with international tourism generates a substantial inflow of foreign exchange for North Cyprus. Katircioğlu et al. (2014) develop an augmented version of the Solow growth model in order to study whether there is a relationship between the development of

higher education sector and economic growth in North Cyprus. Their findings support the higher education-led growth, showing that there is a unidirectional causality from growth in higher education to growth in GDP per capita.

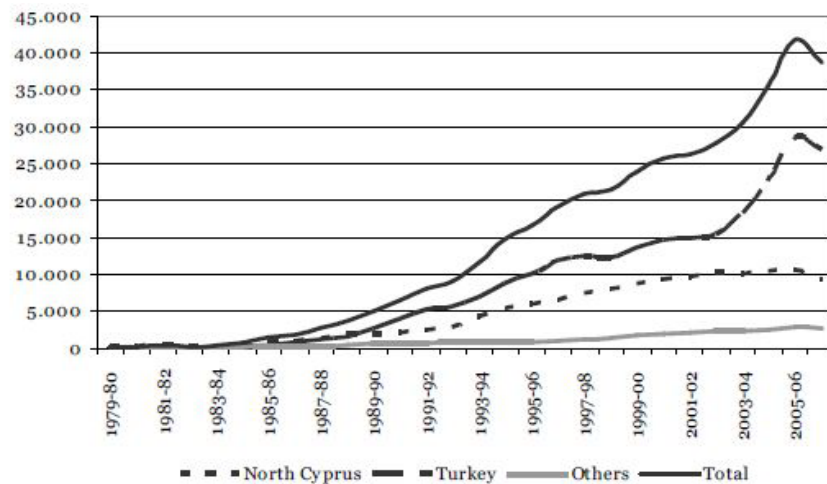


Figure 2: Students per origin in Northern Cyprus (SPO,2010)

In Turkey, provision of education is skewed as the government is unable to cater for its large young population as regards providing an adequate supply of higher education. Inadequacies associated with an insufficient supply of higher education and the presence of a growing population of young people in Turkey have presented beautiful alluring opportunities for the economy of Northern Cyprus and this has urged policy makers in both Turkey and Northern Cyprus to invest in university education and to create novel supply capacities in TRNC. However, by permitting private individuals to create universities in Turkey, there has been a decline in the quantity of international students arriving into TRNC from Turkey and this definitely initiated some sort of competition between universities in Cyprus and Turkish private universities.

3.3 The Background of North Cyprus' Economy

There are several islands in the Mediterranean and Cyprus which is one of them, is actually the third largest island. There were militia-political efforts in the form of a coup d'état instigated by Greek Cypriots that occurred in the periods prior to their independence, this was basically an attempt to expropriate the island of Cyprus to Greece. As a result of the brouhaha, the guarantor power that existed in the formation of Cyprus, which is the Turkish government, intervened. Subsequently, Cyprus was fractionalized into the Northern and Southern regions, of which Northern Cyprus owed its sovereignty to Turkey (Andronikou, 1979; Nedjatigil, 1982; Barkey and Gordon, 2001). However, it is imperative to note that South Cyprus is referred to as the Republic of Cyprus by relevant authorities and it is the bifurcated region (unlike Northern Cyprus) that is recognized globally alongside being a member of the European Union.

The economy of the Turkish Republic of Northern Cyprus possesses unique elements and features, courtesy the fact that it has no economic or political affiliations with the rest of the world. As a matter of fact, every item that must be imported must make its way through Turkey prior to its arrival at the choice destination, this can therefore be described as a semi-closed economic system. The Turkish Republic of North Cyprus has a unique economic status that does not allow or give room to the use of their own special currency/legal tender. Therefore, the official currency of the TRNC is the Turkish Lira (TL) although other currencies are being used, in the form of euros, pound sterling and American dollars. Sharpening or improving the monetary policies of this state to achieve an optimum goal is also farfetched, as the TRNC possesses limited leverage. The Central Bank of this defacto state however, utilizes their policies

basically for monitoring the supply and demand of money and how they could influence the activities of the economy. Hence, if economic stability is to be achieved, TRNC's Central Bank must target and interfere with the quantity of circulating money, the constitution of the foreign aid of TRNC obtained from Turkey and the cost of credit that might be available (Gunsel, 2006). Therefore, what is observed is that due to the lack of strength within the economy to manage and finetune existing monetary policies and their subsequent extreme reliance on Turkey, Northern Cyprus repeatedly struggles to cope with economic factors such as severe inflation, unemployment, deficits within the budget and financial distress, all these were observed starting from the economic crises observed in Turkey in the year 2001 (Safaklı and Ozdeser, 2002).

There were several common characteristics and challenges observed within the economies of small islands as mentioned by Kakazu (1994), they include trade deficits, high costs of transportation, reduced diversification in activities that would grow the economy, smaller domestic markets/target audience, a general legal tender from a major country, diseconomies of scale and a relatively high dependence on foreign aid. A lot of these distinctive properties have actually evolved and duely showcased themselves In the Turkish Republic of Northern Cyprus to a varying degree. To summarize this, the bedrock and foundation of the economy of Northern Cyprus is therefore service based sectors. This does not interfere or contribute to a reduction in tourism, higher education and other sectors such as agriculture to the GDP. The chronological events experienced in the financial sector of Northern Cyprus can be summarized as thus. Between the years 1980 and 2002, there was a liberalization of the financial market in North Cyprus, in the late 90's, specifically 1994, a currency/banking crises ensued. Less than six years later, in the year 2000, a

rehabilitation program aimed to last for three years was formulated and it was focused primarily on protecting the financial sector of this state from failure. Subsequently, a law which was focused on insuring saved deposits at banks called the saving deposit insurance fund law was enacted and new monetary policies/an increment in the ratio of the requirement of minimum capital were witnessed. A year later, in 2001, requirements for borrowing from the public sector were decreased and appropriate legal actions and precautions were taken by the government. There was an exhibition of good progress in the banking sector of the TRNC economy in the year 2002, this was as a result of the rehabilitation program that was designed to last for three years and these motivated both private and public banks when it came to lending money. Therefore, it could be hypothesized that there has been a strengthening of the financial sector of TRNC and this has provided a good foundation for facilitating financial services within the country.

The approach of using higher growth rates by developing countries has been very often times used to catch up with countries that earn higher incomes, this is witnessed in Northern Cyprus, and what happens is that a higher growth rate which might be sustainable would be observed in higher income gaps. Major constraints related to having high economic growth rates might be unavoidably due to financing gaps that developed or evolved from the performance of the country, when it came to high growth rate. All these provoke a desire for the importation of intermediate products which might not be produced locally most especially since it is a small island economy and there is very little domestic demand and apparently limited economic resources. The importation of intermediate goods however facilitates the availability of foreign legal tender. A reduction in the ability of a country to access international commodities

and capital markets, alongside restrictions that are forced on external sectors of a country can be considered to be an economic embargo. Countries who have embargoes experience challenges related to extremely high rates of growth unless there is a development of special economic ties with another country that would deliberately ignore the existence of economic embargoes. The survival of Northern Cyprus due to the harsh adverse effects they have experienced due to economic embargoes has solely been because of their close ties with Turkey. The Turkish Lira was adopted as the major currency in Northern Cyprus and these eradicated challenges associated with earning foreign tenders other than the Lira under embargoes. Thus, the stringency of economic embargoes is not necessarily felt by the Northern Cyprus economy directly, as financial gaps can easily be closed through trade with or help from Turkey. However, TRNC would be unable to generate a significant amount of global legal tenders & Lira just by trading with Turkey, provided there is an ambition or goal of achieving and sustaining high economic growth. This is obvious when the amount of credit received from Turkey is observed alongside deficits in the country's current account. Although there is reduced labour productivity, most especially in the public sector, the North Cyprus economy has ensured that the general level of income has been kept moderately high and that deficits incurred courtesy this policy facilitating high income is being financed by Turkey and not by revenue that might have been gotten through a forced increase in labour productivity in TRNC.

Apart from the acceptance of Turkish Lira as the national legal tender of TRNC and the unbalanced implications on the external sector as it relates to embargoes, two different responses for handling the negative implications of economic embargoes have been developed by the TRNC. Firstly, the demand within the country is

deliberately intended to be maintained at a high level primarily through the use of a high-income policy and ensuring that minimum wages are greater than the productivity of labour and secondly, generating foreign currency income for the economy was established through converting non-tradable sectors to a particular structure. Resorting/exploration in the form of tourism & the sector of university education sector have been generating foreign legal tenders and have been the two most popular non-tradable activities of production within TRNC. A close look at the fourth figure, reveals the importance of the higher education sector was observed as the trend of the student numbers that visit TRNC for the higher education system were significant. The country has successfully mastered the art of attracting foreign students, most of which are primarily from the mainland Turkey.

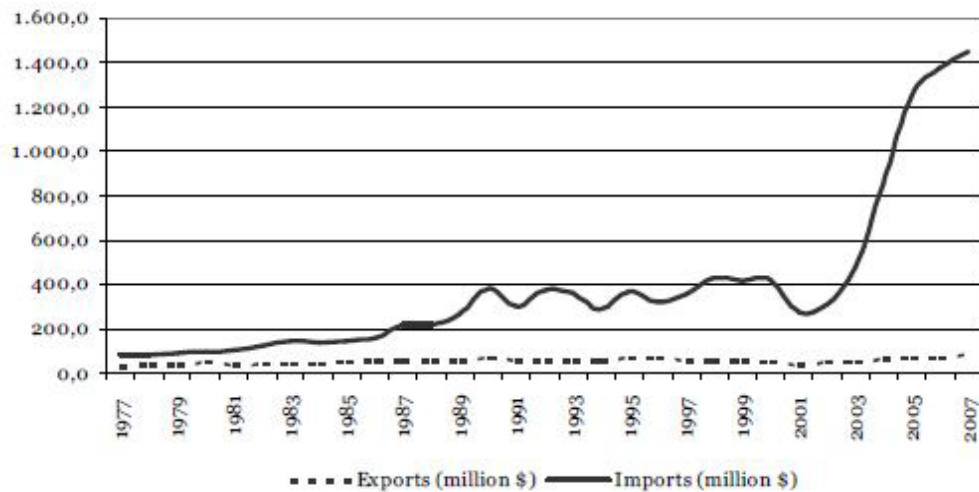


Figure 3: Exports and imports in TRNC (SPO, 2010)

Regardless of how important the external sector is to North Cyprus; peculiarities exist within its foreign trade and these reveal features that are relatively significant to economic embargoes. These peculiar features are as a result of disuniformed implications of embargoes. Evaluating the charts in figure 3 reveal these peculiar features and emphasize how the embargoes have not affected the TRNC economy in

respect to restrictions on importation and exportation. Furthermore, there has been an extensive widening in support of imported goods since the year 2001 and this can be seen when the difference between expenditures on importation and earnings from exportation are duly observed. All these indicate that the economy of TRNC has not necessarily experienced severe restrictions in the aspect of importation, whereas the ability to export has been largely restricted due to the economic embargoes.

The TRNC had no option other than to adopt the Turkish Lira as its national currency because of all the economic embargoes. Since there was little or no access to markets meant for exportation and general restrictions associated with global capital markets, global trading with the country-Turkey and with other countries but mostly via Turkey (i.e. Mersin) as its major means of sustenance. Therefore, it means that this character of foreign trade within TRNC would only improve its ability to generate foreign exchange particularly in Turkish Lira than in other currencies, this was a factor that contributed to the resolution of changing the official currency to the Lira.

Information on earnings generated from export in TRNC is that money spent on trades made domestically by outlanders and it is referred to as earnings of export in the classified information gotten from the statistic office of North Cyprus this was an important feature that was observed, other foreign exchange earnings such as that gotten from tourism and higher education, which are non-tradable sectors are also recorded as export earnings. Hence, regardless of the presence of a relationship of some trade partners with exportation, all trades take place via ports in Turkey with extra incurred costs and quantity remains minimal.

3.3.1 Background of the Banking System in the Turkish Republic of Northern Cyprus

TRNC can be referred to as a small island economy, within a span of 39 years, banks within TRNC have amassed huge sums of money in the form of bank deposits. Total bank deposits in this small island were estimated to be about 100 million dollars as the 1970's. Because of the absence of global economic and political relationships and ties with other countries (apart from Turkey obviously), gross bank deposits from both public and private banks have increased by 54 times, reaching an estimate of 5 billion USD at the end of the 2015 fiscal year. Generally, these earnings were larger than the GNP of Northern Cyprus which was estimated to be around 3.7 billion USD of the same year.

These deposits belong to the nationals and residents of the country and it is pertinent to enquire whether they are indicators of financial debt, because on economies performance - this would have a significant effect. The economy of TRNC is founded on a bank-based system of finance, hence the basic institutions for providing funds for individuals, projects, firms and governmental agencies are the banks. Liabilities within the bank are significantly composed of bank deposits and they serve as major sources of funds used for financing. It is therefore reasonable to anticipate or project that a substantial effect on the growth of the economy would exist primarily because they are affected by the total amount of deposits which serve as main funds for economic activities. It is a general standard that the development of the finances or economy of any country should be aided by adequate policies which should be designed to improve both efficient and effectiveness. When referring to efficiency, in an optimal environment, capital would be permitted to be allocated to projects that are deemed

very profitable for the economy of the state. Savings would be channelled to greater productive opportunities when there is an improvement in quality within the financial sector that would inevitably trigger growth.

Hence, the creation of policies that would encourage the development of the economy and push financial prospects forward can primarily be motivated by establishing the relationship between the required depth and the economy itself. The development of the economy is measured using varying indicators and factors, they include the size and depth of existing financial systems amongst a plethora of other options such as the ratio of deposits to GDP as classified by the World Bank. Research conducted by Beck et. al (2010) revealed an additional indicator of financial development useful at intermediary levels via the calculation of all deposits as a portion of the Gross Domestic Product; another research article provided by Arestis and Demetriades (1997) provided proof that there was a connection between growth and finance, and these occur due to the utilization of measures dependent on banking systems, such as the proportion between nominal GDP and bank deposits. Regardless, a governmental agency in TRNC called the SPO (State Planning Organization), provides only data related to deposits, this interferes with the ability to measure financial depths adequately. Thus, because the system of finance in TRNC reveals features of a bank dependent structure of finance, this study utilized a bank dependent approach of measuring the development of finance, taking into cognisance a variety of existing research materials in order to evaluate the relationship between the growth of the economy and finances in the Turkish Republic of Northern Cyprus.

Chapter 4

METHODOLOGY

4.1 Research Framework and Paradigm

There are a variety of empirical methodologies that would be very useful in the aspect of tourism research, most especially as it relates with economic growth. The tests or research approaches include unit root tests and co-integration tests.

The theoretical framework was created by utilizing the original Solow growth model-the extended version. The original model uses production functions to explain how exogenous factors result in economic growth through physical capital accumulation, population growth, and technological advances. However, the augmented Solow model, originally developed by Mankiw et al. (1992), takes into account the role of endogenous growth factors such as human capital. Thus, the augmented Solow model can outperform the original Solow model in explaining the channels of economic growth.

We start setting up our theoretical model by considering the following Cobb-Douglas production function:

$$Y_t = K_t^\alpha H_t^\beta (A_t L_t)^{1-\alpha-\beta} \quad (1)$$

Where Y is real output, K represents physical capital, H is human capital, L the stock of raw labor in the economy, A is the labor-augmenting factor reflecting the level of technology in the country and t is the time index. It is assumed here that there are decreasing returns to factor inputs, i.e., $\alpha + \beta < 1$. Physical (K) and human capital (H) grow over time but depreciate at a rate of δ . The fractions of real output devoted to the accumulation of physical and human capital are denoted by s^K and s^H , respectively. Moreover, the stock of labor and technology in the economy evolve exogenously as below:

$$L_t = L_0 e^{nt} \quad (2)$$

$$A_t = A_0 e^{gt + Z_t \theta} \quad (3)$$

Where n is the exogenous rate of growth in the labor force, g is the exogenous rate of technological progress. In this model, it is assumed that the state of labor-augmenting technology (A) depends not only on exogenous technological improvements (g), but also on bank loans disbursed to the tourism sector (Z). This factor is integrated into the model because access to capital markets and financial services can affect the level of efficiency in the economy. In our case study, the flow of bank loans into the tourism sector of North Cyprus is expected to affect the level of productive investments and labor productivity, which consequently contribute to economic growth.

In the steady state, output per effective worker ($\frac{Y_t}{A_t L_t}$) is constant, whereas output per worker evolves as follows:

$$\frac{Y_t}{L_t} = A_t (k_t)^\alpha (h_t)^\beta \quad (4)$$

Let the steady-state output per effective worker be $y_t^* = \left(\frac{Y}{L}\right)^*$. Taking the logs of both sides of Eq. (4), we get $\ln\left(\frac{Y}{L}\right)^* = \ln A + \alpha \ln k^* + \beta \ln h^*$, where $A_t = A_0 e^{gt + Z_t \theta}$, therefore,

$$\ln\left(\frac{Y}{L}\right)^* = \ln A_0 + gt + \theta \ln Z + \frac{\alpha}{1 - \alpha - \beta} \ln s^K + \frac{\beta}{1 - \alpha - \beta} \ln s^H + \frac{\alpha + \beta}{1 - \alpha - \beta} \ln(n + g + \delta) \quad (5)$$

Where s^K and s^H denote the fractions of real output devoted to the accumulation of physical and human capital, respectively.

Equation (5) shows the steady state level of total output per worker. In order to quantify the speed of convergence toward the steady state, we use the log-linearization method.

Equation 6 shows the transitional dynamics of the model:

$$\begin{aligned} \ln y - \ln y(0) = & g + (1 - e^{-\lambda_t}) \\ & \times \left[\ln A_0 + gt + \theta \ln Z + \frac{\alpha}{1 - \alpha - \beta} \ln s^K + \frac{\beta}{1 - \alpha - \beta} \ln s^H \right. \\ & \left. + \frac{\alpha + \beta}{1 - \alpha - \beta} \ln(n + g + \delta) - \ln y(0) \right] \end{aligned} \quad (6)$$

Where $\lambda_t = (n_t + g + \delta)(1 - \alpha - \beta)$, the annual speed of convergence. Rearranging Eq. (6) provides us with Eq. (7) below which represents the transition path to the steady state:

$$\begin{aligned} \ln y_{t+1} - \ln y_t = & g + (1 - e^{-\lambda_t}) \\ & \times \left[\ln A_0 + gt + \theta \ln Z + \frac{\alpha}{1 - \alpha - \beta} \ln s_t^K + \frac{\beta}{1 - \alpha - \beta} \ln s_t^H \right. \\ & \left. + \frac{\alpha + \beta}{1 - \alpha - \beta} \ln(n_t + g + \delta) - \ln y_t \right] \end{aligned} \quad (7)$$

The last step is to account for off-equilibrium dynamics of total output per worker. So, Eq. 7 is turned into an error-correction form, in which the explanatory variables are

included both in levels and in first differences to pick up transitional dynamics, in addition to the lagged dependent variable in levels:

$$\begin{aligned} \Delta \ln y_t = & c_0 + \mu e_{t-1} + \sum_{i=0}^m \varphi_i \Delta \ln s_{t-i}^K + \sum_{j=0}^p \eta_j \Delta \ln s_{t-j}^H + \sum_{k=0}^r \pi_k \Delta \ln (n_{t-k} + g + \delta) \\ & + \sum_{h=0}^r \theta \Delta \ln Z_{t-h} + \varepsilon_t \end{aligned} \quad (8)$$

Where ε_t is the error term that is identically and independently distributed. Eq. (8) represents the basic functional form that is used for empirical estimation in this study.

4.2 Methodology

4.2.1 Unit Root Tests

Past examinations have shown that if the time arrangement properties are not assessed with cautious methods, the result of an investigation with stochastic patterns may prompt deceptive deduction. Hypothetically talking, information arrangement can be sorted to fixed and non-fixed ones. In the event that the mean and auto-covariance's of an information arrangement do not change by time, we call that arrangement covariance fixed. Contingent upon the quantity of unit root tests, the request for coordination would be diverse for a non-fixed arrangement. This data about an arrangement is significant in light of the fact that the presence of an incorporated variable mutilates the measurable surmising which typically applies to relapse examination. In this way, examining if an information arrangement is fixed prior to running relapses is a fundamental advance to keep away from deceptive surmising.

Various techniques have been created over the long haul to test the presence of unit establishes in information arrangement under examination. The most widely recognized techniques are as per the following (Dickey and Fuller, 1979; Elliott et al., 1996; Phillips and Perron, 1988; Kwiatkowski, 1992): Augmented Dickey and Fuller

(signified as ADF), GLS-detrended Dickey and Fuller (indicated as DF-GLS), Phillips and Perron (meant as PP), and KPSS.

Every one of these strategies has its own suppositions of appropriateness conditions. The ADF strategy initially created as straightforward DF technique, tests the invalid theory of a unit root exists in the arrangement. The prior rendition of this strategy, DF, works just if the arrangement is corresponded at request 1, AR (1). With the increased form of DF strategy, ADF, nonetheless, permits testing of arrangement with higher-request connections. What's more, DF-GLS strategy changes the ADF technique by detrending the information arrangement. These three strategies, DF, ADF and DF-GLS, are created dependent on parametric methodologies.

The PP method, nonetheless, is constructed by a non-parametric procedure. What this method does is basically taking the estimated values of simple DF method and adjusting the corresponding t-ratio. This ensures that serial correlation in the data series does not result in measurement error. Moreover, this method relaxes the strong assumptions made by the DF method regarding the distribution of errors and replaces them with relatively mild assumptions. The three-unit root tests talked about above have a few similitudes which makes them powerless against comparable mistakes. To start with, they all have similar invalid and elective theories: an information arrangement has a unit root or is non-fixed. The elective speculation is that the information arrangement doesn't have a unit root or is fixed. Second, these tests need a piece-based assessor of the lingering range at recurrence zero. What's more, the asymptotic dispersion of the ADF and PP unit root tests are comparative.

As opposed to these three tests, KPSS, proposed by Kwiatkowski (1992), has a returned invalid theory: the arrangement doesn't have a unit root or is fixed. The KPSS measurement is identified with the residuals of an OLS relapse of ward variable on the exogenous factors in the first information. This test was created to supplement the discoveries of ADF and PP unit root tests. The reasoning behind the KPSS technique is that the ADF and PP tests are developed such that the invalid isn't dismissed except if there is sufficient factual ability to give proof against it. This can be risky as a rule where the information doesn't unmistakably mirror the presence of a unit root and, along these lines, the ADF and PP tests erroneously acknowledge non-fixed suspicion. In this way, KPSS unit root test is frequently led as a heartiness check for other regular unit root tests.

4.2.2 Co-integration Test

The possible presence of unit establishes in the information arrangement has brought about the advancement of various techniques for non-fixed time arrangement investigation. The significance of these tests is featured by the way that a direct mix of non-fixed arrangement may turn out fixed. Such fixed direct mix of non-fixed arrangement is called co-integration (Engle and Granger, 1987). The idea of co-integration alludes to the presence of a since a long time ago run harmony between the information arrangement under investigation. Put in an unexpected way, on the off chance that we discover co-integration among a rundown of factors, it implies that there is a power among those factors pushing them for combination over the long haul. Specialists to identify co-integration in the arrangement of information have utilized two notable tests: Engle and Granger leftover-based co-integration test (Engle and Granger, 1987) and Johansen co-integration test (Johansen, 1991).

The Engle and Granger co-integration test is essentially a unit root test that is applied to the residuals of an OLS co-integrating relapse. The principal supposition here is that if the arrangements do not give any indication of co-integration, the residuals of the relapse don't have a unit root, for example are non-fixed. Along these lines, the invalid theory is that the residuals are non-fixed against the elective that residuals are fixed. Likewise, the test requires the assurance of ideal number of slacks for the ADF test's least squares relapse. Schwarz data standard is utilized for the choice of ideal slacks.

While the Engle-Granger test just distinguishes one co-integration relationship, the Johansen test can perceive the presence of various co-integration connections. The fundamental justification this distinction is that the previous depends on a solitary condition OLS, while the last depends on a most extreme probability methodology that gives enormous and limited example properties. Thus, the Johansen test is genuinely more effective than the Engle-Granger approach.

The Johansen test suggests two methods that can be utilized in deciding the quantity of co-integration connections. The principal test is known as the follow test, a joint test with the invalid speculation that the quantity of co-integration connections is not exactly or equivalent to the conjectured number of co-integration conditions. The subsequent test is known as the greatest eigenvalue that searches for the quantity of co-integrating vectors by testing every eigenvalue independently. Both these strategies can be utilized conversely to perceive the quantity of co-integrating vectors. Nonetheless, at times, the quantity of co-integrating vectors brought up by the two tests may not be something very similar.

In the wake of assessing the time arrangement information with unit root and co-integration tests, vector auto-regression (VAR) models and vector blunder revision (VECM) models can be utilized to examine the possible connections among the factors of interest. The VAR model works with estimates of the reliant variable utilizing precise interrelations among autonomous factors. This model investigates the unique impact of arbitrary commotions on the factors under examination by accepting endogenous factors as an element of the slacked upsides of any remaining endogenous factors.

Numerically, the VAR model can be addressed as underneath:

$$Y_t = \beta_1 Y_{t-1} + \dots + \beta_p Y_{t-p} + \gamma X_t + \varepsilon_t \quad (1)$$

Where Y_t is a vector of endogenous factors and X_t is a vector of exogenous factors, β_1, \dots and γ are coefficients to be assessed and ε_t is the mistake term. The conventional least squares (OLS) can be utilized to get predictable appraisals of Equation 1. The other concern is about the proficiency of appraisals. Given that all conditions of endogenous factors have the equivalent regressors, OLS furnishes us with the evaluations which are pretty much as effective as the summed up least squares (GLS) gauges.

In the event that there is co-integration between at least two factors, the VECM procedure can be utilized to catch both the deviations from since quite a while ago run balance and short-run elements of the factors. Put in an unexpected way, the VECM is a particular kind of VAR which amends deviations from the balance to guarantee the entire framework unites over the long haul. Following the portrayal of the VAR model in Equation (1), we show the VECM model as underneath:

$$Y_t = \beta_1 Y_{t-1} + \dots + \beta_p Y_{t-p} + \gamma X_t + \theta_1 ECT_{t-1} + \theta_2 ECT_{t-2} + \varepsilon_t \quad (2)$$

Where Y_t and X_t are vectors of endogenous and exogenous factors, separately, β_1, \dots and γ are as talked about for Eq. (1), and $[[ECT]]_t$ is the blunder amendment term. The ECT expressions in Equation (2) are developed into the relapse model and are taken from the co-integrating vectors. The primary reasoning for having these terms is to compel the since a long time ago run union conduct of the endogenous factors by approving short-run changes.

4.3 Research Data

Table 1 describes the variables used in this thesis and lists the data source for each variable. The sample used to estimate Eq. 8 consists of annual observations from North Cyprus national accounts for the period from 1977 to 2016, the latest available data coverage at the time of this analysis. The dependent variable to measure economic growth is the log of real gross domestic product (GDP) per worker (LRGDP). The first two independent variables are s^K , the log of fixed capital formation to GDP (LIGDP) and s^H , the log of secondary-level enrolment rate (LSENR). The next explanatory variable is the log of $n_{t-k} + g + \delta$ (LLABR). While we can calculate n_{t-k} from the data, an assumption needs to be made for $g + \delta$. Following the existing literature (Mankiw et al., 1992; Cellini, 1997; Katircioglu et al., 2014), we assume that $g + \delta = 0.05$. Lastly, for the exogenous policy variable Z , we use the log of tourism-sector bank loan disbursements to GDP ratio (LTLOAN).

Table 1: Description of variables and data sources

Variable	Abbreviation	Description	Source
Dependent variable: Log (real GDP per worker)	LRGDP	The ratio of real GDP (constant 1977 prices) to worker's population.	State Planning Organization (SPO) http://www.devplan.org/
Log(fixed capital formation, % of GDP)	LIGDP	The ratio of fixed capital investments to real GDP.	State Planning Organization (SPO) http://www.devplan.org/
Log (secondary-level enrolment, % of population)	LSENR	The ratio of total number of students in vocational and technical high schools to total population.	State Planning Organization (SPO) http://www.devplan.org/
Log(summation of exogenous rates of growth in the labour force (n), technological progress (g) and depreciation rate (δ))	LLABR	Estimating the annual speed of Used for $n_{t-k} + g + \delta$ Eq. (8).	Existing literature: Mankiw et al., 1992; Cellini, 1997; Katircioglu et al., 2014.
Log(loan disbursements to tourism sector, % of GDP)	LTLOAN	The ratio of bank loans disbursed to tourism sector to real GDP.	State Planning Organization (SPO) http://www.devplan.org/

The first step of empirical analysis is to evaluate whether the data series have a unit root test or not because the outcome will be spurious estimates if data series enter into the analysis in levels. Thus, we check the stationarity of the data series by performing some unit root tests. Four different unit root tests are employed: Augmented Dickey Fuller (ADF), Dickey Fuller GLS (DF-GLS), Phillips Perron (PP), and Kwiatkowski Phillips Schmidt Shin (KPSS). Performing four different unit root tests gauges the

sensitivity of the results provided by each test given that each of them has a different specification.

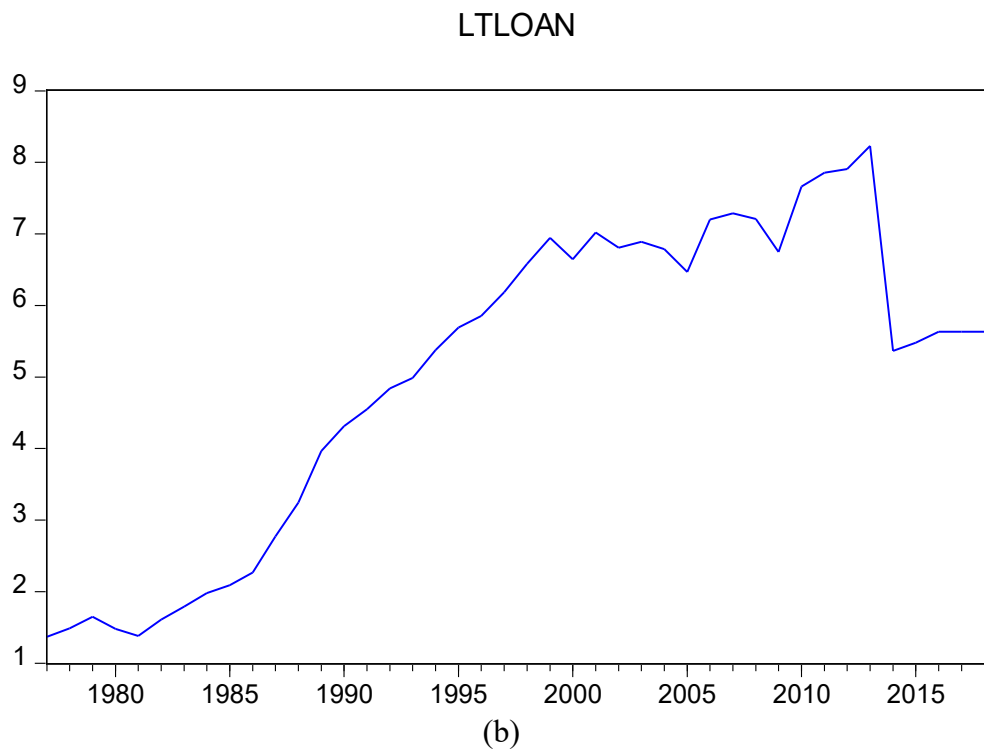
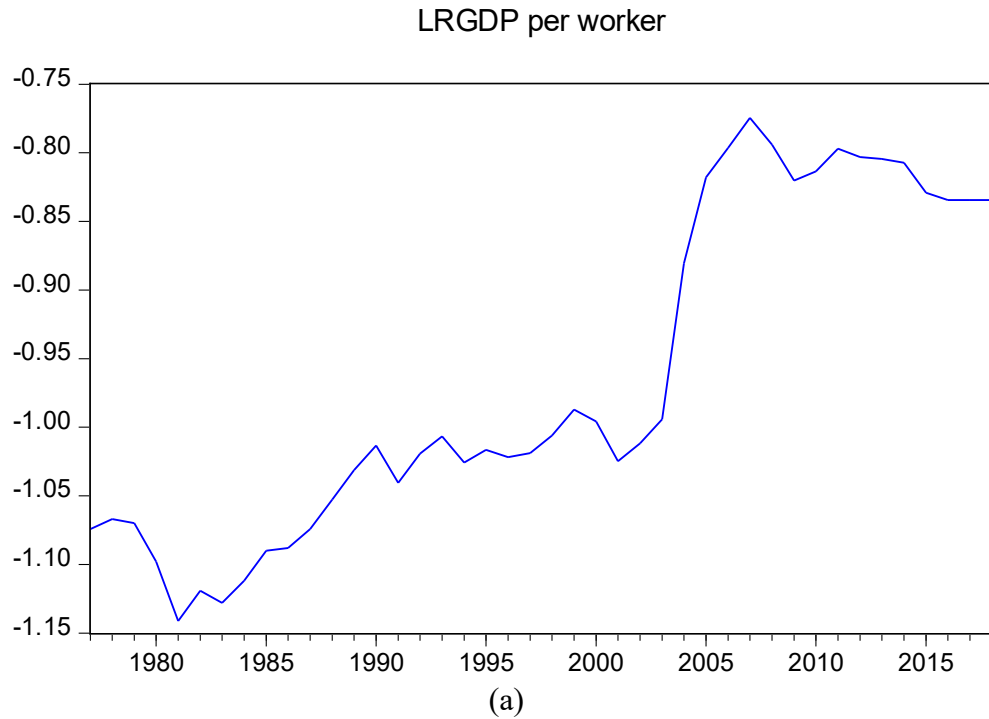


Figure 4: Illustration of the trend in the (a) real GDP per worker and (b) tourism loan (WTTC, 2017)

At the last stage, ARDL limits test can be applied regardless of whether factors of interest will in general be of blend requested. At the end of the day, this technique is more adaptable contrasted with Johansen approach since it tends to be utilized whether or not the factors are fixed, non-fixed as well as commonly co-integrated. Additionally, the result of ARDL is hearty when the example under examination is somewhat little (Pesaran and Shin, 1998). What's more, above all, a unique mistake amendment model (ECM) can be gotten from ARDL to catch both short-run and since quite a while ago run elements. These highlights are exceptionally engaging in our examination.

Ultimately, the bearing of causality among the factors of interest are inspected utilizing the Granger causality dependent on block exogeneity Wald test which gives Chi-squared measurements of coefficients on the slacked endogenous factors. The factual meaning of coefficients can be deduced from these measurements and it very well may be distinguished whether causality exists from the informative factors to financial development.

The main advantage of ARDL bounds test is its applicability even if variables of interest tend to be of mix-ordered. In other words, this method is more flexible compared to Johansen approach since it can be used regardless of whether the variables are stationary, non-stationary and/or mutually co-integrated. Moreover, the outcome of ARDL is robust when the sample under study is relatively small (Pesaran and Shin, 1998). Most importantly, a dynamic error correction model (ECM) can be derived from ARDL to capture both short-run and long run dynamics. These features are highly appealing in our study. In the last step of empirical analysis, Granger-causality tests are usually conducted in order to detect the causality direction between the variables, alongside short-run dynamics and the co-integration relationship in the end.

Chapter 5

RESULTS AND DISCUSSION

In this section, we discuss the results of the preliminary investigation as well detailing the observation from the short- and long-run estimates in addition to the Granger causality outcomes.

5.1 Discussion of Preliminary Estimations

Table 2 shows correlation matrix of our variables. The pairwise relationships between explanatory variables do not show significant correlations, and therefore, there is no sign of multicollinearity between the variables.

Table 2: Correlation matrix

	LRGDP	LIGDP	LSENR	LLABR	LTLOAN
LRGDP	1				
LIGDP	0.93	1			
LSENR	0.79	0.19	1		
LLABR	-0.67	0.28	0.18	1	
LTLOAN	0.94	0.36	0.13	0.17	1

Table 3 reports the result of unit root tests. The null hypothesis of a unit root cannot be rejected in the level of the LRGDP, LSENR, LLABR, and LTLOAN series, but it appears that LIGDP is integrated of order zero, $I(0)$ (columns 1-3). The result of KPSS in column 4 validates the robustness of our results from the other three tests: rejecting the null hypothesis of stationarity at the level form for LRGDP, LSENR, LLABR, and

LTLOAN, but failing to reject it in the level form for LIGDP. In columns 5 through 7, the result of unit root tests in the first difference are listed. Null hypotheses of a unit root are rejected for all series in the first difference of the series. This means that LRGDP, LSENR, LLABR, and LTLOAN are integrated order of order one, I(1). Similar to the level form, KPSS confirms the results obtained from ADF, DF-GLS, and PP tests.

Table 3: Unit root tests

Variables	Levels				FIRST DIFFERENCE			
	ADF	DF-GLS	PP	KPSS	ADF	DF-GLS	PP	KPSS
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
LRGDP								
τ_T	-2.891	-2.581	-2.244	0.095**	-4.112**	-4.219***	-4.112**	0.090
τ_μ	-0.972	-0.736	-0.795	0.703**	4.167***	-4.221***	-4.167***	0.093
τ	-0.962		-1.197		4.095***		-4.107***	
LIGDP								
τ_T	-3.575**	-3.593**	2.581*	0.071	5.242***	-5.376***	-7.908***	0.229
τ_μ	-3.617***	-3.225***	2.641*	0.141	5.294***	-5.363***	-7.348***	0.207
τ	-3.390		-0.434		5.361***		-7.418***	
LSENR								
τ_T	-1.817	-1.827	-1.930	0.151**	5.753***	-5.906***	-5.727***	0.109
τ_μ	-0.926	-0.481	-0.915	0.686**	5.827***	-5.902***	-5.809***	0.110
τ	-1.369		-1.442		5.718***		-5.709***	
LLABR								
τ_T	-2.549	-1.788	-2.539	0.156**	5.901***	-6.044***	-5.886***	0.117
τ_μ	-1.156	1.007	-1.916	0.795***	5.795***	-5.763***	-5.772***	0.271
τ	4.465		4.514		4.286***		-4.369***	
LTLOAN								
τ_T	-0.764	-1.049	-0.423	0.181**	7.869***	-7.679***	-7.920***	0.126
τ_μ	-1.647	0.423	-1.877	0.772***	7.591***	-6.174***	-7.578***	0.385
τ	2.302		2.127		3.161***		-6.031***	

Note: τ_T represents the model with a drift and trend; τ_μ with a drift and without a trend; and τ without a drift and trend. *, **, and *** denote statistical significance at 1, 5 and 10 percent levels, respectively

Given that all data series are either I(0) or I(1), so the next step is to proceed with the Johansen co-integration test to investigate the existence as well as number of co-integrating vectors. Panels A and B of Table 4 show that we can reject the null hypothesis of no co-integration by comparing the critical values at 5% and 10% level of significance with the reported statistics for Max-Eigen and trace statistics. In Panel C of Table 4, we use three different criteria to select the optimal order of lags: Akaike Information Criterion (AIC), Schwarz Bayesian Criterion (SBC), and Hannan-Quinn Criterion (HQC). It can be inferred from these criteria that the preferred order is 1.

Table 4: Johansen-Juselius multivariate likelihood co-integration tests summary

Panel A: Maximal Eigenvalue	H_0	H_1	Statistics	5% CV ^a	10% CV ^b
	$r = 0$	$r = 1$	33.48	28.68	25.00
	$r \geq 1$	$r = 2$	11.33	22.88	18.98
	$r \geq 2$	$r = 3$	7.85	15.12	13.02
	$r \geq 3$	$r = 4$	0.10	8.07	6.50
Panel B: Trace statistic	H_0	H_1	Statistics	95% CV	90% CV
	$r = 0$	$r = 1$	52.78	49.12	46.30
	$r \geq 1$	$r = 2$	19.29	32.46	29.12
	$r \geq 2$	$r = 3$	7.96	18.14	16.25
	$r \geq 3$	$r = 4$	0.10	8.07	6.50
Panel C: Selecting the lag order	Rank	Max. LL	AIC	SBC	HQC
	$r = 0$	218.76	206.76	196.47	203.01
	$r = 1$	235.50	216.50	200.22	210.57
	$r = 2$	241.16	217.16	196.60	209.68
	$r = 3$	245.09	218.09	194.96	209.67
	$r = 4$	245.15	217.15	193.16	208.41

Notes:

^a represents critical value for rejection at 5% level of significance.

^b represents critical value for rejection at 10% level of significance.

The Maximal Eigenvalue test conducts separate tests on each eigenvalue. The null hypothesis is that there are r co-integrating vectors present against the alternative that there are $(r + 1)$ present. The Trace test is a joint test, the null hypothesis is that the number of co-integrating vectors is less than or equal to r , against a general alternative hypothesis that there is more than r .

We complement the Johansen co-integration test with the ARDL bounds test of co-integration. Table 5 shows ARDL bounds test procedure, which is based on the joint F-statistic or Wald statistic (W-statistic) for co-integration analysis. It is also worthwhile notifying here that none of the variables were $I(2)$ based on the outcomes of unit root tests, which satisfies the assumption of the ARDL bound test. Otherwise, the computed statistics provided by the bound test would not be valid. The results of bounds test reveal that the computed F-statistic and W-statistic exceed the upper bound critical values, and therefore, the null hypothesis of no co-integration can be rejected. Put differently, the results confirm that there is a long-run relationship between LRGDP and the explanatory variables.

Table 5: Bounds test for co-integration on ARDL

	Computed values	90 percentiles		95 percentiles		Conclusion
		I(0)	I(1)	I(0)	I(1)	
F-statistic	23.1022	4.2764	5.2574	5.2231	6.3593	Reject
W-statistic	69.3067	12.829 1	15.772 1	15.669 2	19.077 8	Reject

Based on the procedure introduced by Pesaran et al. (2001).

5.2 The Short- and Long-Run Results

In the presence of $I(0)$ and $I(1)$ variables, ARDL model provides the best fit. Table 6 shows the estimation results of our ARDL model. The coefficient of bank loans is positive and statistically significant in both short- and long-run. This implies that bank loans disbursed to tourism sector has contributed to economic expansion of the North Cyprus economy. This translates that these loans to the tourism sector especially to tourism-related businesses such as investment in the hotel industry, restaurant businesses, tour and guide start-ups and other tourism-inclined investments are all important to the expansion of the small island's economy. In comparison with the extant literature, Ahmad (2015) and Alola et al (2019) are among the studies that highlight the role of financial supports in form of moderate interest rate, exchange rate, and other financial tool desirability in expanding tourism investments, which in turn spur economic growth.

In addition to tourism-related roles in economic growth, the result in Table 6 further narrates that the intensity of capital investment (ratio of capital investment to real GDP i.e., $LIGDP$) and human capita (ratio of total number of students in vocational and technical high schools to total population i.e., $LSENR$) have a positively significant contribution to economic expansion of the tourism island destination. Specifically, a 1% increase in both $LIGDP$ and $LSENR$ respectively spur economic expansion of Northern Cyprus by 0.210% and 0.144% in the end, and 0.120% and 0.082% in the short run. The economic intuition for this observation is the investments in both human and technological advancement in the country are important dimensions to boost the country's economy in addition to the significant of tourism industry development. There is semblance of this result in the extant studies (Aslan, 2014; Bezić et al., 2017;

Babatunde, 2018). Specifically, like the case of North Cyprus, Babatunde (2018) affirmed that government spending on health infrastructure and education spur growth in Nigeria. However, economic growth in the island state is notably slowed down by the LLABR which stands for the rates of growth in the labour force (n), technological progress (g) and depreciation rate (δ) in the short- and long-run.

Table 6: ARDL estimation results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LRGDP (-1)	0.441***	0.059	(7.475)	0.000
LTLOAN	0.324***	0.041	(7.768)	0.000
LIGDP	0.210***	0.053	(4.039)	0.000
LLABR	- 0.312***	0.035	(-8.729)	0.000
LSENR	0.146***	0.029	(5.031)	0.000
YEAR80 ^a	- 0.126***	0.040	(-3.085)	0.004
R-squared	0.917			
Schwarz criterion	74.774			
Durbin-Watson stat	1.713			
S.E. of Regression	0.032			
Residual Sum of Squares	0.036			
F-statistic	575***			0.000
Diagnostic Tests				
Serial correlation LM test	0.778			0.378
Functional form test	0.049			0.944
Normality test	0.757			0.685
Heteroskedasticity test	0.707			0.496

*, ** and *** denote statistical significance at 1, 5 and 10 percent levels, respectively.

Notes:

^a A dummy variable is added to control for the structural break in North Cyprus economy in the year 1980 due to a military takeover in Turkey. The 1980 military intervention promoted a new economic regime.

Diagnostic tests are also conducted to test the validity of the model. The outcome of tests for serial correlation, functional form specification, normality and

heteroskedasticity suggest that there are no issues with the model as displayed in the lower part of Table 6.

Moreover, in Table 7, short-run coefficients as well as error correction term are reported. The negative and statistically significant error correction term indicates that the dependent variable converges by an annual speed of 55.8 percent towards its long-term equilibrium level. In other words, 55.8 percent of the deviations from long run equilibrium in real GDP per worker is corrected toward equilibrium annually through a series of partial short run adjustments.

Table 7: Short-run coefficients and conditional error correction ARDL model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Δ LTLOAN	0.181***	0.031	(5.816)	0.000
Δ LIGDP	0.120***	0.029	(4.037)	0.000
Δ LLABR	- 0.175***	0.024	(-7.310)	0.000
Δ LSENR	0.082***	0.02	(4.067)	0.000
YEAR80	- 0.070****	0.021	(-3.238)	0.003
ECM (-1)	- 0.558***	0.059	(-9.461)	0.000
R-squared	0.752			
Schwarz criterion	74.774			
Durbin-Watson stat	1.713			
S.E. of Regression	0.032			
Residual Sum of Squares	0.036			
F-statistic	21***			0.000

*, ** and *** denote statistical significance at 1, 5 and 10 percent levels, respectively.

5.3 Granger Causality Outcome

As the last step of empirical analysis, Granger-causality tests are carried out to detect the direction of causality between the variables, as well as short-run dynamics around the long-run co-integration relationship. The results in Table 8 suggest that there is

unidirectional causality from tourism sector bank loans to economic growth. It should be mentioned, however, this relationship only exists in the long run. In other words, bank loans do not show any causal impact on North Cyprus economic growth in the short-run. This finding holds even after including deterministic trends in the model.

Table 8: Granger Causality / Block exogeneity Wald test results

Without Deterministic Trend						
Dependent Variables	Short run				Long run	
	Δ LRGDP	Δ LIGDP	Δ LTLOAN	Δ LLABR	Δ LSENR	ECM_{t-1}
Δ LRGDP	-	0.213 (0.646)	2.316 (0.137)	1.188 (0.283)	1.944 (0.172)	- 2.849*** (0.007)
Δ LIGDP	0.841 (0.365)	-	0.767 (0.387)	1.022 (0.319)	0.0003 (0.985)	1.514 (0.139)
Δ LTLOAN	0.456 (0.504)	0.020 (0.887)	-	1.460 (0.235)	0.081 (0.776)	- 0.857 (0.397)
Δ LLABR	0.103 (0.749)	0.145 (0.705)	1.155 (0.290)	-	0.054 (0.817)	2.403** (0.022)
Δ LSENR	1.535 (0.224)	7.127** (0.011)	0.992 (0.326)	3.098* (0.087)	-	-2.138** (0.039)

With Deterministic Trend						
Dependent Variables	Short run				Long run	
	Δ LRGDP	Δ LIGDP	Δ LTLOAN	Δ LLABR	Δ LSENR	ECM_{t-1}
Δ LRGDP	-	0.099 (0.754)	4.070* (0.051)	1.171 (0.286)	2.737 (0.107)	-2.610** (0.013)
Δ LIGDP	0.955 (0.335)	-	0.010 (0.918)	0.636 (0.430)	0.222 (0.640)	2.376** (0.023)
Δ LTLOAN	0.486 (0.490)	0.066 (0.797)	-	2.163 (0.150)	0.451 (0.506)	-1.667* (0.094)
Δ LLABR	0.079 (0.779)	0.031 (0.859)	3.390* (0.074)	-	0.529 (0.471)	2.910*** (0.006)
Δ LSENR	1.726 (0.197)	7.201** (0.011)	4.048* (0.052)	4.938** (0.033)	-	-3.319*** (0.002)

*,** and *** denote statistical significance at 1, 5 and 10% levels, respectively.

Chapter 6

SUMMARY AND CONCLUSION

This study examines the causal link between the disbursement of bank loans to the tourism sector and economic growth in North Cyprus using annual time series data for the 1977 to 2016 period. An error correction model is developed for the augmented version of the Solow growth model. Then, the relationship between the variables in the model is examined by using a co-integration method. The findings suggest that bank loans to the tourism related activities and economic growth show a co-integration relationship as perfectly captured in Figure 1. More specifically, our results point out that while bank loans to the tourism sector stimulate economic growth in the short run, and more effectively in the long run. Additionally, the impact of the intensity of fixed capital investment and human development on the economic rejuvenation of the island nation state is significantly positive in the short- and long-run. Considering the desirability of the aforementioned results, there are useful policy dimensions from the study for the government and tourism stakeholders.

Albeit the writing on the commitment of the travel industry to monetary development versus the travel industry drove development speculation has been broadly investigated, up until now, restricted consideration has been paid to the particularity of the job of the travel industry related credit or monetary incitement in financial development. This thesis looks at the short-run and since quite a while ago run connections between bank advance distributions to the travel industry area and

monetary development in North Cyprus. We fundamentally determine exact conditions for co-joining and mistake amendment models by expanding the first Solow development model. The experimental discoveries recommend unidirectional causality from advances dispensed to the travel industry area to monetary development in North Cyprus for the period under examination. Furthermore, we show that travel industry related credit, human and innovative progression all prod financial development in the short-and since quite a while ago run. These discoveries' principle strategy suggestion is that drawn out corresponding approaches in the homegrown financial framework can build admittance to monetary hotspots for the travel industry endeavours and, therefore, advance the travel industry drove financial development, particularly in little the travel industry subordinate economies where capital sources are scanty.

As previously mentioned, this thesis was aimed at conducting empirical analyses using recent advancements in methodologies in the discovery of the determinants of economic growth in the Turkish Republic of Northern Cyprus. This chapter is primarily concerned with summarizing the contents of the entire thesis and presenting a general conclusion.

The second chapter involved an intense literature review that accessed the relationship between tourism development and economic growth in international communities, tourism in Small Island developing states, and different channels of economic growth as induced by tourism. Empirical and theoretical developments in available literature were surveyed and in general, it was observed that the relationship between theory and certain studies of empirical origin in explaining the growth of economies is relatively poor- thus in layman terms, 'the poor get poorer, while the rich get richer' and this is

called non-convergence. This opposes models of the neo-classical era that suggest that poorer countries tend to grow at a faster rate due to their level of income which apparently is at steady-state, these models, regardless of criticisms have contributed positively as regards to policy implications for a few developing countries. Evidence based research suggested that trade policies, government investment policies, education policies and most importantly, human capital, generated better indications for the growth of economies in developing countries.

The succeeding chapter which was the third involved a background study of the island of Northern Cyprus. Historical and tourism backgrounds of this state were assessed, with the educational system, casino structure and banking system being assessed historically as well. There was maximum focus on economic policies, performance and macroeconomic indicators. The island of Turkish Cyprus had overcome a variety of challenges in order to achieve a relatively advanced socio-economic environment. The encouragement of the private sector facilitated rapid growth and this was evident when the important forces behind the achievements in the economic sphere of the country were assessed. Other factors include the highly educated human capital that is available, socio-political stability reflecting a matured democracy and the last but not the least, was that a long-lasting heritage was left by the colonial rule i.e., the British Judicial system and administration for the civil service.

Chapter four began with the establishment of the framework of research and model for this thesis. The tests of research approaches evaluated include unit root tests and co-integration tests. As previously mentioned, the approaches used in research involved the utilization of the extended version of the original Solow growth model. While the original model involves the explanation of exogenous factors as it relates to economic

growth, the extended modified Solow model takes into consideration endogenous factors.

The neo-traditional development models - the Solow and the Augmented Solow were examined in a period series setting by using multivariate time series procedures. The observational outcomes have shown that solitary the Augmented Solow model was reliable with yearly time series information. The Solow model, then again, was found erroneously indicated, because of discarded variable predisposition. The physical and human resources collection rates alongside the pace of work development had both long haul and momentary consequences for per capita development and agreed well with the expectations of exogenous development model.

Chapter five involved an in-depth discussion of preliminary estimations revealing correlation matrices between available matrices. It also gave an all-encompassing rendition of the Augmented Solow development model where transparency and public foundation intermediaries were added by utilizing progressed time series strategies to decide if Cyprus' exchange and public speculation arrangements added to the financial development. The discoveries affirmed that transparency and public foundation were inconsequential and conflicting. This suggests that these factors had no impact on the Cypriot monetary development. All in all, financial development in Cyprus was not fuelled by transparency and public foundation. This prompted further examination to discover what different variables could more readily invigorate financial development.

6.1 Policy Perspectives

Our results have important policy implications for small economies with reliance on tourism as one of the main sectors of their economy. Central planners in these

economies should try to channel resources allocated for tourism sector development as much as possible through banks into the economy. The rationale is to increase access to financial sources for business enterprises active in the tourism sector. Additionally, intermediation by banks can reduce the costs of acquiring and processing information about projects and therefore increase the efficiency of resource allocation. This is in line with the discussions of Kubickova & Li (17) about the critical role of the governments in tourism-dependent economies in addressing market failures.

On a broader perspective, the results highlight the importance of complementarity among the policies which are designed to target the development of tourism sector. Proactive policies in the domestic banking systems can promote real economic growth by increasing the supply of bank loans to tourism sector projects. An example of such policies is a reform in the banking sector with the main objective of increasing their intermediation activities. The leading sectors in the economy can be recognized by the government, and the financial resources can be directed toward these sectors through commercial banks. Eventually, these reforms can support sustainable investments in the productive sectors of economy.

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