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CAUSALITY RELATIONSHIP BETWEEN TOURIST ARRIVALS AND EXPORT: ENPERICAL EVIDENCE FROM SRI LANKA

M.R.S. Mudunkotuwa

Faculty of Humanities and Social Sciences, Colombo International Nautical & Engineering College (CINEC),

Colombo, Sri Lanka

mrsmudunkotuwa@gmail.com.

Tourism has been recognized as a dominant industry in Sri Lanka since it plays an imperative role in the economy. The objective of this research is to test the causality between tourist arrivals and export of goods and services. The main purpose of this study is to identify the influences of exports of goods to the attraction of tourist to the relevant economy. The study uses number of tourist arrivals and real export of Sri Lanka from 1976-2013. The result of Johansan co-integration test shows the existence of one co-integrating equations. Vector Error Correlation (VEC) modal was applied since co-integration test reveals that existence of the long run relationship between variables. Furthermore diagnostics tests for the error correction model were confirmed that normality distribution of residual. Tourist arrivals forecasting modal has been estimated. Granger causality test reveals that, uni-directional causality is running from tourist arrivals to export of goods and services. Further it can be seen changes and innovations and developments in Real export was contributed the considerable portion in variation in tourist arrivals in Sri Lanka according to the variance decomposition. This analysis provides guideline for policy makers to create new policies which affecting the development of the tourism sector with collaboration of export of goods and services.

Keywords: *Tourist arrivals, Real Exports, Co-integration, VECM, Causality*