Chapter 4

An Economic Analysis of the Evolution of the Tourism Sector in Bahrain

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ABSTRACT

This chapter examines the evolution and the effects of tourism on the main economic indicators in Bahrain. Results show that, overall, the tourism sector is growing even though with some periods of disruption. However, the sector seems to be operating beneath its potential as can be seen from its concentration on interregional arrivals. Results show that tourism receipts are still much below the level of some countries in the region. However, the contribution of tourism receipts to GDP remains clearly above international average levels, while its contribution to exports is slightly above the average. In addition, the industry relies primarily on expatriate labor for employment. Results also indicate that the levels of investment and government spending remain relatively low in comparison to some countries in the Gulf. Given the great potential of the country, better results could be attainable if the country shows firm commitment to develop this sector.

1. INTRODUCTION

Nowadays, tourism is considered one of the most important sectors. It represents the pillar of economic activity in many countries (Brau et al., 2007). The importance of tourism stems from its huge impact on the entire economy. Tourism generates foreign currency earnings (Roe et al., 2004), stimulates entrepreneurship (Nissan et
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al., 2010), contributes to the development of infrastructure (Verbeek et al., 2011), and generates tax revenues permitting greater government spending (Forsyth et al. 2007). Besides, tourism gives impetus to national income and employment since it allows an increase in investment opportunities and in consumption of goods and services (Archer and Fletcher, 1996; Tooman, 1997).

In addition, there are extensive and positive linkage effects between tourism and other economic sectors, such as food manufacturing, handicraft, catering, transport, communication and construction (Cai and Leung, 2004). At the same time, the multiplier effect of the tourism industry is important, in the sense that the increase in tourism production results in a dynamic mechanism and an increase in the activities of other sectors (Simoni and Mihai, 2012).

The studies of the World Tourism Organization (UNWTO) show that tourism is a fast-growing industry. In 1990, 425 million tourists from different countries of the world spent around US$ 230 billion (Ledesma-Rodriguez et al., 2001). In 2008, those figures amounted respectively to 922 million tourists and US $994 billion. In 2020, the number of tourists and the revenues from this industry are expected to reach respectively 1.6 billion tourists and US $ 2 trillion (Werthner and Ricci, 2004).

Because of the numerous economic impacts of tourism, many countries gave special attention to the development of this sector. Bahrain is a country that has explicitly included tourism development as part of the strategy of economic diversification following the recent world-wide downturn in major commodity prices including oil and natural gas. Actually, Bahrain is endowed with various assets that would cause a high development in the tourism activity. However, the existence of facilities, cultural attractions and favorable climate will not automatically induce the growth of this sector in a particular country (Lafferty and Fossen, 2001). Different other issues are important, while the development of tourism industry is crucial for Bahrain. This has been explicitly mentioned and emphasized in the country’s diversification and development policies for the year 2030.

This chapter focuses on the evolution of the tourism sector in Bahrain and how this sector can potentially be fully developed for creating employment, output and income in this island nation. The chapter is structured as follows. Section 2 explores the relationship between tourism and the national economy, both in theory and in previous studies. Section 3 examines tourism supply and tourism demand in Bahrain, and their respective growth. Section 4 analyzes the participation of tourism in Bahraini economy focusing on three main dimensions: the impact of tourism on GDP, commercial balance and employment. Section 5 presents some recommendations. Finally, section 6 summaries the main results and presents concluding remarks.
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