

The Effect of the Tourism Sector on Economic Growth in Indonesia

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Abstract: - This study uses descriptive quantitative methods to explain the influence of the tourism sector on economic growth in Indonesia in the 2006–2021 period. The Ordinary Least Squares (OLS) model is the model chosen to explain the influence between variables. The variables used in projecting the tourism sector in this study are foreign exchange receipts in the tourism sector, the number of workers in the tourism industry, and travel services. The results showed that foreign exchange receipts in the tourism and travel services sectors positively influence Indonesia's economic growth. Conversely, the variable number of workers in the tourism industry is detrimental to economic growth in Indonesia. Furthermore, it is known that foreign exchange receipts in the tourism sector and workers in the tourism industry significantly impact economic growth in Indonesia. Meanwhile, the increase in travel services in Indonesia has not been able to contribute to Indonesia's economic growth in the 2006–2021 time period.

Key-Words: - economic growth, foreign exchange receipts, labor, tourism, travel services, Indonesia.

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1 Introduction

Every country strives to achieve a high economy because a high economy is not only a means to reach welfare, but more from that, growth high economy is wrong one indicator to gauge success in the development area, [1]. Based on the World Bank classification, Indonesia is a developed country because it enters a country with an income medium to below in the Asian region. For medium countries that grow and have natural riches like Indonesia, industry tourism could be said to be a medium of development in an economy that doesn't need infestation too big, [2].

Indonesia, is a country where famous for the inherent slogan of Bhineka Tunggal Ika with an image from the zamin. Differences in religion, culture, and language, to state natural based on

location by geographical is a diamonds that don't give priceless and a unique for Indonesia. So not surprised a few foreign and domestic travelers in droves make several places in Indonesia the desired destination they visit. That makes the Indonesian tourism sector still a topic interesting to discuss for discussion and research.

The results of the percentage of tourist destinations coming survey shows that more than half the percentage of tourists coming to Indonesia makes Indonesia the main tourist destination for vacation, while 38% come for business purposes—but although the main destination for tourists to come to Indonesia is business, most of them will make tourist visits at least capture the moment or buy fruits so that even though the main destination

is business but not closes the possibility of being interspersed with tours.

Sector Tourists provide a positive multiplier effect to sector others, for example, for sector accommodation, transportation, a micro and medium business activity that produces souvenirs, and culinary that can absorb power work many, so that reduce unemployment and increase income per capita. Indonesian tourism is not only a favorite by domestic tourists but also by travelers in foreign countries. This thing is seen from the reception of tourist international. Here is a reception tourist Indonesian international.

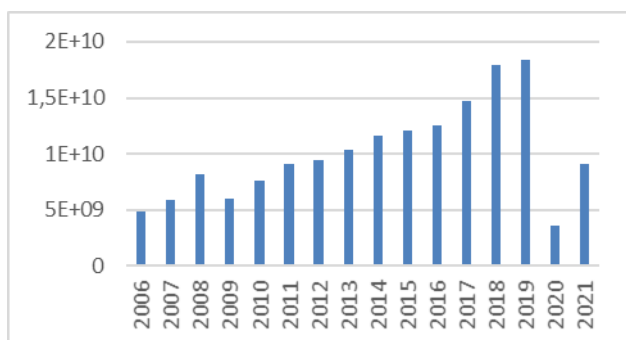


Fig. 1: International Tourism Receipts Indonesia 2006-2021

Source: World Bank (2022)

Fig. 1 shows that international tourism receipts in Indonesia experienced enhancement from 2010 to 2019. In 2020 global tourism receipts in Indonesia experienced a sharp drop because of the COVID-19 pandemic. With the existence of sector COVID-19 pandemic, tourism is very sector down because the mobility of tourists in foreign countries has become very limited. The study, in line with [3], found that international reception tourists positively affect the growth economy. However, it is compared backward with research conducted by [4], who found that the reception of tourists internationally does not take effect a growth economy.

One service journey necessary for travel travelers is a travel service, [5]. According to the World Bank, travel service covers goods and services obtained from something economy by the traveler for use alone during the visit good for destination business or private. In the middle of development, increasingly brief technology moment this travel service could with easily found in form of electronics. Studies, [6], find that the service journey is sector contributing services money enter most prominent for Indonesia. However, based on published data by the World Bank in Fig. 2, Indonesia's travel services are relatively experiencing a drop from 2016 to the year 2021.

Here served Indonesian travel service from 2008 to 2021.

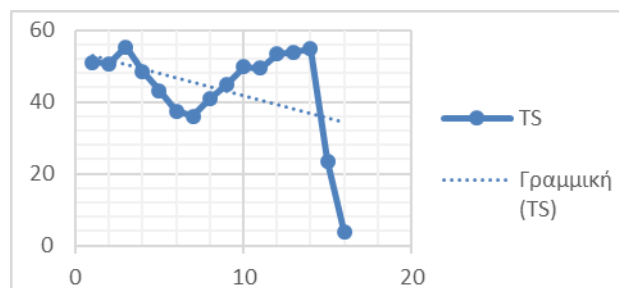


Fig. 2: Travel Service (% Exports) Indonesia 2008-2021

Source: World Bank (2022)

In addition to total service and reception, tourists are influential internationally in a growing economy. According to Slow Swan, power work is a significant factor in a growth economy. According to the theory of Growth Sollow, a growth economy functions as capital formation, [7]. Much research sees power or force work's influence on growth economics. Based on study, [8], the tourism industry's labor-intake contribution tends to grow more quickly than its GDP-formation contribution. This data suggests that the labor productivity of the tourism industry is not improving and may perhaps be trending worse. The low welfare of workers will be impacted by stagnant or declining worker productivity. The fact that the majority of workers in this industry have less education is probably a factor in the low labor productivity. Still, the literature has not much discussed related power work sector tourists to a growth economy, so this study uses the power work sector tourists to grow Indonesia's economy from 2006-2021.

2 Literature Review

The study [6], finds that sector tourism has become a dynamic sector and influences the segment economy. This thing implies that sector tourists affect the growth economy. The survey from [9] to [10] mentions that the impact of tourism on the economy is still ignored by economists and makers of policy and income tourists in the growth model economy.

Variable sector tourists could be seen from reception tourist international, energy work sector tourism, and travel services. Use variable based on a study from [3] found that reception tourist global takes to effect positive significant on a growth economy. The survey from [6], finds that the service journey is sector contributing services money enter

most prominent for Indonesia. And based on The Solow-Swan theory states that a growth economy functions from capital formation, [7].

Activity travelers overseas could increase backup foreign exchange, [11]. Enhancement backup foreign exchange show trust perpetrator market financial impact on stability score exchange. A stability score swap this capable increase the growth economy something a country. Traveler in to do journey no miss from travel service needs. Availability of travel services attractive interests travelers for a visit to something country. Besides that also capable increase the amount of power work. So that study this enter variable power work sector tourist to a growth economy. Solow's developed theory can describe how a country's growth economy grows, which Solow uses a combination of capital accumulation and power work, [12].

3 Research Method

The research method in this study is a quantitative descriptive method. The scope used in this study is Indonesia, with a period of 2006 - 2021, using secondary data sourced from the World Bank and UNWTO. The analysis method used is a regression analysis method for time series data using the OLS method. In the OLS regression model, the results of the linear regression model can be used as an estimation method if the model meets classical assumptions and is free from classical assumption tests, namely multicollinearity, heteroscedasticity, autocorrelation, and normality tests. If all these conditions are met, then the linear regression model is said to be BLUE (Best Linear Unbiased Estimation). The following equations can be compiled:

$$EG_t = \beta_0 + \beta_1 LNITR_t + \beta_2 TS_t - \beta_3 LNKP_t + e_t \quad (1)$$

Information:

- EG : Indonesia's Economic Growth;
- ITR : Tourism Sector Foreign Exchange Receipts (USD);
- TS : Travel service (% Export);
- KP : Labor force of the tourism sector (thousand inhabitants);
- β_0 : Constanta;
- β_1, β_2, \dots : Coefficient of each free variable; and e_t is an error term

4 Result

4.1 Classical Assumption Test

Normality tests are used in statistics to examine whether or not normal distributions accurately describe a data set and to estimate the likelihood that a random variable underlying a normally distributed data set will occur. The Jarque-Bera probability value was compared to the significant value of 0.05 to perform the normality test in this study. The data are regularly distributed if the value of the Jarque-Fallow is less than the significance value. The information is not normally distributed, on the other hand, if the Jarque-Fallow probability value is more important. The Fig. 3 displays the findings of the normalcy test conducted for this investigation:

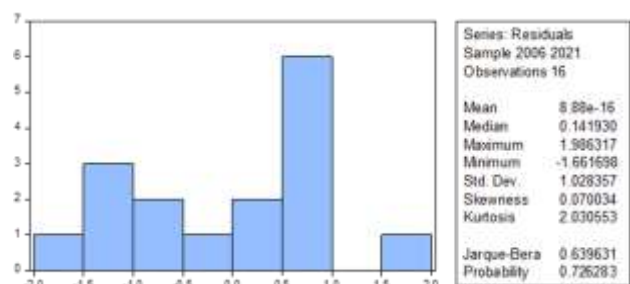


Fig. 3: Normality Test Result

Source: Processed using Eviews.10

From the Fig. 3, the results of the Jarque-Bera probability value (p-value) of 0.726283 were obtained compared to the significant value of 5 percent; it can be concluded that in this study because the Jarque-Fallow probability value was smaller than the significance value and showed that the normally distributed data.

Multicollinearity is also a linear association between independent variables that affect the dependent variable in a single regression. This study employed the Variance Inflation Factor (VIF) technique to identify multicollinearity. VIF > 10 demonstrates high colinearity, VIF 5 - 10 demonstrates medium colinearity, and VIF 1 - 5 demonstrates moderate colinearity are the standards utilized to demonstrate the presence of multicollinearity. This study's multicollinearity test results are displayed in the Table 1.

Table 1. Multicollinearity Detection Results

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
LNITR	0.499861	3185.452	1.183382
TS	0.000602	15.07397	1.253479
LNKP	0.173967	76.53172	1.133914

Source: Processed using Eviews.10

Table 1 show the results of multicollinearity statistics detection in this study, the VIF value in each of the variables of foreign exchange receipts in the tourism sector 1.183382, travel services (1.253479), and tourism sector workers (1.133914) were at a vulnerable $1 < 5$, meaning that the problem of multicollinearity in this study was low or in other words, there were no multicollinearity statistics problems that could damage the results of the estimated regression of the variables used.

When the variance of the variables relating to the disorder or residue differs, there is a breach of classical principles known as heteroskedasticity. In this study, the heteroskedasticity test was conducted using the Heteroskedasticity Test: Harvey method, which involved comparing the calculated Chi-Square value to the Chi-Square table value ($df = 3$, and a significance level of 5%) and the estimated Chi-Square probability value to the significance level. The analysis of heteroskedasticity in this study yielded the following results:

Table 2. Heteroskedasticity Test Results

F-statistic	1.231891	Prob. F(3,12)	0.3409
Obs*R-squared	3.767329	Prob. Chi-Square(3)	0.2877
Scaled explained SS	2.040178	Prob. Chi-Square(3)	0.5641

Source: Processed using Eviews.10

Heteroskedasticity testing in Table 2 showed that the calculated Chi-Square value of 3.767329 was smaller than the Chi-Square table value of 7.815, and the estimated Chi-Square probability value of 0.2877 was more significant than the significance value of 5 percent. Thus, it can be said that this study did not have the problem of heteroskedasticity.

Concerning the assumptions of the OLS method, one of the essential assumptions of the OLS method is the absence of serial correlations; in other words, there is no relationship between one nuisance variable and another, while autocorrelation is a correlation or relationship between one disorder variable and another. To test related autocorrelation problems, this study used the Breusch-Godfrey Serial Correlation LM Test method by comparing the calculated Chi-Square value with the Chi-Square table value ($df = 2$, and the significance value 5 percent) and comparing the estimated Chi-Square probability value with the significance value. The results of autocorrelation testing in this study are as follows:

Table 3. Result of Auto-Correlation Test

F-statistic	0.968441	Prob. F(2,10)	0.4126
Obs*R-squared	2.596165	Prob. Chi-Square(2)	0.2731

Source: Processed using Eviews.10

The autocorrelation test in Table 3 resulted in a calculated Chi-Square value of 2.596165, smaller than the Chi-Square table value of 5.591, and an estimated Chi-Square probability value of 0.2731 more significant than the significance value of 5 percent. Thus, it can be said that this study did not have autocorrelation problems.

4.2 Regression Estimation Results

Each number in the calculations—constants, coefficients, and test results—has a specific significance that may be analyzed and taken into account when making decisions. The following formula can be used to create a regression equation function in Eviews computations.

Table 4. Regression Estimation Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-30.95231	15.51482	-1.99502	0.0693
LNITR	1.973505	0.707008	2.79135	0.0163
TS	0.025524	0.024546	1.03986	0.3189
LNKP	-1.761646	0.417093	-4.22363	0.0012
R-squared	0.730941	Mean dependent var		4.8922
Adjusted R-squared	0.663676	S.D. dependent var		1.98253
S.E. of regression	1.149738	Akaike info criterion		3.32926
Sum squared resid	15.86278	Schwarz criterion		3.52241
Log likelihood	-22.63411	Hannan-Quinn criter.		3.33915
F-statistic	10.8666	Durbin-Watson stat		2.07632
Prob(F-statistic)	0.000976			

Source: Processed using Eviews.10

Through the results of regression estimation in the Table 4, the equations in the study can be compiled as follows:

$$EG_t = -30.965231 + 1.973505 LNITR_t + 0.025524 TS_t - 1.761646 LNKPt$$

In the equation, it can be concluded that foreign exchange receipts in the tourism sector (ITR) and travel services (TS) have a positive impact on economic growth (EG). This means that if the tourism sector's foreign exchange receipts increase by one percent, it will boost economic growth by 1.973505 percent, ceteris paribus. Similarly, if travel services increase by one percent, it will increase economic growth by 0.025524 percent, ceteris paribus. Meanwhile, tourism sector workers negatively impact economic growth, meaning that increasing by one percent will reduce economic growth by 1.761646 percent, ceteris paribus.

4.3 Significance Test

Table 4 shows that out of three independent variables, the variable of foreign exchange receipts of the tourism sector (ITR) and the variable of employees of the tourism sector (KP) significantly influence the variable of economic growth. This can

be seen through the t-statistical value of each of the foreign exchange receipts of the tourism sector (2.79135), and employees of the tourism sector (-4.22363) is greater than the value of the t-table which in this study is 1.78229, and if the probability value is smaller than the significance level of 5 percent. Meanwhile, the travel service (TS) variable has a t-statistical value (1.03986) smaller than the t-table value (1.78229) and a probability value higher than the significance value of 5 percent, meaning that travel service does not significantly affect economic growth.

Furthermore, the F-statistics in Table 4 show that the study's F-statistical value (10.8666) is greater than the F-table value (3.49). That is, at least one of the coefficients is not equal to zero, or it can be said that the independent variables affect together against the bound variable. Or in other words, the variables of foreign exchange receipts in the tourism sector, travel services, and tourism sector employees are significantly based on economic growth.

The value of the coefficient of determination (R²) of 0.730941 means that variations in independent variables (variables of foreign exchange receipts in the tourism sector, travel services, and tourism sector employees) can explain economic growth of 73.0941%, the remaining 26.9059% explained by other variables which don't include in this model.

5 Discussion

Both directly and indirectly related to job creation, the balance of payments, and the reduction of poverty in the nation, tourism supports GDP growth and helps to generate foreign cash, [13]. The creation of jobs, increased foreign exchange earnings, and expansion of the tourism sector are all benefits of tourism. Therefore, it has the potential to spur economic growth and, specifically, motivate other nations to strengthen their tourism industries, [14]. Robert Solow contends that labor, capital accumulation, contemporary technology, and yield (output) are the four fundamental sources of economic growth. Simply put, the Solow growth model establishes the relationship between labor and capital in terms of how they affect the income function (Y) helps drive productivity in the economy. Foreign exchange receipts are one of the capital channels used in this study, where foreign exchange receipts can create currency stability and interest rates, which can later influence investors' decisions in investing.

Furthermore, Keynes's theory explains that when interest rates are low, the preconceptions

about investing are higher. In line with this mechanism, the regression estimates in this study show that the increase in foreign exchange receipts in the tourism sector significantly affects the increase in economic growth. These results are also consistent with the research conducted by [15], on the positive and significant relationship between foreign exchange and economic growth.

Through receipts of foreign currency, the tourism industry has historically made a direct contribution to Indonesia's Gross Domestic Product (GDP), [16]. This is in line with research conducted by [17]. The amount of foreign exchange that the nation receives from this industry rises as more international visitors arrive and spend their money on lodging, dining, travel, and other tourist activities. By immediately raising national income, bolstering the domestic economy, and fostering economic expansion, this foreign exchange gain.

Tourism has a substantial multiplier effect in terms of the economic side. The economy of Indonesia is impacted in a cascading fashion by foreign tourists' purchases. For instance, hotels will use their earnings to pay their employees, make purchases from local vendors, and pay taxes to the government. As a result, those who receive those incomes will keep spending money, which will increase revenue and open up new job opportunities in sectors like trade, agriculture, and the creative industries.

Indonesia's economy, which formerly depended on specific economic sectors, can benefit from economic diversification. Nonetheless, diversification requires fundamental changes and must be considered in the context of a cohesive development strategy, [18]. By promoting tourism, the nation may shift its focus away from primary industries like mining and agriculture and toward the tourism industry, which has significant room for expansion. Long-term stability and a decreased chance of economic instabilities are both benefits of diversification.

In publications, [19], although sometimes the impact is not seen by the public, travel services are closely related to economic development. The participation and availability of travel services can create jobs, generate tax revenue, and create attractive tourist destinations. In America, travel services have a ripple effect that touches the lives of millions of people. Effective travel promotion leads to increased economic activity, high-paying jobs, and substantial tax revenues supporting critical public services. Furthermore, the [19], also explained that travel-related tax revenue is pure profit generated by visitors without requiring

additional public service fees or the intermediary of a public agency. Without tax revenue from travel, people will be required to shoulder a higher tax burden to pay for other general service-related costs. The results showed an insignificant positive relationship with economic growth, meaning that the availability of travel services can impact increasing economic growth. Still, travel services in Indonesia cannot be said to be efficient or have enough impact to improve the economy.

In order side, to bring in a variety of passengers and increase their duration of stay, it is crucial to diversify the travel experiences and products available. The development of several forms of tourism, including ecotourism, cultural tourism, adventure tourism, and others, is necessary. To further improve Indonesia's tourism attractiveness, innovative products and services must also be developed, including alluring travel packages, interesting activities, and one-of-a-kind experiences. The government's bureaucratic structure must be made easier to navigate to foster the development of diverse tourism products and experiences. The development of the tourism business may be constrained by some onerous rules and bureaucracy. Complex licensing procedures, murky regulations, and inconsistent policies might impede the growth and investment of tourism businesses. To support the expansion of Indonesia's tourism industry, regulatory reform initiatives and ease of doing business are required. Economic diversification is needed to increase regional revenues and increase economic growth, in addition to reducing poverty and creating job opportunities, [20].

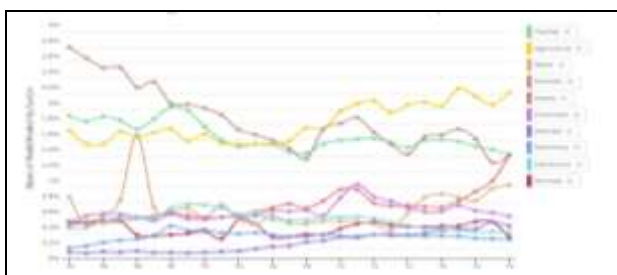


Fig. 4: Share of the Global Market does Indonesia Export

Source: *The Atlas of Economic Complexity, 2022*

On the other hand, based on Fig. 4, the natural resources sector is the sector that has the highest global market share exported by Indonesia. Meanwhile, the service sector is among the five lowest industries that contribute a market share to Indonesia, even though tourism is one of the sectors predicted to be a leading sector for Indonesia. For a developing country with natural wealth like

Indonesia, the tourism industry can be said to be a medium of economic development that does not require too much investment, [2].

The local economy gains from tourism by increasing labor mobility. The travel and tourism industry makes it simple for migrants to stay in touch with loved ones and make visits back home. Increased labor mobility benefits both the host nation and the country of origin. An increasingly significant source of revenue for developing nations is money that migrants send to family members back home, [21]. The quantity of workers in the tourism industry is another way in which Solow's theory of labor is described in this study. Contrary to Solow's hypothesis, the estimation results from this study reveal a substantial inverse link between employment and economic growth.

Even though the tourism industry has the potential to provide employment, the majority of tourism workers in Indonesia often hold low-wage, low-skill occupations. This may lead to income disparity between those employed in the tourism industry and those in other economic sectors. It might be difficult for tourism workers to make purchases and limit their ability to contribute to economic growth if they are paid an inadequate wage. In Indonesia, a large number of workers in the tourism industry have short-term or seasonal contracts. Most of them might only be employed during the tourist season or go through significant employment rate variations. For those who work in tourism, this may result in stable economic conditions and uncertain revenue. Dependence on temporary employment over the long term might impede social mobility and career advancement, which in turn can impair overall economic growth.

However, the tourism industry is typically one of those most impacted by economic shifts and crises. Workers in the tourism industry are at risk of losing their employment or seeing their pay reduced when visitor numbers are down. Travel restrictions and a drop in tourist demand during the COVID-19 pandemic posed serious problems for the tourism industry. The earnings of tourism industry workers and overall economic growth may suffer from a crisis of this nature.

It's important to keep in mind that, despite its drawbacks, the tourist industry in Indonesia continues to contribute favorably to the country's overall economic growth. Policies and initiatives aimed at worker empowerment, social protection, and skill upskilling for those employed in the tourism industry are required to reduce negative effects and increase beneficial contributions.

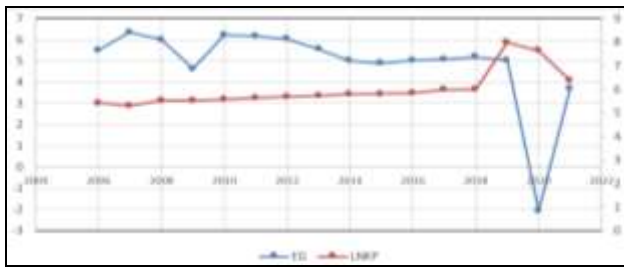


Fig. 5: The Relationship Between Labor in the Tourism Sector and Economic Growth
Source: UNWTO and World Bank

The data in Fig. 5 released by UNWTO and the World Bank can be seen as related to the movement between the labor of the tourism sector and economic growth. Through these movements, it can be seen that economic growth tends to fluctuate while the tourism sector workforce tends to increase slowly. The picture shows that in 2020 economic growth experienced an extreme decline while the decline in the tourism sector workforce was only 3,500 people. The decline in economic growth in 2020 was caused by the COVID-19 pandemic, which caused the global economy to experience a slowdown due to limitations in mobility and economic activity. Thus, instead of being a sector that contributes to increasing economic growth in the tourism sector, it creates additional costs due to revenues that tend to be stuck. Still, the government has a responsibility for providing subsidies for the affected tourism sector workers. In addition, the negative impact can illustrate that a high number of workers cannot fully guarantee an increase in economic growth; this is because the rise in the labor force of the tourism sector has not been accompanied by productivity and development that can increase the income of the tourism sector. Therefore, some questions arise about the effectiveness of labor in the tourism sector to the economy.

6 Conclusion

Foreign exchange receipts in the tourism and travel service sectors have contributed to increasing Indonesia's economic growth. However, the insignificant news of travel services shows that travel services cannot be maximized in Indonesia. Exports for services are still ranked in the bottom five, and it is known that Indonesia's highest exports are from the agricultural sector. COVID-19 caused the tourism sector to slump and created a loss of revenue for the tourism sector. Meanwhile, the workforce of the tourism sector cannot be said to be small. Thus, instead of encouraging economic

growth, the tourism sector workforce creates additional costs because the government is responsible for maintaining the stability and welfare of each community through various social assistance policies for affected workers. In addition, the tourism sector workforce may not be productive. It has not been an impact on economic growth postpositively impact.

6.1 Limitation

Travel service is one of several indicators used in this study. Several tourism indicators can still be used and further researched related to their contribution to the Indonesian economy, including the average length of stay and the number of tourism destinations. In addition, there has not been a deepening of explanations related to specific situations that have caused the tourism sector and the Indonesian economy to experience a decline, such as the global crisis that has hit several times and created limitations in various aspects of supporting the Indonesian economy.

Acknowledgment:

The regression estimates show that the variables of foreign exchange receipts and travel services have a positive relationship with economic growth. Meanwhile, the labor variables of the tourism sector hurt economic growth. Among the total three variables, two variables significantly influence economic growth: the variables of foreign exchange receipts for the tourism sector and the labor of the tourism sector. Based on these results, the variable of foreign exchange receipts for the tourism sector is consistent with Solow's growth model. At the same time, the workforce has effects that are contrary to the Solow model.

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Contribution of Individual Authors to the Creation of a Scientific Article (Ghostwriting Policy)

- Neli Aida made a research framework and collected literature reviews.
- Ghania Atiqasani proposes policy recommendations and wrote the research.
- Widia Anggi Palupi collects and processes research data.

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Conflict of Interest

An interesting phenomenon related to the estimated results is that the tourism sector's labor significantly negatively impacts economic growth. The results contradict Solow's growth model, which explains that labor has a non-linear positive impact on output. Thus, the topic related to the influence of the tourism sector workforce on economic growth is an exciting conflict that can be further examined. Nevertheless, the authors have no conflict of interest to declare.

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