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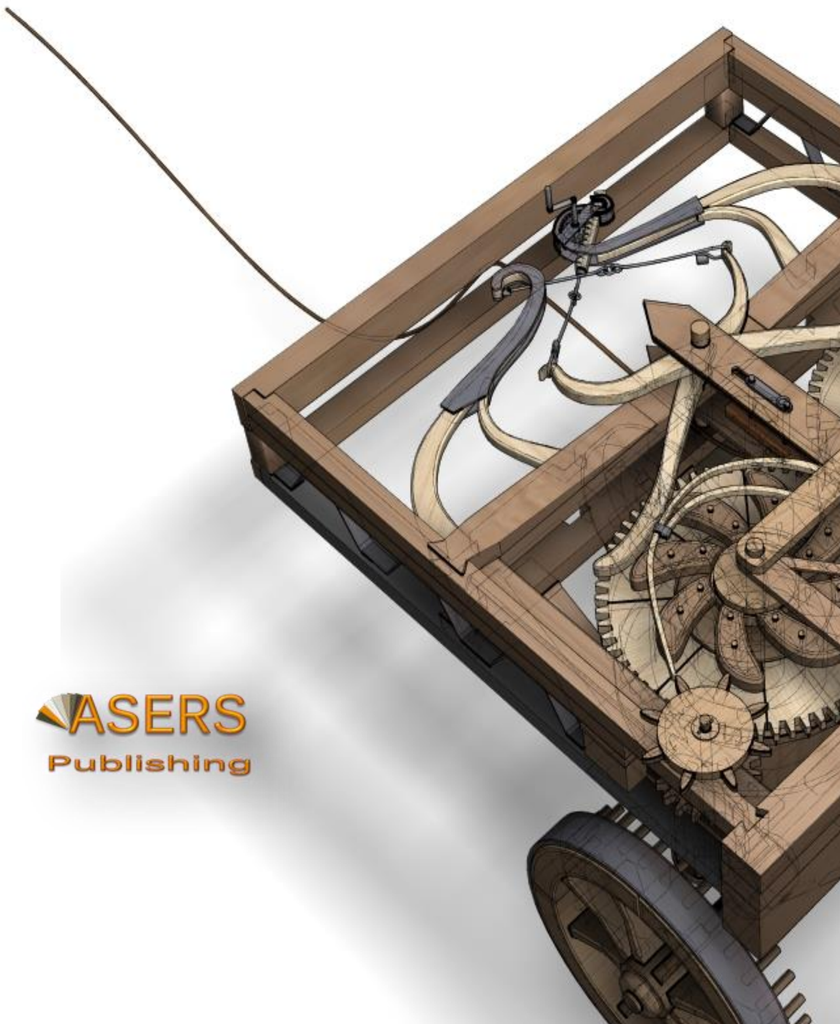

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Journal of Environmental Management and Tourism

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A Study on the Causality Relationship between Total Capital Increase, Foreign Investments, and Tourism Sector Revenues in Azerbaijan

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Abstract:

The causation link between foreign investments in Azerbaijan, the country's overall capital expansion, and the growth of the tourist industry is examined in this paper. The Granger technique was used to ascertain the causal connection. The World Bank provided the data set needed for the analytical step. The findings of the research conducted to ascertain the connection between total capital rises, foreign investments, and tourist revenues in Azerbaijan demonstrate that there is some causation. The study's findings indicate that in Azerbaijan, economic development and tourist revenue are related. In other words, as the economy develops, the tourist industry in this nation expands and generates more revenue. In addition, it is evident that the growth of the tourist industry in this nation is successful in luring foreign capital to this nation. The growth of the tourist industry has a direct impact on the rise in total capital rises, just as it does on luring foreign investment into the nation. In other words, the growth of the tourist industry is the primary driver of both domestic and international investments. It is acknowledged that causation exists in each of the three situations.

Keywords: foreign investment; tourism; revenues; Azerbaijan.

JEL Classification: O47; R11; Z32; L83.

Introduction

FDI, which stands for "foreign direct investment," is a type of investment that may help expedite the transfer of both tangible and intangible assets. Some examples of these types of assets include better managerial competence, cutting-edge technology, and innovative product concepts (Wang, 2009). It is also stated that an increase in the number of visitors would lead to an increase in the demand for hotels, which will lead to an increase in investments (Tang, Selvanathan, and Selvanathan 2007). However, research conducted by Banerjee, Cicowiez, and Gachot (2015), Hof and Blázquez-Salom (2015), and Stauvermann and Kumar (2017) indicates that in order for the tourism industry to flourish and remain viable, it is necessary to have access to capital, infrastructure, information, and global marketing and distribution. It should go without saying that one must have access to chains for this to be possible.

It was determined by Selvanathan, Selvanathan, and Viswanathan (2009) in India that these tourists play a significant role in increasing foreign direct investment in the tourism sector in order to improve the quality and quantity of tourism-related services. This conclusion was reached as a result of the findings of the study that took place in India. Taking into consideration the changes that were implemented in China after the 1970s, the research conducted by Chen (2010) has provided empirical evidence about the effects that foreign direct investment has had on the tourist sector in China.

Studies have been conducted in a variety of countries to investigate the link between the tourist industry and foreign direct investment (FDI). These studies were conducted in a variety of countries, including China (Tang, Selvanathan and Selvanathan 2007, Chen 2010), the United States of America (Sandford and Dong

2000), Austria (Daly, Stimson and Jenkins 1996), and South Africa (Daly, Stimson and Jenkins 1996), India (Selvanathan, Selvanathan, and Viswanathan 2012), Caribbean nations (Heese 2000, Snyman and Saayman 2009), and Caribbean countries (Willem and Nair 2006). On the other hand, Andergassen and Candela (2013) investigated the connection between foreign direct investment and tourism in less developed nations. Samim *et al.* (2013) investigated to determine whether or not there is a Granger causal link between tourism-related FDI in 113 different nations between the years 1995 and 2008. Khoshnevis Yazdi, Nateghian, and Sheikh Rezaie (2017) used data from 27 nations over the course of the period 1995–2014 in order to explore the influence that foreign direct investment (FDI), the official currency rate, and trade have had on international tourism.

It has been reported that the tourism sector is largely financed using foreign direct investment (Rajapakse, 2016). From this point of view, the causality between foreign investments, total capital increases in the country and the development of the tourism sector in Azerbaijan has been examined.

1. Literature Review

1.1. Economic Growth and the Tourism Sector

The direct economic benefits of tourism include creating foreign exchange, creating jobs, contributing to incomes and promoting development. Meanwhile, tourism creates indirect impact on economic sectors, improving infrastructure construction such as hotels, agriculture, handicraft production. It can also improve the condition of transport, services, financial facilities, cultural facilities, and health facilities, even narrowing income and employment inequalities between regions and helping alleviate poverty and inequality (Haiying 2020). The promotion of economic expansion ranks high on the list of priorities at the forefront of practically every nation's aspiration for the future. Because of this, the rate of economic growth is influenced by a wide variety of circumstances, whether good or negative (Huseynli 2022a).

When compared to costs in other parts of the economy, the initial step in growing tourism often involves much higher average costs. Luxury hotels and facilities must be available to enable modern tourism. At this point, a significant financial investment is necessary to create the necessary infrastructure. At this point in time, the country is unable to entice tourists with a large spending capacity. As a result, the ratio of capital to production is quite high. The second phase sees a minor reduction in the person-to-production ratio, which results in a slight decrease in the average cost as more visitors visit the location. During this time period, companies receive significant investment from outside as well as expertise and talent development. During the third step, the associated average cost increases once again as a result of increasing land costs, better levels of standard comfort, as well as increased communication and transportation expenses (Edwars 1982). Willem and Nair (2006) looked at the trade in services as a way to boost the amount of foreign direct investment (FDI) coming from Caribbean nations in the tourist industry. In their research published in 2012, Selvanathan, Selvanathan, and Viswanathan investigate the link between foreign direct investment and tourism in India.

The tourist sector is influenced in a variety of ways by the many policies that are in place since it is an integral component of the economic system. Among these are research on topics such as the growth of youth (Jakupova *et al.* 2022), the link between tourist experience and local product purchase behavior (Nguyen, Khai and Ngo 2022), and the influence of tourist experience on destination image (Suhud, Allan and Gaffar 2022). Through a macroeconomic point of view, international tourism is a contributor to the money that a destination receives from exports. This is particularly significant since most nations view investment in export-led growth as the most reliable path to long-term economic expansion and improved living standards. As a result, most of these economies place a significant emphasis on this aspect of their development goals (Nowak *et al.* 2007, Du, Lew, and Ng 2016).

1.2. Foreign Investments

The value of a nation's currency relative to the dollar can be considered large enough to have an effect on the volume of tourism from other countries (Bram 1995). Daly, Stimson and Jenkins (1996) conducted research in which they explored the political consequences for the long-term tourism industry growth in Australia and the role that foreign investment plays in this process. Indeed, facilities developed for the aim of tourism may help contribute to the growth of the surrounding community, and the creation of new employment or the maintenance of existing ones can help halt the decline of industrial or rural areas (Rodriguez, Florido and Jacob 2020).

Empirically developing a tourism-growth model that was an extension of Solow's (1956) research, Du, Lew, and Ng (2016) estimated their study using a cross-section of 109 nations to arrive at their conclusions. According to the findings of the research, investments made just in tourism do not seem to be adequate to foster economic development.

Sanford and Dong (2000) looked at the impact that tourism has on FDI and found some interesting results. FDI, as defined by Rajapakse (2016), is an investment that is analyzed in terms of assets and originates in a nation other than the one that will host it. In their research, Khoshnevis Yazdi, Nateghian, and Sheikh Rezaie (2017) underlined the need for nations to understand what motivates corporations to invest since foreign direct investment (FDI) helps to economic development and growth.

It is anticipated that foreign direct investment would assist developing nations in becoming more like developed ones by fostering the growth of tourism and boosting jobs. This is due to the fact that foreign direct investment (FDI) assists in meeting the rising demand for products and services in the tourist sector by providing the required infrastructure. Additionally, the increased demand in terms of transportation, food, and hotels that is caused by the tourist industry draws international investment (Strovic and Muslija 2018).

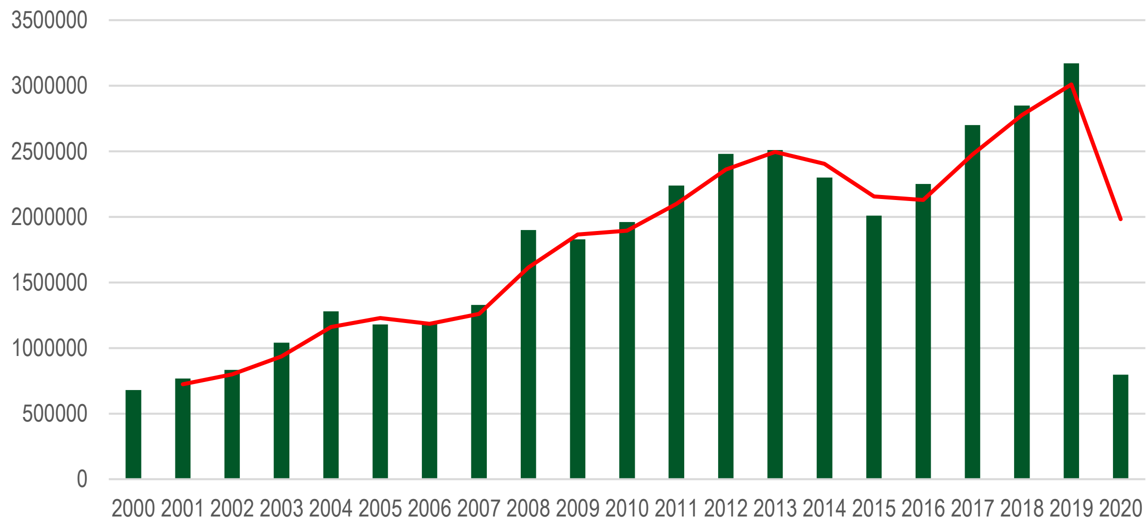
1.3. Tourism Sector Revenues

Foreign direct investment is acknowledged as an essential source of finance, and since the tourism sector needs substantial amounts of money, a causal relationship may be inferred between FDI and the number of tourists that visit a country. For this reason, business travelers have an indirect association with the tourism sector and foreign direct investments.

It is generally accepted that the tourist industry is a source of profits in foreign currency, an essential component that contributes to employment in the domestic labor market and overall economic development, and that the tourism industry is one that is open to economic expansion (Schubert and Brida 2008). In point of fact, if the COVID-19 pandemic had not had the negative impact that it did, it is projected that the tourism sector would generate 328 million jobs by the year 2022, which would mean that it would play a significant role to one in ten employment opportunities around the world. One of these job opportunities is sports in the wild (Chou 2013). The amount of people traveling from other countries might indirectly bring in foreign cash via the direct tourism industry. The expansion of a country's foreign currency reserves makes the process of economic growth operate more efficiently. Indirectly, tourism has the potential to generate a significant number of work opportunities (Holik 2016).

In 2000, tourism revenues amounted to US$68.00 million, or about 1.3% of gross national product. This amounted to about 681,000 tourists at that time, and about US$100 per person. In 2020, the income amounted to US$ 340.00 million, constituting 0.80% of the gross national product. Each visitor now spends an average of US$427 on a holiday to Azerbaijan, and about 796,000 tourists came to Azerbaijan in 2020 (WTO 2021). At first glance, when we look at the years from 2005 to 2020, it is seen that tourism revenues increased from 68,00 million USD to 340,00 million USD. But this statistic can be misleading. Because in 2010, this figure was recorded as 792.00 million USD. At the same time, expenditure per capita was $1,269 in 2016.

Figure 1. Tourists number, Azerbaijan, 2000-2020



Source: World Tourism Organization, 2021

Figure 1 shows the number of tourists coming to Azerbaijan between 2000-2020. There appears to be an increasing increase in general until the COVID-19 pandemic.

2. Research Methodology

2.1. Data Set

The statistics that were released by the World Bank served as the source for the information that was necessary for the analytical portion of the research. The time period covered by this data collection is 2000-2020. The Granger technique was used in order to conduct the analysis of these data, which were examined on a yearly basis. The primary objective of the research is to ascertain whether or not the expansion of the tourist industry in Azerbaijan has been effective in luring investments from outside the country. In order to accomplish this goal, the research incorporates overall gains in capital as well as economic expansion across the nation. Logarithmic values were used for each and every variable that was included in the analysis trench.

2.2. Analysis Method

The 21-year time span is accounted for in the data section of the research. The Granger analysis was performed using the Ewievs software. The information that was used in the research came from the World Bank. Logarithmic values were used for each and every variable. Variables that are taken into consideration include economic growth, earnings from tourism, foreign investments, and overall capital rises. The information is presented in monetary terms throughout.

The concept of stationarity means that the mean, variance and autocovariance of a series do not change in different time periods. It is important that the series be stationary in order to avoid false relationships between the series and to prevent the effect of a shock from being permanent. Different tests can be used for stationarity research. The most basic of these are the Dickey-Fuller and Augmented Dickey-Fuller Test (1979, 1981). If the basic hypothesis is accepted, the difference is taken to make the series stationary, if it is rejected, it is decided that the series is trend stationary. It should be noted that a model 24-year dataset consisting of tourism revenues, foreign direct investment and capital formation variables was analyzed for Morocco, South Africa and Tanzania from the African continent (Huseynli 2022b).

In order to forecast one time series based on another time series, the causality test of Granger is put into practice. Granger causation assumes that an independent Granger dependency is produced if the independent variable can be better estimated by using the previous values of both variables rather than only one dependent variable. This is the case if it is possible to better estimate the independent variable using the past values of both variables. If there is long-term cointegration between two variables, it is expected that there will be bidirectional or unidirectional Granger causality between the variables (Samimi *et al.* 2013, Satrovic and Muslija 2019).

2.3. Analyses and Results

It was checked whether the data used during the analysis were stationary from the level value. As can be seen from the table, our data are not stationary. In other words, it shows us that the H_1 hypothesis is valid in this process. In order for the analysis to be possible, the process of stabilization of the data was started after the results of this table. Vertical-Fuller test was used in this process.

Table 1. Level values of series

Variables		GDP		Tourism revenues		Foreign direct investment		Capital formation	
		t-statistics	Possibility	t-statistics	Possibility	t-statistics	Possibility	t-statistics	Possibility
ADF testing statistics		-2.221847	0.2055	-1.719238	0.4063	-1.047865	0.7148	-2.436537	0.1457
Test Critical Values	1%	-3.831511		-3.831511		-3.808546		-3.831511	
	5%	-3.029970		-3.029970		-3.020686		-3.029970	
	10%	-2.655194		-2.655194		-2.650413		-2.655194	

According to the findings of the vertical-Fuller unit root test, the level stationary values of the data are shown for Azerbaijan with error margins of 1%, 5%, and 10% (H_0: Series is not stationary, H_1: Series is stationary). Our hypothesis H_0 is not reason, and because of this, we reject it; nevertheless, H_1 is mean than reason, and because of this, we accept it.

As can be observed from the table, the final outcome is 0.05, which is higher than the numbers assigned to any of the three possible probabilities. This demonstrates that we should feel comfortable accepting the null hypothesis. That is to say, the data contained in the table do not remain constant throughout time.

The t statistical values are smaller than the test significance level at all points of significance for the variables that were used in the analysis, which included economic growth, tourism revenues, foreign investments, and total capital increase series. This implies that economic growth, tourism revenues, foreign investments, and total capital increase series are all less than the test critical values. reports that it does not have a steady position in nations. As a result, it is essential to achieve some level of data stability throughout this procedure. The discrepancies in the values of various series are compared and considered in order to keep the series stable. It wasn't until the second-order difference was calculated that the stationarity threshold was finally obtained. Table 2 displays the stationary states of the series for your reference.

Table 2. Second difference values of series

Variables		GDP		Tourism revenues		Foreign direct investment		Capital formation	
		t-statistics	Possibility	t-statistics	Possibility	t-statistics	Possibility	t-statistics	Possibility
ADF testing statistics		-3.928386	0.0092	-2.835607	0.0442	-5.703759	0.0002	-4.980644	0.0012
Test Critical Values	1%	-3.886751		-2.699769		-3.857386		-3.886751	
	5%	-3.052169		-1.961409		-3.040391		-3.052169	
	10%	-2.666593		-1.606610		-2.660551		-2.666593	

Table 2 shows the quadratic differences of the variables of Azerbaijan for the 2000 - 2020 periods and their values formed by making them stationary ($p \leq 0.05$). Because the *t* statistical value in this table is higher than the test significance level at each and every significance level, it may be deduced that our data are stable. The VAR model was generated by using the level values of the variables, and the appropriate value numbers for these series were recognized with the assistance of Akaike (AIC), LL, LR, FBE, SC, and HQ information criteria. In addition, the level values of the variables were used to establish the VAR model. Table 3 displays the findings of the study conducted with the proper time lag.

Table 3. Appropriate Delay Length

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-38.61354	NA	0.001769	5.013357	5.209408	5.032845
1	29.93624	96.77615*	3.92e-06	-1.168969	-0.188718	-1.071530
2	50.88535	19.71681	3.29e-06	-1.751217	0.013234	-1.575827
3	101.7547	23.93853	2.35e-07*	-5.853497	-3.304845	-5.600156
4	1560.250	0.000000	NA	-175.5588*	-172.2259*	-175.2275*

According to the test results, the most suitable lag length was determined as four. The number that has the most stars next to it shows the duration of delay that is ideal. In light of the findings of the Granger test, an attempt was made to establish whether or not there was a causal connection between the variables that were considered throughout the research. The results that are suitable for Granger causality analysis are given in Table 4.

Table 4. Results of the Granger Causality Test

Hypotheses	F-value	Probability value (p)	Decision at 5% significance level
There is a causal relationship between economic growth and tourism revenues.	9.600638	0.0082	Acceptable
There is a causal relationship between economic growth and foreign investments.	4.903462	0.0861	Denied
There is a causal relationship between economic growth and total capital increase.	2.139034	0.3432	Denied
There is a causal relationship between tourism revenues and economic growth.	5.743462	0.0566	Denied
There is a causal relationship between tourism revenues and foreign investments.	7.161425	0.0279	Acceptable
There is a causal relationship between tourism revenues and total capital increase.	6.645504	0.0361	Acceptable
There is a causal relationship between foreign investments and economic growth.	3.376430	0.1848	Denied
There is a causal relationship between foreign investments and	1.500514	0.4722	Denied

Hypotheses	F-value	Probability value (p)	Decision at 5% significance level
tourism revenues.			
There is a causal relationship between foreign investments and total capital increase.	4.281570	0.1176	Denied
There is a causal relationship between total capital increase and economic growth.	1.726961	0.4217	Denied
There is a causal relationship between total capital increase and tourism revenues.	5.636118	0.0597	Denied
There is a causal relationship between total capital increase and foreign investments.	0.800787	0.6701	Denied

The results of the analysis conducted on Azerbaijan to determine the relationship between foreign investments, total capital increases and tourism revenues in this country show us the existence of causality in some, if not all, of the variables. The test result shows that there is a relationship between economic growth and tourism revenues in Azerbaijan. In other words, economic growth causes the tourism sector to grow in this country and the income from a sector to increase ($p < 0.05$). In this process, the H_1 hypothesis is accepted. As another indicator of the analysis, it is possible to show the causality relationship between tourism revenues and foreign investments. Namely, the development of the tourism sector in this country is effective in attracting foreign investments to this country. At the same time, just as the development of the tourism sector is effective in attracting foreign investments to the country, it also affects the increase in total capital increases within the country in the same process. In other words, the development of the tourism sector is the Granger cause of the total capital increase. In all three cases, hypothesis H_1 is accepted ($p < 0.05$). It is understood from the table that other variables do not create any causal relationship among themselves.

3. Discussion and Conclusion

This study, conducted over Azerbaijan, investigates the causality relationship between foreign investments, total capital increases in Azerbaijan and the development of the tourism sector. In order to measure the overall effect of all these variables, economic growth is also included in the analysis. The Granger method was used in the study to determine the causality relationship.

The necessary information for the research may be found on the World Bank's website. Some evidence of a causal link was found in the findings of an investigation carried out in Azerbaijan with the objective of determining the nature of the ties that exist among total capital rises, total investment, and income from tourism. The findings of the study indicate that there is a link, or a causal relationship, between the expansion of Azerbaijan's economy and the development of its tourist industry. In other words, the expansion of the tourist industry in this nation and the rise in money generated by this sector are both influenced by the expansion of the economy. In addition, it is clear that the growth of the tourist industry in this nation is having a positive impact on the ability of this country to entice investments from outside the country. Just as the development of the tourism sector is effective in attracting foreign investments into the country, it also shows its own effect on the increase in total capital increases. In other words, the development of the tourism sector is the Granger cause of the increase in total capital and foreign investments. Similar results were obtained in some of the studies conducted in a similar way.

A study by Dwyer and Forsyth (1994) in Austria states that the tourism industry is strongly dependent on foreign direct investment worldwide, but its impact has been neglected. Selvanathan and Viswanathan (2009) As a result of the research conducted in India, it was found that foreign direct investment has a one-way causal relationship with tourism. According to Samim *et al.* (2013), a cointegration relationship between the variables in the long run was revealed as a result of their study among tourism related FDI. In all three cases in this study, the existence of causality is accepted.

When looking at the issue of revenues in the tourism industry from a new angle, doing research on the future of tourism with the addition of the tourist experience may play a significant part in the solution. The experience that a company provides its customers has grown so critical in recent years that it is now considered to be the new sustainable difference, a new source of sustainable competitive advantage, and a new danger for businesses that do not adapt to meet its demands (Shaw and Ivens 2002). There are studies on how to produce a positive experience for customers that may be found in the published research (Huseynli 2021a, b).

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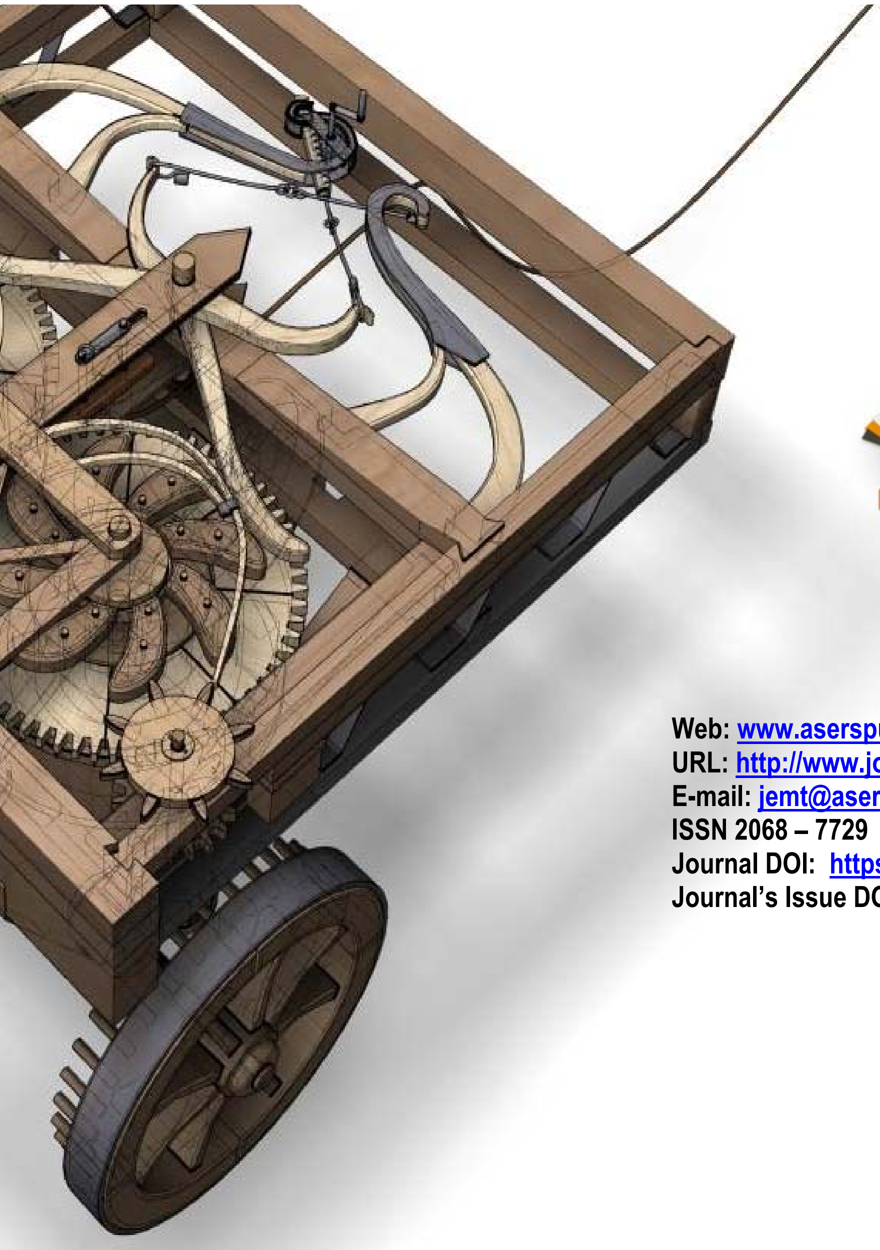

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