ABSTRACT

This study investigated the role of tourism in the Indonesian economy to find whether tourism makes a positive impact on economic growth in Indonesia, both in short-run and long-run, and thus to contribute evidence to the ongoing debate about the Tourism-Led Growth (TLG) hypothesis. This study examined the relationships between international tourist arrivals, the real GDP, and the real effective exchange rate in the case of Indonesia in the quarterly data from 2000:Q1-2014:Q4. Using the co-integration test both in Engle Granger and Johansen Co-integration tests, it was found that long run relationships among variables exist. However, when the Vector Error Correction (VEC) for testing the causality was applied, Tourism-Led Growth (TLG) in the case of Indonesia does not exist. The relationship is unidirectional from output-led tourism

Keywords: *tourism, Vector Error Correction Model, Granger causality, economic growth*