

Tourism Sector Development and Economic Growth in OIC Countries

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This study aims to examine the impact of the tourism sector on economic growth in 53 OIC member countries. This study uses 4 independent variables namely population, open trade, inflation, and international tourism receipts. The data used is annual panel data from 2010 to 2021, obtained from SESRIC OIC. The analysis method applied in this study is static panel data regression. The results showed that all independent variables, such as population, open trade, inflation, and international tourism receipts, have a significant influence both simultaneously and partially on the economic growth variable (GDP). The tourism sector stimulates other industries through direct, indirect, and induced impacts, contributes to job creation, and causes positive economies of scale. In addition, investments in the tourism sector can positively impact tourism performance indicators such as travel and tourism GDP, international tourism receipts, and international tourist arrivals.

Keywords: Tourism Sector; Economic Growth; OIC; Panel Regression

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3.1.

INTRODUCTION

Economic growth is the increase in national income or production in a country from year to year. To measure economic growth in a country, it can be seen from the level of the country's gross domestic product (GDP). (Simanungkalit, 2020). Todaro (2000) states that the availability of products or services for citizens is a manifestation of increased economic growth. So that economic growth can be interpreted as an increase in production in the economy, which is reflected in an increase in national income (Jhingan, 2018). (Jhingan, 2018). Currently, economic growth has a very important role as a strategic factor because it is considered as an assessment of the economic success of a country or region (Sukirno, 2001). (Sukirno, 2001). Many countries are trying to increase the rate of economic growth of

their country by increasing output continuously through the availability of capital goods, technology and human resources. (Simanungkalit, 2020).

The Organization of Islamic Cooperation (OIC) plays a significant role in bringing together its member states to ensure and protect common interests in various fields, including economic, social, and political. The OIC is now the second-largest intergovernmental organization after the United Nations (UN) in terms of the number of members, involving 57 countries, the majority of whose populations follow the Islamic religion (Tamimah et al., 2019). The economic growth of OIC member countries increased as a result of the post-pandemic economic recovery. This economic recovery reflects the collaborative efforts and policies taken by OIC countries to address the economic impact caused by the COVID-19 pandemic.

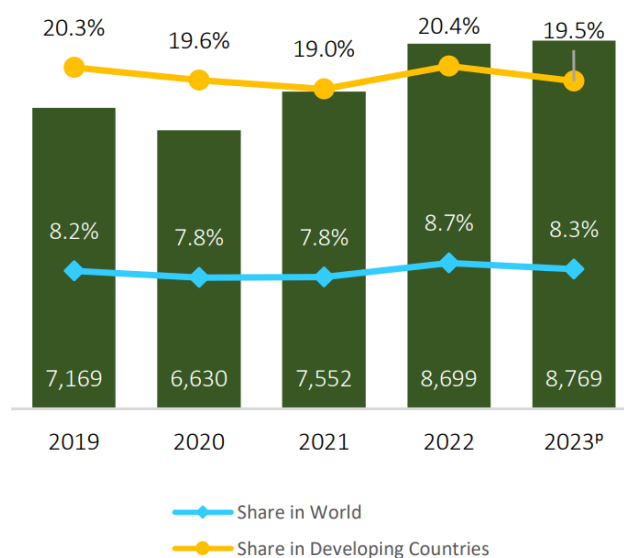


Figure 1. Total GDP and World Share of OIC Countries (at current prices)

Source: SESRIC (2023)

Note: In US Dollars (Billion)

At current prices, the total GDP of OIC countries, contracted by US\$ 6.6 trillion in 2020 due to the COVID-19 pandemic, recovered to US\$ 7.6 trillion in 2021 and surpassed pre-pandemic levels in 2019. By 2022, the figure increased by 15.2% to US\$8.7 trillion as a result of the ongoing gradual recovery. With an economy of this size, OIC countries as a whole accounted for 8.7% of global GDP in 2022, up 0.9 percentage points from the previous year. The share of OIC countries to the total GDP of developing countries also increased from 19.0% in 2021 to 20.4% in 2022, indicating that the current output recovery is faster in OIC countries than the rest of the world. However, this

situation is expected to reverse in 2023 given the expectation of limited output growth in the OIC group of countries.

The growth of Gross Domestic Product (GDP) of Organization of Islamic Cooperation (OIC) member countries is significantly linked to economic indicators that support development, and one of them is the tourism sector. As many OIC countries already have the basic infrastructure and environment that supports the needs of Muslim travelers, they can benefit the most from the Islamic tourism market. Therefore, the development of Islamic tourism plays a crucial role in economic growth and prosperity in these countries.

(Organization of Islamic Cooperation, 2017). In recent decades, there has been a major development in the tourism sector, especially international tourism (Li et al., 2018). Many developing countries have successfully increased their participation in the global economy through the development of international tourism. The development of the tourism sector is considered increasingly important in driving economic growth (Richardson, 2010). (Richardson, 2010). By attracting international tourists, tourism contributes significantly to the economic growth of destinations by collecting foreign exchange earnings, creating jobs, improving infrastructure, and various other benefits. As a result, tourism is generally regarded as a key driver for increasing export trade and economic growth in various countries. (Li et al., 2018).

According to the World, Travel & Tourism Council, in 2022 the tourism sector contributed 7.6% to

global GDP, a 22% increase from 2021, and only 23% below 2019 levels. In addition, international visitor spending increased by 81.9% in 2022, although still 40.4% behind the 2019 figure. The tourism sector also has a major impact on global employment, creating 22 million new jobs in 2022, an increase of 7.9% compared to 2021, and only 11.4% below 2019 levels. (WWTC, 2023). On the other hand, for OIC (Organization of Islamic Cooperation) countries, based on statistics from SESRIC (2022) tourism receipts and expenditures for OIC countries in 2020 reached \$91 billion and \$81 billion, respectively, showing a decrease of more than half compared to 2018 and 2019. Furthermore, the share of international tourism receipts to total export earnings of OIC countries halved in 2020, amounting to 5.1%, when compared to 2018 and 2019 levels (Figures 2 & 3).



Figure 2. International Tourism Receipts and Expenditures in OIC Countries

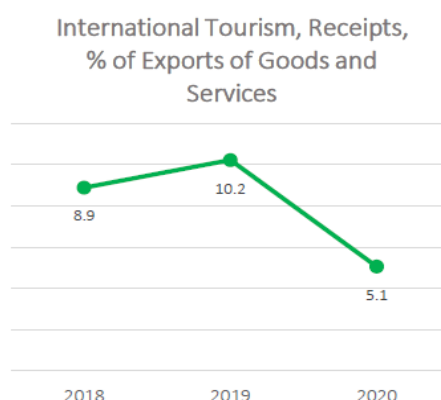


Figure 3. International Tourism, Receipts, % of Exports of Goods and Services

Another indicator that has a significant influence on economic growth is population. The role of the population in a country can be a determining factor that supports or hinders economic growth. (Nurhidayah, 2022). This problem is common to all countries in the world. This assumption is reinforced by the theory of

Malthus (2018) which states that there is a correlation between population growth and economic growth with a geometric growth pattern. However, this opinion is different from Adam Smith's view in Lange (2017) who argued that an increase in population can create more labor, which in turn will improve the economy. This idea

is also supported by research [Peter & Bakari \(2018\)](#) which shows that population growth has a positive impact on economic growth.

The total population of OIC countries in 2022 will reach 2 billion, which represents more than a quarter of the world's total population. This means that the OIC group of countries plays a significant role in the composition of the global population. In addition, the data shows that this total population has increased compared to the previous year. ([SESRIC, 2022](#)). With a growing population, OIC countries have the potential for greater influence in various aspects, including in the context of the economy, tourism, and other sectors.

Another indicator in supporting a country's economic growth is trade openness, also known as international trade. The concept of trade openness includes various trade activities, such as exports and imports of goods, exports and imports of services, and capital trade. Trade openness allows a country to more easily fulfill its domestic needs. By trading goods and services across national borders, countries can access resources and products that are not available locally. This increases economic efficiency and contributes positively to growth. ([Nurhidayah, 2022](#)). Other benefits of trade openness include expanded employment, increased investment, and increased national income. This shows that trade openness will cause domestic products to not only be sold in the domestic market, but also exported abroad, which in turn will increase national income. Trade openness has a wide impact on a country's economic growth, especially for developing countries. ([Doni et al., 2012](#)).

International trade in goods and services continued to account for a higher GDP contribution in OIC countries than in developed and developing countries in 2021. In addition, exports and imports have higher GDP contributions in 2021 than in the previous year. The share of exports increased by 5.1 percentage points from the previous year and averaged 33.4% for OIC countries, while it increased to 25.5% for non-OIC developing countries and 29.8% for developed countries. Import share increased by 1.3 percentage points to 31.1% for OIC countries and was still higher than the average for non-OIC developing and developed countries. Among OIC countries, Djibouti has the highest share of exports to GDP (152%), ranking sixth on a global scale. As for the share of imports to GDP, Djibouti (177%) also tops the OIC and ranks second globally after Hong Kong, China.

A country's inflation rate is another important indicator that can have a significant impact on economic

growth. Inflation is considered as one of the main factors affecting a country's economic growth conditions, and there are various views regarding its impact on economic growth. According to [Philips \(1958\)](#) as cited in [Simanungkalit \(2020\)](#) According to [Philips \(1958\)](#) as cited in [Simanungkalit \(2020\)](#), high inflation is believed to have a positive influence on economic growth by reducing the unemployment rate. This view is also supported by figures who adhere to the structural and Keynesian perspectives, who believe that inflation does not harm economic growth. In contrast, the monetarist view states that inflation is potentially detrimental to economic growth. This view was reinforced by events in the 1970s, where countries with high inflation rates, particularly in Latin America, experienced declining growth rates, supporting the view that inflation has a negative, rather than positive, effect on economic growth.

Consumer price inflation increased in most countries of the world in 2022. However, on average, the increase is more significant in the OIC group of countries (7.4 percentage points) compared to non-OIC countries, OIC developing countries (3.1 percentage points) and developed countries (4.2 percentage points). Inflation in OIC countries increased sharply to 20.0% in 2022, compared to 12.6% in 2021.

Based on this background, in the context of the Organization of Islamic Cooperation (OIC), this study aims to investigate the impact of the tourism sector on economic growth in OIC countries. By involving population, trade openness, inflation, and international tourism receipt variables. Other studies on OIC economic growth has been done by [Prakoso \(2020\)](#), [Rusydiana & Ikhwan \(2023\)](#), [Pratomo et al., \(2023\)](#), [Lubis et al., \(2023\)](#), and [Kim et al., \(2018\)](#).

Based on the background explanation, the researcher then formulates the problem that is the focus of this research: (1) Does population affect economic growth in OIC countries? (2) Does trade openness affect economic growth? (3) Does inflation affect economic growth in OIC countries? (4) Does international tourism receipt affect economic growth in OIC countries?

THEORETICAL FOUNDATION

Population and GDP

Population generally refers to the total of individuals or entities living in a geographical area or in a certain context during a certain period of time, according to the requirements set by the country's rules. ([Yenny & Anwar, 2020](#)). According to [Tambunan \(2003\)](#) from the demand side, a large population is a great

potential for market growth, which means a factor for the growth of economic activities. From the supply side, a large population with good education and health, discipline and a high work ethic are important assets for production. Population has a very important role in the economic development of a region, because uncontrolled population growth can hinder the achievement of economic development goals, such as people's welfare and poverty reduction. (Didu & Fauzi, 2016). This opinion is also consistent with research findings by Didu & Fauzi (2016) According to the Classics, population is generally considered an obstacle to development, especially when it is large and population growth is high. In this context, the population is considered a burden on development.

1. Optimal Population Theory

This theory has been developed by the Classics. According to this theory, the law of diminishing returns means that not all people can be involved in the production process. If forced, it will actually reduce the level of economic output (Rafsanjani & Sukmana, 2014). Classical economists put the main focus on the impact of population growth on economic growth. In their growth theory, it was assumed that land area and natural resources were fixed, and the level of technology did not change. On the basis of these assumptions, they analyzed how population growth affects the level of national production and income. According to the classical economists' view, the law of diminishing returns would affect economic growth. This indicates that economic growth will not continue continuously. In the beginning, when the population was small and natural resources were relatively abundant, the rate of return on investment was high. This led to entrepreneurs earning huge profits, encouraging new investments and realizing economic growth. However, such a situation cannot continue. When the population is too large, the increase in population will reduce the level of economic activity because the productivity of each resident has decreased, as explained by Rukmana (2012).

H1: Population affects GDP

Trade Openness and GDP

Nurhidayah (2022) provides a definition of open trade as trade activities that occur between two or more countries. Foreign trade is an important component in the structure of a country's economy. The importance of open trade development is not only related to the country's external economic development, but also in finding markets for domestic production in other countries and obtaining capital goods to support the

development of domestic industries. Open trade begins with the exchange of labor or the exchange of other goods and services. The concept of open trade is rooted in profit-oriented trade activities in goods and services between two or more countries. This trade occurs when there is supply and demand in the international market.

According to Tambunan (2000) there are two classic theories of open international trade:

1. Absolute Advantage

The absolute advantage theory proposed by Adam Smith, often referred to as the pure theory of international trade, is based on the idea that a country can specialize in exporting a certain type of good. If the country has an absolute advantage and does not produce or import other types of goods, this applies when the country does not experience an absolute disadvantage compared to other countries producing similar goods. In other words, a country is involved in exporting or importing a particular type of good, and it is able to produce that good more efficiently and more cheaply than other countries. This theory focuses on the efficient use of inputs, where labor and production processes affect the level of advantage and competitiveness.

2. Theory of Comparative Advantage

In the theory of comparative advantage put forward by John Stuart Mill and David Ricardo, there were criticisms and improvements to Adam Smith's theory, namely the theory of Absolute Advantage. The basic idea of these two economic figures is that the behavior of international trade is basically the same. John Stuart Mill stated that a country will specialize in exporting certain goods if it has the greatest comparative advantage. The country will specialize in importing goods when it loses in exporting goods produced at a lower cost, and import goods when they are produced domestically at a higher production cost. Meanwhile, according to David Ricardo, two countries will engage in export or import trade if each country has relatively low costs for different types of goods. In other words, Ricardo highlighted the relative efficiency differences between countries in the production of two or more goods, which is the basis for international trade. In Ricardo's view, it is this aspect of comparative advantage that motivates countries to make exchanges.

Triyawan & Novitasari (2020) stated that open trade has a significant negative effect on economic growth (GDP). Although transactions in international trade can provide benefits, especially in bringing in foreign exchange for the country (Zatira et al., 2021).

H2: Trade Openness affects GDP

Inflation and GDP

Inflation refers to a sustained rise in prices. Inflation that arises due to an increase in demand for goods is also known as demand pull inflation. (Nainggolan et al., 2022). Inflation arises because aggregate demand grows faster than supply, increasing the cost of goods and services. The imbalance between aggregate demand and supply is often related to government deficits. The impact of inflation can also include an increase in the price of goods and labor wages, which in turn can contribute to higher selling prices and cost of goods. (Nurina, 2016).

Inflation is one of the key indicators in the economy that cannot be ignored, as it can have far-reaching effects on both the overall economy and the welfare of the people. Therefore, studies have investigated the relationship between inflation and economic growth of a country. There is a view that inflation has a negative influence on economic growth, meaning that the higher the inflation rate, the weaker a country's economy will be (Tamimah et al., 2019).

On the other hand, there are studies that suggest that inflation does not have a significant effect on economic growth (Semuel & Nurina, 2015). In the context of the economy, high inflation rates can create economic instability, reduce investment levels, hamper exports, and potentially increase unemployment rates. From a welfare perspective, high inflation can result in a decrease in people's real income, especially for workers with fixed incomes, which in turn can reduce people's consumption levels and increase poverty levels (Rukmana, 2012). (Rukmana, 2012). It is important to note that the higher the inflation rate, the lower the economic growth and investment in the long run, as reflected in the ratio of investment to Gross Domestic Product (GDP). Although the negative impact of inflation on economic growth is relatively small, in the long run, it can have a substantial impact on people's welfare. Therefore, addressing high inflation is considered necessary to ensure economic stability and improve people's welfare. (Satria, 2012). Hence, there is a debate on the causal relationship between inflation and economic growth, and an in-depth understanding of contextual factors is required to detail the impact of inflation on a country's economic welfare.

H3: Inflation affects GDP

International Tourism Receipt and GDP

Tourism refers to the activity of visitors traveling to major destinations outside their daily environment, for a period of less than one year, for various purposes

such as business, leisure, or other personal purposes, other than work (Li et al., 2018). (Li et al., 2018). The tourism sector, as an inseparable part of human life, is one of the business sectors that contributes significantly to a country's Gross Domestic Product (GDP). (Armina & Setiawan, 2022). According to Yakup & Haryanto (2021) tourism has a positive impact including the growth of income and foreign exchange, job creation, and infrastructure development, although its effect on economic growth is indirect. Richardson (2010) stated that tourism has the potential as a tool to contribute to economic growth. Tourism provides an opportunity to diversify the economy, especially in remote areas that have few export options. These areas often attract tourists because of their cultural values, biodiversity, and unique natural scenery. The cultural and natural heritage in developing countries is often the basis of this attraction, and tourism provides an opportunity to generate income while preserving these heritage values. Therefore, tourism allows communities that may be poor in terms of material wealth but rich in history and cultural heritage to optimize their unique assets for economic development. (Honey & Gilpin, 2009).

Tourism is a unique export sector because it involves consumers traveling to exporting countries, providing opportunities for the poor to act as exporters by selling goods and services to foreign tourists. In addition, tourism is labor-intensive and supports a diverse and versatile labor market, opening up small-scale employment opportunities that contribute to the promotion of gender equality. Thus, tourism creates demand in both consumption and investment, both of which will result in the production of goods and services. (Yakup & Haryanto, 2021). Furthermore, tourism's influence on economic development and growth is reflected through the development of roads, infrastructure, and communication networks (Richardson, 2010). (Richardson, 2010). By stimulating investment in such infrastructure, tourism not only provides a direct economic impact through tourism activity itself, but also contributes to the broader development and improvement of infrastructure quality that can support long-term economic growth.

H4: International Tourism Receipt affects GDP

RESEARCH METHOD

The data used in this study is secondary data in the form of annual *panel data* from 2010 to 2021. The data is obtained from the OIC SESRIC source which is specific to the statistical data of OIC countries. Next, the

estimation process will be carried out by specifying the model that can be formulated in this study. The model used to analyze the effect of the variable International Tourism Receipt (income from the international tourism sector) and 3 other independent variables on the economic growth of 53 OIC countries is a panel regression model. There are 4 countries that are not included due to limited data available, namely Chad, Somalia, Syria and Turkmenistan. The complete variables in this study are as follows:

Y = GDP

X1 = Population (POP)

X2 = Trade Openness (TO) or Exports minus imports

X3 = Inflation (INF)

X4 = International Tourism Receipt (ITR) in USD billion

Next, the estimation process will be carried out by specifying the model that can be formulated in this study. This research is quantitative in nature using panel data regression analysis. The use of panel data is basic in the process of estimating research data, namely utilization in obtaining characteristics between time and between individuals. Panel data regression is able to minimize collinearity between variables and maximize the degree of freedom in improving efficiency (Firdaus, 2011). The method that will be used in this research is static panel data regression. Panel data analysis will select the best model with several tests such as Chow test, Haussman test and LM test.

Table 1. Model Selection Test

Testing	Results	Decision
Chow Test	Prob > 0.05	CEM
	Prob < 0.05	FEM
Hausman Test	Prob > 0.05	REM
	Prob < 0.05	FEM
Lagrange Multiplier (LM) Test	Prob > 0.05	CEM
	Prob < 0.05	REM

RESULT AND DISCUSSION

Panel Regression Model Testing

The Chow test is a test to determine the type of model to be selected between the common effect model or the fixed effect model. The hypothesis in determining

the panel data regression model is that if the cross section chi-square value < 0.05 significant value, the fixed effect model will be selected. Based on the results of data processing for the Chow test, the statistical probability value is 0.000 < 0.05, so the FEM model is selected.

Table 2. Chow test results

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	119.060015	(52,579)	0.0000
Cross-section Chi-square	1563.906019	52	0.0000

Furthermore, to determine the type of model to be selected between the random effect model and the fixed effect model, the Hausman test is used. The hypothesis in determining the panel data regression model is if the chi-square value < significant value (0.05),

then the fixed effect model will be selected. Based on the results of data processing for the Hausman test, the statistical probability value is 0.000 < 0.05, then the FEM model is selected.

Table 3. Hausman Test Results

Correlated Random Effects - Hausman Test

Equation: Untitled

Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	89.629649	4	0.0000

Table 4. F Test Results & Coefficient of Determination FEM Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.863191	0.179247	15.97345	0.0000
POP	0.145134	0.055226	2.627995	0.0088
TO	0.000789	0.000255	3.098642	0.0020
INFL	-0.003738	0.000758	-4.932239	0.0000
ITR	0.047064	0.020321	2.315998	0.0209
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.978628	Mean dependent var	3.529890	
Adjusted R-squared	0.976561	S.D. dependent var	1.782402	
S.E. of regression	0.272880	Akaike info criterion	0.325781	
Sum squared resid	43.11440	Schwarz criterion	0.725067	
Log likelihood	-46.59828	Hannan-Quinn criter.	0.480807	
F-statistic	473.4468	Durbin-Watson stat	1.226936	
Prob(F-statistic)	0.000000			

The f-statistic value of 473.4468 is greater than the f table value (i.e. 3.0725) and the significance value is 0.0000 less than 0.05, then H_0 is rejected and H_a is accepted. This means that the X1-X4 variables jointly affect the Y variable.

Meanwhile, the adjusted R-square value is 0.976561 or 97.65%. This coefficient value indicates that the independent variables (X1, X2, X3, and X4) are able to explain variable Y by 97.65% while the rest is explained by other variables outside the model.

Meanwhile, the results of hypothesis testing on the panel data regression equation, the effect of independent variables on the dependent variable partially are as follows:

- a. The t test results on variable X1 (POP) obtained a significance value of 0.0088 which is smaller than 0.05, then H_a is accepted and H_0 is rejected. This means that the Population variable has a significant effect on OIC GDP.
- b. The t test results on variable X2 (TO) obtained a significance value of 0.0020 which is smaller than 0.05, then H_a is accepted and H_0 is rejected. This means that the Trade Openness variable has a significant effect on OIC economic growth (GDP).
- c. The t test results on variable X3 (INF) obtained a significance value of 0.0000 which is smaller than 0.05, then H_a is accepted and H_0 is rejected. This means that the inflation rate variable has a significant effect on OIC GDP.
- d. The t test results on variable X4 (ITR) obtained a significance value of 0.0209 which is smaller than 0.05, then H_a is accepted and H_0 is rejected. This means that the International Tourism Receipt variable has a significant effect on OIC GDP.

Findings

Based on the research results, a number of findings were obtained that can be utilized to make policies for related parties. The findings include, based on the results of the chow test and hausman test, the selected model is the FEM model. Then, based on the results of the F test and the Coefficient of Determination, it is found that the f-statistic value explains that the X1-X4 variables jointly affect the Y variable. Meanwhile, the adjusted R-square value shows that the independent variables (X1, X2, X3, and X4) are able to explain the Y variable by 97.65% while the rest is explained by other variables outside the model. Furthermore, based on the hypothesis results, it was found that the population variable has a significant effect on OIC GDP. The results of this study support research from [Islami et al \(2022\)](#), a larger population can produce a larger labor force as well, so that it can contribute to increased economic growth. More people working can lead to higher productivity and in turn GDP will increase. It will also have an impact on increasing consumer spending, as more people have disposable income to spend on goods and services. This increased spending can stimulate economic growth and contribute to higher GDP. Similarly, [Maestas et al \(2016\)](#) and [Peterson \(2017\)](#) stated that population has a significant influence on GDP because population growth affects the growth of the labor force and productivity, which are the main drivers of economic growth. However, in some cases the relationship between population and GDP is complex and depends on various factors, such as the age distribution of the population, the level of education, and the availability of resources ([Weber & Sciubba, 2019](#); [Sadigov, 2022](#)).

Then, Trade Openness has a significant effect on OIC GDP. Other research results found that Trade Openness can have a negative impact on GDP growth when a country shows a low level of human capital accumulation ([Fatima et al., 2020](#)), Trade Openness facilitates economic growth, but there is a gap between different quantiles ([Jošić, 2023](#)). [Silajdzic & Mehic \(2018\)](#) explain that trade openness has a positive impact on GDP growth, with a 10% increase in trade share potentially leading to an 8% increase in average GDP growth. However, specific measures of trade openness, such as trade intensity ratios, and the difference between the short- and long-term impact of trade openness on economic growth are still debated ([Yanikkaya, 2003](#); [Silajdzic & Mehic, 2018](#)). This explains that the relationship between trade openness and GDP is complex and can be influenced by factors such as human

capital accumulation and knowledge diffusion ([Fatima et al., 2020](#)).

Trade Openness can affect different sectors of the economy in different ways. Greater trade openness will lead to an efficient allocation of resources, as it allows countries to specialize in producing goods and services in which they have a comparative advantage. This specialization can lead to increased productivity and economic growth. [Khalid \(2016\)](#) explains, Trade Openness allows countries to adopt new technology, knowledge, and expertise from technologically advanced countries, which can increase their total factor productivity and contribute to economic growth. In addition, when Trade Openness increases, the volume of trade between countries also increases, resulting in more diverse goods and services being exchanged ([Fetahi-Vehapi et al., 2015](#)). This diversity can stimulate innovation and create new market opportunities for businesses, thereby promoting economic growth.

Furthermore, Inflation has a significant effect on OIC GDP. The results of this study contradict research from [Salamai et al \(2022\)](#) that there is no significant relationship between GDP and inflation rates in Saudi Arabia. Meanwhile, research from [Qudah & Aloulou \(2020\)](#) states that inflation can affect GDP through various channels, such as consumer behavior, business decisions, and monetary policy responses. [Agarwal & Baron \(2023\)](#) explain that the relationship between inflation and GDP is complex and can be influenced by factors such as supply and demand imbalances, wage growth, and the role of the banking sector. Inflation may increase along with GDP growth due to increased demand and/or reduced supply. However, too high GDP growth can lead to too high an inflation rate, which can then negatively impact consumers and businesses. Some macroeconomic theories suggest that rising inflation may increase real GDP in the short run, at least under certain conditions. However, the classic "money neutrality" view argues that an increase in inflation has little effect on real GDP, as inflation increases prices and wages in the same way and only changes the unit of measurement ([Agarwal & Baron, 2023](#)).

Finally, International Tourism Receipt has a significant effect on OIC GDP. International Tourism Receipts can have a significant effect on GDP as it is a major contributor to the global economy. According to the World Travel & Tourism Council, the Travel & Tourism sector accounted for 10.4% of global GDP (US\$10 trillion) in 2019, with international visitors spending US\$1.9 trillion. World Bank Open Data also

reports that international tourism receipts can contribute a significant percentage to total exports in some countries. Furthermore, the UNWTO Tourism Data Dashboard shows that tourism can contribute to GDP and employment, with data covering tourist arrivals, tourism export share and contribution to GDP. Overall, international tourism receipts can have a significant impact on GDP, and it is an important area of research for policy makers and economists to understand the impact of tourism on the economy.

Sharma & Sharma (2015) explained that tourism is the largest service industry globally in terms of gross revenue and foreign exchange earnings, and is recognized as having a positive impact on long-term economic growth. The tourism sector stimulates other industries through direct, indirect, and induced impacts, contributes to job creation, and causes positive economies of scale. In addition, Foreign Direct Investments (FDI) in the tourism sector can positively impact tourism performance indicators such as travel and tourism GDP, international tourism receipts, and international tourist arrivals. FDI enhances the tourism sector in the host country in terms of brand value or market power, and it affects international tourism more than domestic tourism (Ağazade & Karasakaloğlu, 2023). Furthermore, Badulescu et al (2020) stated, the growth of the tourism industry leads to the creation of more employment opportunities, infrastructure improvements, which in turn contribute to overall economic development, and can promote sustainable development and help alleviate poverty in developing countries.

CONCLUSION

This study aims to analyze the impact of the tourism sector on economic growth (GDP) of OIC countries using a panel regression approach. The results concluded that based on the results of the chow test and hausman test, the selected model is the FEM model. Then, based on the results of the F test and the Coefficient of Determination, it was found that the f-statistic value explained that the X1-X4 variables jointly affect the Y variable. Meanwhile, the adjusted R-square value shows that the independent variables (X1, X2, X3, and X4) are able to explain the Y variable by 97.65% while the rest is explained by other variables outside the model. Furthermore, based on the results of the hypothesis it was found that the population variable, Trade Openness, Inflation and International Tourism Receipt had a significant effect on OIC GDP. Based on the results of this study, there are a number of policy

recommendations for regulators, practitioners and academics. Regulators are expected to further encourage investment in the development of tourism infrastructure such as transportation, accommodation, and other supporting facilities to increase the attractiveness of tourism destinations, increase the promotion of OIC tourism destinations globally to attract more tourists and increase revenue from the tourism sector, provide training and skills development for the workforce in the tourism sector in order to provide quality services, increase competitiveness, and increase destination attractiveness, and Revise and simplify tourism regulations to facilitate investment and tourism sector operations, so as to provide a greater stimulus to economic growth.

Practitioners are expected to continue to innovate in the provision of services, the use of technology, and adaptation to global market trends. Cooperate between tourism industry players, both domestic and international, to expand networks, increase marketing cooperation, and create more attractive tour packages. Also, place more emphasis on sustainable tourism management by taking into account environmental, cultural, and social impacts, so that the sector can contribute in the long term without harming the environment. Finally, developing various tourism products that include sectors such as ecotourism, cultural tourism, and sports tourism to attract various market segments. Then, academics can deepen this research by including or using other factors that might affect economic growth in OIC countries, and can also use other relevant analytical tools. The results of such research can provide a better understanding and provide a basis for more appropriate and effective policy making.

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