The Tourism Industry and Economic Growth Nexus in Lesotho

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Tourism-led economic growth hypothesis has been a widely studied topic yet Africa has been slow to generate information in this area. Almost all economies globally utilise tourism to accelerate economic growth because the industry is linked with foreign exchange income, employment opportunities, and increased foreign investment. Therefore, this study focuses on exploring and demonstrating the economic impact of the tourism industry on Lesotho’s economy by specifically focusing on tourism as a source of income, employment, investment, and export. Secondary research approach was utilised by conducting a comprehensive literature review to generate information for this research. The findings of this study revealed that tourism activities positively influenced Lesotho’s economy from 2014 to 2019. The results support the tourism-led economic growth hypothesis by noting a positive contribution to Lesotho’s economy in terms of the gross domestic product, employment and investment. Furthermore, Lesotho’s tourism development impediments were noted to include infrastructure inadequacy, low levels of tourism collaborations and investment, and improper marketing and management of tourism organisations.

Keywords: secondary data, tourism industry, economic development, tourism development drawbacks, Lesotho

Introduction

The tourism industry plays a vital role in the economic success of many countries globally and has received attention of researchers for many years (Naseem 2021). In order to advance economically, most developing countries have targeted the tourism sector with a perspective that it carries forward the desired economic benefits (Samimi et al. 2017). However, many African countries might not be gaining much economic benefits as they have a weaker global competitiveness position as evidenced from the Travel and Tourism Competitive Index reports from 2007 to 2019, which shows that the majority of African countries are ranking in the bottom 100 on an average of 140 countries globally (World Economic Forum 2007, 2015, 2017, 2019). An extensive literature review identified that tourism activities have a long-term influence on economic growth, and, this is generally known as the tourism-led growth hypothesis (Naseem 2021). Studies supporting tourism-led growth hypothesis include those of Akinboade and Lydia (2010), Selimi et al. (2017), Manzoor et al. (2019), Songling et al. (2019), and Naseem (2021). On the other hand, few studies have identified a negative correlation between tourism activities and economic growth and these include the studies of Tang and Soocheong (2009), and Lee (2021). Brida et al. (2016)

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conducted an exhaustive review of approximately 100 peer-reviewed published papers on the tourism-led growth hypothesis and identified that with a few exceptions, the empirical findings suggest that overall international tourism drives economic growth.

This study intends to assess the impact of tourism on Lesotho’s economic development. As much as tourism has been noted to be a widely researched area, there is no comprehensive study focusing on the economic impact of tourism in Lesotho, therefore, this study shall close this research gap. In particular, the study focuses on tourism impact on revenue, employment, investment, and export. The study shall further investigate the drawbacks prohibiting tourism development in Lesotho. It is believed that the identification of these tourism development drawbacks shall channel the Lesotho tourism decision-makers towards critical areas requiring more attention in order to accelerate the country’s tourism competitiveness.

Lesotho is an African country that provides a unique tourism experience due to appealing natural landscape, rich flora and fauna, towering peaks, rich culture, water streams, and magnificent mountain range (Lesotho Tourism Development Corporation 2016). Unique tourism assets possessed by Lesotho include Thabana Ntlenyana which is Africa’s highest peak (Lesotho Review 2018) and the majestic Maletsunyane Falls; one of the highest waterfalls in Southern Africa (Travel Weekly 2014). According to Stage et al. (2011), resources such as rocks, mountains, caves, scenic views, and other natural resources are what draw visitors to a destination. The government of Lesotho is embarking on putting appropriate measures to elevate the country’s tourism performance with a belief that this sector has a potential to emancipate Lesotho’s economy (Yiu et al. 2015). With relevance to its tourism assets, Lesotho’s tourism industry has a high potential to contribute significantly to the country’s economic development and job creation. According to the United Nations Conference on Trade and Development (2018), tourism has the potential to contribute immensely to Lesotho’s GDP and employment; hence, the Lesotho government has attempted to eliminate potential factors that could hamper the sector’s development.

**Literature Review**

Economic development is a crucial determinant of economic welfare (Shihab et al. 2014). Tourism is an economic activity that leads to economic benefits such as income generation, employment creation, and source of export (Hall and Lew 2009), and the World Travel and Tourism Council (2017) added that tourism is also a source of investment which in-turn serve as an economic advantage. The next discussion shall provide details relating to tourism as a source of income, employment, export earnings, and investment.
Tourism as a Source of Income

The economic significance of the tourism industry occurs because travellers earn money in their own countries but spend it in the host destination (Cooper 2012). The influences of tourism in an economy differ from country to country and mainly depend on how the tourism sector is structured and how the actions of various players in the local economy are interlinked (Lemma 2014). One of the purposes of engaging in tourism operations is to promote economic benefits and to meet the daily needs of host communities through improved living standards (Hashemkhani Zolfani et al. 2012). The World Travel and Tourism Council (2018b) explains that the tourism industry’s direct contribution to the Gross Domestic Product (GDP) is calculated consistently with the amount produced as indicated in the national accounting of tourism sub-sectors like accommodation, commercial airlines, travel agencies, and other related services that deal directly with tourists. According to the World Travel and Tourism Council (2017), the total contribution to the GDP is supported by these activities inclusive of travel and tourism investment spending, government collective spending, and domestic purchases of products sold by the sub-sectors directly linked with tourism.

Tourism as a Source of Employment

According to Dayananda (2014), employment is a crucial macroeconomic concept that describes the physiology and anatomy of economic development. It is an instrument utilised to attain development; thus, total employment is a target for all countries. Employment offers a chance to earn income, a tool for self-respect and provides entitlement and command over goods and services. The Statistics and Tourism Satellite Account Programme (2010) acknowledged that if supported by relevant regulations, tourism could be an instrument of fighting unemployment. Tourism forms a wide range of employment opportunities in various sectors including lodging, eateries, transport services, travel agencies, tour operators, natural, and cultural attractions sites (Aynalem et al. 2016). Among other key industries that contribute to economic growth, the tourism industry had been ranked as the second-largest employer across the world (Esakki 2015). Aynalem, et al. (2016) emphasised that the whole tourism industry can only prosper if it employs qualified personnel or own a sustainable workforce, which is considered as the main source of excellence and speedy service delivery. Tourism also usually injects money into the local community, leading to secondary economic development; for example, successful resorts may generate employment through the engagement of a local commercial laundry facility or a pet boarding business (Westcott 2016).

Tourism as a Source of Export Earnings

Money spent by a foreign traveller at a tourist destination or visitor exports is a significant element of the direct contribution to the tourism industry (World Travel and Tourism Council 2018b). According to Okodua and Ewetan (2013),
the connection from exports to economic development is often described by the literature as export-led growth. Goods and services exported are an important foundation of foreign exchange earnings that ease the pressure on the balance of payments and generates wealth (Shihab et al. 2014). Exports can improve intra-industry trade, incorporate the local economy into the world economy, and shield the local economy from the impact of external shocks (Okodua and Ewetan 2013). The study of Elbeydi et al. (2010) and Bakari and Krit (2017) found that an increment in the amount of export leads to a positive impact on economic development. Yuksel and Zengin (2016) agree that there is a positive relationship caused by an increment in export, though this strategy might bring dissimilar implications for different countries. For example, Elmakki et al. (2017) indicate that a negative connection between export and economic development could be the result of weak economic strategies and unfocused international trade policies.

Tourism as a Source of Investment

Investment in tourism holds the potential to accelerate economic growth and lessen the poverty levels as it targets various sectors within this industry (Banerjee et al. 2015). Investing in tourism infrastructure increases the capacity to meet the demand of tourists and upsurge their satisfaction in a tourist destination (Jovanovic and Ivana 2016). Yazdi et al. (2017b) highlight that Foreign Direct Investment (FDI) is one of the mechanisms that developing countries can utilise to strengthen their tourism position, this area of research requires further exploration. Also, the findings of Nawaz and Hassan (2016) also shed light on the issue that there is insufficient research on the effects of tourism investment for both the private and public sectors. Correspondingly, Yazdi et al. (2017a) acknowledge that much has been studied about FDI globally, but yet again, researchers have been slow to deliver new knowledge on the relationship between tourism and FDI. There is a wide belief that FDI carries positive spill-over effects to host economies in terms of knowledge transfer, employment generation, and improvement of competition. For example, engaging in FDI in host countries has also been referred to as sustainable investment which invites the appropriate type of investment that brings significant socio-economic development (Wentworth et al. 2015).

As a giant economic activity, tourism encompasses many economic and social sectors, turning it into an attractive development sector for foreign investors hence it is a high priority industry for investment promotion agencies throughout the world. There is mounting global competition between tourism destinations and increasing contestability of foreign investment, making effective promotion strategies a key element for attracting investors (United Nations Conference on Trade and Development 2010). The Ministry of Tourism Egypt (2016) also contributed to this view by highlighting that tourism can be an instrumental force towards economic development through its potential to attract foreign investment. Bezuidenhout and Sonja (2016) indicate that though international investment in tourism is still lagging in some African countries, a higher share of the present investment in the tourism industry is made in the lodging facilities. Taking the example of Fiji, the improvement of the tourism sector in this country has largely
been enhanced by foreign investment in lodging facilities, resorts and other infrastructural facilities (Jayaraman et al. 2014). However, when evaluating the dimensions of tourism FDI in the Gambian lodging establishment sector, Davidson and Sahli (2015) discovered that foreign investment was notably dominant in larger and more high-class lodging establishments.

**Research Methodology**

A literature review approach was adopted to guide this study. Blaikie (2009) highlights that research data can be collected through primary, secondary, and tertiary data sources. The study mainly utilised secondary data and as noted by Greenhoot and Dowsett (2012), secondary data sets are a well-organised and are an excellent resource for addressing issues in developmental sciences. Secondary data also refers to data that has been collected before by other individuals which are either published or unpublished (Kapur 2018). The first step in conducting this research was an exploration of a wide literature on the economic impact of tourism in Lesotho. The study mainly utilised the information collected from the World Travel and Tourism Council reports from 2015 to 2020 which indicated the tourism performance of the year 2014, 2016, 2017, and 2019 (it is important to note that at the time of the research, the 2020 economic performance could not be located). The literature relating to drawbacks prohibiting tourism development in Lesotho was gathered by exploring online databases such as journals and government and non-governmental organisations reports.

**Results and Discussion**

Table 1 demonstrates Lesotho’s tourism industry’s economic impact between 2014 and 2019. It is important to note that the 2015 and 2018 performances were not reported because of information unavailability. The information shown on the table comprises of the industry’s total contribution to the GDP, employment, visitor export, and tourism investment. These are reported in both percentages and financial values.
Table 1. Contribution of the Tourism Industry to Lesotho’s Economy in Rands

<table>
<thead>
<tr>
<th>Contribution to the economy</th>
<th>Year 2014</th>
<th>% of value or number</th>
<th>Year 2016</th>
<th>% of Value or number</th>
<th>Year 2017</th>
<th>% of value or number</th>
<th>Year 2019</th>
<th>% of value or number</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP: total contribution</td>
<td>R2,886.2 million</td>
<td>12.1% of GDP</td>
<td>R3,348.7 million</td>
<td>12.2% of GDP</td>
<td>R4,190.3 million</td>
<td>13.8% of GDP</td>
<td>R4,953.0 million</td>
<td>12.3% of GDP</td>
</tr>
<tr>
<td>Employment: total contribution</td>
<td>53,000 jobs</td>
<td>10.5% of total jobs</td>
<td>79,000 jobs</td>
<td>11.4% of total jobs</td>
<td>94,500 jobs</td>
<td>13% of total jobs</td>
<td>92,900 jobs</td>
<td>12.6% of total jobs</td>
</tr>
<tr>
<td>Visitor exports</td>
<td>R386.5 million</td>
<td>3.3% of total exports</td>
<td>R405.8 million</td>
<td>2.9% of total exports</td>
<td>R792.6 million</td>
<td>5.5% of total exports</td>
<td>R345.7 million</td>
<td>2.1% of total exports</td>
</tr>
<tr>
<td>Investment</td>
<td>R423.2 million</td>
<td>6.3% of total investment</td>
<td>R707.9 million</td>
<td>7.2% of total investment</td>
<td>R639 million</td>
<td>7.3% of total investment</td>
<td>n/a</td>
<td>n/a</td>
</tr>
</tbody>
</table>

From Table 1, it can be observed that tourism activities contribution to Lesotho’s total GDP had progressed slightly from the year 2014 to 2017 with a growth of 1.7%. However, the country witnessed a slight decline of 1.5% in tourism contribution to the total GDP between 2017 and 2019; though the decline was observed in the percentage form, an upward financial surge from R4,190.3 to R4,959.0 million was attained in this period. It was projected that the industry’s contribution to the GDP would decline by 1.2% in the year 2017 (World Travel and Tourism Council, 2018a), however, Lesotho realised a growth of 1% during this period. As noted from the table, between 2014 to 2019, the tourism industry’s contribution to the country’s GDP grew from R2,886.2 to R4,953.0 million, which indicates the industry’s financial value expanded by R2,066.8 million in this period, accounting to a growth of 71.6%. A steady expansion of the industry’s financial value can therefore be noticed from the year 2014 to 2019, and according to the World Travel and Tourism Council (2018a), the contribution was still expected to grow by 3.4% per annum from 2018 to 2028. Generally, the growth rates varied mostly between 2005 and 2007 and started to stabilise from 2008 onwards (United Nations Conference on Trade and Development 2013). The tourism’s industry’s contribution to the national GDP in Lesotho mostly results from the input of lodging establishments and eateries which experienced a moderate annual growth of 4% between 2012 and 2013 (United Nations Development Programme 2017).

Lesotho has a high unemployment rate. From 2013 to 2019 unemployment stood at 24.58% (2013), 24.4% (2015), 24.13% (2017), and 23.96% (2019) (Statista.Com 2021). Lesotho had been over-dependent on South Africa for job opportunities, specifically on the mining industry (Country Watch Lesotho 2018), however, South Africa’s on-going decline of deep-gold-mine operations in the previous years has influenced Lesotho’s high unemployment rate (Barry 2017). As shown in Table 1, tourism activities managed to expand the number of jobs in Lesotho, and tourism employment had been steadily growing between 2014 and 2017. However, the number of jobs declined by 0.4% between 2017 and 2019; according to the statistics, the industry’s total contribution to employment declined from 94,500 in 2017 to 92,900 jobs in 2019, which indicates a 1,600 number of jobs lost.

Furthermore, the tourism industry also boosts the exportation of domestic products. The main Lesotho exports include apparel, diamonds, water, wool, and tobacco (Cross-Border Road Transport Agency 2017). The statistics highlight that the country witnessed a steady growth of tourists’ contribution to Lesotho’s exports. Between 2014 to 2017, Lesotho realised a 2.2% export growth stimulated by visitors, however, tourism led exports declined between 2017 and 2019 accounting to a downfall of 3.4% of the country’s total export; signifying a total decline of R446.9 million from 2017 to 2019. Moreover, FDI is considered as an instrument to fund new structures, permits transmission of advanced technology and forms of management, and enables multiplier effects (Yazdi et al. 2017a). Further, the results of İşik (2015) noted a positive correlation between FDI and tourism development. The government of Lesotho has noted the importance of investment to advance its economy, hence it developed mechanisms of promoting
local and international investment (Ministry of Trade and Industry 2015). However, it can be drawn from the table that the country’s tourism industry investment has not been steady, as noted from the weakening investment in 2017 as compared to 2016. It can be drawn that industry suffered a downturn of 0.1% between 2016 and 2017; however, the 2018 forecasts indicated that investment in the industry was likely to escalate by 4.7% per year till 2028 (World Travel and Tourism Council 2018a).

Challenges Facing the Lesotho Tourism Industry

According to the Lesotho Tourism Development Corporation (2017), the country’s tourism industry strived to attain the five dimensions of quality service namely, tangibility, responsiveness, reliability, empathy, and assurance. As much as Lesotho plans to improve its tourism performance, there are notable impediments prohibiting the country’s tourism development. According to Rasethuntsa (2021a) and the Cross-Border Road Transport Agency (2017), adequate accommodation services standards in key tourism areas are lacking. Furthermore, the United Nations Development Programme (2017) also highlights that Lesotho has underdeveloped infrastructure, limited tourism skills, and low financial access to support the industry. Also, Yiu et al. (2015) further identified that under-utilisation of information and communication technology in lodging facilities as one major infrastructural challenge prohibiting efficiency in this industry.

On the other hand, the Cross-Border Road Transport Agency (2017) bringsforth the fact that Lesotho is under resourced relating to investment in health and wellness resorts. Lesotho’s landscape of high altitude, clean mountain air, and water, among other provides the country an opportunity to attract a high number of tourists. Private investment across tourism industry however considered inadequate, and tourism service provisions also considered lagging (United Nations Development Programme 2017). Furthermore, Rasethuntsa (2021b) and the United Nations Development Programme (2017) indicate that in Lesotho, there are no business relationships between accommodation facilities and tourist attractions and the tourism industry consists of poorly developed value-chains across all sub-sectors. Furthermore, the United Nations Conference on Trade and Development (2013) highlights that the country fails to prioritise tourism collaborations at a regional level and collaborations between tourism- and non-tourism organisations are weak.

The United Nations Development Programme (2017) shed light that the tourism industry in Lesotho offers low quality services to its clientele, and there is no proper packaging, branding, and marketing strategies in place; making the destination unattractive to tourists. Lesotho’s tourism products do not meet the required standards (Yiu et al. 2015). According to the United Nations Development Programme (2017), there are less community-based tourism products in the country. Also, limited protection of cultural heritage from destruction and loss of flora and fauna due to less protection is one major challenge prohibiting Lesotho’s tourism development (United Nations Development Programme 2017). According to Yiu et al. (2015), the Lesotho tour operator sector is very weak, resulting in
major monetary leakages and overly relying on South African based tour operators to manage and coordinate tours around Lesotho. Also, harassment of tourists inside the country has been noted as one of the challenges facing the country’s tourism industry (Lesotho Tourism Development Corporation 2016).

Encapsulating what this literature has brought-forth, it is evident that Lesotho is facing several challenges in this industry. These range from low investment, poor infrastructure, low levels of collaborations at the regional and local level, limited marketing of the country’s tourism products, improper management of the sector, low quality products, lack of community involvement in tourism activities, and skills shortages.

Limitations, Conclusions and Recommendations

This study explored the economic impact of the tourism sector in Lesotho and further identified challenges that are hindering the country’s tourism development. The statistics indicated that tourism has positively contributed to the country’s GDP from the year 2014 to 2019 from the financial amount of R4,190.3 million to 4,959.0 million. The findings also indicate that tourism jobs expanded from 53,000 jobs in 2014 to 92,900 in 2019. Investment in the tourism sector in Lesotho also increased from R423.2 million in 2014 to R639.0 million in 2019. However, visitor exports declined from R386.5 million in 2014 to R345.7 million in 2019.

The study has achieved its intention of shedding light on the economic impact of tourism in the Lesotho’s economy. It could be concluded that there are moderate improvements regarding tourism earnings, job creation, export revenues, and investment which all contribute positively towards the overall economic development in the country. Selimi et al. (2017), Donihue et al. (2015) and Naseem (2021) also found a positive relationship between tourism and economic growth. The study therefore supports the tourism-led economic growth hypothesis.

Tourism challenges in Lesotho seem to be affecting both the public and the private sector and shortcomings also seem to be coming from both parties. It is therefore recommended that Lesotho should consider benchmarking studies to learn strategies it could adopt to overcome these various challenges. It is also recommended that the Lesotho public and private sectors should form collaborations with other neighbouring countries to learn best practices and share tourism development strategies. The Lesotho government is also urged to improve the country’s tourism marketing as Lesotho has some unique features to showcase to potential tourists. The public sector in collaboration with the private sector could also engage in educational programmes to sensitize the local community about the importance of preserving nature. This would result in more tourists coming into the country and yield positive returns especially to the business and public community, for example, through job creation and high revenue as a result of an upsurge of visits.

It is acknowledged that there might be other tourism challenges affecting the industry that could have been missed by the study because of less documentation regarding tourism industry in Lesotho. This study has however, contributed in
developing a platform for further research as it has opened doors for fresh information regarding tourism economic development impact and challenges in Lesotho. Future research could concentrate more on the challenges faced by different sectors within the Lesotho tourism industry inclusive of the impact of COVID-19 pandemic on the sectors performance. As noted by Papanikos (2020) and Jones and Comfort (2020), the COVID-19 pandemic brought-forth multiple challenges for the tourism industry. Again, because this research data relied mainly on secondary data, future research could focus on generating primary data to analyse the impact of tourism in the country’s economic growth and also identify challenges faced by the Lesotho tourism industry.

The study’s results are significant to policy makers in Lesotho as they highlight areas that prohibit tourism development in the country and also areas that need critical attention such as the observed decline in visitors’ exports. It is proposed that the government should develop appropriate marketing skills to promote tourism exports and further assist tourism businesses in developing marketing skills to upsurge visitors’ exports.

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References


