

The Impact of Remittances on the Development of Domestic Tourism in Ghana. A Mediating Role of Cultural Exchange

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Abstract

The primary aim of this research is to investigate the influence of remittance on local tourism development in Ghana. The study used a survey research approach to gather data from the DuBois Center and the diaspora African forum in Accra. Five hundred questionnaires were distributed; notably, 453 questionnaires were successfully retrieved, yielding a response rate of 90.6%. The study examined four hypotheses using partial least squares structural equation modeling (PLS-SEM). The results indicate that remittance positively and significantly impacts cultural exchange and local tourism development. Additionally, the findings suggest a positive relationship between cultural exchange and local tourism development, with cultural exchange mediating the association between remittance and regional tourism. Policymakers should invest in tourism infrastructure development, such as transportation networks and housing options, to maximize the benefits of remittances and cultural exchange. Collaboration between the public and private sectors can maximize the benefits of remittances and cultural exchange for local communities by fostering synergies in tourism development.

Keywords: Remittance, Cultural exchange, Local Tourism Development, Least Squares Structural Equation Model.

JEL Codes: L83, M19, O10

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1. Introduction

Migration and tourism play vital roles in the process of globalization, facilitating the movement of people and financial resources across borders. However, research on the interaction between migration and tourism in Sub-Saharan Africa, particularly in countries like Ghana is very minimal. Migration contributes to the global labor market and leads to the transfer of remittances to migrants' home countries. In 2021, according to the World Bank, remittances to low- and middle-income countries reached a significant \$589 billion, marking a notable 7.3% increase despite the global economic downturn caused by the COVID-19 pandemic.

Of particular importance, remittance flows to these nations (excluding China) are anticipated to surpass the combined total of Foreign Direct Investment (FDI) and Overseas Development Aid (ODA) for the second consecutive year. These remittances play a crucial role in supporting households during economic downturns, enabling them to meet essential needs such as food, healthcare, and education in migrants' home countries.

The tourism industry in Ghana has experienced significant fluctuations in recent years. Ghana, being a popular tourist destination in West Africa, owes much of its appeal to its English-speaking population. The majority of visitors to Ghana come from the United States, Nigeria, and the United Kingdom. However, tourist arrivals saw a sharp decline, totaling approximately 355,000, compared to previous years when figures approached 900,000 annually. These visitors primarily come for business, family visits, and leisure activities.

The COVID-19 pandemic has had a profound impact on Ghana's tourism industry, leading to varying revenue growth rates in recent years. In December 2020, Ghana's tourism earnings plummeted by 87.2%, a stark contrast to the 49.6% growth recorded the previous year. Ghana's tourism revenue growth rate data is regularly updated and available from December 1996 to December 2020. Historical data reveals an all-time high of 768.6% in December 1998 and a record low of -87.2% in December 2020 (source: <https://www.statista.com>, 2022).

This study aims to assess the impact of remittances on the Development of Domestic Tourism (DDT) in Ghana and seeks to answer the question: do received remittances influence DDT in Ghana? The findings of this research will contribute to the existing literature on the relationship between remittances and tourism.

The remainder of the paper is organized as follows: Section 2 provides a review of the relevant literature. Section 3 describes the methodology and data used in the empirical investigation. Section 4 summarizes the findings and examines their implications. Section 5 presents the conclusions, policy recommendations, and suggestions.

2. Literature Review

2.1 Theoretical Review

The impact of remittances on local tourism has become an increasingly important and popular topic in economic and tourism studies. Understanding how migrants' remittances influence the growth and sustainability of local tourism is crucial for policymakers, researchers, and industry stakeholders. In this study, the researcher aims to investigate the various concepts underlying the

relationship between remittance inflows and local tourism, providing insights into potential mechanisms and implications for destination development. By exploring the theoretical foundations, seek to comprehensively analyze the relationship between remittance flows and the tourism industry, offering valuable insights for strategic decision-making and future research. Some plausible explanations supporting the study on the impact of remittances on local tourism include:

1. **Economic Theory:** Economic theory suggests that remittances, money sent back by migrants to their home countries, may benefit local tourism by stimulating the local economy (Giuliano & Ruiz-Arranz, 2009).
2. **Sociocultural Perspective:** Sociocultural theory provides valuable insights into the impact of remittances on local tourism. Drawing from Levitt (2004), Cohen (2011), and Portes & Rumbaut (2014), contemporary sociocultural theory offers a valuable lens for understanding the impact of remittances on local tourism. This perspective highlights the complex interplay between social and cultural dynamics.
3. **Resource-Dependence Theory:** The resource-dependence theory posits that organizations and societies rely on external resources for their existence and growth. Applied to the study of remittances and local tourism, this theory highlights that the financial influx from remittances can be a critical resource for developing and improving tourism infrastructure, marketing efforts, and community-based tourism initiatives (Syah & Rustanto, 2018).

2.2 Empirical Review

2.2.1 Remittance and Local tourism Development

Zhuang et al. (2019) found that remittances had a favorable influence on local tourist growth. These studies show that remittances increase household income and spending, raising demand for tourism services and attractions. Furthermore, remittances encourage investment in tourist-related companies, infrastructure, and promotional efforts, thereby boosting the local tourism industry. Although there are some potential downsides, such as inflation, present research emphasizes the positive influence of remittances on local tourism growth.

Giuliano and Ruiz-Arranz (2009) emphasized the dual potential of remittances and tourism in promoting host nation development. However, it is critical to recognize that the influence of remittances on local tourism is not always favorable. Challenges such as inflation caused by remittance influx must be addressed.

Harnessing the potential of remittances and tourism is critical for maximizing their positive effects on community development. According to Saif-Alyousfi & Saha (2021), combining tourism growth and remittance benefits can boost economic and social advancement in host countries. While Mulyawati et al. (2020), warns against over-reliance on remittances due to the risk of neglecting the tourism sector, others emphasize the significance of balanced economic diversification. Neglecting investment in tourism can lead to poor infrastructure, marketing, and service quality (Blake et al., 2008; Guha, 2013; Christie, 2002; Mora-Rivera et al., 2019).

Furthermore, while it is recognized that remittances can boost household income and consumption, increasing demand for tourism services and attractions, there is a risk of inflation due to the flood of remittances. This inflationary pressure may raise the cost of visiting local tourist attractions, reducing overall spending capability. There is ongoing debate over whether investing in tourism-related ventures and infrastructure through remittances aligns with the local community's sustainable development goals (Zhuang et al., 2019; Sadler & Archer, 1975; Mora-Rivera et al., 2019; Syah & Rustanto, 2018). There is fear that the emphasis on tourism development driven by remittances may overlook the long-term sociocultural and environmental consequences, potentially leading to negative outcomes for the destination.

The positive effects of remittances on local tourist development are well-documented in the literature, it is vital to critically analyze the potential negative consequences and argue for a balanced strategy for utilizing remittances for sustainable tourism development. This necessitates careful analysis of how remittances are employed in the tourism sector to ensure that they contribute to the holistic and long-term development of the local community.

Thus, the study proposes that:

H1: Remittance has a positive and significant impact on local tourism development

2.2.2 Remittance and cultural exchange

The relationship between remittances and cultural exchange is complex, involving both monetary transfers and the transmission of ideas, beliefs, and experiences (Brown, 2006). Remittances can promote cultural exchange by supporting cultural activities and heritage preservation in migrants' home countries while simultaneously bringing cultural practices and knowledge to host countries. However, it is critical to recognize that the impact of remittances on cultural interchange varies depending on the unique setting and migrants' interaction with their cultural communities in their home countries.

Furthermore, the transmission of cultural practices and information from the host country to the home country via returning migrants may not always result in seamless cultural exchange (Levitt & Lamba-Nieves, 2010; Syah & Rustanto, 2018). There is a possibility of cultural clashes and tensions because new ideas and ideals may challenge the home country's current cultural norms and traditions. Moreover, some contend that remittances' impact on cultural interchange may not always promote international tolerance and harmony. Instead, it may lead to the hegemony of particular cultures over others, resulting in power inequalities and tensions within communities (Blake et al., 2008; Sharma, 2008; Guttentag, 2009).

Finally, while remittances can encourage cultural interchange, evaluating their impact on cultural preservation, traditional practices, and intercultural relationships is necessary. Policymakers and stakeholders must carefully consider the potential negative effects of remittances on cultural interaction and work towards programs that encourage a balanced and respectful cultural exchange between the origin and host nations. This approach will be critical in preserving and recognizing the diverse cultural landscapes of both the home and host countries.

Hence, the proposal that:

H2: Remittance has a positive and significant impact on cultural exchange

2.2.3 Cultural Exchange and Local Tourism Development

The synergistic relationship between cultural exchange and local tourism development provides mutual benefits. When migrants direct their remittances towards local tourism consumption, they help the tourism industry, promote cultural interaction, and protect local history (Zhuang et al., 2019). Migrants who participate in local tourist activities learn about their home country's cultural traditions, develop greater respect for their cultural origins, and actively preserve and promote these traditions. This can contribute to revitalizing local cultural traditions and enrich tourism experiences for immigrants and tourists. Concurrently, the tourist business acts as a conduit for cultural exchange, allowing migrants to share their traditions with visitors. Interactions between migrants and tourists can create cultural amalgamations by combining and sharing features from different cultures (Mora-Rivera et al., 2019; Shepherd, 2002; Sharma, 2008).

However, addressing counterarguments regarding the link between cultural exchange and local tourism growth is critical. Critics argue that remittances used for local tourism can commodify culture and heritage (Sharma, 2008; Shepherd, 2002; Blake et al., 2008; Mora-Rivera et al., 2019).

As migrants and tourists participate in cultural activities, there is a risk that cultural practices and traditions will be commercialized and modified to meet visitor preferences, potentially destroying their authenticity and exploiting local history for financial benefit.

Lastly, while the relationship between cultural exchange and local tourist development shows promise for mutual benefit, examining the impact of remittances on cultural commodification and the depth of cultural interchange within tourism contexts is critical. Policymakers and stakeholders should prioritize efforts that preserve the authenticity and integrity of local cultural heritage while encouraging genuine and respectful interactions between migrants, visitors, and the local population. This balanced strategy ensures that the interaction between cultural exchange and local tourism development promotes preserving and appreciating varied cultural landscapes.

H3: Cultural exchange has a positive and significant impact on local tourism development

H4: Cultural exchange mediates the relationship between remittance and local tourism development

3. Research Methodology

This study used quantitative methods to collect and analyze numerical data to obtain statistical results. These approaches provide objective and reliable measurements, making them appropriate for investigating correlations between variables and extrapolating findings to a larger population. A survey research design was also employed for this study. This design allows for large-scale data collection and a detailed study of variable connections (Puspa & Ginardi, 2021; Abdulai & Owusu-Ansah, 2014).

Questionnaires were distributed to selected 500 participants at the dubois centre to collect quantitative data on various factors of interest, along with structured questions and Likert scale assessments ranging from 1 (strongly disagree) to 5 (strongly agree). were administered through

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online platforms such as Google Forms or SurveyMonkey to simplify data collection and analysis. The acquired data was analyzed using statistical software such as SPSS, which allows for descriptive statistics and correlation analysis. Furthermore, the study hypotheses were tested using partial least squares-structural equation modeling (PLS-SEM) in SmartPLS version 3.0. Additionally, the study technique thoroughly examined the available literature relevant to the research topic. This literature evaluation served as the study's foundation, revealing gaps in existing knowledge and highlighting relevant ideas and concepts (Mohajan, 2020).

4. Presentation and Analysis of the Results

4.1 Measurement Model

The results shown in Table 1 confirm the reliability of the measurement methods used in the investigation, adding to the credibility and validity of the study conclusions. The assessment of construct dependability using Cronbach's alpha and composite reliability (CR) shows good internal consistency, with all calculated CRs exceeding Wasko and Faraj's (2005) threshold of 0.70. Furthermore, Cronbach's alpha values for each construct are above the permissible level of 0.70, demonstrating internal consistency. Additionally, the study indicates convergent validity by exceeding the required threshold of 0.50 for average variance extracted (AVE), as shown in Table 1, which includes an overview of reliability and validity scores and factor loadings for specific items.

Table 1. Loading, Reliability, and Validity

CONSTRUCTS AND ITEMS	LOADING	CRONBACH ALPHA	COMPOSITE RELIABILITY	AVE
CE1	0.721	0.813	0.869	0.602
CE2	0.793			
CE3	0.743			
CE4	0.776			
CE5	0.739			
LTD1	0.806	0.867	0.9	0.57
LTD2	0.849			
LTD3	0.756			
LTD4	0.798			
LTD5	0.725			
LTD6	0.71			
R1	0.806	0.821	0.882	0.651
R2	0.831			
R3	0.819			
R4	0.769			

The Variance Inflation Factor (VIF) statistic assesses multicollinearity among indicators (Fornell and Bookstein, 1982). According to Hair et al. (2016), multicollinearity is not a serious concern

when VIF values are less than five. Table 2 shows the VIF values for the study's indicators, proving that each indicator's VIF is lower than the recommended level

Table 2. Indicator Multicollinearity

	VIF
CE1	1.404
CE2	1.901
CE3	2.044
CE4	2.026
CE5	1.408
LTD1	2.551
LTD2	2.886
LTD3	1.869
LTD4	2.044
LTD5	1.856
LTD6	1.792
R1	1.805
R2	1.951
R3	1.87
R4	1.685

According to Ramayah et al. (2018), discriminant validity is the extent to which one construct in the study differs from the others. Two criteria must be met to prove discriminant validity: the Fornell and Larcker criterion and the Heterotrait-Monotrait Correlation Ratio (HTMT). Cross-loading standards are met when the loadings for each indicator are the highest for the specified construction. To ensure discriminant validity, it is established that the square root of the average variance extracted (AVE) values for constructs along the diagonal is greater than the squared correlations with other constructs off the diagonal. Another approach, the HTMT ratio, evaluates the ratio of correlations inside and between constructs, with a value less than 0.9 being acceptable.

Table 3 depicts the Fornell and Larcker (1981) criterion.

Table 3 shows that the investigated constructs meet the criteria for discriminant validity and have acceptable values. Specifically, culture exchange (0.755), local tourism development (0.776), and remittance (0.807) all have square roots of AVEs greater than correlations with other categories in off-diagonal space, indicating discriminant validity.

Table 3. Results of Consistency Reliability and Convergent Validity for the Measurement Model

	CULTEXCH	LOTOUD	REM
CULTEXCH	0.755		
LOTOUD	0.723	0.776	
REM	0.736	0.739	0.807

Note: Values in Italics represent the square root of AVE

Table 4 shows and verifies that the HTMT values for the variables are within acceptable limits.

Table 4. Result for Discriminant Validity (HTMT) for Measurement Model

	CULTEXCH	LOTOUD	REM
CULTEXCH			
LOTOUD	0.827		
REM	0.879	0.868	

4.2 Assessment of Structural Model

Hair et al. (2017) defines the inner or structural model as the relationship between the latent constructs in the model. Following an analysis of the measurement model, it is critical to analyze the structural model to determine the significance of the internal pathways, as highlighted by Ramayah et al. (2018), who emphasize the importance of investigating lateral collinearity among constructs. The coefficient of determination (R²) was calculated to determine the best match. The analysis found R² values of 0.542 for cultural exchange and 0.616 for local tourism development. These figures indicate that remittances account for 54.2% of the variation in cultural exchange, whereas remittances and cultural exchanges combined account for 61.6% of the variation in local tourism development. Meeting Falk and Miller's (1992) recommended cutoff value of 0.10, the findings show that the model produced acceptable R² statistics for the variables. Figure 2 and Table 5 depict the R² results, which exceed the threshold suggested by Falk and Miller (1992).

Table 5. Summary Result of the Coefficient of Determination (R²) for the Endogenous Constructs

	R Square	R Square Adjusted
CULTEXCH	0.542	0.541
LOTOUD	0.616	0.614

4.3 Hypotheses Testing

The research hypotheses below are based on a comprehensive analysis of the current literature and are consistent with the study's main research objectives. These hypotheses are clear statements that predict the relationships or effects of the variables under inquiry. They establish a formal framework for testing and analyzing various components of the study questions. Each hypothesis is designed to reflect the expected results or relationships between various components based on theoretical foundations and empirical evidence from the literature.

These hypotheses attempt to contribute to the advancement of knowledge in the subject by confirming or refuting existing theories and producing new insights and understandings. The study aims to methodically examine and answer crucial research issues by developing hypotheses directly related to the research objectives, thus improving the validity and reliability of the results. Empirical testing is used to illuminate the relationships between variables, contribute to theory development, and provide practical consequences for stakeholders in the relevant domain.

H1: Remittance has a positive and significant impact on local tourism development

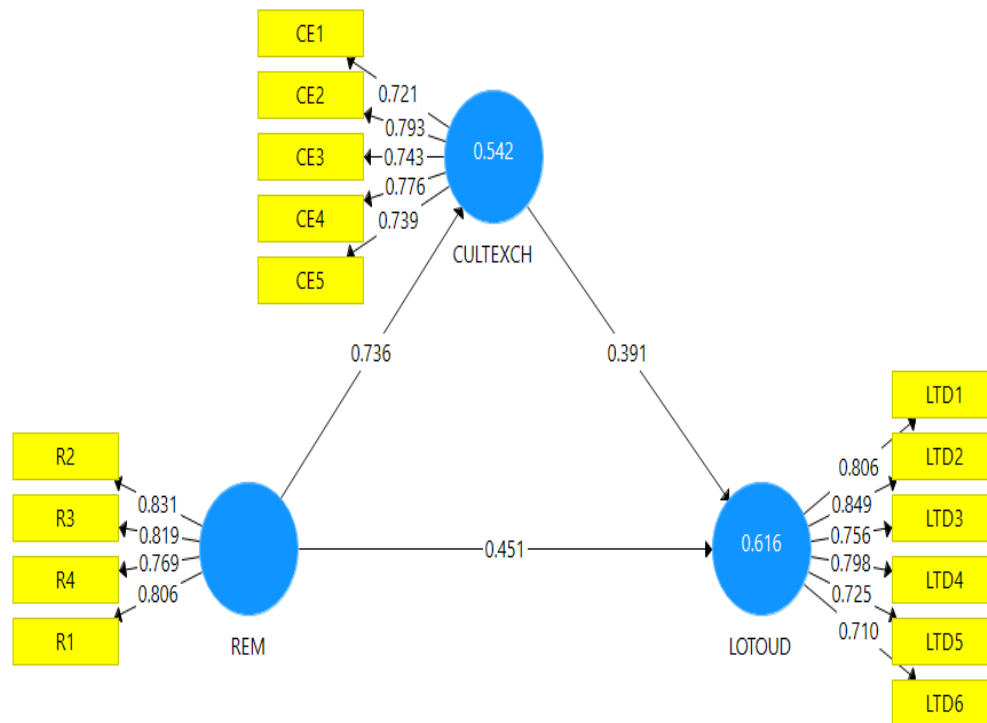


Figure 2. Measurement Model

Hypothesis one aimed to evaluate whether remittances have a positive significant effect on local tourism development. The statistical analysis reveals a positive and statistically significant impact of remittances on local tourism development ($\beta = 0.451$, $t = 10.025$, $p < 0.001$). This implies that as remittances increase, there is a corresponding increase in local tourism development. The high significance level ($p < 0.001$) indicates that this relationship is unlikely to have occurred by chance, highlighting the substantial influence of remittances on fostering the growth of the local tourism sector. Therefore, the study concludes that corporate social responsibility positively affects market power. Hence, Hypothesis 1 was accepted.

H2: Remittance has a positive and significant impact on cultural exchange

The hypothesis aimed to assess whether remittances positively and significantly affect cultural exchange. The analysis reveals that remittances significantly positively affect cultural exchange ($\beta = 0.736$, $t = 30.777$, $p < 0.001$). This indicates that as remittances increase, cultural interchange also improves. The high significance level ($p < 0.001$) highlights the importance of remittances in encouraging cultural exchange. Therefore, hypothesis 2 was accepted.

H3: Cultural exchange has a positive and significant impact on local tourism development

Hypothesis three investigated whether cultural exchange positively and significantly affected local tourism development. The statistical analysis indicates cultural exchange's significant and positive effect on local tourism development ($\beta = 0.391$, $t = 9.214$, $p < 0.001$). This suggests that as cultural exchange increases, there is a corresponding increase in local tourism development. The high significance level ($p < 0.001$) implies that this relationship is highly unlikely to have occurred by chance alone, highlighting the substantial influence of cultural exchange in fostering the growth of the local tourism sector.

Table 6. Direct Relationship Result

	Beta Coefficient	Standard Deviation	T Statistics	P Values
REM -> CULTEXCH	0.736	0.024	30.777	0
REM -> LOTOUD	0.451	0.045	10.025	0
CULTEXCH -> LOTOUD	0.391	0.042	9.214	0

H4: Cultural exchange mediates the relationship between remittance and local tourism development

Hypothesis four assessed the mediating role of cultural exchange between remittance and local tourism development. The statistical results indicate that remittance significantly and positively affects local tourism development (H4: $\beta = 0.739$, $t = 27.898$, $p < 0.001$), suggesting that remittance has a direct impact on local tourism development. When considering the mediating variable of cultural exchange, the effect of remittance on local tourism development remains significant ($\beta = 0.451$, $t = 10.025$, $p < 0.001$). This implies that even after accounting for the influence of cultural exchange, remittance continues to have a significant direct effect on local tourism development.

Furthermore, the indirect effect of remittance on local tourism development through cultural exchange is also significant ($\beta = 0.288$, $t = 9.089$, $p < 0.001$). This suggests that a portion of the effect of remittance on local tourism development operates through its influence on cultural exchange, highlighting the mediating role of cultural exchange in the relationship between remittance and local tourism development. This indicates that the relationship between remittance and local tourism is mediated by culture exchange. Table 7 and figure 3 disclose detailed information.

Table 7. Mediation Analysis Result

Total effect		Direct effect			The indirect effect				
Coefficient	P Value	Coefficient	P Value		Coefficient	SD	T Value	P Value	BI [2.5%;97.5%]
0.739	.000	0.451	.000	H6: R>CE>LTD	0.288	0.032	9.089	.000	0.226 0.346

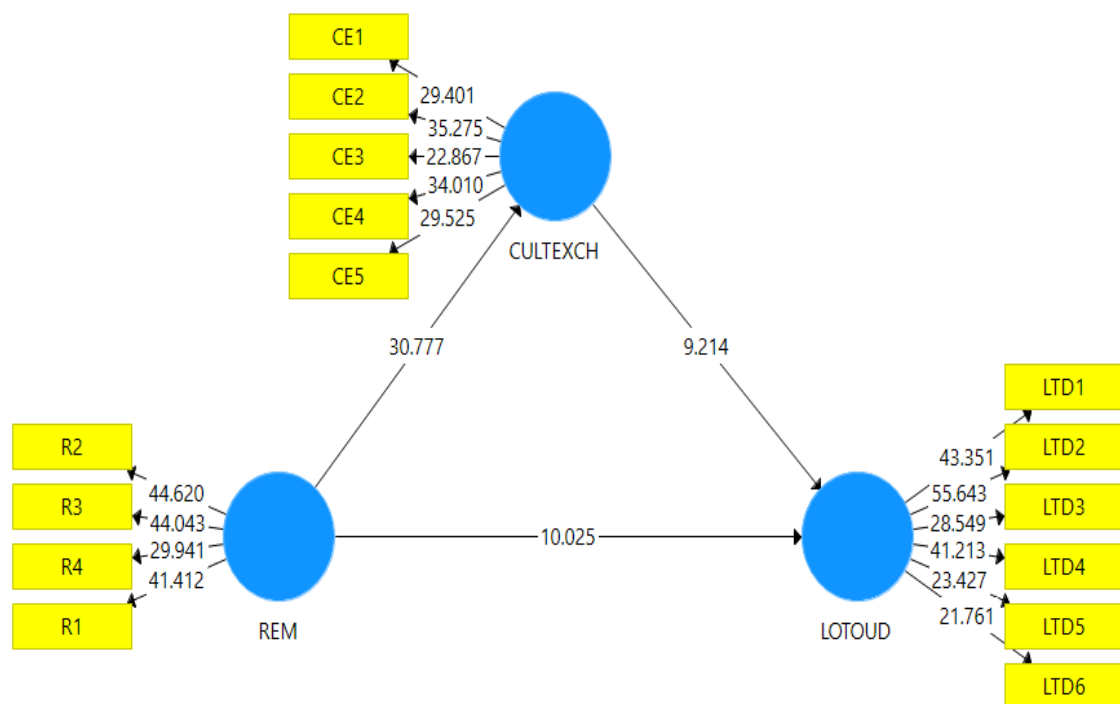


Figure 3 Structural Model

5. Conclusion

The study's findings underscore the important and positive impact of remittances on cultural interaction and local tourism development. The results indicate that as remittances increase, cultural interaction and local tourism development also increase, highlighting the significant role of remittances in boosting local tourism and stimulating cultural interchange (Giango et al., 2022). However, it is essential to acknowledge that while remittances positively impact cultural interchange and local tourist development, there is a need for a balanced approach to cultural preservation and promotion within the tourism context. Policymakers and stakeholders should carefully evaluate the risk of cultural commercialization and the distortion of cultural practices for commercial advantage. Achieving a balance between economic development through tourism and the preservation of authentic cultural heritage is crucial for celebrating and safeguarding different cultural landscapes.

Finally, the study's findings emphasize the significance of initiatives that preserve the authenticity and integrity of local cultural heritage while encouraging genuine and respectful interactions between migrants, tourists, and the local community (Vujko et al., 2021; Giango et al., 2022; Liu et al., 2023; Mack et al., 2023). By focusing on these characteristics, the interaction between cultural exchange and local tourism development can help preserve and celebrate varied cultural landscapes.

Governments should consider opening up remittance channels and reducing transaction costs to promote local tourism. Investing in cultural exchange programs can foster cultural understanding and attract tourists interested in experiencing different cultures, thus promoting tourism growth. To capitalize on the positive effects of remittances and cultural interaction, policymakers should also invest in tourism infrastructure development, such as transportation networks and lodging options. Collaboration between the public and private sectors can maximize the benefits of remittances and cultural exchange for local communities by fostering synergies in tourism development. Empowering local communities through projects such as community-based tourism and business training can help them benefit from tourism driven by remittances and cultural exchange. Additionally, prioritizing sustainable tourism practices is essential to protect the environment and cultural heritage while ensuring that tourism benefits are distributed fairly among locals.

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