

Economic Development, Public Policy & International Tourism: Empirical Evidence from Pakistan Economy

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ABSTRACT

Background: The tourism industry is considered to be a million-dollar industry with its ability to increase the cash flows and ability to sell things for higher prices than usual. Pakistan is a very lucrative country for travellers with an immense amount of diversity in culture as well as weather. There are a number of historic, adventurous, exotic, and peaceful spots in Pakistan to attract travellers and boost their tourism industry.

Methods: This study aimed to examine the influence of international tourism receipts and expenditure on the gross domestic product of Pakistan & also recommend public policies. Time series data for twenty-four years was gathered in this study and regression analysis was applied to examine the hypothesized relationships.

Results: Findings of this study have reflected the significant and positive impact of the hypothesized variables on the economy of Pakistan.

Keywords: Gross domestic product, tourism receipts, tourism expenditures, public policies.

INTRODUCTION

Tourism industry has shown exponential growth throughout the globe in the past few decades (Jiao & Chen, 2019). It is a million-dollar industry which is a way not only to attract people looking for vacation spots but also foreign investors. Growth in the tourism industry is a very

lucrative element for any economy, as it is considered to be one of the most effective ways to contribute to the economy. There are so many examples where countries have gathered a lot of inflows through tourism-related activities (Wondirad, 2019).

Pakistan is one of the few four-season countries which have a diverse culture and a lot to offer to its visitors (Arshad et al, 2018). Pakistan has a tremendous amount of greenery, snow-covered mountains, and seacoast to offer its visitors. The Himalayan, Karakoram, and Hindu Kush range is certainly a jackpot that is there to be explored and can bring millions each year (Dewan, &Gwi-Gon, 2020). There are also historic architectures such as Taxila and Moen-jodaro which is considered to be one of the oldest civilizations discovered by archaeologists (Siddiqui, 2018).

Another very productive aspect with respect to Pakistan's lucriveness for the foreigners is that there are some very important religious spots and shrines in Pakistan that are a tourist attraction for Hindus, Sikhs, and Muslims (Arshad et al, 2018). The facilities provided by the government on events where people come on their pilgrims are however alarmingly demeaning. Effectiveness utilization of the resources to facilitate the unique needs of those pilgrims can bring a huge amount of inflow within the economy (Akbar et al, 2017).

It is however very alarming that despite the lucriveness of the culture, sports, seasons;Pakistan's growth in the tourism sector is very slow and even demeaning in some years. While the economy clearly needs more inflows to be stabilized.

This substantiates the need for a study to understand the way in which this particular industry is able to contribute to the economy. In this study, the effect of tourism receipts and expenditure is gauged on the economy of Pakistan.

LITERATURE REVIEW

In the broader way impact of tourism is explained in three folds by Ennew, (2003), direct, indirect, and induced. Direct effects of tourism are when expenditures by the tourists generate income, employment, and revenues through taxation. Indirect effects occur when the initial income is re-spent on activities that are necessary to provide the products and services to be purchased by the tourists. The induced effect is however a tricky one, as on every stage, some tourism expenditures are lost because they are used to purchase imported goods and other induced expenditures; this may cause a loss of some savings, which are often termed as leakages.

Tourism Receipt

In studies where the tourism-related data is collected for gauging the impact on the economy, the variable of tourism receipt is considered to be the right choice by most of the authors (Vita & Kyaw, 2016; Chiu & Yeh, 2017).

The study conducted by Eugenio et al, (2004) argued that expenditure of foreign tourists might fuel the development and thus contributes considerably to the betterment of the economy. Fayissa et al, (2008) also had similar findings where tourist receipts were found to have a significant impact on the income per capita growth.

The Study Conducted by Liu and Chen, (2016) found that increase in the government budget for fixed capital investment is a method to vitalize the economy. As the productive expenditure has a very significant influence when enhancement of the economic growth is being gauged.

Eugenio et al, (2004) conducted a study where they found that the tourism industry is favorable for the growth of the economies, especially in low and medium-income countries, the findings for the developed countries were however not decisive. Eugenio et al, (2004) further justified their claim by stating that living costs, prices of souvenirs, and other expenses are far lower in developing countries which make them very attractive for tourists. Puah et al, (2014) also reported in their study that price is an important factor and tourist expenditure behavior is affected by it.

Mbaiwa, (2003) claimed that tourism not only enables better economic growth, it is also good for the overall growth of the society. The establishment of various locations to make the tourists' trip smooth, such as; transportation, lodging services, camping, etc., influence the overall economy in both short-run as well as long-run.

The study conducted by Du et al, (2014) has shown that increases in tourism-related activities are associated with the overall increase of the Gross domestic product. It was thus suggested in this study that governmental bodies and NGOs must cooperate and launch a variety of tourism-related products to increase the number of tourists and they should further encourage tourists to spend more on their travel destinations by establishing such activities which make them more and more interested in what they are doing.

Ali & Mohsin (2008) in their study concluded that the tourism industry is a job provider and a significant generator of foreign exchange. The study further claimed that due to the increase in trade-related activities throughout the global arena, it is now very important to make the tourism industry a priority and make it a focus of governmental policies. The industry should be concentrated on, just like the commodities sector. The study further elaborated that tourism is one of the leading sources of foreign exchange; it should be thus properly explored, to make a positive contribution towards the growth of the economy.

Goldin, (2010) concluded in their study that tourism activities are able to create the most amount of employment opportunities for young individuals and also is able to create a lot of

entrepreneurs. It was further found in the study that females are found to be part of a lot of those activities which is certainly very good for the developing economies.

Lau et al, (2008) also concluded in their study that international tourism represents 8% of the aggregate fare receipts and it further represents 5% of GDP contributions within the globe. It is further viewed that the tourism industry is most important as it provides chances for growth in investments. This particular industry has a scope to turn into an economic division that possesses the ability to create profits from sources that do not actually belong to the home country itself.

Sugiyarto et al, (2003) stated in the research conducted by them that financial impacts of tourism due to the globalization process, which serves the acceleration of the tourism industry growth on the entire planet. Developing economies are therefore formulating strategies to increase tourism which can be the vital source of earning foreign exchange. Tourism-related activities are spreading out to provide stability to the economies and make sure to provide opportunities to the residents of the respective economies. Sugiyarto et al, (2003) conducted the literature review to value the economic effect tourism has on the country's approach of the country and their practices to generate cash through tourism.

Tourism Expenditures

The study conducted by Ennew, (2003) concentrated on the tourism expenditures rather than the receipts. Ennew, (2003) considered the aggregate impact of tourism expenditure by assuming that spare capacity exists within the economy, which means that economy is embedded with an ability to expand employment as well as the output when there is a demand from the tourists. Blake and Sinclair, (2003) however pointed out that it is important to consider that if spare capacity is not actually exercised, tourist expenditure might cause an increase in prices rather than income and employment.

Xue-feng, (2012) conducted a study that was primarily based on a comparison of historical developments of international outbound tourism in Japan, South Korea, and Taiwan. The findings of the study revealed that it is likely to have some remarkable development of outbound tourism when GDP per capita is higher. The study further revealed that development within the outbound tourism in Mainland China has outpaced economic development. The reason behind the phenomenon was predominantly is the polarization of the income.

Lee et al, (2010) examined the impact of visa-free entry on tourism demand between the selected regions of South Korea and Japan, the study further estimated the impact of these visa-free travels on tourism numbers. Results of this study showed that there has been a significant increase in the travelers from South Korea to Japan and this had influenced the recipient economy as well as the spender.

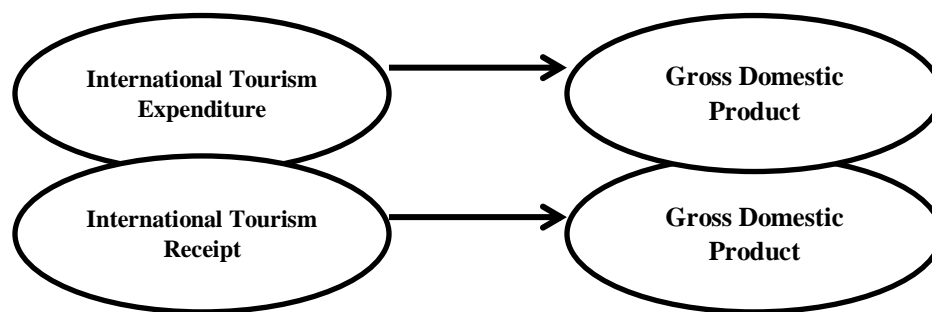
Etzo et al, (2014) investigated the impact of migration on Italian outbound tourism by not giving any consideration to the purpose of visits. Panel data were collected from 65 countries over the period 2005 to 2011. Results of the study showed that Italians residing abroad have a positive impact on outbound tourism. On the other hand, foreign-born citizens residing in Italy are increasing the Italian outbound tourism for trade-related purposes, visiting friends, but not for leisure trips.

Hypotheses

H1: There is significant impact of International tourism expenditure on gross domestic product in the economy of Pakistan

H2: There is significant impact of International tourism receipt on gross domestic product in the economy of Pakistan

Conceptual framework



METHODOLOGY

In this study time, series data is collected for 24 years, starting from 1995 to 2018. To get hold of genuine data, World Bank’s official website has used a source. Furthermore, to analyse the data appropriately, descriptive statistics and regression analysis is applied. Statistical Package for the Social Sciences (SPSS) is used to analyse the data. Descriptive statistics enable us to get an in-depth idea about the basic characteristics of the data. While the application of regression analysis enables the readers to understand the impact of the independent variables on the dependent variables.

ANALYSIS

Descriptive Statistics

Variables	N	Std. Deviation	Skewness	Kurtosis
GDP	24	85145898	0.468	-1.141
ITE	24	875280	0.391	-0.769
ITR	24	191310	-0.115	-1.414

Gross Domestic Product (GDP), International Tourism Expenditure (ITE), International Tourism Receipt (ITR)

The table above shows that the total number of years considered in the study was 24 which made the sample size of study 24. Standard deviation is a quantity that expresses that to what extent each year's value differs from the mean value of all 24 years. The standard deviation in all three variables is quite high, which was expected as the figures that are being scrutinized are represent facts related to a huge economy.

Skewness on the other hand is another statistical measure; it is the degree of distortion from the symmetrical bell curve in distribution. When a distribution has a perfect bell shape, it represents that there is a skewness of zero. Positive skewness is right-skewed and negative skewness is left-skewed. The skewness of zero is desirable in this case as it represents stability in the economy. However, the values calculated in the table above are representing that GDP and ITE are positively skewed, while ITR is negatively skewed.

Alike skewness, kurtosis is also a statistical measure that is used to describe distributions. Distributions with higher kurtosis exhibit that tail data exceeds tails of the normal distribution, while low kurtosis represents tail data that are generally less extreme than the tails of the normal distribution. High kurtosis of distribution implies that extreme positive or negative returns. Graphically the negative kurtosis found in these cases represents that the distribution is flatter than a normal curve with the same mean and standard deviation.

Regression Analyses

In the following part, the results of regression analyses for both models are presented and interpreted.

Impact of ITR on GDP

In the following table the findings of statistical analysis performed to determine the impact of ITR on GDP is presented;

Model	β	p-value
Constant	-94007079.420	.094
ITR	318.255	.000
R square	0.715	

International Tourism Receipt (ITR)

In the table above findings gathered through the application of regression analysis are represented. R square for this model is 0.715, this is 71.5% of the variation in GDP that is explained by the ITR.

Furthermore, the p-value and unstandardized co-efficient are also exhibited in the table above. The p-value in the table above is 0.000 which is certainly lower than the threshold, it is therefore found that there is a significant impact of ITR on GDP. Beta coefficient is interpreted in the following part by translating the values into an understandable mathematical equation. The regression equation for the model is presented below;

The regression equation for the model is presented below;

$$\text{GDP} = C + \beta (\text{ITR}) + \varepsilon$$

$$\text{GDP} = -94007079.420 + \beta(318.255) + \varepsilon$$

The intercept (C) is the expected mean value of GDP when ITR is 0. The impact of ITR on GDP is also found to be positive in nature, furthermore, the equation above exhibits that one unit increase in ITR will cause 318.255 unit increases in GDP.

Impact of ITE on GDP

In the following table the findings of statistical analysis performed to determine the impact of ITE on GDP is presented;

Model	β	p-value
Constant	19529081.734	0.241
ITE	87.481	0.000
R square	0.809	

International Tourism Expenditure (ITE),

In the table above findings gathered through the application of regression analysis are represented. R square indicates how well the model fits the data; it further indicates the proportion of variance in the dependent variable which is being explained by the independent variable-square for the model above indicates the 80.9% of the variation in GDP that is explained by the ITE.

Furthermore, the p-value and unstandardized co-efficient are exhibited in the table above. P-value is a very important measure, as it enables to understand hypothesized relationship. A P-value of less than 0.05 represents a significant impact. The p-value in the table above is 0.000 which is certainly lower than the threshold, it is therefore found that there is a significant impact of ITE on GDP. The intensity of the relationship is however determined through the value of the beta co-efficient. While beta co-efficient are interpreted in the following part by translating the values into an understandable mathematical equation. The regression equation for the model is presented below;

$$\mathbf{GDP = C + \beta (ITE) + \epsilon}$$

$$\mathbf{GDP = 19529081.734 + \beta (87.481) + \epsilon}$$

The intercept (C) is the expected mean value of GDP when ITE is 0. Furthermore, the impact of ITE which is also found to be significant is further found to be positive in nature. The equation above exhibits that one unit increase in ITR will cause 87.481 unit increases in GDP.

CONCLUSION

The findings of this study have enabled us to understand that both the variables which are proposed to have an impact on the economy are found to have a massive effect on it. These findings are consistent with the finding of a number of authors who have found results of similar nature.

Studies conducted by Ali & Mohsin (2008), and Du et al, (2014) also showed that ITR has a positive influence on overall economic prosperity. The findings of Eugenio et al, (2004) were also similar with stress that developing countries are more responsive in the context. The impact of ITE on GDP was also confirmed by the findings of Xue-feng, (2012) and Lee et al, (2010). Although, statistical findings of this study have revealed that the impact of ITR is far more influential when compared with the impact of ITE.

This is phenomenon is however quite obvious where the impact of ITR is observable much more instantaneous. While on the contrary, ITE has a rather long-term effect that's not translated immediately. This can be explained by considering the fact that individuals who travel abroad are likely to get hold of job and investment opportunities abroad and after being settled most of them send money back home in the form of remittance. The impact of ITR is however very immediate and there is no delay in the process. This is the reason that when compared with the impact of ITR, the impact of ITE seems to be less.

It is therefore recommended that policymakers should make policies to increase both inbound as well as about traveling. The prosperity of the tourism sector is certainly going to impact the overall health of the economy which is a very apparent need of the Pakistani economy, which is already under pressure. This is certainly the high time when travelers are locked in their houses for the last few months and right after the end of the dark shadows of COVID-19, they are going to look for places to visit and embrace what they are missing from more than half of the year.

As far as the future line of research is concerned, it is recommended that there is a huge number of studies conducted considering the ITR, while studies with a focus on ITE are very small in number. Hence there is a need of working in order to the expenditure or outbound side of the tourism sector.

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