

Tourism Receipts and Economic Growth: Empirical Evidence from Pakistan

Abdur Rahman Aleemi* & Muhammad Azeem Qureshi

Institute of Business & Technology, Karachi-Pakistan

*Email: azeem.queshi@hotmail.com

ABSTRACT:

Tourism is a prime and one of the largest industries in the world. Over the last two decades, tourism has grown exponentially and is now considered to be one of the essential qualities to support economic development. The aim of this study is to discover the impact of tourism receipts on economic growth of Pakistan. In this study, we found a significant impact by applying regression between Tourism receipts and economic growth (GDP). Our study incorporated data for the last 32 years starting from 1981 to 2013. The results of our study demonstrated that tourism receipts indeed have a significant and positive impact on the economic growth of the country. Further tourism receipts on average contributed for about 0.24% in terms of GDP in the case of Pakistan.

Keywords: Tourism receipts, GDP, Simple Linear Regression.

1. Introduction:

Over the last two decades, tourism has grown exponentially and is now considered to be one of the essential qualities to support economic development (World Tourism Organization, 2005). Tourism encourages people to venture onto short lived vacations and journey for both business and leisure. If we see this

metaphorically Tourism may be seen as the vehicle delivering the occupation and income in both the formal and casual division. Tourism also attracts potential foreign investors which also help to inject positively into the economy. Tourism plays an integral role in any economy as it serves the economy by creating jobs and foreign earning which helps decrease poverty. It can also serve to build economic growth particularly in a nation like Pakistan (Khalil, Kakar and Waliullah, 2007).

Pakistan offers numerous historical and social sites, landmarks and destinations. Pakistani history, culture and heritage is what attracts the locals and foreigners to Swat, Kalam, Malam, Jaba, Shangla, Balakot, Ayubia, Murree, Gilgit, Naran, Kaghan and other mountain ranges like The Karakoram, Hindu Kush and The Himalayas. Pakistan also has a strong presence in the field of eco and safari. However Pakistan's major urban area is not left behind as foreign tourists flock in large numbers to the urban areas of Pakistan as well such as Lahore, Peshawar, Gilgit and Baltistan. These diverse cities have different aspects which portray Pakistan's legacy, culture and traditions. The second largest city of Pakistan is Lahore which attracts both foreign and local travelers also because Lahore is the heart of Pakistani culture. Lahore also holds a collection of historical artifacts

like the Mughal heads and Mughal structures such as the Badshahi mosque, the tomb of Jahangir, Lahore Fort, and Shalimar enclosure and there is a long rundown which if recorded would take an entire day (Khalil et al. 2007).

The area of Khyber Pakhtunkhwa is referred to for its common Excellency, for example its valleys and its fields. The Karakoram expressway is additionally placed in the region of the KPK area. Different urban areas like Karachi which is the largest city of Pakistan is the business focus of the nation. It is the city of Pakistan's founder Muhammad Ali Jinnah and his mausoleum, its architecture is alluring for all tourists. Karachi is also known for its excellent and rich inns, for example, the Pearl Continental, Marriot, Sheraton, and so forth.

1.1 Factors Of Downfall Of Tourism In Pakistan:

There are several factors that owe to the decline of tourism in Pakistan. Some of these factors are:

1.2 Pakistan Travel And Tourism Contribution To GDP:

According to World Travel and Tourism Council (2014, Henceforth WTTC), Pakistan's travel and tourism contribution towards GDP was approximately seven hundred billion which means its total contribution was 3.1 percent in 2013. This significant increase in GDP was owed to industries such as lodging, travel operators, airlines and other traveler transportation administrations.

1.3 Pakistan Travel And Tourism Contribution To Employment:

According to WTTC (2014), Pakistan's travel and tourism contribution towards employment was 1,485,500/- jobs which mean that 2.8 percent of total employment

in 2013 was generated by the Tourism Sector. Forecast for 2014 projected an employment increase of 4.5 percent through this sector.

1.4 Pakistan Travel and Tourism Contribution to Visitor Export and Foreign Tourist Arrivals.

According to WTTC (2014), Visitors into a country also plays a key role in the country's economic growth. Pakistan too plays an imperative role and its visitors are vital components that directly contribute to our travel and tourism trade. In the year 2013 Pakistan generated PKR 87.7 billion through visitors alone. The forecast of 2014 estimates that this number will raise by 9.2 percent and the nation is estimated to draw 906,000/- inbound visitors worldwide.

PAKISTAN	2013 in PKR	2013 % OF TOTAL	2014 GROWTH
Direct contribution to GDP	704.2Bn	3.1	5.3
Total contribution to GDP	163.2Bn	7.1	6.5
Contribution to employment	1,484Bn	2.6	4.4
Total contribution to employment	3,563Bn	6.2	5.5
Visitor export	86.7Bn	3.2	9.2
Domestic Spending	1,039.2Bn	4.5	5.1
Leisure Spending	936.8Bn	2.5	5.4
Business Spending	189.0Bn	0.5	5.8
Capital investment	237.6Bn	9.2	15.5

Table 2: Summary of Tourism indicators from Travel and tourism economic impact (WTTC, 2014)

1.5 The Structure Of Travel And Tourism:

Figure 1.1 Represents a model for the structure and types of travel and tourism. Clearly the reality is much more complex than depicted above. For example, transport operators include:

- Air, Rail, Ferry, Cruise Liner, Taxi, Bus, Coach And Rail Operators
- Transport Operators Offering Transport To The Destination
- Transport Operators Operating Transport Networks within the Destination.

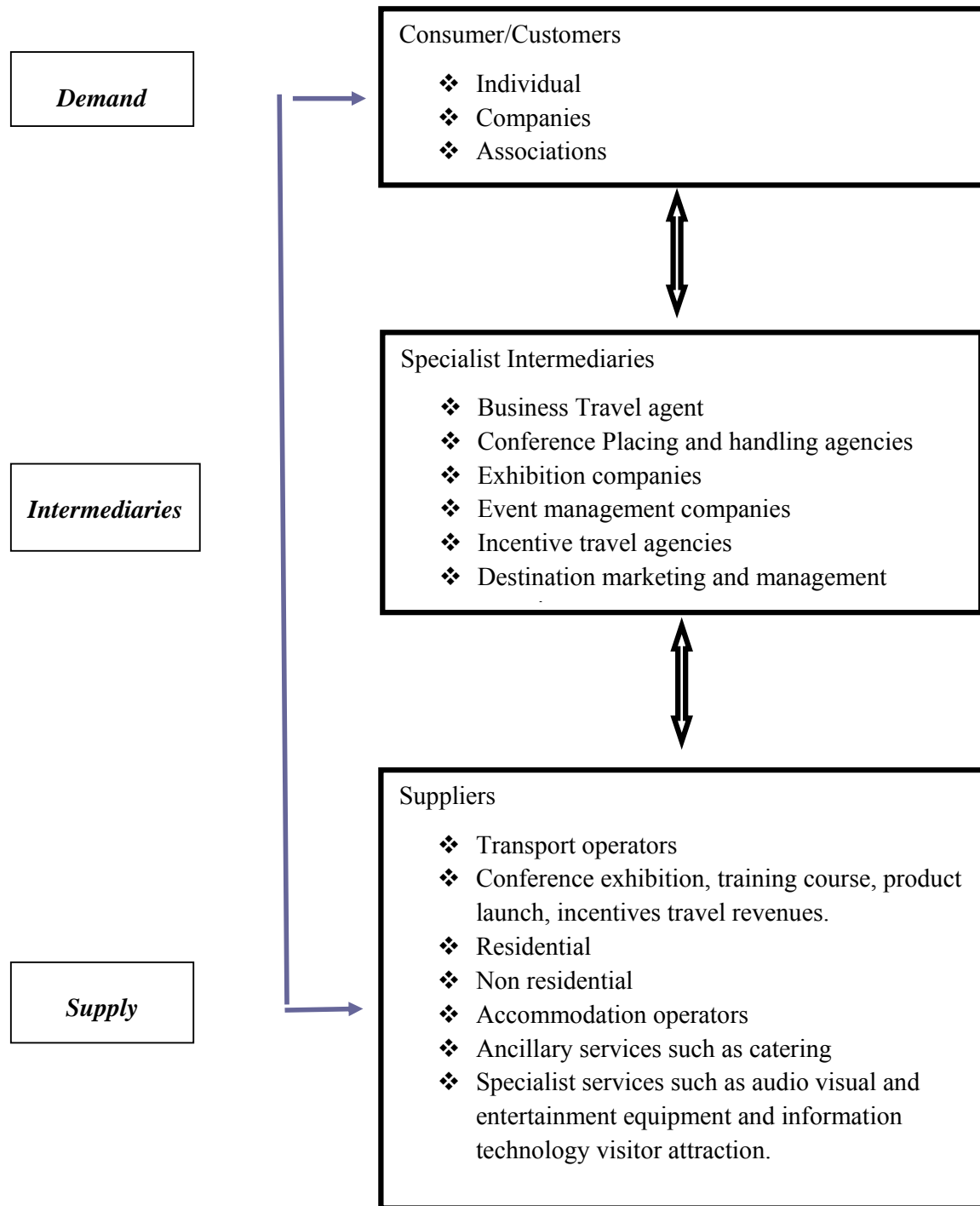


Figure 1.1: The Structure and Types of Travel and Tourism

1.6 Significance of Study:

Tourism can be the best and most lucrative contributing factor that keeps the economies on the right track to economic

growth and development. The more visitors into a country indicate an increase of foreign venture in the country. The purpose of this study is to provide a

complete representation of the importance of tourism to the government and tourism officials. Another reason of study is to make people sentient of the opportunity that lies in tourism. The tourism industry captures a significant market share in a quickly developing and demanding environment. Very few comprehensive studies have been conducted in Pakistan pertaining to the role of tourism and its ability to create economic growth, this study in particular is an attempt to bridge that gap.

Problem Statement:

Tourism clearly stimulates the economy and investments ventures which endorse business and trade activities in the economy. This research is intended to identify the impact of tourism on the economic growth of Pakistan.

2 Literature Review

Archer (1982) examined that the term multiplier describes the final results extracted from initial data versus the economy's growth due to the earnings received from inbound travelers. This is significant to estimate the impact of the monetary growth due to tourism. As a rule, the multiplier if superior will produce more prominent results from what a tourist will spend in the region's economy.

Archer (1985) conducted a study on the impact of tourism on the Mauritian economy in 1980. His findings showed that the multiplier produced a result of 0.9639 and that the employment multiplier was 49 for each million earned in Rupees. It was noted that visitors from West Germany, Switzerland, South Africa and the United Kingdom made a much greater impact on their economy and that visitors from France made a much lesser impact. Archer also pointed out that large number

of visitors did not necessarily produce a larger impact on the economy for example, from the total number of visitors 23% (which is the largest portion) were from Reunion but they generated the least per visitor income.

Archer (1989), studied that affect classification is a monetary approach used to examine the sum of returns, government revenue, service and trade-in generated wealth by the direct and secondary impacts from tourist spending. The direct impact was from the arrangements made through products and excursions which were linked with visitor spending. For example, \$200 spent on accommodation alone would immediately add to the sales of the lodging and hotel divisions. The effect of this transaction would lead to the hotel appointing human resources, paying salaries, generating direct jobs and increase returns.

Armstrong (1996) studied the effect of tourism in the long run for the financial development of Greece. He examined the end-result of GDP, conversation scale and global inbound tourism and he reasoned that a Ganger causality relationship existed between global tourism receipts and their financial growth. Also, that a causal relationship existed between trade-rate and financial development and a moderate connection between investment development and global tourism receipts and between trade rate and global tourism receipts.

Dwyer and Forsyth (1994) concluded that, foreign investment earned from tourism plays a critical part in the positive improvement of the nation's economy. In light of the fact that there will be tourist in huge number means that there will also be an investment in its infrastructure.

Fletcher (1994) stated that tourism is generally an action performed by a tourist and its purpose being consumption. The reality is that a very large portion of tourist earnings is further invested into a particular tourist facility such as betterment of the transportation infrastructure, hotel and lodging, entertainment facilities etc. in doing so, visitors will spend more in these diverse segments in addition to shopping and dining - which are not often linked with tourism. In this relationship, studying the economic contribution of tourism while looking at the United Nations' SNA (System of National Accounts) framework, this can reduce the number of facilities provided by a host nation as non-tourism related segments which will create the possibility of under-estimating the tourism earning and thus its financial impact.

(Glasson et al. 1995) states that to precisely measure tourism is indeed a challenge; it is gauged on the basis of an idea that could justify the precision of the data, which is pinned to the three major ethics that is of social equity, economic efficiency, and ecological sustainability. Tourism is the largest industry of the world which provides book-keeping for about 5.5% of the world's GNP and employment rate is at 6% and rising fast.

Goeldner (1997, p. 58) states that the tourism business is the administrations largest segment with the capacity to impact ecological quality. Travel and tourism helped inject approximately \$91 billion as income into the U.S. financial system in 1998 (World Airline News, 1999), this helped create employment for approximately 16.2 million people. According to the US Bureau of Commerce, Worldwide Trade Administration, more than forty-three million visited the United States in 1998. Tourism business is foreseen as the biggest U.S. private management by 2000.

Goldin (2010) concluded that tourism create the most employment opportunities for the youth i.e. under the age of 25, they represent approximately 40% of all tourism employment. Also, a large portion of them are females. This attention-grabber business in the tourism sector features the professional projects for the youth so as to secure more permanent occupations. Travel and Tourism created 1,494,600 job openings in 2013(4.6%of aggregate job) and this figure to increase by 5.4% by 2014 to 1,579,000(3.6%of aggregate business).

Gumus et al (2007) concluded that tourism plays a highly important role in an economy and this is for both the developed as well as the least developed nations.

Hunter and Green (1995) and Batta (2000), Tourism is interlinked and also impacts the environment leading it to largely investigate conservational implications of volatile tourism. This has lead specialist to believe that a positive and critical relationship exists between deals expanding tourism and in its promotion it can convert into income. For example the conservation of the Arabian Oryx in the Deserts of Dubai, Mohenjo-Daro in Pakistan etc.

Hazari and Sgro (1995), created a growth model in which they demonstrated tourism as an added part to the domestic aggregate demand. In addition they demonstrated the foreign supply of capital and the development in export as reliant on tourism development.

Kakar et al, in his review he shared the relationship that existed between employment and tourism of Pakistan. His aim was establish that tourism generated diverse professions. During the surveys carried out at various travel related

businesses, transportation companies, hotels and airline workplace. For this a questionnaire was designed and the survey was carried out in only two regions of Pakistan namely Abbottabad and Swat and that too privately to hotels and restaurants. Their survey was included amongst other employment sectors therefore they could not obtain even a close to accurate result. Moreover the data gathered and presented was for the number of hotels and restaurants, beds and the number of citizens on a job which was not enough information. Also, the data for the year, month, date and time when these facts and figures were extracted was incorrect.

Lau et al (2008) concluded that since 2008, international tourism represents 8% of aggregate fare receipts and 5% of GDP of diverse nations around the globe. It has been viewed as one of the most important part giving a chance to investment growth. Tourism industry has gotten to be a major economic division that creates outside trade profit in many nations.

Loutfi et al (2000 - 2) concluded that the idea of the monetary effect of tourism is an important addition to the general understanding of the relationship between tourism and the economy. It proposes that there exists a positive connection between tourism growth and financial development, particularly as tourism plays a vital role to develop nations and communities. It serves to lower the country's balance of payments, build levels of financial growth, increase job opportunities, and create tax revenues and income for its nationals.

Mccarty & Serju (2006) concluded that the tourism industry generates revenue for the host country and this can bring to life the investment which is essential to finance its development in various sectors. A few

nations in a bid to accelerate this require their visitors to carry a certain measure of foreign currency for each day of their stay in that country. International tourism also plays a vital role to generate foreign exchange income.

Marin (1992) examines that tourism development is considered when it exhibits a noticeable impact over the general economy. However, observational studies of the link between tourism and monetary development are not detailed enough in tourism writing.

Mitchell and Ashley (2010), proposed that a country could be content without the need to inject huge investments in a tourist destination as their objectives are already being met since they are profiting from enhanced street frame works, hospitals and international transportation center points, such as runways and seaports; all of this helps improve and increase job opportunities. Better employment leads to greater financial success as well as the capacity to further expand useful facilities is also enhanced.

Nunkoo and Ramkissoon (2009), concluded that while tourism improves a city and brings in profits to its locals it also influences inconveniences such as traffic congestion, expanding crime rates, a waste water era and increases the average cost of living.

Sequeira, Nunes (2008), explored that the effect of tourism worldwide on a country's economy is extremely vast and also mentions that nations particularly tourism specialists exhibit quicker growth than others. Tourism as a country's specialization is considered to be the extent of tourism receipts in export.

Shan and Wilson (2001) studied that China and Australia has had a strong association between worldwide travel and universal exchange. Since Korea proposed that monetary increase attracts worldwide travels, it likewise suggests that economic extension of any nation relies on tourism growth.

Stynes (1997) concluded that “organization and business association are more and more concerned in the financial effect of tourism at national, state and nearby levels. “In numerous economies local information data is missing or insufficient (Guidance Tourism 1998).

(Sugiyarto, Blake & Sinclair, 2003) stated that the financial impacts of tourism are taking place within the evolvement of the globalization process i.e. in order to serve the acceleration of the tourism industry’s growth around the world. Tourism industry is expanding immensely and its growth will result in maintain this growth and further evolve the economies of the world for years to come. Developing economies have been approving strategies to increase tourism as a key and vital source of earning foreign exchange. Tourism is spreading out to provide facilities and plays a huge role in the production of essential economies of globalization. The point of this literature review is on valuing the economic effect tourism has on a country, the country’s approach and their practices to cash in on tourism. In order to accomplish this goal, identifying the impact of tourism on an economy was gathered from well-known databases.

Teye et al (2002) concluded local cooperation and groups must be credited for the improvement of tourism as it implies that host members are regularly excluded from arranging, as well as the decision

making process and administration of tourism related projects. Their prohibition is a typical practice in creating nations with top-down improvement culture.

Tooman (1997) researched that tourism has greatly and rapidly increased business but related financial analyses have been quite restricted, mainly on the basis that it is not the only trade and it is better to include organizations from diverse trade classifications. However, a huge portion of the studies since the 1980s has specially calculated the effects of tourism operations on employment, revenue or general financial activity.

Wanhill, Stephen R (1983), concluded that tourism's involvement in financial enhancement has been well noted with several research studies. For some nations that were mainly dependent on essential products in export income, tourism has turned into a significant source of trade income. This has been essential for such nations given their current economic condition. Numerous developing nations have extreme setbacks, especially due to their balance of payment throughout recent decades. Such economies have made tourism play a vital role in improving their economies.

3. Research Methodology and Database

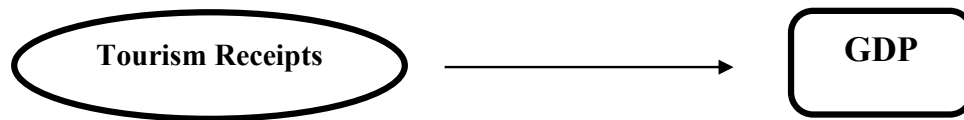
The data in this study is extracted from Tourism year book, Economic survey of Pakistan and Tourism ministry of Pakistan over the period of 1981-2013. Tourism receipt and Gross Capital Formation are used as independent variables as proxies for tourism contribution in the economy and GDP is used as a dependent variable to capture economic growth for the economy of Pakistan. The data is then

analyzed using SPSS under the simple linear regression model. All the data in the model is in natural log form.

3.4 Research Hypothesis:

Ho: There is a significant impact of tourism on economic growth.

3.5 Theoretical Framework:



3.5 Empirical Model:

$$\ln \text{GDP} = \alpha + \beta_1 \ln \text{Tourism Receipts} + \psi \quad (1)$$

Equation (1) is a simple linear regression and in the light of the above conceptual framework, the basic idea is that tourism receipts will lead to an increase or will contribute into the economic growth of the country.

4. Empirical Results:

		TOURISM RECEIPTS	GDP
TOURISM RECEIPTS	Pearson Correlation	1	.895**
	Sig. (2-tailed)		.000
	N	32	32
GDP	Pearson Correlation	.895**	1
	Sig. (2-tailed)	.000	
	N	32	32

Table 2: Correlation Matrix

Table 2, above presents the correlation matrix that indicates that there is a strong and significant correlation between GDP and Tourism receipts at 5% level of significance.

The bivariate or simple linear regression model results are presented in the table below;

MODEL SUMMARY ^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.799 ^a	0.789	0.715	2.0897	1.727

a. Predictors: (Constant), Ln Tourism Receipts

b. Dependent Variable: Ln GDP

Table 3: Model Summary

ANOVA^b

Model	Sum of Squares	Mean Square	F	Sig.
Regression	12.518	6.259	1.433	.037 ^a
Residual	13.101	4.367		
Total	25.619			

a. Predictors: (Constant), Ln Tourism Receipts

b. Dependent Variable: Ln GDP

Table 4: ANOVA

COEFFICIENTS^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error				Beta	Tolerance
1	(Constant)	-15.360	9.528		-1.612	.205		
	Ln Tourism Receipts	0.227	0.052	0.246	4.392	0.000	.010	1.006

a. Dependent Variable: Ln GDP

Table 5: Regression Coefficients

Regression for our model are presented through tables 3 to 5; model summary in table 3, indicates that the model's explanatory power is about 71% as indicated by the adjusted R^2 , which is quite a reasonable value for a bivariate model and a small sample like the one adopted in this study. In addition the

Durbin Watson statistics is also favorable, indicating the absence of autocorrelation. Furthermore the results for ANOVA in table 4 indicates that the overall model is significant at the given level of 5% as the sig value for our estimated F-Statistic is less than 0.05. Moreover the estimated coefficient for our independent variable of

tourism receipts is statistically significant with the expected positive sign, indicating that on average tourism receipt is positively contributing to the economic growth of Pakistan for about 0.24 %. These results are in line with the literature and are quite satisfactory and promising to indicate the importance of tourism and its contribution towards economic growth of the country

5.1 Conclusion:

Tourism has now become exceptional therapy to realize out the stress and apprehension which is now the requirement of modern life style .Societies now prefer variation from their everyday dull style, and want to spend some value memorable time. This study was intended to evaluate the efficiency of the impact of tourism receipts in the economic growth of Pakistan. Empirically speaking tourism receipt has a positive impact on the GDP or economic growth of the country.

Pakistan is known for its natural beauty and for the historical places in the world it has the potential to create better tourism for its county, but certain issues have weakened the tourism industry and it creates volatility in the country, but to turn the industry positive and to gets the demand of tourism back in Pakistan, certain steps should be taken by the Govt. of Pakistan by following the practices and approaches. Govt. should also take necessary steps to make tourism polices and for the security of the people traveling domestically or for the tourist from the foreign countries which will ensure to maintain the tourism in Pakistan. Tourism is one of the most rapidly growing industry in the world, it is the source to create jobs, foreign earnings, income, GDP and helps to promote and give the understanding of the cultures obtain in different parts of the world. However, Tourism has its impact

on the traditions, culture and life spending styles of the people living in that country. It also helps to promote some service doings which includes entertainment, transportation, hospitality, communication and much more.

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