SOCIO-ECONOMIC DETERMINANTS OF TOURISM DEVELOPMENT IN PAKISTAN

Prof. Dr. Abdul Ghafoor Awan[1], Maryam Fatima Siddique[2]

ABSTRACT- *The objective of this paper is to explore the association between the socio-economic factors and the tourist industry Pakistan. We used secondary time series data for the period 1980-2017. Number of Tourist Arrival has taken as the Dependent variable while Gross Domestic Product, Infrastructure (length of roads and railway tracks), Terrorism (number of terrorist incidents per year), Tax Revenue and Development Expenditure are taken as independent variables. In order to determine both long term and short term relationship among the variables, we have used ARDL and ECM. The Bound test techniques. Our results show that tax concession, better infrastructure, control of terrorism and development expenditures have positive impact on the arrival of number of foreign and native tourists and consequently GDP will also increase. Thus, we suggest that the Government of Pakistan should take proper initiatives to generate valuable foreign exchange through tourism by providing necessary incentives to tourists' promoters.*

Keywords: *Tourism, Development Expenditure, Tax Incentives, GDP.*

1. Dean, Faculty of Management and Social Sciences, Institute of Southern Punjab. Ghafoor70@yahoo.com.Cell # +923136015051.
2. M.Phil scholar, Department of Economics, Institute of Southern Punjab. maryamsiddiqui50@yahoo.com

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1 INTRODUCTION:

1.1. Background of study:

Tourism activities are contemplated as a crucial component for economic growth, generating job opportunities and increasing national income. Cortes Jimenez.et.al, (2009) had also underpinned the part of the tourism industry in the growth of economy and development. Tourism is a source of alleviating poverty, job creation, improved infrastructure, better ecology particularly for developing economies. According to the United Nations World Tourism Organization (UNWTO), the tourist arrival counted in year 2014 was 48 million and in monetary term tourism industry generated $1245 billion annually. The number of tourists in 2017 was increased to 1602 million and revenue receipt was around $2 trillion globally. These figures show huge potential in tourism industry

According to the competitiveness report of travel and tourism (WEF), 2017 Pakistan has been ranked 125 out of 137 countries and is on improving track gradually. The contribution of tourism in GDP in 2017 was 7.4% and in employment generation it is 6.5%. It generated Rs.2.48 billion annually. The contribution of tourism industry in GDP and employment of different countries are given in Table 1, which shows that Pakistan is far behind from even small countries like Maldives, Malta, Croatia, Sri Lanka and Jamica.

Table 1: Contribution of tourism in GDP in Different Countries

Countries	% share in GDP	% Share in Employment
Maldives	76.6	34.7
Macau	65.3	53.6
Malta	27.1	28.3
Albania	26.2	24.1

Iceland	34.6	36.0
Jamaica	32.9	29.8
Croatia	25.0	23.5
Thailand	21.2	15.5
Philippines	21.1	19.2
Morocco	18.6	16.6
Mexico	16.0	16.4
Austria	14.8	16.1
Azerbaijan	14.6	13.2
Sri Lanka	11.6	11.0
United Arab Emirates	11.3	9.5
China	11.0	10.3
United Kingdom	10.5	11.6
Saudi Arabia	9.4	9.1
India	9.4	8.0
Pakistan	7.4	6.5

Source: Travel and Tourism Economic Impact, 2017 and World Travel and tourism
        contribution, 2018

When the tourist arrival increases in a country it increases the export level of that country as well. Because of higher exports, the foreign reserves tend to show an upward pattern hence, helping to reduce the current account deficit and importing high tech products for enhancement in the development of the country. The industry of tourism is more labor intensive because it utilizes more labor than that of capital. Eliat and Enave, (2004) disclosed that the tourism industry is labor intensive. Some of the empirical research works had indicated towards the tourism-led-growth hypothesis i-e (Hye and Khan, 2012), (Katircioglu, 2009) while other empirical

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researches elaborated the bidirectional linkage between growth and tourism (Wilson and Shan, 2001), (Durbarry, 2002).

Another crucial character of the global tourist industry is that it invigorates the investment for infrastructure and generates national income. Besides all these positive activities done by global tourism, it also is engaged in spreading tranquility and consonance around the globe by connecting the variety of cultures and generating a common outlook. Global tourism succors the economy by two processes for generating a high level of national income. Secondly, it generates competiveness among business firms. Growth in the tourism industry is one of the vital sources of raising per-capita income and job opportunities in both formal and non-formal sector. (Zortuk, 2009) and (Oh, 2005) elaborated that for alleviating the poverty at household level tourism can be a master plan. Correspondingly, Global tourism can be contemplated as an efficacious vehicle for economic growth. Frechtling (2001) had employed an economic theory of tourism demand and it was indicated that the number of travelers is the quantity of goods and services used in fact. While and up to the definition of demand for tourism is perturbed, this idea came out by the simple definition of demand in the theory of economics, desire to buy a commodity along with the power to buy it. In an empirical study, it was scrutinized that the goods and services are not transported but the consumers and the utilization of tourism and tourism production appears at the same time (Schulmeister,1979).

1.2 Objectives of the Study:

The objectives of study are outlined in the following: -

► To study the socio-economic determinants which are affecting tourism in Pakistan?

►To explore association between socio-economic determinants and tourism in

Pakistan.

► To assess the impact of Terrorism (no. of terrorist incidents) on the Tourism (number of tourist arrival) in Pakistan.

► To suggest how to improve the tourism industry in Pakistan.

1.3. Significance of the study

All the empirical studies had elaborated the significance of the role of the tourism industry in the economic growth of the economy of a country. Tourism provides better job opportunities. Some of the studies have investigated the hypothesis of tourism led growth by using a variety of economic techniques and methodologies, on the other hand, some of the researches had been conducted to see the association among the terrorism and tourism. None of the studies has been conducted on both of the social and economic factors collectively effecting tourism with special reference to Pakistan. So, we propose to fill this research gap by finding out the combined effect of economic as well as social determinants on the tourist arrival in Pakistan.

2.LITERATURE REVIEW

The review of previous literature reflects the analyses of previous work that comprise notable research published by the scholars on a particular topic. It enables us to deliberate and scrutinize the disseminated information in a specific discipline. Khalil (2007) studied the association between the economic growth of an economy and tourism. The main focus of the study was to analyze the role of the industry of tourism in the short term. The outcome of the study disclosed that tourism is requisite for economic growth. Tounsa (2008) examined the causal factors for tourism demand in the Eastern Caribbean Currency Union (ECCU). The results of the study showed that number of the airlines and FDI growth has a great positive impact on tourism and tourism shocks, tourist attacks and hurricanes have an unfavorable effect on tourist arrival. Munchaponda and Pimhidzi (2008) have scrutinized the elements regulating

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global tourism demand for Zimbabwe. This country is a spotlight because it has one from World's Seven Wonders. This study's outcome showed that formation of taste, cost of travelling, exchange of foreign currency and some particular events sequel the global tourism notably. This study recommends encouraging special events in the country to ameliorate global tourism. Khadaroo (2009) explored the importance of

transportation for tourism in Mauritius. The outcome from the study manifests the stockpile of transportation capital is encouraging the tourist arrival in both short and long terms. Yang (2009) examined the causal factors of tourism for China. The outcomes from that research revealed that the principal determinants such as relative income, origin country's population, and geomorphology distances are some of the notable causal determinants for the tourism in a country. Cost of transportation is the significant element for the arrival of tourists in China. Hanafiah (2010) scrutinized the association between trade and tourism demand in Malaysia. The outcome of the empirical work had divulged that the tourism demand was interconnected with trade. The researchers suggested the policymakers to foresee the decisions to increase tourism. Malik (2010) has analyzed that tourism is the most vital industry. As Pakistan has a great potential for tourism this study disclosed that there is a long term association between GDP growth and number of tourists. Alsarayreh (2010) scrutinized the terrorism effect on the industry of tourism in foreign countries. The results from the study described that many reciprocators contemplate terrorism as the main cause of depletion in global tourism. Fourie (2011) recognized the reasons that brought nonresidential and residential tourism to continent Africa. The outcome showed that the policymakers have a major role in encouraging tourism Africa. Jalil (2011) examined the long term association between global tourism and the development of the economy in Pakistan. The study suggested that a big need for government involvement for making tourism industry strong in Pakistan. Panagiotidies (2012) has also examined the tourism-led growth hypothesis. Raza and

Javaid (2013) have examined the impact of terrorism activities on economy of Pakistan. This work revealed that an indirect relationship between activities of terrorism and tourism is found in short and long term.

3. CCONCEPTUAL FRAMEWORK

The theory of tourism demand states that how many people intenerate or desire to intenerate from native country to foreign country within a given period of time. Tourist arrival, tourist outlay or tourists' receipts are the ways to estimate tourism demand. The commodities used by tourists such as infrastructure, dwelling restaurants, tour operators, etc. provoke tourism demand. Government has a major role in generating tourism demand through advertisements, betterment of infrastructure and providing more safety and security to the tourists. By all these things the government gives an encouraging picture of their native country in modeling and predicting for the demand for tourism.

Pakistan is also included in developing countries and it has a great requirement for the tourism sector development. Pakistan is a spotlight for the tourist all over the world as it has a great potential tourist being a breathtaking place of glamorous landscapes, huge peaks, and numerous great cultures. Hye and Khan (2012) in the hypothesis of tourism-led growth in an empirical work for Pakistan pointed out the holy places dispersed throughout the country make Pakistan a spot light for tourists. Being a striking beauty Pakistan has four different seasons, glorious valleys, northern hilly areas, great deserts in the central and southeastern area and a coastal region of (1000) km alongside Arabian sea. A big attraction for foreign tourists is alpinism and hiking. The Bronze Age culture, Indus valley civilization such as Mohenjo-Daro, Harappa enclose much of worth and Punjab which is the land of five rivers and Punjabi culture is one of the oldest cultures of the world history. These are the amaze ball traditional properties of Pakistan. Many escapade areas and sky touching peaks situated in the northern areas where four of the chief mountain ranges Karakorum, Himalayas, Hindukush, and Hindu-raj have met. The private

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sector is investing more in the tourism industry and part of government is left as an auxiliary. Because private is supervising all of the business industries related to tourism such as resorts, restaurants, hotels, tourism agencies and tourism operators. (PTDC) Pakistan tourism development Corporation is with exiguous hotels and fewer facilities within the territories. (DTS) Department of tourist services is sustaining the quality and a bunch of hotel businesses. The main purpose of the ministry of tourism

is to regulate and legalize the policies and to administer the sector fully. Aim of the tourism sector is to utilize fully the vast capacity of culture, traditional and religious tourism in Pakistan to its optimum level of the job opportunities, increase in foreign earnings, poverty alleviation and enhancement of country's image. Pakistan has a great potential for tourism and a perfect destination for tourists, therefore, it can play a major role in enhancing Pakistan economically.

4. RESEARCH METHODOLOGY:

4.1 Type of data:

This work explored the association between socio-economic determinants and tourist arrival by employing the ARDL approach and ECM. This study had taken data from WDI for the time period of 1980-2017. Handbook of statistics 2017 and Global Tourism database. All the data employed in this study was time series yearly data and all the variables were employed in logarithmic form. The data span of the research was from 1980-2017. The data of gross domestic product was converted into the current local currency unit.

4.2 Selected Variables:

The number of tourist arrival in Pakistan was affected by Real GDP, Roads and Railway tracks in proxy of infrastructure, Tax Revenue, development expenditure and No terrorist incidents in proxy of terrorism.

4.2.1 Dependent variable:

No of tourist arrival

4.2.2 Independent Variables:

i. Real GDP,

ii. Roads and Railway tracks in proxy of infrastructure,

iii.Tax Revenue,

iv. Development expenditure.

v. No terrorist incidents as proxy of terrorism.

4.3. Specification of Model:

No of Tourist Arrival=f (Real GDP, Terrorism, Infrastructure, Tax revenue, Development expenditure)

The functional form of the model is:

$$LNT = f(LGDP, LRD, LRW, LNOTI, LDEXP, LTR) \qquad \ldots \ldots \ldots \ldots (1)$$

$$LNT = \beta_0 + \beta_1(LGDP) + \beta_2(LRD) + \beta_3(LRW) + \beta_4(LNOTI) + \beta_5(LDEXP) + \beta_6(LTR) + \varepsilon$$

(2)

Where:

LNT= Log of number of tourists

LGDP= Log of Gross domestic product (Real GDP, constant LCU)

LRD= Log of Length of Roads (in proxy for infrastructure)

LRW= Log of Length of Railway tracks (in proxy for infrastructure)

LNOTI= Log of number of terrorists (terrorist incidents annually)

LDEXP= Log of Development Expenditure

LTR= Log of Tax Revenue

Stationarity of all the employed variables was tested first to affirm that ARDL should be applied or not or there should be applied some other econometric technique. Unit root test (ADF) was used to check the stationarity of the variables being present in the model, whether the variables are stationary or non-stationary.

5.RESULTS AND DISCUSSION

5.1. Augmented Dickey-Fuller Test

The unit root test was employed to test the stationarity of variables, whether they were stationary or non-stationary.

Table 2 Unit Root Test

Variables	Test for Unit Root	By Including	t-statistics	Prob*	Remarks
LDEXP	Level	Intercept	-0.458605	0.8881	
	Level	Trend and Intercept	-2.547051	0.3053	
	Level	None	2.762335	0.99881	
	First Diff	Intercept	-8.434834	0.0000	I(1)
LGDP	Level	Intercept	-3.061659	0.0384	I(0)
LNOTI	Level	Intercept	-3.148810	0.0315	I(0)
LRD	Level	Intercept	-1.081530	0.7128	
	Level	Trend and Intercept	-1.690585	0.7354	
	Level	None	-0.534807	0.4784	
	First Diff	Intercept	-5.848052	0.0000	I(1)
LRW	Level	Intercept	-0.799072	0.8077	
	Level	Trend and Intercept	-2.130608	0.5125	

	Level	None	-1.058190	0.2566	
	First Diff	Intercept	-6.002908	0.0000	I(1)
LTR	Level	Intercept	-1.752814	0.3973	
	Level	Trend and Intercept	-2.363492	0.3911	
	Level	None	8.351069	1.0000	
	First Diff	Intercept	-5.808599	0.0000	I(1)
LNT	Level	Intercept	-1.504361	0.5204	
	Level	Trend and Intercept	-4.101493	0.0161	I(0)

Source: Authors Calculations

Table 2 showed that no of tourist arrival, no of terrorist incidents and real gross domestic products are stationary at I (0) while the Tax revenue, Development Expenditure, roads (km), railway tracks (km) are stationary at I (1) and it clearly proved that we could use ARDL approach because the variables were mixture of stationary at level and first difference.

5.2. Bound Test

As we had explained earlier that when variables were stationary at I (0) and I (1) means there is a mixture then it became possible to apply ARDL technique. For applying ARDL we had to apply the bound test to see that the proposed model was correct or not. For results, we compared F-statistics with the bound values of upper I (1) and lower I (0).

Table 3 Bound Test Results

Null Hypothesis: No Long run Relationship Exists		
Test statistics	Value	K
F-Statistics	5.7856	3

Critical Value Bounds		
Significance	**I (0)**	**I (1)**
10%	2.72	3.77
5%	3.23	4.35
2.5%	3.69	4.89
1%	4.29	5.61

Source: Based on Authors Calculations

The table 3 showed that the result of the F-statistics is 5.7856 which is greater than both of the lower I (0) as well as upper I (1) bound values and revealed that there exists a long run association between variables.

5.4. Long-Run Analysis

The long-run analysis has explained the effect of independent variables on the dependent variable. The results are shown in the table (4) below:

Table 4 Results of ARDL Model

Variables	Coefficient	Std.Error	T.Statistics	Prob.
LNT(-1)	1.1533	0.1851	6.2301	0.0000
LGDP	3.9310	0.9235	-4.2564	0.0002
LGDP(-1)	3.9927	0.8732	4.5720	0.0001
LRW	0.0214	0.0395	0.5420	0.0003
LRW(-1)	0.0346	0.0154	2.2377	0.0005
LNOTI	-0.2601	0.0324	-0.8389	0.0000

LNOTI(-1)	-0.789	0.7896	3.9850	0.0000
LRD	2.7771	0.1289	-2.2135	0.0533
LRD(-1)	2.7869	0.04219	2.0764	0.0003
LDEXP	1.9805	0.0623	-2.0317	0.0000
LDEXP(-1)	1.9916	0.9832	0.3489	0.0003
LTR	-0.0656	0.0871	-0.7539	0.4568
C	-1.7343	2.2397	-0.7743	0.4448

source: Based on authors Calculations

The above table (4) explained the empirical relationship between the dependent and independent variables. The results show long-run positive association between GDP and the number of arrival of tourists in our Pakistan. The LGDP's coefficient value represented the 1% change in the GDP could brought an increase of 3.9310% in the number of arrival of tourists. Our results confirm the hypothesis of economic-growth led by tourism. Our outcomes were compatible with the results of (Katircioglu, 2009). Our results reveals negative relationship between number of tourists' arrival and terrorist activities. The data shows one unit increases in terrorist activities would reduce number of tourists by 26%. Our results are consistent with the results of Raza and Javaid, (2013). The variable LRD and LRW showed the positive relationship between infrastructure development and no of tourist arrival. The data showed that one unit change in the LRD and LRW will raise the number of tourist arrival by 2.7771% and 0.0214% respectively. The outcomes of our study are compatible with the work of Naude and Saayman, (2005).

The variable LDEXP had shown a positive association with the no of tourist arrival. The coefficient value of the LDEXP has shown that one unit change in the development expenditure will increase the no of tourist arrival by 1.9805%. Our outcomes were supported by the study of Ming Che Chou, (2013).

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Tax revenue is the income generated by the Government in the form of taxation. The variable LTR had shown the negative association between tax revenue and no of tourist arrival. The coefficient value of variable LTR shows that one unit change in tax revenue will decrease no of tourist arrival by -0.0656%. Our outcomes are consistent with the results of Deloitte and Touché, (1998).

5.5 Error Correction Model

After finding out the long run relationship now we try to explore the short-run association among variables in the model. The short run relationship had been ascertained by using the Error Correction Model. The results of this model is given in Table 4:

Table 5 Results of Error Correction Analysis

Variable	Value of Coefficient	Standard Error	t-Statistic	Prob.
D(LNT(-1))	-0.032494	0.031134	-1.043682	0.3112
D(LNT(-2))	-0.164026	0.045509	-3.604261	0.0022
D(LGDP)	0.050981	0.028647	1.779606	0.093
D(LGDP(-1))	0.222416	0.078575	2.830606	0.0115
D(LGDP(-2))	-0.002052	0.006677	-0.307364	0.7623
D(LRW(-1))	0.012747	0.009063	1.406518	0.1776
	-0.194604	0.073108	-2.661872	0.0164

D(LRW(-2))				
D(LNOTI)	0.043856	0.13393	1.292547	0.2135
D(LNOTI(-1))	0.122555	0.058993	1.907936	0.0734
D(LNOTI(-2))	-0.8544386	0.17319	-5.048708	0.0001
D(LRD)	-0.194604	0.073108	-2.661872	0.0164
D(LRD(-1))	0.158449	0.065775	2.408959	0.0276
D(LRD(-2))	0.043856	0.03393	1.292547	0.2135
D(LTEXP)	0.002747	0.079063	1.406518	0.1776
D(LTEXP(-1))	-0.184604	0.073108	-2.661872	0.0164
D(LTEXP(-2))	0.012747	0.009063	1.406518	0.1776
D(LTR)	-0.194604	0.073108	-2.661872	0.0164
D(LTR(-1))	0.158449	0.065775	2.408959	0.0276
D(LTR(-2))	0.043856	0.03393	1.292547	0.2135
CointEq(-1)	-0.984386	0.17319	-5.048708	0.0001

Cointeq =   LNT -
(2.1164*LGDP-
0.0683*LRW   -
0.0448*LNOTI + 0.2859
*LRD + 2.6523*LTEXP
-1.7252*LTR + 25.8542
)

Source: Authors Calculations

The table 5 disclosed the short term relationship between variables. The results reveal that the error correction coefficient value is -0.984386 which demonstrate that in the case of short term shocks the divergence from long term could

be corrected in 9 months and 8 days approximately. There was a positive association between GDP and the number of tourists in short term. It means if development in the country is increased the number of tourists will also increase. While with lag one and lag two GDP is associated positively and negatively respectively.

The length of railway tracks was associated with the number of tourist arrival positively at lag one and it shows that as much as the tracks will be having the good structure there will be more tourist arrival, while at lag two it is negatively associated with the no of tourist arrival. The No of terrorist incidents was positively associated with the number of tourist arrival in the short term while with lag one and lag two it was associated positively and negatively respectively. The length of roads had a negative association with the no of tourist arrival in the short term. While at lag one and lag two it had a positive association.The development expenditure had a positive relation with the no of tourist arrival in the short run, showing if there would be more development it will attract more and more tourists. While with lag one and lag two it was negatively and positively associated respectively. The tax revenue was negatively

associated with the no of tourist arrival in the short term. This showed if there would be high taxes there will be fewer tourists coming to the country. While with lag one and lag two it was negatively associated.

6. CONCLUSIONS:

From the above results we conclude that tourism is an important source of foreign exchange earnings, job creation, expediting economic activities as well as interaction among different cultures. Pakistan has a lot of historical sites and natural wonders and the Government should take policy initiative to encourage tourism through media and other social media channels. Our results prove that increase No. of tourist will bring positive impact on GDP and foreign exchange reserves. Similarly, safety and rebate in taxes for tourism also enhance the No. of tourists' arrival in Pakistan. Our results also reveal the fact that terrorist incidences discourage foreign tourists to visit Pakistan because they feel insecurity. So the Government should take necessary measure to eliminate terrorism. The Government should follow the policies of other countries where huge number of foreign tourists visit every year and spend billions of dollars there on shopping, hoteling and travelling.

7. POLICY RECOMMENDATIONS:

In order to enhance tourism and promote this industry the following recommendations are made: -

 1. Government should organize seminars, workshops, shopping festivals in the northern areas and promote the importance of archeological sites to attract foreign tourists.
 2. Government should encourage private sector to invest in tourism industry through fiscal incentives.
 3. Government should develop necessary infrastructure in the northern areas to facilitate foreign and local tourists to enjoy leisure at minimum cost.
 4. Government should ensure the safety and security of foreign tourists to enable them to move freely.

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5. Business firms must establish their shopping outlets at tourists' sites in order to promote local products. In this way, they will be able to increase their profit.

6. Government should provide fiscal incentive to tourist promoters.

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CONTRIBUTION OF AUTHORS AND CONFLICT OF INTEREST

This research work was carried out in collaboration between two authors.

Author 1: Prof. Dr. Abdul Ghafoor Awan is his first Ph.Ds in Economics from Islamia University of Bahawalpur-Pakistan and second in Business Administration from University of Sunderland, U.K. He contributed in this research paper by way of guiding author first about title selection, data analysis and statistical techniques. He edited and gave final shape to the manuscript. In order to know about his other fields

of research please look at his Web of Science Researcher ID ☐ [M-9196 2015 or his Profile at Google scholar.](#)

Author 2: Mariam Fatima Siddiqui is an M.Phil scholar at Department of Economics, Institute of Southern Punjab. She designed the study, collected and analyzed data. She wrote first draft of the manuscript under the supervision of author 1.

Both authors read the manuscript carefully and declared no conflict of interest with any person or institution.