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COVID-19 OUTBREAK AND ROLE OF TOURISM DEVELOPMENT ON ECONOMIC GROWTH IN PAKISTAN

**Normah Abdul Latip¹, Rehmat Karim², Azizan Marzuki³, Faqeer Muhammad⁴,
Attaullah Shah⁵, Veronica Yilret Nanle⁶, Mohd Umzarulazijo Umar⁷**

*^{1,2,3,4,5,6,7} School of Housing Building and Planning
UNIVERSITI SAINS MALAYSIA*

Abstract

The current research aimed to find out the effect of tourism development on economic growth in Pakistan for the period (1995 to 2017) by using Canonical Regression Analysis (CCR) and Dynamic Least Square (DOLS) method. In addition, a unit root test is used to find out the static nature of the variables, and for the robust check, the authors utilize the Fully Modified Least Square (FMOLS) method. The results of the CCR and DOLS shows the key role of tourism development on growth, and FMOLS confirms these findings. In addition, the contribution of financial development is insignificant and positive. However, inflation harms economic growth, which depicts that the government of Pakistan will face severe challenges to achieve the targeted level of growth in future. In addition, an outbreak of Coronavirus Disease (Covid-19) is another challenge that will cause a significant decline in tourism receipts.

Keywords: Covid-19, Tourism Development, Economic Growth, Pakistan

¹ Senior Lecturer at University Sains Malaysia. Email: norma_abdlatip@usm.my

INTRODUCTION

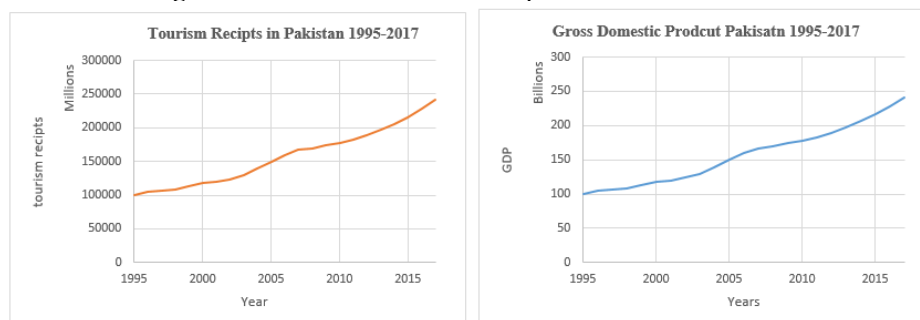
Tourism influences the global economy significantly, and currently, tourism accounts for 10% of the world's GDP and Jobs (WEF, 2020). Tourism expenditure implies the induction of new cash into the country's economic system (Archer & Cooper, 1998; Fletcher, 1994), which has a multiplier effect on the host country's economy. The travel and tourism industry has been boosting up at 4% annually, which is a significantly higher growth rate (WEF, 2015). Tourism has multipliers impact on hotels, wholesalers, restaurants, retail shops, air transport, road transport, labour such as porters, tour guides and hotel managers (Rana, 2015), and it also supports infrastructure development, culture and peace development in a region (Bahuguna, 2005). Tourism can also be counted as an essential element of green economy objectives (UNWTO, 2008). Tourism development increases the income of households, jobs creation in both formal and informal sectors and it also assists the family to come out from the poverty trap and put families on development path (Oh, 2005; Zortuk, 2009). In the rural and mountain regions of the world, tourism is the primary source of households' livelihoods. The flow of tourists in these regions enables the local populace to set up their business and earn their living (Ali and Yousuf 2019; Ali et al., 2017). Such initiative would also lead to women empowerment (Ali et al., 2016). International tourism significantly influences the economic growth of Pakistan (Manzoor et al., 2019; Jalil, Mahmood and Idrees, 2013). Therefore, the objective of the current study is to investigate the relationship between tourism development and economic growth in Pakistan. Moreover, the effects of Covid-19 are also highlighted in the study.

LITERATURE REVIEW

Tourism is one of the world's major economic sectors. It is the third-largest export category after fuels and chemicals in the global economy. For some countries, tourism can represent over 20% of their GDP. Tourism supports and provides livelihoods for millions of people in developing and developed economies. The flow of tourists to tourists' destinations has been increasing significantly over the last five years owing to improve law and situation and tourism-friendly policies of the current government. In the context of Pakistan, according to World Travel and Tourism Council (2018), in 2017, the direct contribution of travel and tourism to Pakistan economy was PKR 930.9 billion, which is 2.9% of the total Gross Domestic Product (GDP) 2017. The council forecasted that the share of contribution of travel and tourism to the GDP of Pakistan will increase 5.8% per annum during the period 2018-2028. In terms of employment generation, travel and tourism directly supported 2.5% (91.49 million jobs) of the total employment of Pakistan in the year 2017, and it remained 2.8% in 2018. It has been forecasted

by 2028 travel and tourism sector will directly generate 2.008 million jobs annually in Pakistan economy.

Figure 1: Trends of Tourism Receipts and GDP in Pakistan



Source: (WDI, 2017)

However, the outbreak of Covid-19 worldwide has severely negative consequences on the travel and tourism sector, and this pandemic has created a state of uncertainty in the world economies. The World Travel and Tourism Council (2020) forecasted that the coronavirus pandemic could reduce fifty million jobs worldwide in the tourism and travel sector. It has also warned that Asia is expected to suffer the most. The international travel industry could be negatively impacted by up to 25% in 2020, equivalent to the loss of three months of travel. Further, once the COVID-19 pandemic is over, it could take up to ten months to recover the travel and tourism industry. According to UNWTO (2020), a 20% to 30% decline in international tourists' arrival is expected in the year 2020, and this could induce a loss to 300 to 450 USD billion in global tourism receipts. COVID-19 is causing disruptions in imports and exports of Pakistan, which could cause a loss of up to 4.64% in GDP (PIDE, 2020).

METHODOLOGY

The study is quantitative; therefore, it used secondary data to determine the relationship between variables. This research investigates the effects and long-run relationship between Pakistan's tourism and economic growth. The proxy for tourism development and growth is a gross domestic product. Similarly, financial development is measured by m2 as a percentage of GDP. Lastly, the annual consumer price index measures the variable control inflation. The research period is 1995 to 2017, and data is acquired from World Development Indicators (WDI). Initially, the researchers utilized the unit root test for exploring the stationary/non-stationary variables to know the order of the integration. Later, Canonical Cointegrating Regression (CCR) and Dynamic Least Squares (DOLS) are utilized to inspect tourism development's influence on economic growth.

Lastly, for robustness check, the Fully Modified Least Square Method (FMOLS) is employed and the data is processed in E-Views 10.

The proposed regression model is given below;

$$\text{growth}_{i,t} = \beta_0 + \beta_1[\text{tourism}]_t + \beta_2[\text{conditioningset}]_{i,t} + \text{uit} \quad (1)$$

Where, inflation (inflat) and financial development (findev) are control variables in the research

$$\text{growth}_t = \alpha + \text{tourism} + \text{findev} + \text{inflat} + \quad (2)$$

ANALYSIS AND FINDING

The average of tourism receipts is 20.46% with a maximum of 20.84% and the minimum tourism receipt is 20.59%. Similarly, during the study period, the maximum inflation is 20.29% and the minimum inflation is 2.53%. On the other hand, the probability value of Jarque-Bera is more than 0.05 which shows that variables; growth, tourism, find and inflate are normally distributed (Table 1).

Table 1: Descriptive Statistics

	<i>growth</i>	<i>toursim</i>	<i>findev</i>	<i>inflat</i>
Mean	25.74643	20.45748	49.80920	8.038529
Median	25.79378	20.59430	49.86215	7.598684
Maximum	26.20747	20.84283	58.86769	20.28612
Minimum	25.32990	20.01399	38.59470	2.529328
Std. Dev.	0.273389	0.262787	5.356454	4.471212
Skewness	0.008141	-0.318666	-0.266924	0.845179
Kurtosis	1.708681	1.499624	2.478470	3.457656
Jarque-Bera	1.598279	2.546599	0.533780	2.938977
Probability	0.449716	0.279907	0.765757	0.230043
Sum	592.1679	470.5220	1145.612	
Sum Sq. Dev.	1.644317	1.519256	631.2151	
Observations	23	23	23	23

Source: Authors 2021

Canonical Regression Analysis (CCR) shows that tourism receipts have a significant and positive contribution to economic growth in Pakistan which matches the findings of (Jalil, Mahmood, & Idrees (2013); Adnan Hye & Khan (2013) and Khalil, Kakar & Malik (2007). Results revealed that a 1 % increase in tourism receipts enhances growth by 1.02 % in Pakistan, however, the lockdown of the economies around the globe due to Covid-19 significantly reduce the tourism receipts, which would reduce the growth further (Table 2). Moreover, the

impression of financial development on growth is positive and insignificant. While, inflation is retarding economic growth similar to the studies of (Barro, 1995; Andres & Hernando, 1997; Stockman, 1981) which indicate that in the upcoming year's government, could not able to achieve the desired growth in Pakistan.

The recent lock has created demand-pull inflation on one hand and the other hand supply pulls inflation is also expected in the economy due to hoarding for-profit motive.

Table 2: Estimation Results

Canonical Cointegrating Regression (CCR)				Dynamic Least Squares (DOLS)		
Variables	Coefficient	t-Statistic	Prob.	Coefficient	t-Statistic	Prob.
<i>toursim</i>	1.020357	7.164756	0.0000	0.971283	5.306179	0.0011
<i>findev</i>	0.008681	1.254267	0.2258	0.009845	1.083376	0.3145
<i>inflat</i>	-0.032048	-5.734382	0.0000	-0.028160	-3.003997	0.0198
R-square		0.868467		0.988395		

Source: Authors, 2021

Similar results are obtained from DOLS, where tourism receipts enhance growth significantly and positively. An increase of 1% in tourism receipts will increase the growth by 0.97 %, which is almost close to the findings of CCR. At the same time, financial development has positive but insignificant, and the influence of inflation on economic growth is positive and significant. The research findings show the long-run association between tourism and growth and contribution of tourism is significant and positive. Similarly to the earlier results, an increase of 1 % in tourism receipts in Pakistan will enhance the economic growth by 1.04 % (Table 3). In line with former studies, inflation is unsuitable for economic growth, which needs to be controlled for long-run growth. Lastly, the effect of financial development is insignificant and positive in contrast to the studies of (Schumpeter 1911; Goldsmith, 1969; Beck & Levine, 2004; Jalil & Ma, 2008). The study of (Mhadhbi 2014) also shows the absence of the role of financial development in growth.

Table 3: Robust Analysis

Variables	Coefficient	t-Statistic	Prob.
<i>toursim</i>	1.042685	7.680174	0.0000
<i>findev</i>	0.006763	1.115303	0.2794
<i>inflat</i>	-0.030737	-5.749027	0.0000
R-square		0.876766	

Source: Authors, 2021

CONCLUSION

FMOLS method for robustness check is employed, and outcomes of the Canonical Regression Analysis (CCR) reveal the significant impact on economic growth but due to continued lockdown due to Covid outbreak substantially reduced the tourist arrivals in the international market which directly affected the tourism receipts. During the lockdown, all modes of transportation were not in operation; including the domestic flights and international flights, railway service, bus, truck, and vehicles transports, entire educational, business, sports and religious institutions were closed, and human resources working to the tourism and transportation industries were also to face the worst situations. Additionally, since growth is directly related to financial development but inflation in the national economy hinders the overall increase in economic activities, which indicates a problematic situation for the government to maintain a desirable economic growth in Pakistan. Moreover, the Covid case has created demand-pull inflation is predicted in the national economy. Although international tourism badly affected Pakistan, domestic tourism increased significantly in Pakistan, especially in the northern part. As per the government of Gilgit-Baltistan, around 1.379 million domestic tourists visited the northern mountainous region, which becomes almost equal to the population of the entire Gilgit-Baltistan, which needed to be treated as sustainable tourism development.

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