



RESEARCH PAPER

The Impact of Public and Private Investment on Tourism in Pakistan: A Statistical Study from 1995 to 2020

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ABSTRACT

This study examines tourism in Pakistan. Tourism has long been an important part of any economy, and it is currently the most major and expanding business. Tourism has long been a critical component of economies worldwide, with the contemporary period viewing it as the most significant and rising business internationally. Pakistan can capitalize on its tourism industry, but government investment is crucial for its growth, potentially boosting national income. Investment in tourism can be public or private. The research examines Pakistan's investment and tourism from 1995 to 2020, utilizing yearly data through basic statistics, and unit root tests. The vector auto-regression (VAR) model is then applied to investigate these variables. This study's findings play important roles in improving Pakistan's tourist economy. The results support a long-term relationship between the factors studied. Furthermore, the findings show that both governmental and private investment have a good influence on tourism in Pakistan.

KEYWORDS Economies, Growing Industry, Pakistan, Tourism

Introduction

Tourists are those who wish to discover a new environment and are willing to leave their familiar surroundings. These people usually engage in a variety of activities, regardless of how close or far the environment is. Tourists are visitors who may engage in tourism activities while visiting another location. Tourism decided to use the word 'visitors' rather than 'residents' to describe people who visit another nation. It defined two sorts of visitors: Tourists were defined as temporary visitors who spent at least 24 hours in a location. Their visit might be characterized as leisure if they are there for fun, health, sports, vacation, study, or religious reasons. Alternatively, travelers, including cruise passengers, may be categorized as temporary visitors if they stay at a location for less than 24 hours. However, these classifications exclude domestic tourists (Aldebert, Dang, & Longhi, 2011). The Institute of Tourism, which was renamed the Tourism Society in 1976, defined tourism as the short-term movement of people to locations other than their customary places of residence and employment. As a result, tourism includes the movement of people for whatever cause, such as day trips or excursions. The Tourism Society and the Worldwide Network of Tourism Experts (AIEST) arranged the 1981 International Conference on Leisure and Recreation Tourism in Cardiff, where they described tourism as "particular activities chosen by choice and undertaken outside the home environment." "It's not always necessary for visitors to spend the night away from home. The United Nations World Tourism Organization defined tourism as "the actions of individuals traveling to and staying in areas outside of their typical surroundings for no more than one straight year for leisure, business (Leiper, 1979).

Tourism and Significant Aspect

It's crucial to recognize that there are two categories of travelers: Some people travel for employment. Personal excursions can be taken for a variety of reasons, including education, sports, health, religious pilgrimage, and visits to friends and family. The first group has little influence over whether or not to travel, as well as where to go. Business travelers have few choices for location and travel schedule. In general, their travel is not designed to enjoy the destination's attractions and services. Business travel is often scheduled on short notice and for specific and limited periods of time; the itinerary may regularly be as brief as (Buhalis, 1998). Because of these factors, business travelers prefer frequent, constant transportation, efficient, dependable services, and first-rate accommodation and eating options when they arrive at their location. Business travelers often have less financial concerns about their vacations because their employer may pay for them. Higher costs will not deter people from traveling, nor will reduced prices encourage them to travel more often. As a result, demand for business travel looks to be inflexible (M. I. Arshad, Iqbal, & Shahbaz, 2018). Leisure travel is perfect for budget-conscious people. Lower vacation rates often increase the amount of tourists visiting certain destinations. Frugal tourists often seek low-cost trips. As a result, consumers may be ready to postpone their trip or book well ahead of time if it implies a significant reduction in their travel expenditures. As disposable income in rich and emerging economies has increased, travelers' pricing flexibility has diminished. Long-distance travel, cruises, expensive winter sports vacations, and special interest travel are growing increasingly popular among travelers (Sofronov, 2018). Investing is crucial for achieving sustainable productivity in the short and long term, and it also reduces unemployment within a country. There are primarily two forms of investment: private and public. Both types are essential for economic growth since public investment creates many jobs and paves the way for private investment. Moreover, investment leads to an increase in capital since it allows for the creation of new capital (Yescombe, 2007). However, Pakistan's investment rate is comparatively lower than other countries worldwide. Specifically, in gross capital formation, Pakistan lags behind other emerging South Asian nations, such as India and Bangladesh.

Gross Domestic Investment (GDI) is the measure of physical investment used in computing GDP in the measurement of nations' economic activity.

Table 1
Gross Investment at Percentage of GDP of Developed Economies, n=57 years

Countries	1970s	1980s	1990s	2000s	2010-2017
Canada	24.22	22.318	19.89	22.02	24.24
UK	24.93	22.02	19.131	20.70	19.89
USA	22.89	22.50	22.143	20.030	20.03

Source: World Bank (2018-2019)

Table 1: shows that investment ratio in developed countries are never be less than 20 percent, which indicates the importance of investment in developed countries.

Table 2
Gross Investment at Percentage of GDP of Developing Economies, n=57 years

Countries	1970s	1980s	1990s	2000s	2010-2017
China	34.022	16.134	19.351	25.255	28.531
Indonesia	17.622	26.259	27.290	24.338	34.159
Malaysia	40.95	37.104	28.243	28.034	28.834
Singapore	24.256	32.360	35.446	22.912	24.889
India	19.641	23.461	27.093	36.148	34.354

Pakistan	16.259	18.747	18.0752	17.049	15.298
Srilanka	18.967	24.877	25.180	27.304	32.901
Iraq	32.102	22.134	22.766	20.392	20.982
Kuwait	20.392	18.698	19.169	16.557	18.157
Lebanon	26.894	23.924	24.544	-----	-----

Source: World Bank (2018,2019)

In a 2016 study by (muhammad, (2010)) revealed that the economic health of Pakistan was dissected with a focus on its poverty levels. Muhammad analysis revealed worrying statistics through the measurement poverty index (MPI), highlighting that a staggering 60% of Pakistanis struggle to purchase cooking oil, and 48% have limited access to education, failing to complete even their primary schooling. Additionally, 38% of the population resides in single-room dwellings, and a third lack basic healthcare access. Researcher points to these metrics as clear indicators of the widespread poverty afflicting Pakistan, posing a significant stumbling block to its economic prosperity.

Despite its wealth in natural resources, including diverse soils, bodies of water, mountain ranges, fertile agricultural land, and rich mineral deposits, Pakistan sees minimal investment, especially when compared to other developing nations. This scarcity of investment hampers efforts to tackle economic challenges like poverty and unemployment, despite the country being a potentially attractive destination for investors.

Furthermore, tourism is pinpointed as a viable avenue for economic enhancement. Tourist spending on airfare, lodging, food, and shopping boosts local demand for goods, thereby spurring production and investment. This chain reaction can elevate GDP and income levels, fostering economic growth and aiding in poverty reduction. Yet, despite its rich natural endowments, Pakistan's tourism sector remains underdeveloped, contributing a mere 2.7% to the GDP – a figure that could significantly increase with proper investment and development strategies(Qayoom, (2008)). The global rise in travel interest underscores the potential for job creation and economic expansion in tourism-oriented economies through strategic policy and development efforts, emphasizing tourism's role in promoting economic, environmental, and social well-being.

The study aimed to investigate the effects of public and private investment on the tourism sector, utilizing tourist arrival data (TA) and investment figures from World Development Indicators. It comprised a literature review, variable explanations, methodology overview, and statistical analyses—including descriptive statistics, correlation, and unit root tests—conducted using Vector Auto Regression techniques to derive its conclusions. The findings, discussions, and conclusions are presented in the final section of the research, offering insights into the potential impacts of targeted investments in tourism on Pakistan's economic landscape.

Literature review

The literature contains numerous international and national studies on tourism and investment, yet there is a lack of separate analysis of public and private investment in Pakistan's tourism sector. Notable research includes (Eeckels, 2012) study the relationship between tourism and GDP growth rate in Greece, utilizing spectral analysis and VAR technique to analyze the fluctuation in GDP and conclude that tourism income significantly influences GDP. Additionally, (Sana Naseem)study in Saudi Arabia found a long-term relationship between tourism and economic growth using cointegration regression and Granger causality tests. The World Travel and Tourism Council (WTTC) indicated that tourism contributes 2.8% to world GDP and 4% to total investment.

In the case of Pakistan, al(M. I. Arshad, Muhammad & Shahbaz, Muhammad, 2017) conducted an important study on tourism, concluding that it has a significant association with other industries in the national economy, leading to major indirect earnings and enhancing foreign investment, trade opportunities, private investments, local development, and public infrastructure. They also highlighted Pakistan's rich potential for tourism due to its cultural, geographical, and biological diversity. Similarly, (Khalil, 2007) study on tourism and economic growth in Pakistan found that economic growth increases in the short run with tourism growth, emphasizing the government's ability to generate employment, revenue, and increase local residents' income through tourism.

Such evidence is crucial for addressing economic aspects, identifying the suitability of public versus private investment, and recognizing the potential impact on employment, revenue, and socio-economic issues in developing countries like Pakistan.

(Hasni, 2021) investigated tourism, uncovering compelling facts. They noted that in 2019 the global count of social media users reached 3.48 billion, signifying an 8% increase from the previous year. Social media platforms have become indispensable in shaping corporate and product strategies, particularly within the tourism industry. They provide a convenient means for travellers to share their journeys, transforming the dynamics of seeking tourist information. Acknowledging the significance of involving customers in developing services to maintain and expand the client base, further researchers have delved into introducing a modified Technology Acceptance Model (TAM) to gain a deeper understanding of social media's role in tourism. This modification emphasizes the substantial impact on users' behavioral intentions, suggesting that for an online travel platform to be perceived as valuable, it must align with user values and be engaging, informative, and user-friendly. The insights from this study provide a roadmap for managers and policymakers to enhance Pakistan's tourism through the strategic use of social media, focusing on its ease of use and usefulness to attract more visitors and increase revenue. This research also outlines how the pandemic and the rise of virtual tourism tools could reshape the global tourism landscape, notwithstanding the challenges faced by tourism-reliant sectors such as airlines, transportation, and hospitality due to COVID-19.

According to (Ahmed, 2022) research, Pakistan's tourism sector holds immense growth potential, attributed to the country's diverse range of high mountains, serene lakes, and stunning natural landscapes, which appeal to both domestic and international visitors. Tourism not only generates revenue but also plays a pivotal role in showcasing the rich culture of a country, making it a crucial aspect of Pakistan's development strategy. However, the wide diversity in its cultures, traditions, and practices has unfortunately hampered Pakistan from reaching its maximum potential in tourism. To elevate Pakistan to the top ranks of global tourist destinations, it must navigate a host of challenges within the tourism sector. This paper delves into the hurdles faced by the tourism industry, drawing on research conducted within Pakistan. Findings suggest that issues related to security and counterterrorism have negatively impacted the nation's travel and tourism sector. Nevertheless, there is a growing consensus that Pakistan is transforming into a friendly and secure space for all tourists.

This research holds significant importance in exploring fresh evidence of the relationship between tourism and public and private investment. Most researchers focus on the connection between tourism and economic growth. Economic growth essentially entails increasing the productive capacity of the economy, which can be achieved through investment. Investment comes in two forms: public investment and private investment. Hence, this research will examine the impact of public and private investment on the number of tourists in Pakistan.

Material and Method

This study has taken time series annual data of 26 years from 1995 to Data is collected from the Economic Survey of Pakistan, 2022. Different techniques have been used to analyses the data, like Views 10 and MS Excel. This study has used Augmented Dickey-Fuller (ADF) to check the stationary of data. According to the result of stationary data VAR approach has been used to analyze the relationship between the variables. The Vector Auto regression model is a statistical model which describes the evolution of multivariate linear time series with k endogenous variables. The evolution of these endogenous variables in the system is considered not only as a function of their history but as a function of the lagged values of all endogenous variables.

Results and Discussion

Pakistan must address several key issues to achieve sustainable growth in the tourism industry. This includes fostering cooperation between government officials and the local society, creating a welcoming and amiable environment, and upholding political and economic stability. Political stability is particularly crucial, as instability may deter potential tourists. Additionally, countries with advanced communication technologies tend to be more appealing to tourists. Furthermore, the results of the empirical Vector Auto regression (VAR) model underscore the significance of investment in enhancing tourism in Pakistan. Both private and public investments have exhibited a positive and substantial impact on tourist arrivals in Pakistan, emphasizing the equal importance of both forms of investment in promoting a healthy tourism sector. Public investment plays a pivotal role in facilitating private investment; for instance, the construction of public infrastructure such as roads and motorways can stimulate the establishment of private services such as restaurants, shops, and rest areas, thereby further enhancing tourism in the country. Therefore, the government needs to bolster both public and private investments to catalyze tourism in Pakistan, fostering economic growth within the nation.

Objectives: Public investment has a positive impact on tourism in Pakistan

$$\text{Tourism} = (f) I^{\text{pub}} + I^{\text{priv}}$$

In functional form

$$T^{\text{TA}} = \alpha + \sum_{i=0}^{T1} \alpha \Delta T_{A \ t-1} + \sum_{i=0}^{P2} \alpha \Delta \text{PRI}_{A \ t-1} + \sum_{i=0}^{P3} \alpha \Delta \text{PUB}_{A \ t-1}$$

I^{PRI} = Private investment
 I^{PUB} = Public investment
 T^{TA} = number of tourist arrival

Empirical Findings

Table 3 indicates that the variables Private Investment and public investment, are stationary at Level 1(0). In contrast, tourism in Pakistan is stationary at first difference 1(1).

Table3
Augmented Dikey-fuller unit root test of selected variables

Variables	Unit root Results at constant	Unit root Result at first difference
Tourism	-0.794298 (0.8027)	-7.037484 (0.0000)
Private Investment	-2.9817 (0.0499)	
Public Investment	-3.190264 (0.0327)	

•Values in parentheses () indicates probabilities and * indicates

Probability is <5%.

- The Akaike Information Criterion determines lag lengths with a maximum of 1 lags.

Table-2 shows the results of the VAR analysis. The value of R-squared (i.e. 0.977) implies that the selected independent variables explain about 98 per cent of the variations in tourism. Furthermore, the Value of Adjusted R^2 also indicates that the model fits well. At the same time, the significant value of F-Statistics indicates that the equation as a whole is statistically significant. Furthermore, the table shows the VAR estimation data, which indicates that private investment has a positive and significant impact on tourism in Pakistan.

The data shows the positive and significant impact of public investment on the tourism on Pakistan.

- The data shows the significant and positive impact of private investment on the tourism, so hypothesis 1 is accepted.
- The data shows public investment's significant and positive impact on tourism, so hypothesis 1 is accepted.

Table 4
Vector Auto-regression Estimates (dependent variable is a Tourism Receipts)

Variables	T statistics	Probability
The private investment impact	-2.123	0.017
The Public Investment Impact	-2.68	0.085

Source: Economic Survey of Pakistan 2022.

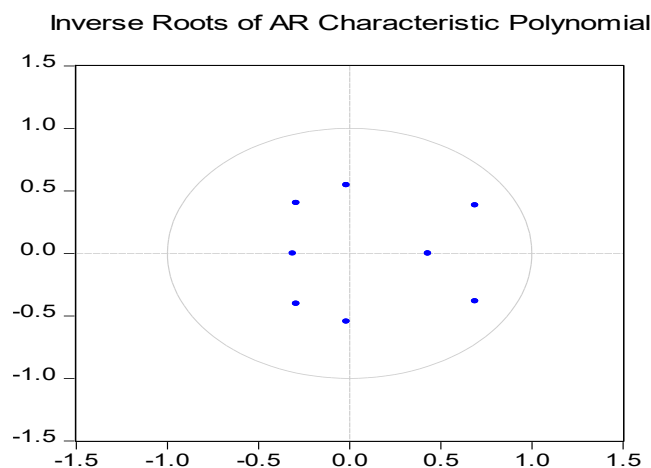
Statistical Measures Results

R-Square: 0.977

Adjusted R^2 : 0.9404

F-Statistics: 30.832 (0.000)

The AR polynomial has models of less than one and lies inside the unit circle, which confirms that VAR estimated model is stable.



Conclusion

The tourism product is mixed in character. Tourism covers all purchases, views, experiences, and feelings from beginning to end. It provides a wide range of services, including transportation, accommodation, attractions, financial services, tourist publications, and tour guides. It's important to keep in mind that the total is greater than the sum of its parts while defining the many aspects of the tourism offering. This suggests a reciprocal dependence between tourist goods and sub-products. If additional sub-products (like hotel) are not accessible, then providing transportation alone may not be beneficial. If there are no accessible attractions, basic facilities are meaningless, and vice versa. Additionally, a bad experience with one sub-product lodging might affect how a visitor feels about another sub-product a sightseeing excursion.

Recommendations

Finally, venues should constantly deliver high-quality visitor services. Tourism service providers must prioritize identifying travelers' requirements and preferences to assure their pleasure.

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