

## **Impact of Globalization and Tourism on Economic Growth: Fresh Evidence from Pakistan**

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### **Abstract:**

*The world's cultural, social, and political territories are owned by globalization. Globalization has substantially impacted the worldwide expansion of the tourism industry. Our research intends to investigate the long-term and short-term implications of tourism and globalization on Pakistan's economic growth. In addition, the study confirms the long- and short-term linkages between tourism, globalization, and economic growth. Long-term and short-term statistics indicate that tourism and globalization contribute to Pakistan's economic growth. Therefore, policymakers must develop sustainable environmental policies that attract tourists by providing a secure environment and promoting natural tourist destinations globally, which helps attract tourists.*

**Keywords:** Globalization, Tourism, Inflation, Capital, Economic Growth

### **I. Introduction**

Nowadays, tourism plays a significant role in countries' economic development. Tourism is the process of time spent away from home while using commercial services to get relaxation, pleasure, and enjoyment. Tourism creates good wellness in the country. Tourism positively affects the economy. Tourism is the major contributor to the Gross domestic product of most countries. Tourism contributes positively and significantly to the foreign exchange reserves and provides jobs on a large scale. It is the most successful and profitable business in this Global World.

Domestic and International tourism are two main divisions of tourism. There is no specific period required to go for a tour. The main component of tourism is travel to

an area far from your residence and not in your region. Further, there are two types; Elite and Mass tourism. Elite tourist always prefers luxury things to enjoy the trip, mentally prepared and independently. A naturalist wants to share his experience within his circle regarding local conditions, accommodations, meals, sights, and others. You all know that tourism is a global industry. It contributes to the domestic economy and links in agriculture, building, transportation, handicrafts, and entertainment sectors. The tourism sector also employs a large scale. Tourism is a significant source of earnings for many developed countries. Tourism contributed 6.1% to the World's GDP in 2021. The tourism industry contributed 5.7% to the GDP of Pakistan in 2019.

There are different types of tourism which are religious, archaeological and historical, ecotourism, and adventure tourism. Religious tourism involves the visit of tombs, mosques, and other sacred buildings and places for satisfaction (Yeoman, 2009). In Pakistan, Islam, Hinduism, and Buddhism are the main religions. Buddhism is also the birthplace of Sikhism. Founder of Sikhism Baba Guru Nanak, worship places such as Gurdwaras in Nankana Sahib and Hasanabdal attracts all the Sikh community worldwide.

Pakistan is the homeland of ancient civilizations. Indus Valley civilizations like Harappa, Mohenjo-Daro, and Mughal activities attract many archaeologists and tourists to Pakistan. Ecotourism is associated with aesthetics and natural tourism. The primary aesthetic resources in ecotourism are festivals, museums, handmade products, and food. Adventure tourism is associated with natural beauty, horrible tracks, mountains, etc. In Pakistan, Muree, Naran, Kagan, Neelum Valley, Hunza, Kashmir, Skardu, Gilgit, etc., come in adventure tourism. These regions have incredible destinations, lovely valleys, lakes, rivers, glaciers, and peaks. These Northern areas are an example of natural beauty that attracts tourists from all over the world.

Globalization is a compound fact, and the world's growing economies speedily. Globalization has produced socially, economically, and politically a new millennium of communication since the early start of the twenty-first century. The world becomes smaller day by day. It not only increases the use of transportation but also helps to buy and sell goods internationally. Globalization is the commixture of different economics in which foreign trade and investment include in economic growth (Shahbaz, Lahiani, Abosedra, & Hammoudeh, 2018). Globalization participates in the development of an economy because they stress the liberalization market that increases the sources sector of globalization around the world (Latif et al., 2018). Globalization encourages companies that result in increasing inefficiencies (Erixon, 2018). Most countries look for an increase in trade activities, technology, communication, and political systems through globalization (Rahman & Miah, 2017; Shahbaz et al., 2018). Natural resources play an essential role in globalization because it brings capital, management, and technology to the host country (Hassan, Xia, Huang, Khan, & Iqbal, 2019). Globalization helps increase natural resource efficiency through innovative technology (Miao, Fang, Sun, & Luo, 2017).

Tourism plays a significant role in the domestic GDP of those countries with tourist places, and Pakistan is one of them. However, due to some problems, Pakistan cannot gain from tourism as much as it has the potential. So, in this study, we examine the impact of tourism on Pakistan's economic growth in the presence of globalization because now the world has global and countries are globally interlinked.

## II. Literature Review

Durberry (2004) argued that tourism, it is stated, is now widely acknowledged as a source of stimulation for economic growth in underdeveloped countries. Although the relationship between exports and growth is still disputed. Despite the ongoing attempts of developing countries to increase exports, this technique is often ineffectual in increasing their international reserves. Non-traditional exports from developing nations have too frequently failed to demonstrate efficacy in economic development for a variety of reasons, hence tourism is increasingly seen as a rescuer. The findings of the study indicated that tourism has helped Mauritius' growth, providing further proof that tourism has a significant positive impact on the country's economic development.

Moreover, Eugenio-Martin, Martín Morales, and Scarpa (2004) found that tourists want to go to low-income countries with good infrastructure, education, and development. Medium-income countries need a lot of social development, such as good health care and a high GDP per person. Lastly, the results show that the price of the destination, as measured by the exchange rate and PPP, does not affect the growth of tourism.

Fayissa, Nsiah, and Tadasse (2008) investigated the potential contribution of tourism to economic growth and development by using panel data from 42 African countries. Tourism receipts contribute significantly to the GDP and economic growth of Sub-Saharan African countries. The authors contend that growing tourism businesses in African economies could increase short-term growth. Later Jauhari (2009) evaluated the significance of economic development and tourism in the UAE. Furthermore, the study found that entrepreneurship is critical to developing tourism in the country. Steps have been taken to enhance tourism in the country through entrepreneurial education. Moreover, tourism contributes to economic growth in a country, including some that are impoverished. However, contrary to popular belief, tourism is not more significant in small countries than in a general sample (Sequeira & Maças Nunes, 2008).

Nissan, Galindo, and Méndez (2011) stated that tourism not only gives businesses the money they need to run but also makes local businesses more productive and creates new jobs, which is good for the country. Things like entrepreneurship and prices have a significant effect on tourism.

Jalil, Mahmood, and Idrees (2013) studied the long-term association among international tourism and Pakistan's economic growth. The ARDL findings demonstrated a long-term association between tourism and economic growth. The government should invest maximum money in tourism while focusing on long-term strategies. The long-term relationship among economic growth and tourism also drives. Several factors influence tourist and economic growth, the most important of which is the country's level of tourism specialization.

Moreover, tourism discovered tourism's positive impact on economic growth (Pablo-Romero & Molina, 2013). Later, Du, Lew, and Ng (2016) argued that tourism investments alone are insufficient for economic growth. Tourism contributes to long-term economic growth as part of a broader development plan centered on standard income drivers.

Kandil, Shahbaz, Mahalik, and Nguyen (2017) inspected the effect of globalization and financial development on the economic growth of India and China, the world's two fastest-growing economies. From 1970 through 2013, data were accumulated. A unit root test was employed to determine the level of significance. The cointegration test and Vector Error Correction Model (VECM) were obtained results. The results demonstrated that India's economic growth grows due to globalization, while China's economic growth has a stunning effect due to the increasing rivalry from Chinese exporters. This research will help policymakers establish a practical policy framework for future growth in sustainable development.

Hasan (2019) The impact of globalization on South Asian economic growth was investigated. The study employed the cross-sectional Augmented Dickey-Fuller, unit root test, Pooled mean Group, and cointegration model econometric methodologies. The data revealed that globalization has a positive effect on economic growth over the long term, but has no effect in the near term. Governments in South Asia should realize the relevance of globalization and create innovative policies to engage with the contemporary world. At the same time, Rehman et al. (2021) confirmed globalization's positive and significant impact on economic growth in both the long and short run.

López and Arreola (2019) explored the relationship between tourism and employment in 32 states of Mexico from 1999 to 2014. Panel cointegration tests confirmed a long-run relationship between domestic tourism and employment. The study's results revealed a direct positive impact of economic growth on employment. Further, Wu, Wu, Ye, Wu, and Pan (2022) explored the imbalanced association between international tourism and economic growth in eastern China. Quantile-on-quantile (QQ) results verified the positive association between economic growth and tourism, although the correlation between variables was the smallest. In comparison, the results of Zheng and Shen (2019) confirmed that globalization positively affects economic growth.

Shittu, Yusuf, El Houssein, and Hassan (2020) explored the impacts of globalization on the economic growth in West Africa. The KOF institute and World Bank obtained panel data from 1996 to 2016. Unit root test was used to check the significance level. The generalized method of moments, ordinary least square method, and Autoregressive Distributed Lag (ARDL) was used for the analysis. Results showed the positive impact of globalization on economic growth. The government should promote the benefits of globalization by promoting the drive of domestic economics to keep pace with global markets. The government should also promote environmental stability to attract more investors to West Africa. At the same time, the results of Hassan et al. (2019) confirmed that globalization positively impacts economic growth.

Zhang and Zhang (2021) studied the relationship between tourism and economic growth in thirty Chinese provinces. The Granger and Vector Error Correction Model (VECM) were used to determine the short-run and long-run link between tourism and economic growth. The VECM Granger causality model proposed bidirectional short-run causalities between GDP and tourism and unidirectional long-run causalities between GDP and tourism. The findings also demonstrated a long-term equilibrium relationship between tourism and economic growth in China. The researcher advises that future tourism investments be increased.

Moreover, Nyasha, Odhiambo, and Asongu (2021) examined the impact of development in the tourism sector on economic growth in sub-Saharan African countries from 2022 to 2018. The GMM results revealed the negative effect of tourism expenditure while the positive effect of tourism receipts on the economic growth in the sub-Saharan African countries. There will also need to improve the development in the sub-Saharan countries. It also needs to contribute to developing other sectors like transportation, hotel, and other economic sectors.

León-Gómez, Ruiz-Palomo, Fernández-Gámez, and García-Revilla (2021) investigated the development of the tourism sector on economic growth. Bibliometric analysis for scientific production was used to observe the evolution in the field of this empirical knowledge. VOS method was used to analyze the data on a large scale. After a strong and tough analysis of a large data set, much work has been done on this. It is also revealed that the tourism sector in most countries positively impacts economic growth. In comparison, Samina and Kakar (2007) explored the relationship between tourism and economic growth in Pakistan from 1960 to 2005. This study aims to identify whether the relationship is unidirectional or bidirectional. To examine the long-run relationship between Tourism and Economic growth, this study used the Error Correction Model (ECM).

Furthermore, found a strong causality between tour receipts and GDP. The Granger causality test verified the bidirectional relationship between tourism receipts and GDP. These results were also similar to the study of Balaguer and Cantavella-Jorda (2002), a research on the tourism sector in Spain. According to the research that has been conducted, both globalization and tourism benefit the growth of the nation's economy. Additionally, research conducted in the past has looked at the impact of each factor individually in the context of Pakistan. To the best of our knowledge, none of the research looked at the impact of travel and tourism on economic expansion when globalization is present. Therefore, this study aimed to investigate tourism's impact on the expansion of Pakistan's economy in the context of globalization.

### III. Data and Methodology

#### A. Data and Model

World Development Indicator (WDI) and KOF index are the data sources. The data was collected yearly from 1995 to 2020. The amount of data available primarily determines the data time frame. GDP was considered a dependent variable, while globalization index, inflation, gross capital formation, and tourism expenditures were independent variables. The model is specified as follows in general form;

$$GDP = f(GLOB, TOUREXPEN, INF, GCF) \quad (1)$$

#### B. Econometric Methodology

The Econometric Methodology is given below;

$$GDP_t = \alpha_0 + \sum_{i=1}^p \alpha_1 \Delta GDP_{t-1} + \sum_{i=0}^p \alpha_2 \Delta GLOB_{t-1} + \sum_{i=0}^p \alpha_3 \Delta TOUREXPEN_{t-1} + \sum_{i=0}^p \alpha_4 \Delta INF_{t-1} + \sum_{i=0}^p \alpha_5 \Delta GCF_{t-1} + \alpha_7 GDP_{t-1} + \alpha_8 GLOB_{t-1} + \alpha_9 TOUREXPEN_{t-1} + \alpha_9 INF_{t-1} + \alpha_{10} \Delta GCF_{t-1} + \alpha_{11} REM_{t-1} \quad (2)$$

**Unit Root Test**

The reliability of econometric interference depends on the degree of non-stationary and time series data. The impact on the fixed period is directly due to changes in overtime and constant average. In comparison, non-stationary time series have a time-independent average and variance increases due to fixed variation. During knowing the importance of time series data, it is compulsory to take the unit root test to check the stationary level of the variable.

$$\Delta y_t = \alpha + \beta t + \gamma y_{t-1} + \delta_1 \Delta y_{t-1} + \dots + \delta_{p-1} \Delta y_{t-p+1} + \epsilon_t \quad (3)$$

Where  $\alpha$  is a constant,  $\beta$  is the coefficient of a time trend  $p$  is the lag order of the autoregressive process. Modeling a random walk is the same as using the constraints  $\alpha = 0$  and  $\beta = 0$ , and modeling a random walk with drift is the same as using the constraint  $\beta = 0$ . The ADF formulation makes it possible for higher-order autoregressive processes by including order  $p$ . This means the lag length  $p$  must be found when the test is used. One way to do this is to test down from higher orders and look at the t-values of the coefficients.

Examining information criteria like the Akaike information criterion, the Bayesian information criterion, or the Hannan–Quinn information criterion is another way to go. The unit root test is then conducted with the null hypothesis being that  $\gamma = 0$  and the alternative hypothesis being  $\gamma < 0$ , respectively. Previously, a test statistic value.

$$DF_t = \frac{\hat{\gamma}}{SE(\gamma)} \quad (4)$$

For the Dickey-Fuller test, it can be calculated and then compared to the pertinent critical value. This test is asymmetrical, the null hypothesis of  $\gamma = 0$  is rejected, and there is no unit root if the estimated test statistic is less (more negative) than the critical value.

**Co-integration Test**

Different econometric techniques are suggested to analyze the long-term relationship among variables. Engle and Granger (1987); Hansen and Phillips (1990) developed a complete rescue program. Søren Johansen (1988); Soren Johansen and Juselius (1990) have explained information on the maximum likelihood program widely used in empirical research. Soren Johansen and Juselius (1990) The cointegration technique is more suitable than all other techniques because it has more than one cointegration relationship, has a multivariate technique, and ignores small errors during sampling. Whenever this collaborative cointegration is required, then it has also needed that the integration of all variables is in the same order.

ARDL deals with single cointegration if all variables do not have the same level of cointegration. Pesaran, Shin, and Smith (2001) reexamined the original research (Pesaran & Smith, 1995). When all variables have the same cointegration order, the ECM model is optimal because it provides an econometric advantage to others by estimating short- and long-run parameters. We implement the ARDL. Check the stationary level of variables to start. If various orders of integration are present, then ARDL should be utilized.

#### IV. Results and Discussion

The Augmented Dickey-Fuller (ADF) test was applied to the data to check the stationarity of variables.

**Table 1: Description of the Variables**

Variable	Description	Measurement
<b>Globalization (GLOB)</b>	KOF index	Index
<b>Tourism (TOUREXPEN)</b>	International tourism, expenditures	current US\$
<b>Inflation (INF)</b>	CPI	Annual Percentage
<b>Capital (GCF)</b>	Gross Capital Formation	% of GDP
<b>GDP</b>	GDP Per capita Growth	% of GDP

##### A. Unit Root

The results of the ADF confirm the mixed order of integration, as GDP per capita growth has an I(0) order of integration. In contrast, globalization, tourism, inflation, and gross capital formation have an I(1) order of integration, as shown in Table 2. If there is a mixture of cointegration, the Auto Regressive Distributive Lag Model (ARDL) is used to estimate the model, according to the theoretical literature. In the same period, it has also profited from other approaches, such as short and long run. The most crucial aspect of ARDL is that it provides a model adjustment speed.

**Table 2: Unit root test**

Variable Names	Level	1 <sup>st</sup> Difference	Order of integration
<b>GDP per capita growth</b>	-1.782 (0.071)		I (0)
<b>Globalization</b>	-0.578 (0.971)	-3.882 (0.007)	I (1)
<b>Tourism</b>	-1.656 (0.440)	-3.247 (0.029)	I (1)
<b>Inflation</b>	-2.440 (0.141)	-5.842 (0.000)	I (1)
<b>Gross capital formation</b>	-2.071 (0.257)	-5.144 (0.000)	I (1)

##### B. ARDL Bound Test

ARDL test is used to check the presence of cointegration (long-run relationship). Upper bound ( $I_1$ ) and lower bound ( $I_0$ ) are used to equate values of the bounds with the value of F statistics. If F-statistics is greater than the bound values, cointegration exists in the current data and vice versa.

**Table 3: ARDL Bound test**

Test Statistic	Value	K
F-statistic	5.8	4
Critical Bounds Values		
Level of Significance	Lower Bound (I0)	Upper Bound (I1)
10%	3.03	4.06
5%	3.47	4.57
1%	4.4	5.72

The value of the F-statistic is 5.8, which is greater than the upper and lower bound values at all significance levels (1%, 5%, and 10%), which shows that GDP has a long-run association with the independent variables used in this study in the case of Pakistan. The results of this study are similar to some previously conducted studies (Jalil et al., 2013; Samina & Kakar, 2007; Zhang & Zhang, 2021).

**Table 4: Long and Short run estimates**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
GLOB	0.262*	0.157	1.664	0.104
TOUREXPEN	3.745***	0.772	4.853	0.000
INF	-0.356**	0.086	-4.126	0.001
GCF	-0.121	0.247	-0.490	0.630
Constant	-81.069***	13.670	-5.930	0.000
@TREND	-0.373**	0.106	-3.536	0.002
<b>Short run Estimates</b>				
D(GLOB)	0.235*	0.130	1.806	0.088
D(TOUREXPEN)	3.369**	0.852	3.952	0.001
D(INF)	-0.320***	0.063	-5.076	0.000
D(GCF)	-0.109	0.212	-0.513	0.615
D(@TREND)	-0.336***	0.078	-4.311	0.000
CointEq (-1)	-0.900***	0.192	-4.697	0.000
<b>Model Diagnostics</b>				
R-square				0.796
Adjusted R-square				0.728
F-statistics				11.684
Prob.				0.000
DW				2.065
Autocorrelation test				0.119
Heteroskedasticity Test				0.857

According to the results of Table 4, longrun estimates of Tourism Globalization, tourism, and inflation are significant effects on Pakistan's economic growth. At the same time, gross capital formation has an insignificant effect on long-term economic growth. Globalization has a positive and significant effect on Pakistan's economic growth in the long run, which means that if there is an increase in the host country's economic development. Fayissa et al. (2008); Samimi and Jenatabadi (2014) confirmed that globalization boosts economic growth in the domestic nation because globalization increases the size of the market and improves the technology, process of development, production, and innovation. While Ying, Chang, and Lee (2014) found that globalization grows the level of economic growth. The results of Ying et al. (2014) favor Dreher (2006), which indicated that globalization increases economic growth.

Tourism has a positive and significant effect on economic growth, which means that if there is an increase in tourism in the domestic country, the nation's economic growth also shows that by increasing 1% in tourism expenditures, GDP increased by 3.74% in the long run. The results of Archer and Fletcher (1996); Durbarry (2004); Eugenio-Martin et al. (2004) revealed that tourism provides direct and indirect employment and enhances economic growth. The results of Du et al. (2016); Manzoor, Wei, Asif, Haq, and Rehman (2019); Pablo-Romero and Molina (2013); Sequeira and Maçãs Nunes (2008) indicated the positive effect of tourism on economic growth.

In the long run, GDP decreases by 0.35% to the 1% increase in inflation. GDP decreases by 0.10% with the 1% increase in Gross capital formation during the short run. The results of Adaramola and Dada (2020) revealed the negative relationship between inflation with GDP. This is due to an increase in inflation. The results of Risso and Carrera (2009) confirmed the negative impact of inflation on economic growth. Because whenever inflation increases, GDP decreases. So, the economic growth of a country also decreases.



In the short run, tourism expenditures and inflation are significant, while globalization and gross capital formation are insignificant at a 5% significance level. By increasing 1% in tourism expenditures, GDP increased by 3.3% in the short run. In the short run, GDP decreases by 0.32% to the 1% increase in inflation. In the short run, when gross capital formation goes up by 1 percent, GDP goes down by 0.10 percent. Rehman et al. (2021) confirmed that globalization has a significant and positive effect on economic growth in the short term. Bhatti and Nawaz (2020); Ioannides and Gyimóthy (2020) have proven tourism's favorable and substantial influence on economic expansion. Because a 1 percent rise in tourist exports is related to a 0.01 percent gain in GDP, tourism firms increase labor input more rapidly than other firms and favorably influence economic growth in the short term.

However, the Error Correction term is statistically significant. It has a negative value, indicating a relationship in the long run between the dependent variables and those that are independent. The ECM term is 0.90, which indicates that if the model is in a disequilibrium position, it will move to its equilibrium condition with a speed of adjustment of 90%. According to the model diagnostics, the model is a good fit because the R square value is almost 80% percent, and Durbin Watson and LM test confirms that there is no problem with autocorrelation in the model, while the Heteroskedasticity test confirms that there does not exist the problem heteroskedasticity in the regression.

## V. Conclusion

In this study, we evaluate the impact of tourism on economic growth in Pakistan in the context of globalization. We use time series data from 1995 to 2020 for this purpose. According to prior research, tourism and globalization are positively associated with economic growth. This study utilized the well-known Auto Regressive Distributive Lag (ARDL) model to examine the impact of tourism and globalization on Pakistan's economic growth. The study's results proved the long-term connection between tourism, globalization, and economic growth. Additionally, the theory posits that tourism and economic expansion have a favorable impact on globalization. Additionally, gross capital formation has a favorable but negligible impact on Pakistan's economic growth within the selected time period.

According to the results, the government of Pakistan needs to discover tourist places that attract tourists to visit the domestic nation. Discover new tourist places, make policies that sustain the already traditional and unique places, and advertise globally. Secondly, the government must create a friendly environment and provide proper security with a safe residence. A helpful guide regarding the traditional places of Pakistan globalization will help in the phenomena. These policies not only increase the tourism level but also boost Pakistan's economic development and infrastructure.

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