

The relationship between tourism, foreign direct investment and economic growth: evidence from Saudi Arabia

AFTAB ALAM

College of Business Administration
King Saud University, Saudi Arabia

Uni Kl Business School (University of Kuala Lumpur), Malaysia

ELWALEED ABDULGAYOUM ALI IDRIS

OMAIR MUJAHID MALIK

College of Business Administration
King Saud University, Saudi Arabia

KAMISAN GAADAR

Uni Kl Business School (University of Kuala Lumpur), Malaysia

Abstract:

Tourism is one of the world's main businesses and a progressively significant source of external channel of investment that is used to financial economic development. The main aim of this research paper is to inspect the short-term and long-term relationships between tourism and Foreign Direct Invest (FDI) growth in Saudi Arabia. In this research has used quarterly data covering the (2000–2013) time period and unit-root test techniques, co-integrated analysis and granger causality test to examine the relationships between variables. The findings showed that there is a positive relationship between tourism receipt and numbers of tourist with Foreign Direct Investment (FDI) in the short term and long-term relationship. The Granger causality test shows a bidirectional causality running between tourism expenditure and Foreign Direct Investment (FDI)

Key words: Tourism, FDI, Co-Integration, Saudi Arabia, Relationship Granger Causality

INTRODUCTION

Tourism has become one of the most important areas in emerging nations. Over-all unanimity has arisen that increases foreign investment (FDI), and also generates jobs occasions, arouses the growth of the tourism and by asset of this, activates complete financial development. The developing countries statistics figure show that the yearly normal growth rate of global tourist entrances in emerging nations for the years 1991-2006 was 7.4%, related to 5.1 % development worldwide over the similar time period (Ashley et al., 2007). In addition, approximation put tourism as having accounted for between 3-10 % of the GDP in the developing nations (WTO 2006). Overall, there is an increasing and broadly accepted belief that tourism can play an important role for emerging countries to achieve economic growth and development. Therefore, tourism growth has become a significant goal for most administrations, particularly in emerging nations.

Foreign Direct Investment (FDI) in tourism sectors would improve emerging nations to alleviate the result of adverse growth gap between developed and emerging nations (UNCTAD, 2007). This research documents that Foreign Direct Investment (FDI) played an energetic part in the tourism over in 1970s Tunisia, persuading the nation's financial development. Henceforth, most administrations in emerging nations often place the uppermost position on enticing Foreign Direct Investment (FDI), by testing with a diversity of guidelines (Zhang and Chong, 1999). On the other hand, the growth of tourist entrances persuades a cumulative request for services and goods such as foods and beverage, hotel accommodation and transportation services. Thus, governments often favor to entice future Foreign Direct Investment (FDI) to enlarge and develop local products and substructure (organization) to cover the cumulative demand of tourist for services and facilitates.

However an question arise where tourism growth effect on Foreign Direct Investment (FDI) or otherwise tourism growth truly caused for future attract foreign direct investment (FDD)?, Emphasis on tourism area: A part of changing policy involved setting up of the Supreme Commission of Tourism in 2000 to develop, promotion, and improvement in tourism sectors in the Saudi Arabia? The kingdom of Saudi Arabia owns huge potential for tourism and religious journey, seeing the location of the two holy mosques at Makah and Medina. Still, the Saudi Arabia has various infrastructure projects (airport expansion, metro project railway projects) in under construction, which would be attract further tourists to these termini.

Tourism as assumed to income for emerging country like Saudi Arabia. Furthermore, the growth of tourism area appears to have been as important as the growth of other areas of the economy of Saudi Arabia. Oil and religious journey have significant role in the Kingdom of Saudi Arabia economy; a little consideration has paid to this sector in the academic literatures. Related with other economic sectors of the country, tourism industry has observed in a lower position due to country's traditional oriented agricultural and manufacturing economy. However, tourism should be engrossed as very important source of the country's economy since of relating natural features. Statically analysis data discloses that Saudi Arabia the countries like UAE, Qatar and Bahrain have abilities and potential to attract foreign direct investment (FDI) through the tourism sectors. Hence, this study expressed to expose this significant of the tourism sector. In this way, this study will lead to emphasis tourism sector as main source to attract foreign direct investment into country and it will provide suggestions of tourism to develop the country image worldwide. Therefore, since this study will effort to significant relation tourism and economic growth, it has also an intension to develop the tourism sector in terms of economic thriving of the country. In this regards, this study will contribute

knowledge for future studies and it will contribute to reorient the current knowledge in the field of tourism and maintainable economic development.

LITERATURE REVIEW

There are insufficient studies and literature are available that attempt to evaluate the empirical relationship among tourism and FDI. As the meaning of tourism is economy and the tourism measured as the lead to economic growth and development and overall literature of this topic been use accordingly, there are many literature and publications giving the contribution of tourism to FDI and GDP, where for this study the value of tourism, I did the following studies

In this research, experiential analysis results show the being of the long run and a bi-directional causal relationship between Tourism and foreign direct investment (FDI) (Fereidouni, at, al 2014); it is widely supposed that a few researchers remarked unidirectional relationship between tourism and foreign direct investment. First, according to Lee and Chang's research, there is only a unidirectional relationship between tourism and economic growth towards for developing countries whereas a bidirectional causality relationship exists for emerging nation (Lee & Chang, 2008).

Chen (2010) analyzed the influence of foreign direct invest in China tourism sectors sighted the roughness of the growth process across coastal and inside regions from 1980 to 2010. The penalties show that effects of FDI on tourism industry in the seaside areas are more than they are inside. Therefore, the beach areas have experienced fast financial and tourism growth because of the inflow of FDI and administrative predilections

Selvanathan et al. (2012) examined the fundamental relation among tourism and FDI in India under a value at risk (VAR) statically analysis, they use quarterly data from 1995 to

2007. The results specify that a one direction causality relation from FDI to tourism arrivals. He explain the fast growth in the global tourism arrivals as being due to increase FDI in the Indian economy during the last ten years.

These Studies indicated the link of tourism and FDI have been wealthy newly for a country, but they are still rare (Tang et al. (2007). The results show that there is a positive relation among tourism and FDI growth. In buildup, they show that in city tourism-depend infrastructure and nature does not admiration the structure and purposes of the bionetworks of the area, since it is likely to classify severe nature environmental impairment in the area credited to tourism and growth of tourism.

Tourism is the most important area in many emerging nations. Tourism has recognized as one of important industries in indorsing sustainable economic growth of Sri Lanka. The main drive of this study is to examine long run and short run relationship among tourism and FDI growth in Sri Lanka (Mustafa, at al. 2014).

In this research, manuscript the authors focused the influence of tourism and Foreign Direct Investment (FDI) developing in Malaysia. The main aim of this empirical research is to find out the important factors inducing foreign direct investment (FDI) in the Malaysia tourism business. This is clear that in order to effectively attract and endure FDI as well as to continue economic development in Malaysia (Alam, A at al 2015)

In this research manuscript, the authors discuss Nation Branding (NB) dimension tourism as sources for foreign direct investment (FDI) in Pakistan, and to find the inter-relation among Nation Branding dimension tourism and foreign direct invest in Pakistan (Alam, A., at al 2013)

This paper aims to explore the insinuation of FDI in tourism sector towards economic growth in one of tourism attraction provinces in Indonesia—Sumatra Utara. Specifically,

which economic factors contributed towards FDI inflows and their impacts on economic growth in Sumatra Utara? (Simatupang, P., at al 2014).

We find that, as predictable, financial capital and labor productivity are also main influences in the long-run growth in south Asia countries. Moreover, economic growth in south Asia nations is positive impacted by tourism receipts and FDI has shown negative impact on economic development while impact of exports of goods and services on economic development is indecisive (Tiwari, A. K. 2011).

In previous study the authors examines and compares the relationship between tourism and FDI growth in Singapore and Malaysia. Using time series data from 1980 to 2009, the results consistently indicate that tourism development is co integrated with FDI growth, tourism and FDI and total trade in both countries. (LEaNa, at al 2014). Numerous developing nations consider it as option for raising export earnings. Most significant role in the internationalization of production has foreign direct investment (FDI).

This paper explores the influence of FDI (Foreign direct investment) on economic development, how does it reproduce on tourism in Croatia. (Ivanovic, Z at al 2011). FDI plays a very significant part in increasing the excellent tourism sector in Malaysia. There is a need of making suitable strategies and bother free procedures to attract more investments in Malaysia through tourism. Tourism sector is now becoming one of the key contributors to Malaysia GDP and employment. The study shows that there has been an extraordinary growth of FDI in Malaysia. No doubt, that there are some factors limiting the flow of FDI in Malaysia, (Alam, A. at al 2015)

In literature the author tried to discuss Nation Branding (NB) dimension tourism for the first time in Pakistan, and to find the interrelation among of nation branding dimension (NB) tourism and foreign direct invest (FDI) in Pakistan. The authors look at and how it is affecting of our the economy of

Pakistan as nation branding dimension tourism is playing the most significant roles of a country economy for local and foreigner investors as compare for local its totally implemented on foreign investors.(Alam, A., at al. 2013)

This research paper tries to define the factors moving of foreign direct investment (FDI) in Tourism area, assesses the policies accepted to attract FDI, and examines the benefits of foreign direct invest (FDI) in the development of Tourism sector. (Sharma, P. K., at al 2012)

Conclusion of this research paper proposes that there may be numerous details of unsuccessful relationship among unnoticeable assets (tourism) of poorer countries and economic growing of the nation, but brand theory proposes that lacking an influential stratagem for deploying a creative and consistent way is the major cause. Tourism is majors and productive role in emerging nations (Alam, A., at al 2013)

The main goal of this research average and long delay in a sensible time, the increase in the size of inbound tourism can effectively promote FDI flows they cannot form a response mechanism of contacts. Tourists balance changes on the FDI impact on the most important changes for longer. The scale of FDI impact on incoming tourism value the most and widest fullness, but the lag effect is not stable enough (Ming, G. A. O. 2011)

Tourism is main basis revenue in the world like in Vietnamese Administration has stressed it for deliberate foreign direct investment (FDI).Notes though the author of this researcher and policy makers comprehend full features of tourism; they often comprehend how the variables intersect within economic development and political systems. (Haley, U. C., & Haley, G. T. 1997)

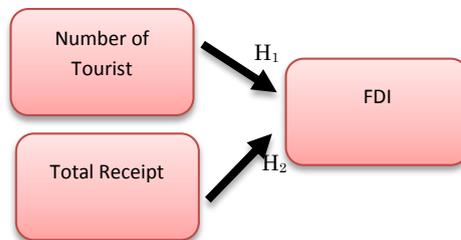
The following study the author deliberate brief impression from this study of the current development of tourism in Hungary, the author defines foreign direct investment (FDI) projects applied, or currently in emerging, in

the hotel, accommodation and catering sub-sectors of Hungarian tourism. Tourism is root for FDI in Hungry (Behringer, Z., at al 2004).

In this research, the author investigates the causal relationship among tourism and FDI in China by using the Granger Causality (GC) test under a vector auto regression (VAR) tools suggested by (Zapata and Rambaldi 1997). Only a one-directional connection found from foreign direct investment to tourism. This is explains the fast growth in the tourism market in China during the earlier decade. (Tang, S. at al 2007)

In this research we work on earnings from tourism industry participate meaningfully both to the recent level of Gross Domestic Products (GDP) and to the FDI of African nations, as do investments in physical and human wealth. Conclusions from this study suggest that African economies could improve their short-run economic growth by alliance their tourism sectors deliberately. (Fayissa, B., at al 2011).

RESEARCH FRAME WORK



HYPOTHESES

H₁ There is a relationship between total number of tourist and FDI.

H₂ There is a relationship between tourism receipt and FDI (Alam, A., at al 2015)

DATA AND METHODOLOGY

The mean of this study is to find out the relationship and long relationship being between tourism (number of tourist and total receipt from tourism) and foreign direct investment (FDI) inflow 13 years quarterly data of kingdom Saudi Arabia using SPSS co relationship, unite root test and the time series co-integration(test) method. We use total FDI inflow inside in Kingdom in US \$. The study period is 2000-2013 quarterly seeing availability of data, using World Bank data sources as well as total number of tourist arrived and total receipt from tourism during the period 2000-2013.

The time series module has concerned the attention of many scholars as of its weak limitations for panel data. It imprisonments nation specific effects and allows for heterogeneity in the way and magnitude of the parameters across the time series data. However, to test the nature of data suggestion between the variables while evasion any false co relation, the empirical investigation in this paper follows three steps. First, we test correlation for significant, unit root test for stationary and non-stationary in both variables tourism and FDI. Recently (Im, K. S., Pesaran, M. H., & Shin, Y. 2003). Second, our finding for a short and long run relationship between Tourism and FDI using the time series co integration test. The Engle and Granger (1987) co-integration test based on an examination of the balance of a false regression did using for this time series analysis.

EMPIRICAL RESULT

Table: 1. below table results of the unit-root test, the unit-root test show that FDI series are non-stationary at the first level but at the first diff it stationary. Therefore, it has integration at first diff at probability .0561 level it significant at 10%

Null Hypothesis: DIF(FDI), DIF(TOTAL NUMBER TOURIST) and (: DIF(TOTAL RECEIPT) have a unit root
 Exogenous: Constant
 Lag Length: 0 (Automatic - based on SIC, maxlag=10)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-2.865872	0.0561
Augmented Dickey-Fuller test statistic	-3.116567	0.0322
Augmented Dickey-Fuller test statistic	-2.895941	0.0536

*MacKinnon (1996) one-sided p-values.

(TABLE:1)

The above table results of the unit root test show that the unit root test total number of tourist series are non-stationary at the first level but at the first diff, it is stationary. Therefore, it has integration at first diff at probability .03 level it significant at .05%. The above table results show the unit root test. The unit root test show that **TOTAL RECEIPT** show are non-stationary at the first level but at the first diff it stationary. Therefore, it has integration at first diff at probability .0536 level it significant at 10%

Table: 2. below table result shows that at first difference both independent variables are significant, and it has short run relationship. R² 0.280554 it mean that FDI are dependent on total number of tourist and total receipt on 28% present

Dependent Variable: DIF_FDI

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	4.36E+08	2.63E+08	1.661523	0.1026
DIF_TOURIST	685.0954	317.1750	2.159992	0.0354

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DIF_VALUE	-2.946520	0.655050	-4.498163	0.0000
R-squared	0.280554			
F-statistic	10.13893	Durbin-Watson stat		0.291258
Prob(F-statistic)	0.000191			

(TABLE: 2)

Equation will be $FDI = \text{Constant} + \text{Total Number of Tourist} + \text{Total Receipt}$
 Where $FDI = 4.36E+08 + 685.0954 + (-2.946520)$
 $FDI = 4.36E+08 + 685.0954 - 2.946520$

Table: 3. below table Johnson Co integration test 2 long-term relationships using the Johonsain Linear deterministic trend 2 logs.

Johnson Co-integration test

Trend assumption: Linear deterministic trend
 Series: FDI TOURIST VALUE
 Lags interval (in first differences): 1 to 2

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None	0.259410	27.24820	29.79707	0.0957
At most 1	0.127081	11.33189	15.49471	0.1919
At most 2 *	0.074940	4.128537	3.841466	0.0422

(TABLE: 3)Johnson Co-integration test

At Eigenvalue test value 0.074 and trace statistics is 4.12, critical value 3.84 and it significant at 0.05%. There is long run relationship between FDI, Tourist and Tourist value so the equation will be and for our analysis Linear deterministic trend, FDI, Tourist and Tourist Value have long-term relationship FDI, Tourist, Tourist value

TABLE: 4. From below table Granger Causality Tests

Pairwise Granger Causality Tests
 Date: 01/19/16 Time: 10:20
 Sample: 2000Q1 2013Q4
 Lags: 2

Null Hypothesis:	Obs	F-Statistic	Prob.
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TOURIST does not Granger Cause FDI	54	0.26002	0.7721
FDI does not Granger Cause TOURIST		1.17322	0.3179
VALUE does not Granger Cause FDI	54	3.16234	0.0511
FDI does not Granger Cause VALUE		0.66441	0.5192
VALUE does not Granger Cause TOURIST	54	3.01551	0.0582
TOURIST does not Granger Cause VALUE		0.17205	0.8424

(TABLE: 4) Granger Causality Tests

From above Table, we got the following result

- 1- Tourist does not Granger Cause with FDI and FDI does not Granger Cause Tourist
- 2- Value Granger Cause with FDI and FDI does not Granger Cause with Value
- 3- Value does not Granger Cause with Tourist and Tourist does not Granger Cause with Value

FINDING AND CONCLUSION

From the above result, we found that unit-root test is not stationary at first level but at the first difference its stationary. The results shows that at first difference both independent variables are significant at .05% and .01%, and it has short run relationship. R^2 0.280554 means that FDI are dependent on total number of tourist and total receipt on 28% which mean that our statistical module is applicable at 28%. From Johnson Co-integration test, we found that there is a long run relationship between FDI, Tourist and Tourist value. From Granger causality, test number of tourist is not granger to FDI and FDI is not granger to number of tourist, total receipt is granger to FDI and FDI is not granger to total receipt, total receipt is granger to total number of tourist and tourist is not granger to total value. The impact of the two variable i.e. total number of tourist and total receipts from tourism has a positive relationship with the foreign direct investment. Furthermore,

strengthening the opinion that if the tourism sector is administered and promoted in the optimal manner, it can lead to becoming a profitable sector of the economy. However, it is necessary that the government come up with policies that further develop and nurture this particular area of concern for the years to come.

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