

Tourism Impact on Economic Growth: Evidence from Cape Verde

Ladson Pires Andrade*

College of Economics and Trade, Hunan University, Shi Jia Chong, Changsha, China

Abstract

Tourism is regarded as an engine of growth; as reported by world travel and tourism council tourism is the leading economic sector worldwide, behind one in ten jobs or (313) Mln universal and generating 10.4% of globe GDP. This paper investigates the tourism impact on EG in Cape Verde over the year 1990 until 2017. The ARDL approach has been applied to check the long term association among the variables in the study. Our outcomes provide the idea tourism led growth to Cape Verde and there is a unidirectional association running from tourism receipts toward GDP. The research provides some policies recommendations for the nation.

Keywords: Tourism; Tourism receipts; ARDL approach; Cape verde

Introduction

Being the leading area globally, tourism creates jobs, generating affluence and force exports from corner to corner of the globe, Christie. According to the yearly analysis of the worldwide economic effect of tourism, various studies indicate that the sector shown to account for approximately 10.4% of the GDP internationally and having over 300 million employment which is approximately 9.9% of the total employment by 2017. In 1997, the industry had contributed 2% of the GDP which later increased to 6.8% by the year 2001. Between the years 1997 to 2001, the number of visitors rose from 45,000 to 115,000 [1]. Over the years, there has been noticeable expansion in the area with an indication of an increase of tourists to 716,000 by 2017 [2]. Most of the visitors are from European richest nations. Greater parts of the tourists visit the less populated islands to Maio, Boa Vista and Sal which have white sandy beaches. The nation are said to have a delightful climatic condition and extraordinary peak scenery. Windsurfing, trekking, seafaring and diving is among a number of the activities that attract tourist to the place [3].

In 2016, the national GDP was divided among industry and construction which accounted for 17%, fishing and agriculture accounted for 7% whereas services accounted for 76% [3,4]. Therefore, the economic prosperity of Cape Verde is primarily propelled by the services sector, whereby, tourism is the key driver as it contributes to 45% of the overall GDP [5].

Literature Review

Recently many authors argue that tourism has a great impact on the economic growth and for others tourism has an insignificant effect on growth. A research conducted by Soukiazis and Proença [6] using panel data for Portuguese regions shows that tourism is very crucial for growth of the Portugal economy. Therefore it could be an alternative source to stimulating a higher regional growth.

As noted by Lee and Chang [7], tourism enlargement has a higher effect on GDP in non OECD nations than in OECD nations and when comes to tourism receipts has a highest result in the Sub Sahara African nations despite the fact that exchange rate has great effects on GDP.

The influence of social contact in resident's perceptions of tourism in the quality of life was as conducted by Carneiro, et al. [8], where they pointed out a positive impact of the resident's social interaction on their quality of life, but it differs according to domain of the quality of life. Furthermore, satisfaction interaction has a great influence on the quality of life. Thus, the overall effect is positive to the locals and to the economy.

Karimi [9] checked the nonlinear association among overseas tourism and growth in Malaysia, and found a significant relation in the long term instead of short term relation in many variables like exchange rate, trade and inflation are important for Malaysia growth and it tourism can stimulate the long run economic enlargement, but the policy maker must have attention towards inbound tourism promotion.

In a cross sectional study of 88 nations over the year 1995 to 2005 in a nonlinear relation among tourism expansion and GDP conducted by Po and Huang [10], argued that the data of all the nations in the study should be divided into three regimes to analyze the tourism growth nexus. The outcome of the threshold regression when (q_t) is below 4.048% (regime 1, 57 nations) or above 4.73% (regime 2, 23 nations), there is an optimistic relation among tourism growth and GDP.

The impact of tourism enlargement on GDP was done by Kuang and Tsai [11], were a quantile analysis is the key finding for a important effect tourism enlargement on GDP at the end of distribution (0.3 to 0.9 quantiles) of progress in Taiwan. Conversely, tourism expansion has an insignificant effect GDP at the low end distribution (0.1 to 0.2 quantiles) of enlargement. Therefore, the researcher argued that tourism will have an effect on GDP, depends on the provisional division of development. Andrew accomplishes a research in South Africa concerning tourism and GDP and he got a direct impact from tourism expenses rather than the amount of tourist coming hold to growth and taken as a whole economic enlargement.

Tourism activities are the vital driving force of the economy of the island state. It accounted for about 30% of the total GDP and 90% of the total export [3]. In Cape Verde, tourism is claimed to be the primary driver for the economic prosperity or growth as it has successfully tapped into various natural possessions such as environment, landscape and biodiversity. It is essential to understand that the islands are not only tourist's destinations but also the global leader in renewable

*Corresponding author: Ladson Pires Andrade, College of Economics and Trade, Hunan University, Shi Jia Chong, Changsha, China, Tel: +00 86 15575833235; E-mail: tinteira@hotmail.com

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energy. Cape Verdean leaders are working to ensuring that the place generates at least 50% of the electricity from various renewable sources such as wind, solar, etc. all these are factors that are meant to have an essential contribution towards the economic growth.

An overview of tourism in Cape Verde

It’s vital to note that although tourists who visit Cape Verde mainly come from a rich diversity of origin, their concentration on Cape Verde islands is striking [3]. Indeed, this means that there is a building boom that is taking place in the tourist’s accommodation which is driven by foreign investors. It’s estimated that 95% of foreign direct investment are form tourism investments [12]. This means that tourism is becoming productive industry for the overall economy. Although there is no mass tourism, the diversity existing in the islands ensures that there is something for every tourist or traveler.

Table 1 shows the most tourists who visit the islands come from United Kingdom. There were about 4.5 million overnight stays in 2017. The UK tourist is said to stay the longest. Travelers from Belgium and Netherlands spend an average of 7 nights [13].

The cultural connections linking the tourist and locals for the duration of tourists are prevalent and they usually give rise vary in the living standard of the citizens by affecting relationship. Families, and values systems, expressions of creativity, behavioral patterns and attitudes [1]. There are two key events, in particular, mainly influence transform the quality of life of the island citizens; expansion of the tourism industry and tourist residents’ relationship [12]. To enhance the progress of tourism in a particular geographic location, it is crucial to first gain the cooperation of stallholders, particularly tourism among the promoters, inland and coastal areas, public agencies, destination communities among others [14]. More so, it is crucial to consider the attitudes and perceptions of residents while designing any tourism expansion project.

However, thanks to the tourism sector or industry, the country now receives more than half million visitors annually to its shores which are drawn by the safe water beaches, crystal clear waters and endless African sunshine [15]. The country has flourished as it develops its status as a tourism hotspot. This has led to a significant impact on Cape Verde economy [16].

Since 1990, the development of the tourism continues to grow annually. Based on the report by world travel and tourism council, it’s

| Rank | Country | Numbers |
|------|----------------|---------|
| 1 | United Kingdom | 126,680 |
| 2 | Germany | 76,450 |
| 3 | Portugal | 61,970 |
| 4 | Netherlands | 60,470 |
| 5 | France | 56,480 |

Table 1: Top 5 tourists by country of residence in the year 2015 in Cape Verde.

estimated that tourist indirectly and directly contributed about 18% of GDP of Cape Verde in 2000 [17] in other terms, this percentage equates to approximately \$ 318 million [18]. It’s vital to understand the contributions of tourism to the country’s economy are much more significant when other impact of the sector is taken into considerations [1]. These include indirect contributions such as creation of jobs, tourism marketing, construction of new hotels, resort is a security services, IT services among other [5]. However, despite the positive impact that the tourism has brought to Cape Verde, there are also some negative impacts which include: an increase the process of property and land since many investors are willing to buy land and invest in the area [19]. Tourism is also said to cause social problems such as alcoholism, prostitution and drugs addiction, especially to local residents [20]. In most instances, tourists are usually given priority which make the residents deal as is the visitors are being treated better then nationals [21]. Another adverse effect is westernization. Most of cape Verdean has stared embracing the western culture regarding clothing beliefs among others [22]. This is a threat to the traditional culture of the local people (Table 2).

Data and Methodology

In this section, long-run relation among tourism receipts and GDP has been economically determined in the light of Cape Verde annual data from the period of 1990 to 2017. Therefore, the impact of tourism receipts, as the main determinant of GDP has been research and analyzed by using the ARDL approach. Basically, the variables analyzed in the study, are GDP, tourism receipts, exchange rate, inflation and political stability. While GDP, as a dependent variable, representing long term economic growth; tourism receipts are the key focus as an explanatory variable. Exchange rate, inflation and political stability show the macro and social stability or simply represent the island competitiveness power with other nations. All data are transformed into natural log to avoid the series against possible changing variance and auto-correlation partially, and the series have been analyzed in this way.

Model specification

The theoretical model of the research aiming to analyze the long run association among tourism receipts and GDP has been identified below with reference to studies made by Gunduz and Hatemi [23] where they argued multicollinearity issue appears when tourism receipts is used. So, the authors suggest that exchange rate should be used in the study of overseas tourism in sort to deal by the possible omitted variable problems. So, trivariate system is used for empirical studies of the tourism output in long term association for many studies.

Hence, our idea to include inflation and political stability in the study to check out the possible causality between the variables and look at the long term association among these variables by using the ARDL technique, since so far as we know there is no empirical study in this topic, which political stability and inflation is included. For this

| Positive Impacts | Negative Impacts |
|---|---|
| Creation of new jobs | Increase the price of property and land |
| Improved financial infrastructure | Social problems such as prostitution, drugs, etc. |
| Promote recreational and leisure activities | Employment of non-residents in Cape Verde |
| Improve road networks | Congestion of tourism attraction |
| Promotion of the local business | Westernization |
| Business opportunities for residents | Tourist enjoy more privilege as compared to local residents |
| An increase in the overall GDP | Increase in the cost of living |

Table 2: Summary of tourism impact on economy in Cape Verde.

reason we include those variables and the results shows there is no multicollinearity, which we prove our prior expectations on the study.

$$GDP=f(TREC,EXR,INF,PSTAB) \tag{1}$$

In the model GDP refers to gross domestic product or (economic growth), TREC means tourism receipts; EXR means exchange rate; INF means inflation rate and PSTAB refers to political stability; in the study, by integrating approach, long term linear regression model aiming to show how and which way the explanatory variables affects real GDP in shown below.

$$\ln GDP_t = \beta_0 + \beta_1 \ln TREC_t + \beta_2 \ln EXR_t + \beta_3 \ln PSTAB_t + \beta_4 \ln INF_t + \epsilon_t \tag{2}$$

Where, (t=represent years 1990-2017)

While all the variables in log form here are same as defined above; β_0 means a constant β_1, \dots, β_4 are the coefficient of the parameters; and ϵ_t means error term representing the factors which are not included in the deterministic part it is predictable that tourism receipts add to GDP or in another word, the coefficient of tourism receipt is significantly positive. The impact of the coefficient exchange rate, inflation and political stability on economic growth are uncertain before the empirical analysis is done, known that the increasing nation's faces many issues relating their ability on growth.

Augmented dickey fuller test

To analyze the long term involvement along with the variables, first of all it must be examined whether series got unit root or not. Testing the unit root situation of time series shall ensure to identify suitable method to be used in econometric technique estimation. The ADF form is as follows:

$$\Delta Y_t = \alpha + \beta_t + \rho Y_{t-1} + \sum_{i=1}^p \gamma_i \Delta Y_{t-1} + \mu_t \tag{3}$$

Lagged difference is a key component of this test in order to oppose the serial correlation. Therefore we apply it as an approach to analyze the co-integration among FDI and growth in this research.

ARDL bound test

ARDL technique is best to apply when the variables got unit root

| Variables | Lag length | F-statistic | Critical Value 1% | | Critical Value 5% | |
|---------------------------------|-------------|-------------|-------------------|------|-------------------|------|
| | | | I(0) | I(1) | I(0) | I(1) |
| LGDP LTREC, LEXR, LINF, LPSTAB | (2,1,3,0,3) | 38.33298 | 3.74 | 5.06 | 2.86 | 4.01 |

Source: Author's computation.

Table 3: Results of ARDL bounds F-tests.

| Variables | Short-run estimation | | Long-run estimation | |
|--------------|----------------------|--------|---------------------|--------|
| | Coefficient | Prob. | Coefficient | Prob. |
| LGDP (-2) | 0.191386 | 0.0390 | | |
| LTREC | 0.140125 | 0.1276 | 0.620756 | 0.0000 |
| LTRECP(-1) | 0.440815 | 0.0026 | | |
| LEXR | -0.305463 | 0.0125 | -0.087692 | 0.1973 |
| LEXR (-3) | -0.192732 | 0.0374 | | |
| LINF | 0.088390 | 0.0164 | 0.094448 | 0.0261 |
| LPSTAB | -0.001535 | 0.9109 | 0.037684 | 0.0410 |
| LPSTAB(-3) | 0.018901 | 0.1556 | | |
| Constant | 8.479438 | 0.0000 | 9.060608 | 0.0000 |
| CointEq(-1)* | -0.935858 | 0.0000 | | |
| R-squared | 0.9982 | | | |

*Co integration

Source: Author's computation.

Table 4: ARDL Co-integration results.

at the mixed level, which means that some are stationary at level and others are stationary at first difference. Therefore, due to this problem we had applied autoregressive distributed lag (ARDL) bound test co-integration which we can see the co-integration association amid the variables. To check the long term co-integration association in the variables the Error Correction Term must be positive. Otherwise if it's positive and statistically significant it can shows the long run association. Other test such as Bruesch Pagan Godfrey Test for auto-correlation and granger causality test has been applied.

Results and Discussion

Table 3 shows the lag length of each variable. The result of F-statistic exposed the co-integration association among GDP, tourism receipts, exchange rate, political stability and inflation.

The Table 4 contains the outcome of the short term and the long term ARDL estimation. The short term outcome of ARDL are significantly for tourism receipts at lag (-1), at 1% level of significance, exchange rate and inflation is also important at 1% level, though political stability is not relevant for short time. The negative and significantly (-0.935858) error correction term (ECT) demonstrate the reversion to long run is at adjustment speed of 93%. Or in a different word, it explains the long period association among the variables at 1% level of significance.

For the long run, tourism receipts, inflation and political stability have a positively effect on GDP. The tourism coefficient shows that a 1% adds to tourism causes a 62% raise in GDP at 1% at the level. In the same way, the coefficient of inflation says that a 1% change in price raises causes 9.4% enlarge in GDP at 5% level. Equally, the political stability indicates that a 1% vary add up 3.7% on GDP at 5% level of significance. Furthermore, the coefficient of exchange rate that is not positive and insignificant shows no long period effect on GDP. The outcome shows some unidirectional effect among tourism receipts to GDP; exchange rate has a unidirectional causality to inflation; exchange rate to political stability also has a unidirectional causality; finally, political stability cause inflation.

The next Table 5 gives us the results of residual and stability diagnostics. We have applied the auto-correlation test to check the residual; it's clear on the Table 5 with the intention of no auto-

| Tests | F-statistics | P-values |
|--|--------------|----------|
| Heteroskedacity test: Bruesch-Pegan-Godfrey | 0.353093 | 0.9611 |
| Bruesch - Gogfrey Serial correlation LM test | 0.909332 | 0.4783 |
| Jarque-Berra test | 3.787682 | 0.150493 |
| Ramsey Reset test | 1.500985 | 0.2486 |

Table 5: Results of residual and stability diagnostic.

correlation. For hetero we applied the Breusch Pagan Godfrey test, the H_0 hypothesis of (no hetero) is accepted as the probability is greater than 0.10%. An extra test is applied to confirm the practical form of model such as Ramsey reset test.

Conclusion

From this study, it's evident that tourism has had significantly effect on the overall economy status of Cape Verde or in another word tourism has a long term unidirectional causality effect on the island GDP. This is as a result of job creation, taxes from the tourist sector which add to the total revenue of the state, enhanced financial structure, boost in the livelihood standards of the residents among others. These positive forces have led to an enhanced and more prosperous state. However, there are still some of the adverse things that have been caused by tourism. These include; a raise in the value of land and other properties way above what residents can afford. Therefore, foreign investors take advantages of the situation. Another adverse effect a raise in the cost of living which makes difficult for the residents as they end up spending on their income instead of save or investing. However, all in all, it would be unfair to dispute the fact that Cape Verde is a state that has become more prosperous due the tourism sector.

Recommendation

Since there are some of the adverse effect that affecting the residents of Cape Verde, the following are some of the suggestions that can enhance their way of living. First, education programs on saving. This will help the local resident to save some of the income they get from the sector in a way that they will invest later in life instead of spending all their income the day to day bills. Second, give the resident the priority especially while purchasing a piece of land or property in the major cities; the opposite should be done to the big investors. Last, diversify (innovate) different island infrastructure, especially in the accommodation sector by domestic investor and link transportation system among the islands.

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