

# Determinants and Economic Impact of International Tourist Arrivals in Ghana

*Isaac Bentum-Ennin*

## Abstract

Given Ghana's endowments such as attractive sites; more than 500km of beaches, and World Heritage forts and castles, tourism is seen as an important tool for promoting the socio-economic development in that it generates many economic benefits such as incomes, employment and tax revenue, both within the sector and through linkages with other sectors. This study first, analyses the factors influencing the upward trends in international tourists' arrivals and receipts and second, quantifies the impact of the tourism sector on the Ghanaian economy.

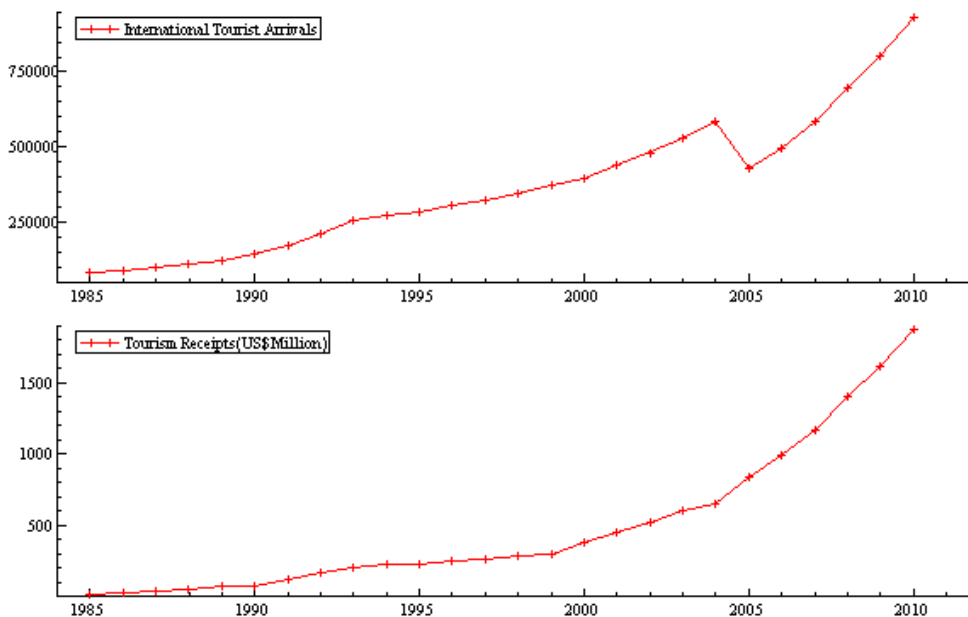
The objective of this policy brief is to inform the Ministers of Interior, Tourism and Finance that the most important factor influencing international tourists'

arrivals in Ghana is the prevailing civil liberties and political rights and that Nigeria is a significant substitute destination. Also, that the tourism sector has had the greatest impact on the whole Ghanaian economy when compared to sectors such as agriculture, industry and other services sectors. It is hoped that appropriate legislations will be passed to deepen these liberties and rights and that policy measures will be put in place to ensure macroeconomic stability in order not to lose competitiveness to Nigeria. Also, it is hoped that the Tourism Ministry would lobby for more investment and more resources from the Finance Ministry in order to expand the sector since it has a huge potential to stimulate economic growth.

## Introduction

The World Tourism Organization defines tourists as people “traveling to and staying in places outside their usual environment for not more than one consecutive year for leisure, business and other purposes. In many countries, tourism generates foreign exchange to finance imports as well as government revenue through various taxes and fees. International tourism also helps to promote world peace by providing an incentive for peacekeeping and by building bridges between cultures (Eilate and Einav 2004). Tourism in African continent has been seen as a means of enhancing economic growth and development (Kester, 2003) as well as launching the image of the continent to the outside world. In Ghana, the tourism industry has demonstrated its potential as a viable industry on both the macro or national and micro or local level of the economy. These economic contributions are of interest to stakeholders. Informed private decision-making and public policy requires that executives, officials, employees and their dependents understand the contribution that tourists make to the local economy, including those businesses directly serving visitors and those that supply these businesses.

According to the statistics from the Ghana Tourist Board, there has been an upward trend in international tourists’ arrivals as well as the receipts from international tourism (See Figure 1 below). The tourism sector has grown to become the fourth foreign exchange earner after cocoa, gold and remittances. Despite the importance of international tourism to the economy of Ghana, there are inadequate empirical studies on the subject in Ghana contributing to the inadequate policy guidance to the industry. It is against this background that this study was carried out to first, find out the factors influencing international tourists’ arrivals and second, quantifying the impact of the tourism sector on the Ghanaian economy with the aim of informing policy.

**Figure 1: Trends of International Tourist Arrivals and Receipts, 1985-2010**

## Methodology

This study takes two-step approach. In the first step, a panel data on five tourists originating from regions (Africa, Europe, Americas, East Asia Pacific and Middle East) for the period 1985 to 2010, have been used to estimate international tourism demand model. The Social Accounting Matrix (SAM) (2005), which is the most recent one for Ghana has been used to estimate the impact multipliers of international tourists' arrivals as the second step. Bulmer-Thomas, (1982:156) notes that, in practice, input-output (IO) tables take a number of years to be published and construct, especially in developing countries where delays of five to seven years are common. Using SAM 2005 will be reasonable in the sense that as noted by Leontief (1986:165), structural coefficients change slowly in developing countries.

We quantify not only the direct economic benefits of expansion of the tourism sector itself, but also the indirect effects on the output of other (linked) sectors.

Two sets of data are required for estimating IO multipliers. The first is the inter-industry flow of transactions among the sectors of the economy, for which we use the IO Table of Ghana for 2005 (the most recent available). The second is the value

of tourist expenditures. The tourism sector is the 'Hotels and Restaurants' sector, the sector that most closely corresponds to tourism (Carey, 1989: 63).

## Results and conclusions

The results from the regression equation indicate that although incomes of the originating regions, exchange rate and exports to Ghana have positive relationship with international tourists' arrivals they are not significant. Transportation cost and tourism price in Ghana have an insignificant negative relationship. The most important factor influencing international tourists' arrivals in Ghana is the prevailing civil liberties and political rights and that Nigeria is a significant substitute destination. Deepening of civil liberties and political rights and an increase in tourism price in Nigeria will bring about more international tourists arrivals.

Table 1 shows the total, intra and inter-sector output multipliers and their rankings. The output multiplier for tourism is 1.99, the highest in the four-sector model (Agriculture, Industry, Other Services and Tourism) and also ranks first in terms of inter-sector effects. This implies, for example, that a GH¢1 billion increase in tourism output requires output in the economy to increase by GH¢1.99 billion, other sectors expand to service the needs of tourism. A particularly high share of the tourism multiplier requires output from other sectors (49% of the output effect), far above the values for other sectors. This reflects the nature of tourism as a 'composite product' of many sectors and highlights the stimulus it can provide for the whole economy.

**Table 1: Total, Intra and Inter-sector Output Multipliers**

Sector	Total		Intra-sector			Inter-sector		
	Multiplier Qj	Rank	Multiplier gj	Rank	(gj/Qj) %	Multiplier kj	Rank	(kj/Qj) %
Agriculture	1.480851	3	1.086226	3	73.35	0.394625	2	26.65
Industry	1.399085	4	1.252828	2	89.55	0.146257	4	10.45
Other Services	1.723646	2	1.334698	1	77.43	0.388948	3	22.57
Tourism	1.986494	1	1.004593	4	50.57	0.981901	1	49.43

Source: Author's calculations

## Output effects of international tourism

Tourism has a significant potential to stimulate the economy of Ghana given its high multipliers. If this stimulus is to be fully realised, the sectors that benefit from induced demand must be able to respond otherwise, the growth of tourism and impact on the economy will be constrained. It is therefore, very pertinent to identify those sectors in order to inform policy. Table 2 shows a summary of the output effects of international

tourism and it indicates that the greatest impact is felt within tourism (intra-sector). There are also major stimuli to other services sector, industry and agriculture.

**Table 2: Distribution of Tourism Output Effects by Sector**

	Agriculture	Industry	Other Services	Inter-Sector	Intra-Sector
Impact	0.1166	0.3434	0.5219	0.9819	1.0046

Source: Author's calculations

## Employment and tax revenue effects of international tourism

Table 3 shows the distribution of employment and tax revenue impact of international tourism. The greatest impact of international tourism as far as employment is concerned is felt in the other services sector whereas that of the tax revenue is felt within tourism itself. This is followed by other services sector, industry and agriculture in that order. In total, the employment and tax revenue impacts are 0.3040 and 0.2980 respectively. This means that for example, a GH¢1 billion increase in tourism output induces an increase in wage bill by about GH¢0.30 billion. Since wages are assumed to remain the same this would mean an increase in employment. In the case of tax revenue, a GH¢1 billion increase in tourism output will induce an increase in tax revenue by approximately GH¢0.30 billion.

**Table 3: Distribution of Employment and Tax Revenue Impact of Tourism in Ghana**

Sector	Employment	Tax Revenue
Agriculture	0.0270	0.0175
Industry	0.0387	0.0515
Other services	0.1908	0.0783
Tourism	0.0475	0.1507
Total impact	0.3040	0.2980

Source: Author's calculations

## Simulation analysis

An increase in final demand for tourism represents an injection of funds from outside the economy. We therefore, simulate the levels of economic activities supported by the expenditures for the various years. The results indicate that from 2005 to 2010, increases in tourist expenditures have had positive impact on all the sectors of the economy with the tourism sector witnessing the greatest impact increasing from ₵7,608.18 billion in 2005 to ₵26,961.45 billion in 2010. The impact of holiday and business tourism on the Ghanaian economy follows a similar trend.

## Policy implications and recommendations

Curtailment of civil liberties and political rights is deterrent to international tourists whereas deepening of civil liberties and political rights is very attractive to them. Macroeconomic instability especially increases in prices in Ghana will make Ghana lose its competitiveness to Nigeria.

The importance of the tourism sector can also be seen in terms of generating demand for the output of other sectors. This is shown by the significant stimuli tourism offers many other sectors in the economy. Given the potential gains from tourism, in terms of employment, foreign exchange earnings and tax revenue, there is scope for a government investment policy that enhances the linkage effects.

It is recommended that:

- (i) Appropriate legislations (such as the freedom of information bill, which seeks to guarantee citizens right to information and therefore promotes transparency in governance) be passed to deepen civil liberties and rights and that nothing should be done by authorities especially the law enforcement agencies that would amount to the curtailment of peoples liberties and rights, since that would not augur well for the tourism industry.
- (ii) Appropriate policy measures be put in place to ensure macroeconomic stability in order not to lose competitiveness to Nigeria.
- (iii) Policy objectives should aim at increasing the tourism sector's linkage with other sectors such as other services sectors (including communications, transportation, banking etc.) and industry and agriculture. Expanding the sector offers a potential stimulus to the entire economy, but other sectors need to be enabled to respond to the stimulus. With the needed investment and proper management, tourism sector's expansion offers the potential to contribute significantly to economic growth in Ghana.

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[communications@ercafrica.org](mailto:communications@ercafrica.org)