



What drives international tourists from the developed world to Ghana?

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Abstract

This study seeks to find out the drivers of international tourists' arrivals from the developed world to Ghana in order to inform policy to attract more of them to Ghana. A panel data on three tourists originating regions (Europe, Americas, and East Asia Pacific) have been used to estimate international tourism demand model. The study reveals that increases in incomes of the three originating regions boost international tourism in Ghana. Exchange rate appreciation makes Ghana's Jexport of tourism not competitive and that Nigeria is a substitute destination to Ghana. Improvement in civil liberties and political rights attract tourists into the country. September 9th 2001 terrorists attack in the US has had a permanent negative effect on international tourists' arrivals from the developed regions whereas elections in Ghana have not been deterrent to international tourists from the developed world. The word-of-mouth effect on tourists' inflows which signifies an informal advertisement has been positive. If Ghana is to continue to benefit from this positive informal advertisement then every effort should be made to maintain, if not to improve, the entire positive attributes of the country such as freedom of expression and belief, personal autonomy and individual rights, associational and organizational rights.

Keywords: International Tourists; Substitute Price; Civil Liberties; Political Rights; Word-of- mouth effect

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1. Introduction

The World Tourism Organization(1995, p.10) 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”. Tourism is seen as an important industry with growth potentials for countries especially small countries which have limited sources of national income. Tourism’s potentials are seen in the areas of generation of sales and output, labor earnings and employment in a nation or other local area within a nation. According to World Tourism Organisation (2001), international tourism has become a major foreign exchange earner for many low-income countries and small islands, and it is a principal export for 83% of developing countries.

The important role played by the tourism industry in the world economy has led many authors/researchers to describe it in various ways. For instance, Kareem (2008) asserts that tourism has become a means by which many countries, especially the developing countries, improve their income base and at the same time show case their traditional heritage. Eilate and Einav (2004) also, have indicated that international tourism helps to promote world peace by providing an incentive for peacekeeping and by building bridges between cultures. Kester (2003) views tourism in African continent as a means of enhancing economic growth and development as well as launching the image of the continent to the outside world. Christie and Crompton (2001) also, note that the contribution of tourism industry in the gross domestic products (GDP) and exports in many African countries has been improving overtime.

Consistent with Christie and Crompton’s assertion, there has been an increasing number of international tourists’ arrivals into Ghana leading to an increase in revenues from the sector. The increase in international tourists’ arrivals, however, has been dominated by African tourists. Over the period, 1985 – 2009, Africa has had the highest mean number of tourists’ arrivals of about 234,975 with an annual percentage average of more than 60 percent. The international tourists from the developed world who have high incomes and high expenditure levels, with high multiplier effects contribute less than 40 percent of the total arrivals. This state of affairs even though is not bad, it is seen by some stakeholders as not helping greatly in enabling the country to realize the full potential from the tourism industry. Ghana is endowed with many attractive sites including more than 500km of beaches, and World Heritage forts and castles which makes the country well positioned to derive maximum economic benefits in terms of incomes, employment and tax revenue, both within the sector and through linkages with other sectors. It is therefore the intention of this study to find out what factors influence international tourists from the developed world in order to contribute to the expansion of the frontier of knowledge in tourism literature and also to inform policy in Ghana.

The next section provides an overview of Ghana’s tourism industry. Literature review, methodology and the analysis of results follow in that order. The last section of the paper considers the summary and conclusions.

2. Overview of Ghana’s tourism industry

Ghana’s tourism industry has experienced significant improvement since the launch of the Economic Recovery Programme (ERP) in 1985. Since the ERP period, the sector has received considerable attention in

the economic development strategy of Ghana. This has resulted in the tourism sector growing to become a significant foreign exchange earner for Ghana ranking fourth foreign exchange earner after cocoa, gold and remittances. The growth of tourism in this country has been attributed to a number of factors including political stability, as well as social, economic and technological changes that have taken place in the country and the hosting of some important cultural events such as Pan African Festivals (PANAFEST), Emancipation Day Celebrations, National Festival of Arts and Culture (NAFAC), among others.

According to Asiedu (1996), the existing coastal resources create opportunities for the development and promotion of five main types of tourism namely cultural and heritage tourism, ecotourism, beach tourism, conference or business tourism and urban tourism.

2.1. Trends of international tourist arrivals in Ghana by region

The main markets for Ghana's tourism include: Europe (United Kingdom, Germany, France, and Netherlands); The Americas (significant market being African-American market) and Africans from the Caribbean; Ghanaians in the Diaspora; the Economic Community of West Africa States members, especially those from Cote D'Ivoire, Nigeria and Togo. Figure 1 and Table 1 present the changes and the average percentages of international tourist arrivals in Ghana by region between 1985 and 2009. Africa topped international tourist arrivals by region, followed by Europe, the Americas, East Asia/Pacific and Middle East. Nigeria, Cote D'Ivoire and Togo dominate the African tourists. In fact, Nigeria tops the list of tourists' generating markets for Ghana. Trade, education and political stability in Ghana have been cited as some of the major factors driving the inflow of the Nigerians whereas in the cases of Cote D'Ivoire and Togo trade and political stability are seen as the driving factors. Moreover, Cote D'Ivoire and Togo share borders with Ghana and so promoting cross-border trading activities. Europe, especially the western part, has been the traditional market for Ghana due to historical, economic and political ties as well as air transportation links. United Kingdom dominates the European tourists. Of course, Ghana, being a former British colony will attract a number of tourists from the United Kingdom.

Tourists from the United States of America dominate the inflows from the Americas since a number of the African Americans trace their ancestral roots to Ghana. The slave castles especially that of Elmina and Cape Coast and forts dotted around the coast of Ghana are their major tourists' sites. The United States market, particularly, the African American segment is becoming increasingly important. The Chinese and the Japanese are the dominants as far as the East Asia/Pacific tourists are concerned. It can be seen from Figure 1 that Ghana registered decreases in African tourists in 1988 and 1989, decreases in American tourists in 1986, 1987 and 1990, a decrease in European tourists in 1986, decreases in Asian tourists in 1986, 1987, 1990 and 1991, decreases in tourists from Middle East in 1987 and 1990. Apart from these, there was a consistent increase in tourists' arrivals from all the regions.

The average annual percentages of international tourist arrivals into the country by region indicate that between 1985 and 1994 Africa contributed more than 63 percent of the total tourist arrivals followed by Europe, 21.5 percent, the Americas, 8.4 percent, while East Asia/Pacific and Middle East registered 4.3 percent and 1.2 percent respectively. Between 2005 and 2009, however, Africa's share decreased to a little

over 61 percent. Europe’s share increased to 22.7 percent. Americas, East Asia/Pacific and Middle East registered 8.4, 4.8 and 0.76 respectively.

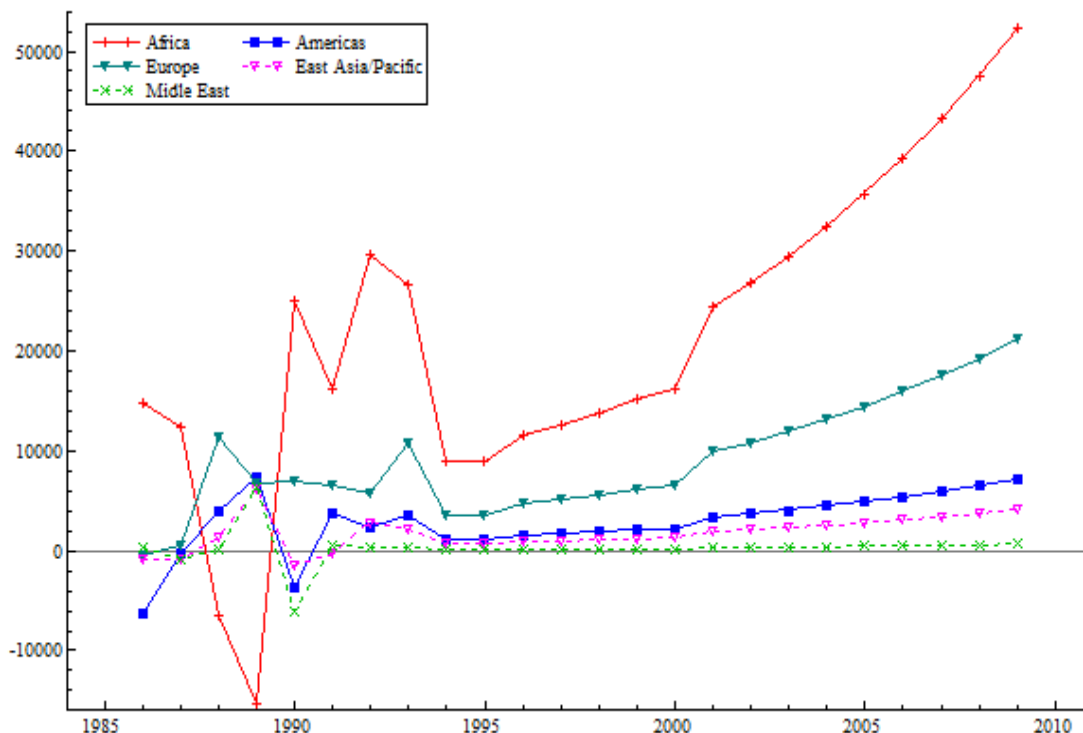


Figure 1. Changes in Tourists’ Arrivals from the Regions

Table 1. Percentage of Tourist Arrivals from the Regions (Period Averages)

Period	Africa	Europe	Americas	East Asia/Pacific	Middle East
1985-1994	63.1	21.5	8.4	4.3	1.2
1995-2004	62.5	22.7	8.5	4.9	0.85
2005-2009	61.2	24.8	8.4	4.8	0.76

Source: Author’s calculations

Table 2 shows the descriptive statistics of international tourists arrivals in Ghana by the five regions. Over the period, 1985 – 2009, Africa has the highest mean number of tourists’ arrivals of about 234,975. This is followed by Europe (94,394), Americas (32,181), East Asia/Pacific (18,248) and Middle East (3,132) in that

order. The high standard deviations can be interpreted as indicating a lot of variations in the international tourists' arrivals. Moreover, the distributions of international arrivals by the five regions are right-skewed (positively skewed). This means that the larger values of international arrivals by the five regions vary more than the lower and that the majority of values are less than the mean.

Table 2. Descriptive statistics

Regions	Mean	Std. Devn.	Skewness	Minimum	Maximum
Africa	234975	149660	0.72208	54281	57594
Americas	32181	20667	0.67500	4328	78978
Europe	94394	61604	0.65423	14994	233114
East Asia/Pacific	18248	12047	0.62446	1845	45231
Middle East	3132	1987.9	0.57327	366	7127

Source: Author's calculations

3. Literature review

3.1. Theoretical literature review

Different authors have come out with different definitions of tourism demand. Pearce (1995), for instance, view tourism demand as the relationship between individuals' motivation to travel and their ability to do so. But one of the most cited definitions is the one given by Song and Witt (2000). They consider tourism demand as the amount of a set of tourist products that the consumers are willing to acquire during a specific period of time and under certain conditions which are controlled by the explanatory factors used in the demand equation. The underlying theory that explains tourist behaviour is based on the demand function which can be derived by maximizing utility function subject to consumer's income.

Given the utility function $U = U(X, Y)$ subject to the budget constraint, $M = P_x X + P_y Y$ where X and Y are two tourists products/commodities, P_x and P_y are the commodity prices respectively and M is consumer's income.

Maximization of the constrained utility function yields individual demand curves and aggregation across the market yields the aggregate demand curve, $Q = Q(M, P_x, P_y)$. The demand function can be written in general form as: $Q = Q(P, M)$, where Q stands for tourist consumption in the receiving country, M is income per capita of the supplying country as a measure of its purchasing power capacity and P is a relative price index to measure price levels between the origin and the destination countries. As noted by Stucka (2002), the majority of empirical studies try to model the flow of tourism between the receiving and the supplying countries by specifying this type of demand function.

3.2. Empirical literature review

Among the huge number of potential factors explaining tourism demand income (per capita) has featured prominently. Studies such as Narayan (2004), Proenca and Soukiazis (2005), Kareem (2008), Salleh et al. (2008) and Habibi and Rahim (2009) have all incorporated income in the demand function for tourism. The intuition behind it is that the demand for tourism and the length of staying are directly related to the level of income (level of personal wealth) of the potential travellers and inversely related to the domestic cost of living.

Many studies including Kulendran and Wilson (2000), Proenca and Soukiazis (2005), Aslan et. al (2008) and Habibi and Rahim (2009) have also captured relative price in the tourism demand function. An increase in domestic price level in the sending country reduces the purchasing power of the potential travelers and, therefore, their demand for tourism whereas an increase in the price level of the destination country discourages tourists to move to this place or seek cheaper substitute destinations. Some studies such as Proenca and Soukiazis (2005), Aslan et. al (2008), and Habibi and Rahim (2009) also include a price-substitution effect to compare price levels between different destination places. In their study on Africa using panel data for the period 1996-2000, Naude and Saayman (2005) found out that political stability, tourism infrastructure, marketing, and the level of development in the destination country are key determinants of travel to Africa, while typical tourism determinants such as income in the country of origination and relative prices are not significant. Kareem (2008) also concluded that political instability, crime rate, exchange rate appreciation and consumer price index serve as negative signals to prospective tourists to the continent. However, the previous tourist arrivals, number of telephone lines, a measure of infrastructure, and world income, positively influence or determine tourist arrivals to Africa.

Different authors have used different measures to capture transportation and travelling cost in the tourism demand function. Gray (1966), Kliman (1981), Kulendran and Witt (2001), Lim and McAleer (2002), and Dritsakis (2004) have used air fares between the visited destination and the origin country. Quayson and Turgut (1982) and Witt and Martin (1987) have used ferry fares and/or petrol costs for surface travel. Munoz (2006), Mervar and Payne (2007), Salleh et. al.(2008), Habibi and Rahim (2009) have used the price of crude oil. Normally, the higher the travelling cost the lower the total arrivals and vice versa.

Generally, tourists would prefer to spend holidays in places that are already familiar to them or they had heard something positive about the places they plan to visit (Sinclair and Stabler, 1997). Word-of-mouth effect has therefore been captured in tourism demand functions by a number of studies including Salman (2003), Dritsakis (2004), Narayan (2004), Toh, Habibullah and Goh (2006), Muñoz (2006), Salleh et. al. (2008) and Kareem (2008). The word-of-mouth has been captured using the past year number of tourist arrivals.

4. Methodology

4.1. Model specification

Following earlier studies and considering the fact that there is political dimension to tourism demand in the African continent (see Naude and Saayman, 2005 and Odularu and Kareem, 2007) we include political

variables such as civil liberties and political rights into the model. The model for international tourists from the developed world is therefore expressed as follows:

$$\ln TA = \delta_0 + \delta_1 \ln Y + \delta_2 \ln ER + \delta_3 \ln CP + \delta_4 \ln SP + \delta_5 D2001 + \delta_6 \text{Elections} + \mu \quad (1)$$

where $\ln TA$ refers to the log of tourist arrivals from the individual region of the three developed regions to Ghana; $\ln Y$ is the log of regional GDP; $\ln ER$ is the log of the representative regional exchange rate; $\ln CP$ is the log of the index of civil liberties and political rights; $\ln SP$ is the substitute price; $D2001$ and Elections are dummy variables capturing the effects of September 11 2001 terrorist attack in the United States and its aftermath and election years in Ghana respectively; Dummies are specially constructed variables which take the value "1" when the event occurs and "0" otherwise. μ is the error term.

As noted by Lim and McAleer(2002), Dritsakis (2004) and Munoz (2006), normally, a higher income will increase total arrivals. Exchange rate appreciation is expected to have a negative effect on tourists' arrivals (Kareem, 2008). Exchange rate is therefore expected to have a positive relationship with tourists' arrivals meaning that appreciation of the Ghanaian currency will lead to loss of welfare to the tourists. Potential tourists will have to exchange more of their currencies for the Ghanaian currency, and this will make their travels and adventures more expensive.

We have also included a variable to capture the effect of political rights and civil liberties on tourist inflows. The indices of civil liberties and political rights rates countries based on the scale of 1 to 7, where 1 represents the highest degree of civil liberties and political rights and 7 the lowest. The factors that are considered in the measurement of civil liberties and political rights include electoral process, political pluralism and participation, functioning of Government, freedom of expression and belief; associational and organizational rights; rule of law; personal autonomy and individual rights. Improvement in these factors may enhance the image and attractiveness of the host nation to international tourists and vice versa. There has been a systematic improvement in Ghana's scores on political rights and civil liberties. It is believed that this state of affairs could send good signals to would-be/potential tourists about the serene political atmosphere and freedoms that exist in the host country, Ghana, whereas deterioration or a curtailment of political rights and civil liberties may send bad signals to potential tourists. As Richter and Waugh (1986, p. 231) put it:

'Tourism is frequently an early casualty of internecine warfare, revolution, or even prolonged labor disputes. Even if the tourist areas are secure (...) tourism may decline precipitously when political conditions appear unsettled. Tourists simply choose alternative destinations.'

Substitute price has also been proven to be an important determinant in some studies such as Gray (1966), Kliman (1981), Witt and Martin (1987), and Song et. al. (2003). Substitute price in this study is the tourism price at the alternative tourism destination, namely Nigeria. The relationship between the substitute price and the demand for tourism can be positive or negative. A positive sign for substitute price means that Nigeria is a substitute destination to Ghana, while a negative sign means that Nigeria is a complementary destination to Ghana.

4.2. Econometric procedure

This study uses panel data econometric techniques. It explores both the static panel data techniques (fixed and random effects models) and the dynamic panel data techniques (generalized method of moments (GMM)) for solving possible endogeneity problem and the possible correlation that exists between the lagged dependent variable and the unobserved country specific effects given the presence of the lagged dependent variable in the dynamic model. A systematic choice between fixed effects model and the random effects model was guided by performing the Hausman's test.

4.3. Data description and sources

The incomes of the three developed regions (Europe, Americas, and East Asia Pacific) have been measured by the index of the GDP of the three regions. The representative regional exchange rate is measured by using the exchange rate to the pound sterling for Europe, to the US dollar for America, and to the Yuan for Asia. All were adjusted by the domestic price level (CPI).

Substitute price is calculated as

$$SP = \frac{CPI_{Nigeria}}{CPI_{origin\ regions}}$$

Annual data covering the period from 1985-2010 have been used. The disaggregated international arrivals data based on the three regions namely Europe, America and East Asia have been sourced from the Ghana Tourist Board, data on consumer price indices; GDP and exchange rate have been collected from the IMF International Financial Statistics. Data on Civil liberties and political rights have been obtained from Freedom house's surveys of freedom available at <http://www.freedomhouse.org>. The indices of civil liberties and political rights rates countries based on the scale of 1 to 7, where 1 represents the highest degree of civil liberties and political rights and 7 the lowest. The two indices have been summed up to get a single indicator for civil liberties and political rights.

5. Analysis of results

5.1. Presentation of results

In this section, the results from the estimation of the model are presented. Table 3 shows the results for the fixed effects model (which assumes that the intercepts of each individual region may be different), random effects model and the dynamic model. The standard error estimates for both the fixed effects and random effects models are robust to disturbances being heteroscedastic and auto correlated. The Sargan test for over identifying restrictions fails to reject the null hypothesis that over identifying restrictions are valid. This means that the use of the GMM is appropriate. The Hausman test also indicates that the fixed effects model is more appropriate than the random effects model.

The significant F-test and Wald-test indicate the overall significance of the estimated regression line. The R-squared for the fixed effects and random effects models shows that about 90 percent of the variations in the dependent variable, in this case international tourists' arrivals from the developed regions is accounted for by the explanatory variables namely incomes of the three originating regions, representative exchange rates, civil liberties and political rights prevailing in Ghana, substitute price and the dummy variables capturing September 9th 2001 terrorists attack in the US and its aftermath and periods of elections in Ghana. Whereas the results from the random effects model has income of the originating regions and the exchange rate variable significant at five and one percent respectively and with the expected positive sign, the fixed effects and dynamic models have five of the explanatory variables namely income, exchange rate, civil liberties and political rights, substitute price and 2001 dummy significant and have the expected signs.

The results also indicate that Nigeria is a substitute destination to Ghana since the coefficient of the substitute price is positive. When price of tourism in Nigeria increases by 1%, international tourists' arrivals from the developed regions to Ghana will increase by about 9.5% going by the fixed effects model and 7.5% when considering the dynamic model.

All the three models show the expected negative relationship between international tourists' arrivals and civil liberties and political rights albeit insignificant in the random effects model. This means that improvement in civil liberties and political rights attract tourists into the country. September 9th 2001 terrorists attack in the US has had a permanent negative effect on international tourists' arrivals from the developed regions whereas elections in Ghana have not been deterrent to international tourists from the developed world. The coefficient of the lagged dependent variable is positive meaning that the current period's international tourists' arrivals are positively influenced by the previous period's arrivals.

5.2. Discussion of results

The results from both the fixed effects and dynamic models indicate that consistent with tourism demand studies such as Narayan (2004), Proenca and Soukiazis (2005), Kareem (2008), Salleh et al. (2008), and Habibi and Rahim (2009), incomes of the originating regions exert a positive effect on tourists' arrivals. There are some other studies such as Witt and Witt (1995) which have not only found a positive income effect but also confirmed that tourism is a luxury with the coefficient of elasticity being greater than one. However, Crouch (1995) argued that no generalization can be made about the value of the income elasticity of the demand for tourism and that the value is specific to each country.

As it is expected exchange rate has positive relationship with international tourists' arrivals. This result indicates that appreciation of the Ghanaian currency makes Ghana's export of tourism noncompetitive just like any other export commodity. Appreciation of the Ghanaian currency leads to loss of welfare to the tourists. Potential tourists will have to exchange more of their currencies for the Ghanaian currency and this will make their travels and adventures more expensive. The results also indicate that Nigeria is a substitute destination to Ghana. This is not surprising given the fact that Ghana and Nigeria are in the same sub region and also have a lot of things in common. What could possibly drive or swing more tourists to one country could be the relative tourism prices of both countries.

The introduction of civil liberties and political rights into the tourism demand model could be seen as a novelty of this paper. The effect of civil liberties and political rights on the arrivals of international tourists from the developed world is significant indicating that improvement in civil liberties and political rights such as freedom of expression and belief, personal autonomy and individual rights, associational and organizational rights attract tourists into the country.

Elections in Ghana have not been deterrent to international tourists from the developed world. Contrary to the general perception that elections in Africa which are mostly characterized by violence and instability and therefore deterrent to international tourists' arrivals, this is not the case for Ghana.

Furthermore, the word-of-mouth effects have been positive since the coefficient of the lagged dependent variable is positive. This signifies an informal advertisement for Ghana which is positive. This means that the experiences tourists get and the kind of treatment tourists receive in Ghana significantly affect inflow of tourists in a positive way. It encourages more tourists into the country. Ghana is considered to be an oasis of peace in a sub region characterized by conflict and political instability. Also Ghanaians are noted for their friendliness and hospitality. All these attributes and the prevailing civil liberties and political freedoms put together might have contributed to the positive word-of-mouth effect on tourists' inflows which Ghana is enjoying.

Table 3. Estimated Models

Variable	Fixed	Random	Dynamic (GMM)
lnY	.30* (.15)	.32* (.15)	.23*** (.10)
lnER	.30*** (.07)	.38** (.11)	.24*** (.06)
lnCP	-.43*** (.03)	-.13 (.34)	-.10*** (.01)
lnSP	.09* (.04)	.02 (.08)	.08* (.03)
D2001	-.34** (.12)	-.29 (.24)	-.22*** (.08)
Elections	.03 (.08)	.03 (.15)	.00 (.05)
lnTA(-1)			.46*** (.07)
constant	9.21*** (1.61)	8.77*** (1.50)	4.09*** (1.26)
N	78	78	72
R ²	.90	.90	
R ² _a	.89		
F(Prob)	108.63(0.00)		
Waldchi2(7)(Prob)		264.98(0.00)	1485.18(0.00)
Sargan Test			0.16
Hausman Test	chi2(2) = 53.11 Prob>chi2 = 0.00		

*** ** * indicate significant at 1%, 5% and 10% respectively. In parentheses are the standard errors

6. Summary and conclusion

International tourists' arrivals from the developed world to Ghana have been quite low (less than 40%) as compared to those from the African region (a little over 60%). It is believed that with high incomes of these tourists from the developed world, their expenditures will have greater multiplier effects on the Ghanaian economy. This study therefore has sought to find out the drivers of international tourists' arrivals from this part of the world (the developed world) to Ghana in order to inform policy to attract more of them to Ghana. A panel data on three tourists originating regions (Europe, Americas, and East Asia Pacific) have been used to estimate international tourism demand model.

The study has revealed that increases in incomes of the three originating regions boast international tourism in Ghana. Exchange rate appreciation makes Ghana's export of tourism not competitive. Appreciation of the Ghanaian currency leads to loss of welfare to the tourists. Potential tourists will have to exchange more of their currencies for the Ghanaian currency and this will make their travels and adventures more expensive. If the policy objective of the country is to attract more international tourists to Ghana then those policies that minimize exchange rate appreciation should rather be pursued.

The study also reveals that civil liberties and political rights negatively affect international tourism demand in Ghana. The authorities should therefore put in more policies that will deepen or promote civil liberties and political rights in order to attract more tourists into the country. Anything that tends to negatively affect civil liberties and political rights such as curtailment of freedom of expression and belief, personal autonomy and individual rights, associational and organizational rights should be avoided as much as possible.

The word-of-mouth effect on tourists' inflows is positive. This signifies an informal advertisement for Ghana which is positive. This means that the experiences tourists get and the kind of treatment tourists receive in Ghana significantly affect inflow of tourists in a positive way. It encourages more tourists into the country. Ghana is considered to be an oasis of peace in a sub region characterized by conflict and political instability. Also Ghanaians are noted for their friendliness and hospitality. All these attributes and the prevailing civil liberties and political freedoms put together might have contributed to the positive word-of-mouth effect on tourists' inflows which Ghana is enjoying. If Ghana is to continue to benefit from this positive informal advertisement then every effort should be made to maintain, if not to improve, all these positive attributes. Authorities should ensure that nothing negative is done to tarnish this positive image the country seems to be enjoying in the international circles. The prevailing freedom of expression and belief, personal autonomy and individual rights, associational and organizational rights should be maintained.

It should be noted that changes in certain variables such as fluctuations in the rate of foreign exchange, global economic climate, tourism prices in the neighboring Nigeria, and unpredictable incidence such as the September 9th 2001 terrorists attack are however, beyond our control and hence it is quite difficult to formulate related recommendations to respond to changes in these variables. However, the government and the various stakeholders in the tourism industry should take into consideration the changes since changes in these variables may require certain relevant policy and business changes.

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