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**PUBLIC INVESTMENT, PRIVATE INVESTMENT, GOVERNANCE AND  
TOURISM GROWTH IN FIVE SOUTH ASIAN ASSOCIATION FOR  
REGIONAL COOPERATION COUNTRIES**

**MUHAMMAD ATIF NAWAZ**



**DOCTOR OF PHILOSOPHY  
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**PUBLIC INVESTMENT, PRIVATE INVESTMENT, GOVERNANCE AND  
TOURISM GROWTH IN FIVE SOUTH ASIAN ASSOCIATION FOR  
REGIONAL COOPERATION COUNTRIES**

**By**

**MUHAMMAD ATIF NAWAZ**

**(96129)**



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Tandatangan  
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(Internal Examiner)

: **Assoc. Prof. Dr. Nor 'Aznin Abu Bakar**

Tandatangan  
(Signature)

Tarikh: **10 Oktober 2017**  
(Date)

Nama Pelajar  
(Name of Student)

: **Muhammad Atif Nawaz**

---

Tajuk Tesis / Disertasi  
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---

Nama Penyelia/Penyelia-penyelia  
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## ABSTRACT

The present research investigates the effects of public and private investment in Travel and Tourism (T&T), and their interaction effect on tourism growth in five South Asian Association for Regional Cooperation (SAARC) countries. It also examines the interaction effect of public and private investment with governance on tourism growth in the region. The panel data for the five SAARC countries, from 1996 to 2015, is analyzed using Fully Modified Ordinary Least Squares and Pooled Mean Group methods. The study findings reveal that public investment, private investments, and their interaction positively affect tourism growth. The interaction effects of governance with public and private investments produce mixed results for the three indicators of governance. The interaction of political stability and absence of violence with private investment shows positive effect, however, its interaction with public investment illustrates negative effect on tourism growth. In addition, the interaction effect of control of corruption and public investment on tourism growth is positive, while there is an evidence of negative effect of the interaction of control of corruption and private investment. Similarly, the interaction effect of rule of law and public investment on tourism growth is positive, whereas, it is negative in case of the interaction of rule of law and private investment. Therefore, it is recommended that public investment needs to be increased in T&T, in addition to ensure conducive environment for private sector participation in order to reap its full potential. The study also suggests improving the governance, as it enhances the efficiency and productivity of public and private investments in T&T.

**Keywords:** governance, private investment, public investment, tourism

## ABSTRAK

Kajian ini mengkaji kesan pelaburan awam dan pelaburan swasta ke atas sektor pelancongan (T&T) serta kesan interaksinya ke atas pertumbuhan pelancongan di lima negara *South Asian Association for Regional Cooperation* (SAARC). Kajian ini juga mengkaji kesan interaksi antara pelaburan awam dan pelaburan swasta dengan urus tadbir terhadap pertumbuhan pelancongan. Data panel bagi lima negara SAARC, dari tahun 1996 hingga 2015, dianalisis dengan menggunakan *Fully Modified Ordinary Least Squares* dan *Pooled Mean Group*. Hasil kajian menunjukkan bahawa pelaburan awam dan pelaburan swasta dalam T&T serta kesan interaksi secara positif mempengaruhi pertumbuhan pelancongan. Kesan interaksi di antara urus tadbir dengan pelaburan awam dan pelaburan swasta dalam T&T menghasilkan keputusan bercampur bagi tiga penunjuk urus tadbir. Interaksi kestabilan politik dan ketiadaan keganasan dengan pelaburan swasta menunjukkan kesan positif ke atas pertumbuhan pelancongan. Bagaimanapun, kesan interaksi dengan pelaburan awam adalah negatif. Seterusnya, kesan interaksi kawalan rasuah dan pelaburan awam terhadap pertumbuhan pelancongan adalah positif. Manakala, interaksi kawalan rasuah dan pelaburan swasta dalam memberi kesan negatif. Selain itu, kesan interaksi peraturan undang-undang dan pelaburan awam ke atas pertumbuhan pelancongan adalah positif, manakala kesan interaksinya dengan pelaburan swasta adalah negatif. Oleh itu, pelaburan awam dalam T&T perlu ditingkatkan bagi memastikan persekitaran yang kondusif kepada penyertaan sektor swasta untuk meraih potensi penuh. Kajian ini juga mencadangkan urus tadbir perlu diperbaiki bagi meningkatkan kecekapan dan produktiviti pelaburan awam dan pelaburan swasta dalam T&T.

**Katakunci:** urus tadbir, pelaburan swasta, pelaburan awam, pelancongan

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*Muhammad Atif Nawaz*  
96129

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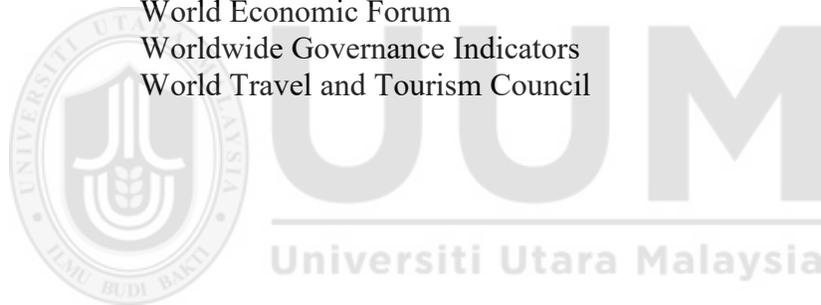
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## LIST OF ABBREVIATIONS

<b>Abbreviation</b>	<b>Full Meaning</b>
2SLS	Two Stage Least Squares
ADF	Augmented Dicky Fuller
AIC	Akaike Information Criterion
ARDL	Autoregressive Distributed Lag
ASEAN	Association of Southeast Asian Nations
BPG	Breusch Pagan Godfrey
COC	Control of Corruption
CUSUM	Cumulative Sum
CUSUMSQ	Cumulative Sum of Squares
ECM	Error Correction Mechanism
ECT	Error Correction Term
EXR	Exchange Rate
FDI	Foreign Direct Investment
FMOLS	Fully Modified Ordinary Least Squares
GDP	Gross Domestic Product
HQ	Hannan Quin
ICT	Information and Communication Technologies
IMF	International Monetary Fund
INF	Inflation Rate
IPA	Integrated Program of Action
IPS	Im, Pesaran and Shin
LCU	Local Currency Unit
LDCs	Less Developed Countries
LLC	Levin, Lin and Chu
LM	Lagrange Multiplier
MPK	Marginal Productivity of Capital
MW	Maddala and Wu
OECD	Organization for Economic Cooperation and Development
OLS	Ordinary Least Squares
PBI	Public Investment in Travel and Tourism
PBI*COC	Interaction of Public Investment in Travel and Tourism and Control of Corruption
PBI*PSAV	Interaction of Public Investment in Travel and Tourism and Political Stability and Absence of Violence and Terrorism
PBI*PVI	Interaction of Public Investment in Travel and Tourism and Private Investment in Travel and Tourism
PBI*ROL	Interaction of Public Investment in Travel and Tourism and Rule of Law
PMG	Pooled Mean Group
POLS	Pooled Ordinary Least Squares
PSAV	Political Stability and Absence of Violence and Terrorism
PVI	Private Investment in Travel and Tourism

PVI*COC	Interaction of Private Investment in Travel and Tourism and Control of Corruption
PVI*PSAV	Interaction of Private Investment in Travel and Tourism and Political Stability and Absence of Violence and Terrorism
PVI*ROL	Interaction of Private Investment in Travel and Tourism and Rule of Law
R&D	Research and Development
RESET	Regression Equation Specification
ROL	Rule of Law
SAARC	South Asian Association for Regional Cooperation
SC	Schwarz Criterion
T&T	Travel & Tourism
TE	Employment in Travel and Tourism
TG	Tourism Growth
UNEP	United Nations Environment Program
UNWTO	United Nations World Tourism Organization
VAR	Vector Autoregressive
WCED	World Commission on Environment and Development
WDI	World Development Indicators
WEF	World Economic Forum
WGI	Worldwide Governance Indicators
WTTC	World Travel and Tourism Council



# CHAPTER 1

## INTRODUCTION

This chapter presents background of study followed by the statement of the problem. Afterwards, research questions and general and specific objectives of the study are stated. Then, the potential contribution of the study and scope of the research are briefly discussed. The introduction closes with a brief structure of the study.

### 1.1 Background of the Study

Nowadays, it is a well known that tourism plays a crucial role in bringing countries and individuals together which contributes to mutual understanding and generates sources of revenue and employment. As noted by Pham (2012), tourism is considered as an efficient and effective mean in revitalizing the economy of any tourist destination. This sector is also widely acknowledged among the fastest growing industries globally (Basu, Ghosh, Siddique, & Gabbay, 2003; Ganesh & Chockalingam, 2010; Lanza & Pigliaru, 2000; Newsome, Moore, & Dowling, 2002; Tse, 2001). For many countries, tourism has turned into a main source of earning foreign exchange, employment generation and economic growth (Basu *et al.*, 2003). For developing countries, it is acknowledged as a key source of growth and development (Haller, 2012; Hodur, Leistriz, & Wolfe, 2005). Many scholars such as Archer and Owen (1971), Banskota (2007), Eugenio-Martin, Morales, and Scarpa (2004), Lee and Chang (2008), Sinclair (1998) and Stabler, Papatheodorou, and Sinclair (2009) asserted that tourism can enhance growth and development as it generates income,

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