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# **Toward Understanding Outbound GCC International Tourism: The Role of Expatriates and Institutional Quality**

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## **Abstract**

This paper employs the gravity model using panel data analysis techniques to explain the dynamics of tourism outflows from Gulf Cooperation Council (GCC) countries to high-, middle-, and low-income countries. The results show that, among other known variables, immigrants living in the GCC region have rendered a positive advertising impact on outbound tourism destination decisions in GCC citizens. Apart from the immigrant effect, institutional quality in the destination country is a key determinant of outbound GCC tourism.

**JEL classification:** F24, F41, L83

**Keywords:** Bilateral international tourism demand, gravity equation, immigrants, institutional quality

## **1. Introduction**

In a recent study, Balli, Balli, and Jean Louis (2016) showed how immigrant population within OECD countries serves as a tourism catalyst between the region and the countries from which these immigrants originated. Other researchers have explored this phenomenon in the context of tracing progress in the tourism field (Crouch, 1994; Witt and Witt, 1995; Song and Li, 2008; Song et al., 2012; Peng et al., 2014). The current paper aimed to take a look at the extant linkages from the standpoint of the tourism source countries as opposed to the tourism recipient countries.

On a broader scale, our paper improves upon the existing literature by testing the relevance of non-market factors, such as differential climatic conditions, expatriate population, and institutional quality, beyond the usual variables found in gravity models. Empirically, this study estimated the determinants of outbound tourism from six Gulf Cooperation Council (GCC) countries, i.e. Qatar, Saudi Arabia, Kuwait, United Arab Emirates, Bahrain, and Oman, to 54 different destinations as permitted by the available data.

GCC countries represent a largely appealing bloc for our investigation. They have similarities in terms of cultural affinities economic structure, population structure and climate conditions. Besides, they managed to gather a significant amount of wealth via crude oil and oil derived exports. Domestic needs to escape the heat, high purchasing power, and exposure to a diverse population of immigrants make the GCC a potential tourist source for many countries. According to a newly released report by Source Market Insights-GCC (2013), there has been tremendous growth in the GCC outbound tourism market over the years, reaching 37 million tourists in 2013; Saudi Arabia (the largest country in the bloc) accounted for 21 million. The amount spent overseas by GCC nationals was estimated at USD 65 million for the same year. By 2018, these expenditures are expected to reach USD 100 billion, owing partly to such initiatives as the common visa commenced in 2015 to facilitate tourism and international business with 35 foreign and Arab countries. The report also indicated that European countries, mostly Germany and the UK, given their close proximity, currently receive the larger share of the total tourists from the region, thereby benefitting the most from the influx of GCC outbound tourists.

The fundamental question that we raise in this research is whether the choice of destination by GCC nationals is simply business/income or habit driven (the lavish lifestyle) or motivated by the reason of visiting friends and relatives. We conjecture this is only a part of the equation, albeit not apparently an important one; similar to many people worldwide (especially high-income earners), safety is the primary concern of GCC nationals when travelling. Therefore,

institutional quality, in terms of the rule of law, civil liberty, and freedom, plays an important role, particularly for GCC nationals who are generally Muslims. In deciding to visit a place, GCC nationals would pay attention to special circumstances in the destination countries, such as the level of tolerance and/or acceptance of their religious observances in terms of prayers, dress code, and culture. One way to capture this facet of the analysis is through survey data, which tends to be costly and time-consuming to obtain. However, time series data on these variables have been collected by Transparency International and Freedom House<sup>1</sup>. Their data are useful for an empirical investigation on whether GCC nationals frequently visit the UK and Germany not only for the opportunities of shopping and sightseeing but also because they feel safe and at ease in these destinations as opposed to such countries as France, where recent laws have been put in place that challenge female Muslims' way of life.<sup>2</sup>

The determinants of the GCC outbound tourism deserve attention. GCC is a highly demanded region, where workers of various countries come and go based on the need for their skills. Accordingly, work and social interactions by immigrants/expatriates and nationals are inevitable. It remains unverified whether this conviviality drives both nationals and expatriates to visit the places of origin of their employees, friends, colleagues, and neighbors. From this perspective, GCC tourism might include more than the motives of rich tourists are wondering the world.

This paper is organized as follows. Section 2 reviews the literature. Section 3 describes the data, whereas Section 4 explains the methodology and the empirical model specifications. Section 5 discusses the results, and Section 6 presents our conclusions.

## **2. Literature Review**

One strand in tourism research identifies the economic determinants of outbound tourism. Its focus has been on the relevance of income levels, consumer prices, travel costs, and exchange rates. Seddighi and Shearing (1997) and Garin-Muñoz (2009) reported that relative prices and real income are the main determinants of domestic tourism in the regions of Northumbria in the UK and Galicia in Spain, respectively. Taylor and Ortiz (2009) and Bigano et al. (2006) confirmed these results. Bigano et al. (2006) found evidence that the income elasticity of domestic holidays is positive for countries with low incomes but falls as income grows,

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<sup>1</sup> Please see the Freedom House reports at <https://freedomhouse.org/reports> (accessed 4 February 2016).

<sup>2</sup> Despite a new ruling by France's Council of State in August 26, 2016 that a ban on full-body bathing suits infringes on civil liberties, a number of mayors continue to call for the reversal of this decree. <http://www.cbc.ca/news/world/burkini-ban-france-overturned-1.3736823>, Accessed August 28, 2016.

eventually becoming negative. As Athanasopoulos and Hyndman (2008) further showed, GDP adversely impacts domestic tourism in Australia, as expressed by the number of nights spent for holiday purposes. The underlying rationale is that as income rises, Australians find it more rewarding to visit foreign destinations for their holidays. In this regard, the existence of a possible trade-off between overseas departures and trips within the country is an interesting line of research that has been explored in the literature (e.g., Bigano et al., 2006).

Another strand of the literature has explored the relevance of macroeconomic variables using sophisticated econometric techniques, such as panel data co-integration analysis and M-GARCH, as being more instructive than the commonly used cointegration analysis or ordinary least squares (OLS) methods. These latter methods were used by Lim (1997), Song et al. (2000), Cortés Jiménez et al. (2009), Seo et al. (2009), Kim et al. (2012), and Seetaram (2012a). Their results have highlighted the positive effect of income (or wealth, in general) on outbound tourism.

Differential climatic condition as a determinant of outbound tourism has thus far received some attention from the literature despite the sheer size of tourism activities motivated by this factor. For instance, cold season in certain parts of the world induce citizens to visit or migrate for part of the year to tropical countries, per the so-called snowbird factors.<sup>3</sup> Likewise, citizens from countries of extremely hot temperatures tend to seek refuge in countries with moderate to low temperatures during certain parts of the year. Indeed, the bulk of tourism between Canada and the US, Mexico, the Caribbean, and Latin America is mostly tributary to differential climatic conditions. The same pattern is observed between neighboring countries in Europe and Australasia.

Empirically, we estimated a dynamic panel data model using outbound tourism data from the GCC to 54 countries for the period 1995–2013. By extending the usual gravity equation model, we found that the population of expatriates and institutional quality are key determinants of GCC outbound tourism. The volatility of inflation in tourism destination countries is not a deterrent, apparently owing to the high purchasing power of GCC nationals and the relative peg of their domestic currencies to the US dollar.

### **3. Data Description**

We have gathered different datasets in order to perform the estimations. The data on passenger arrivals by nationality for each sample country were from the World Tourism Organization

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<sup>3</sup> This term, coined in the North American context, refers to the tendency among Canadians to choose to migrate mostly to the US and Mexico for part of the year to avoid the cold winter in Canada.

(2014) and Compendium of Tourism Statistics database. The database was carefully scrutinized to capture the outbound tourism numbers from the six GCC countries to the 54 countries for the period 1995–2013. We also utilized data on bilateral immigrant stocks between each GCC country and the 54 countries from the United Nations’ Immigration Database. The selection criterion was as follows: If country  $j$  has expatriates/immigrants who have been working in GCC countries, it was included.

To arrive at the determinants of outbound tourism, we employed macroeconomic indicators with bilateral trade variables. We gathered data on population, real GDP per capita, exchange rates, and inflation from the World Bank’s World Development Indicators database. The real exchange rate here refers to the real exchange rate of country  $i$  and its volatility, calculated as the standard deviation over a 19-year period in the same way as the inflation volatility variable. We captured the importance of bilateral trade using data on total exports and imports in USD from the International Monetary Fund’s Direction of Trade Database and measured institutional quality using Transparency International’s Corruption Perception Index, which ranges from 0 to 10, with 10 being the highest quality.

In countries where social pressure exists owing to national security, governments are likely to abridge civil liberties by enacting laws or taking measures that create an atmosphere perceived to be hostile toward tourism. As GCC tourists are primarily Muslims, and therefore, have a way of life that may be deemed different from that of Westerners, it is fair to test whether GCC tourists factor in the stance of countries in terms of tolerance toward Muslims’ dress codes and accommodation for prayers. A proxy for such data is the Freedom House’s indices on (a) civil rights, which takes a value between 0 and 7, with 7 being the worst score; and (b) freedom of expression or beliefs, which classifies countries into three categories: “free” “partially free,” or “not free.”<sup>4</sup> Subsequently, we created the dummy variable Freedom, which takes 1 if a country is free and 0 otherwise (i.e., partly or not free).

Table 1 presents the descriptive statistics of the variables used in the empirical analysis. Although the interpretation of the variables may look straightforward, it is worth mentioning some important features of the key variables. Inflation in the host countries averages at 9.4%, which is currently far greater than the 2.2% in GCC countries, suggesting that a reduction in purchasing power may be of little concern to GCC tourists. The average score for civil liberties and public rights in the places visited is 3.6 and falls within the moderate range. Almost as

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<sup>4</sup> Freedom House is a US-based non-governmental organization for research and advocacy on democracy, political freedom, and human rights.

many distributions skew to the right as those that skew to the left and peak per the kurtosis values. A right-skewness and a high kurtosis are observed for only three variables: Contiguous, inflation, and exchange rate.

#### 4. Methodology of the Dynamic Panel Data Model

The need for dynamic panel data estimates stems from the valid critique of Naude and Saayman (2005): static panel data estimates of tourism flows (inbound or outbound) may suffer from omitted variables bias if repeat visits are not considered. The basic idea is that past visits to certain tourist destinations and memorable experiences are often great motivators for repeat visits to the same place or even neighboring states. Several authors have included lag variables in their model to capture this expectation (e.g., Alegre and Juaneda, 2006; Balli et al., 2013; Bowen and Clarke, 2009; Morrison, 2010). The present study followed a similar approach toward understanding tourism outflow from GCC countries to the selected 54 destination countries by postulating the following dynamic model:

$$\Delta VST_{ij,t} = \delta_0 + \lambda_1 \Delta VST_{ij,t-1} + \delta_1 \Delta M_{ij,t} + \delta_2 \Delta Imm_{ij,t} + \delta_3 \Delta CVL_{jt} + \varepsilon_{ij,t} \quad (1)$$

In the existence of lagged dependent variables as independent variables, OLS method becomes insufficient, as it delivers estimates that are biased owing to the endogeneity problem. We adhered to the proposed solution of Arellano and Bond (1991) and used lagged dependent variables as instruments in a generalized method of moments set up to obtain consistent and efficient estimates.

The estimated equation derived from the gravity equation is presented in equation (1). Indices  $i$  and  $j$  indicate immigrant-receiving (GCC) and source countries (non-GCC countries), respectively;  $t$  is time.  $VST$  corresponds the tourism inflow<sup>5</sup> from  $i$  to  $j$ , and  $M_{ij} = (Y_j, Y_i, P_j, P_i, ER_i)$ , with  $Y$  being the real GDP per capita (for both  $i$  and  $j$ ),  $P$  being the volatility of the inflation rate for both countries  $i$  and  $j$ , and  $ER$  being the real exchange rate.  $Imm$  represents the *Immigrant* variable;  $CVL$  is civil liberty.  $\alpha_{ij}$  corresponds to unobserved country parameters with a variance of  $\sigma_\alpha^2$ , and  $\mu_t$  indicates the time-fixed effects with a variance of  $\sigma_\mu^2$ .  $\varepsilon$  is the disturbance term.

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<sup>5</sup> In the growth models,  $1 + g_x = \frac{x_t}{x_{t-1}}$ ; thus, we used  $\ln(1 + g_x) = \ln\left(\frac{x_t}{x_{t-1}}\right) \cong g_{\ln(x)}$  if  $0 < g_x < 1$ . In this case, we modelled the growth of visitors from country  $i$  to country  $j$ .

## 5. Empirical Findings

### 5.1 General Findings

Table 2 contains the generalized method of moments estimation of our dynamic model capturing the persistence of tourism flows per Eq. (1). We tested for both the autocorrelation and heteroscedasticity of the errors to find evidence that heteroscedasticity was an issue but not autocorrelation, as the first- and second-order Arellano–Bond correlation tests had  $p$ -values greater than 10%. The  $p$ -value of Sargan’s  $J$  test of over-identifying restrictions also led to the rejection of the null hypothesis that the lagged dependent variables as instrument was exogenous in any of the specified models. The heteroscedasticity problem was addressed using robust standard errors. The first column in Table 2 presents information pertinent to the baseline model of the determinants of tourism demand. One aspect that is not captured as a determinant of outbound tourism is repeat visits to known places. To overcome this problem, we estimated a dynamic panel data model that incorporates the lagged dependent variables as an explanatory variable.

The first column in Table 2 contains the entire sample without expatriates/immigrants and quality of institution variables. In the results, the coefficient estimate of the lagged dependent variable ( $\ln (Tourist\ flows_{ij,t-1})$ ) is shown to be statistically significant at the 1% level, suggesting that past visits only explain 0.09% of the current GCC outbound tourism for every 1 percentage point shock. This outcome is, by all measures, a weak persistence indicator, pointing to GCC tourists opting for a well-diversified base of vacation destinations. Columns 3 and 4 in Table 2 show sub-grouped country sets for high and low income; the lagged dependent variable is 0.33% for high-income countries and 0.05% for low-income countries. The results suggest the higher likelihood for a GCC tourist to visit a country again in the next year if that country is a high-income country.

We gradually augmented the baseline model to test the importance of immigration and different civil liberty scores. The results are presented in Columns 2 of Table 2, with these variables controlled. The presence of immigrants/expatriates in the GCC countries accelerated outbound tourism by 42 basis points for every 100 percentage points, with a standard error of 0.01. When we restricted the sample country set with low-income countries, this coefficient increased to 56 and still highly significant (see Column 4, Table 2). For the high-income countries (Column 3, Table 2), the coefficient turns to 0.07—still significant, but on the weaker side. This result supports the recent findings by Balli et al. (2016): the immigrant population living in a country is an important factor for tourism flows to the home countries of those immigrants and in the case of GCC countries, this is no exception.



Similarly, countries with a higher degree of tolerance toward the Muslim way of life, as captured by the civil liberty variable, tend to receive a fair share of the tourist flows from GCC. Columns 2 to 4 in Table 2 present the results corresponding to the joint estimation of all the variables above the baseline model. For the entire sample (Column 2) and high-income (Column 3) and low-income samples (Column 4), the Civil Liberty coefficient is positive and statistically significant, supporting our claim that civil liberty rights are crucial for GCC visitors in selecting tourism destinations.

### ***5.2 The Expatriate–Tourism Nexus***

An important feature depicted in the results of the static and dynamic panel estimations is that immigrants/expatriates living in GCC countries influence outbound tourism, and hence, create what the literature terms “familiarity bias” when it comes to destination choice of GCC-based tourists. For every percentage point increase in the expatriate population, the expatriate–tourism nexus is notably higher, given the sheer size of the expatriate population relative to nationals within GCC and the commanding purchasing power of GCC nationals. In exploring this linkage, we observed significant differences in the distribution of GCC outbound tourism across expatriates’ countries of origin. As shown in Tables 3a to 3d, countries with a larger pool of emigrants to GCC receive the bulk of GCC tourism flows. For instance, whereas the average percentage change in Qatar’s outbound tourism was only at 215% (Table 3a for the period 1995–2013), the same statistic for countries like the Philippines, Indonesia, Iran, China, and Turkey exceeded 1000%. A similar pattern was observed for other GCC countries. Apart from Western countries, where the increase in tourism outflows can be explained by other factors, the bulk of GCC’s outbound tourism to countries such as the Philippines, Indonesia, China (to some extent), Thailand, and Turkey, is attributed to the advertising effect by the expatriates regarding their home country (Balli et al. 2016). That is, the day-to-day interaction between expatriates and nationals drives GCC nationals to consider these destinations when the time comes to make a vacation decision.

## **6. Conclusion**

This study aimed to document the drivers of the international outbound tourism of GCC countries, and in particular, to determine whether the presence of expatriates and institutional quality in the form of civil liberties play an important role. Using dynamic panel data analysis techniques and data on outbound tourism from GCC to 54 destinations, we found that these variables are indeed key underlying factors above the usual gravity model variables. GCC tourists mostly travel to places that have higher quality of institutions, have more expatriates

working in the country they live, and where they had not been to or that are simply new to them.

Overall, immigrants living in the GCC region create an advertising affect in tourism for GCC locals and attract the outbound tourism from this region to their countries of origin. At this stage, countries need to see the potential of their expatriates and use it to promote tourist flow from their country of residence.

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**Table 1.** Descriptive Statistics for Variables

	Observations	Mean	Std. Dev.	Maximum	Minimum	Skewness	Kurtosis
<i>Exchange rate<sub>i</sub></i>	2161	1.08	0.45	1.98	0.46	1.45	12.04
<i>Log (Gdpc)<sub>i</sub></i>	2161	9.99	1.52	11.44	5.19	0.15	1.93
<i>Log (Gdpc)<sub>j</sub></i>	2161	8.45	0.64	11.25	5.19	0.13	2.40
<i>Log (Export)<sub>ij</sub></i>	2161	1.094	3.09	17.20	0.34	-0.50	2.99
<i>Log (Immigrant)<sub>ij</sub></i>	2161	5.88	5.00	14.86	0.03	-0.03	1.44
<i>Log (Population)<sub>j</sub></i>	2161	17.33	1.61	20.94	13.24	-0.20	3.01
<i>Inflation<sub>j</sub></i>	2161	9.41	30.54	400.32	-4.86	2.84	53.32
<i>Inflation<sub>j</sub></i>	2161	4.31	12.22	120.32	-1.12	0.45	50.76
<i>Log(Visit)<sub>ij</sub></i>	2161	8.27	2.58	15.43	0.69	0.07	2.84
<i>PR<sub>j</sub></i>	2161	3.65	1.97	7.00	1.00	0.09	1.74
<i>CL<sub>j</sub></i>	2161	3.57	1.67	7.00	1.00	-0.10	2.14

See text for the definition of the variables.

**Table 2.** Dynamic Panel Data EstimationDependent variable: Ln (*Tourism flows<sub>ij,t+1</sub>*)

	Whole Sample	Whole Sample	High Income Countries	Low Income Countries
$\ln(Tourist\ flows_{ij,t-1})$	0.09(0.01) <sup>***</sup>	0.07(0.01) <sup>***</sup>	0.33(0.02) <sup>***</sup>	0.05(0.0) <sup>***</sup>
$\ln(Import_{ij})$	0.18(0.02) <sup>***</sup>	0.22(0.01) <sup>***</sup>	0.14(0.02) <sup>***</sup>	0.15(0.02) <sup>***</sup>
$\ln(Population_{ij})$	-0.11(0.10)	-0.08(0.12)	-0.12(0.32)	-0.52(0.12) <sup>***</sup>
$\ln(Gdpc_{ij})$	0.54(0.03) <sup>***</sup>	0.51(0.01) <sup>***</sup>	0.23(0.11) <sup>**</sup>	0.33(0.02) <sup>***</sup>
SARS	-0.05(0.03)	-0.03(0.04)	-0.02(0.02)	-0.05(0.02) <sup>**</sup>
Inflation <sub>i</sub>	0.02(0.02)	0.01(0.01)	0.01(0.01)	0.00(0.04)
Exchange <sub>i</sub>	-0.07(0.02) <sup>***</sup>	-0.06(0.01) <sup>***</sup>	-0.13(0.02) <sup>***</sup>	-0.04(0.05)
Immigration <sub>ij</sub>		0.42(0.01) <sup>***</sup>	0.07(0.04) <sup>*</sup>	0.56(0.05) <sup>***</sup>
CL <sub>i</sub>		0.13(0.01) <sup>***</sup>	0.62(0.15) <sup>***</sup>	0.14(0.04) <sup>***</sup>
No. of observations	1800	1800	764	1036
Sargan statistic	0.44	0.42	0.24	0.31
<i>p</i> -value				
AB(1) test <i>p</i> -value	0.13	0.14	0.20	0.25
AB(2) test <i>p</i> -value	0.16	0.41	0.25	0.21

Notes: \*, \*\* and \*\*\* indicate that the coefficient is significant at the 10%, 5% and 1% level respectively. Standard errors are reported in parentheses. See Table 1 for the variable definitions. AB, Arellano–Bond stand for the autocorrelation test results for the first and second degree, respectively.

**Tables 3.**

<b>Table 3a. % Change in Qatar's outbound tourism in the destination countries between 1995 and 2013</b>	
<b>India</b>	106%
<b>Philippines</b>	1308%
<b>Bangladesh<sup>6</sup></b>	N/A
<b>Pakistan</b>	79%
<b>Egypt</b>	130%
<b>Jordan</b>	120%
<b>Indonesia</b>	500%
<b>Iran<sup>7</sup></b>	1100%
<b>UK</b>	800%
<b>USA</b>	519%
<b>Tunisia</b>	285%
<b>Morocco</b>	493%
<b>Lebanon</b>	717%
<b>Canada</b>	487%
<b>China</b>	6100%
<b>Turkey</b>	2042%
<b>Overall average change in Qatar's outbound tourism</b>	<b>215%</b>

Source: See Table 1.

<sup>6</sup> The data for Bangladesh are not precise.

<sup>7</sup> There are almost no Iranians workers in the GCC or in Europe

**Table 3b. % Change in Saudi Arabia's tourist outflows to the different destination countries between 1995 and 2013**

<b>Pakistan</b>	205%
<b>Bangladesh</b>	NA
<b>Egypt</b>	124%
<b>Philippines</b>	254%
<b>Indonesia</b>	649%
<b>Jordan</b>	145%
<b>Turkey</b>	863%
<b>Lebanon</b>	624%
<b>USA</b>	241%
<b>UK</b>	13%
<b>Thailand</b>	521%
<b>Nigeria</b>	514%
<b>Morocco</b>	180%
<b>Overall average change in Saudi Arabia's outbound tourism</b>	195%

**Table 3c. % Change in Kuwait's tourist outflows to the different destination countries between 1995 and 2013**

<b>India</b>	225%
<b>Bangladesh</b>	65%
<b>Pakistan</b>	210%
<b>Egypt</b>	106%
<b>Syria</b>	251%
<b>Jordan</b>	94%
<b>Lebanon</b>	390%
<b>Philippines</b>	322%
<b>Indonesia</b>	1800%
<b>America</b>	145%
<b>Overall average change in Kuwait's outbound tourism</b>	162%

**Table 3d. % Change in the United Arab Emirates' tourist outflows to the different destination countries between 1995 and 2013**

<b>India</b>	343%
<b>Pakistan</b>	210%
<b>Bangladesh</b>	NA
<b>Philippines</b>	1322%
<b>Iran</b>	168%
<b>Egypt</b>	161%
<b>China</b>	4196%
<b>Jordan</b>	172%
<b>United Kingdom</b>	173%
<b>South Africa</b>	241%
<b>Lebanon</b>	992%
<b>Indonesia</b>	1940%
<b>USA</b>	213%
<b>Canada</b>	560%
<b>Overall average change in the United Arab Emirates' outbound tourism</b>	325%