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TOURISM AND ECONOMIC GROWTH: ASSESSING THE ROLE OF TOURISM INDUSTRY IN NEPAL

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Abstracts

Nepal holds significant potential for tourism development. While tourism development can drive economic growth in destination countries, there is ongoing debate about whether tourism directly causes economic growth. This study aims to analyze the trends in inbound tourist arrivals and tourism receipts in Nepal and assess tourism's impact on Nepal's economic growth. The study utilizes secondary data spanning from 1975 to 2021, with variables rebased to a common base year of 2010/11. The independent variables include government consumption, gross fixed capital formation, tourism receipts, and trade volume, while the dependent variable is gross domestic product (GDP). A unit root test using the Augmented Dickey-Fuller (ADF) test was conducted to check for stationarity. The Autoregressive Distributed Lag (ARDL) model was employed to examine the impact of the independent variables on the dependent variable. The findings indicate that inbound tourist arrivals in Nepal are rising, and foreign exchange earnings from tourism are also increasing. Most tourists come from India, China, the UK, the USA, and Sri Lanka. The estimated long-run coefficients for government consumption, gross fixed capital formation, and trade volume are positive and statistically significant, indicating a positive relationship with economic growth. However, the study found no long-term relationship between tourism receipts and economic growth.

Keywords: economic growth, capital formation, foreign currency, employment, infrastructure development

INTRODUCTION

Background

Nepal's tourism industry is a vital pillar of its economy, celebrated for its breathtaking natural landscapes, cultural richness, and spiritual heritage. Nestled in the Himalayas, the country is home to eight of the world's fourteen highest peaks, including Mount Everest, drawing trekkers, climbers, and adventure enthusiasts globally. Treks like the Annapurna Circuit, Langtang Valley, and Everest Base Camp are among the most sought-after experiences. Cultural tourism flourishes with ancient cities, temples, and stupas, including UNESCO sites like Kathmandu Durbar Square, Bhaktapur, and Patan, showcasing intricate Newari architecture. Lumbini, the birthplace of Buddha, is a pilgrimage hub, while vibrant festivals such as Dashain, Tihar, and Holi highlight Nepal's colorful traditions. National parks like Chitwan and Sagarmatha offer wildlife safaris, birdwatching, and eco-tourism opportunities. Supporting local livelihoods and preserving its heritage, Nepal focuses on sustainable tourism. Post-pandemic recovery efforts include upgraded infrastructure, digital tourism, and innovative adventure, wellness, and rural tourism initiatives, ensuring an unforgettable experience for every visitor.

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Tourism and economic growth are closely intertwined. The sector contributes to economic development through various channels, including job creation, income generation, the utilization of local resources, and infrastructure development (Barros et al., 2011). Furthermore, tourism promotes structural changes, transitioning economies from agriculture-based to service-oriented, which is particularly beneficial for developing countries (Paudyal, 2012). As noted by UNWTO (2020), tourism is the world's third-largest export category after fuels and chemicals, with tourism receipts growing faster than merchandise exports in recent years. This highlights the sector's resilience and potential as a crucial tool for achieving favorable trade balances, especially for countries with limited merchandise exports.

In Nepal, tourism holds vast potential due to its rich natural, cultural, and religious heritage. The country's diverse landscapes and unique cultural experiences, ranging from trekking and mountaineering to religious and cultural tourism, position it as a desirable destination for international visitors (Camilleri, 2018). The Government of Nepal has made significant investments in tourism infrastructure and encouraged private sector involvement through various policy interventions (NTB Act, 1997). Despite the sector's challenges, such as the impact of the COVID-19 pandemic, the average length of stay for tourists in Nepal has increased, indicating sustained interest in the country's tourism offerings (MOCTCA, 2022). However, Nepal's tourism sector is underutilized, given its wide range of natural and cultural resources. Although the industry contributed 6.7 percent to Nepal's GDP and had a total economic impact of US\$ 2.2 billion in 2022 (World Bank, 2022), there remains untapped potential. Debates continue over whether tourism contributes to long-term economic growth in Nepal. While some studies, such as Bhattarai and Karmacharya (2021), do not support the tourism-led growth hypothesis, others, including Gautam (2008, 2011, 2014) and Paudyal (2012), suggest a positive relationship between tourism and economic development. Therefore, this study aims to explore the role of tourism in fostering economic growth in Nepal.

Review of literature

Liu (2022) explored the economic impact of tourism on Thailand and global economies using multiregional input-output analysis across various industries from 2007 to 2019. The study found that tourism sectors like hotels, restaurants, and air transport had spillover effects on other industries, significantly influencing output and value-added. Similarly, Naseem (2021) examined the relationship between tourism receipts, expenditures, and tourist arrivals on Saudi Arabia's economic growth (2003-2019), concluding that these factors positively impacted economic growth in the long run.

Rasool et al. (2021) analyzed tourism's role in the BRICS countries (1995-2015) using ARDL models and found a positive relationship between tourism receipts, financial development, and economic growth, both in the long and short run. Khan et al. (2020) focused on Pakistan (1995-2016), showing that tourism had a positive relationship with economic growth, capital development, energy development, and agriculture while alleviating poverty. Nyasha et al. (2020) studied 47 Sub-Saharan African countries (2002-2018), finding that tourism receipts positively impacted economic growth, but tourism expenditures had a negative effect.

Pan and Dosou (2019) confirmed the tourism-led growth hypothesis in the Republic of Benin (1995-2015) through a positive relationship between tourism receipts and economic growth. Wu and Wu (2019) found mixed results regarding tourism and economic growth across different Chinese provinces. Liu et al. (2018) used a dynamic stochastic model to show that tourism in Mauritius (1999-2014) contributed significantly to economic growth, stressing that its effects are moderated by price elasticity in international demand.

Bhattarai and Karmacharya (2021) found no significant relationship between tourism receipts and GDP (1976-2020), refuting the tourism-led growth hypothesis. Gautam (2014) and Paudyal (2012) both explored tourism's role in Nepal's economy, with the former identifying a bidirectional causality between tourism development and economic growth (1975-2012), and the latter demonstrating positive impacts of tourism on national income and tax revenue (1975-2010).

Research gaps

There is a lack of consensus regarding the impact of tourism on long-term economic growth in Nepal. While Gautam (2008, 2011, 2014) and Paudyal (2012) provide outdated evidence supporting the tourism-led growth hypothesis, more recent and comprehensive analyses are lacking. Studies have yet to assess how Nepal's unique tourism sub-sectors, such as adventure tourism, eco-tourism, and cultural tourism, specifically impact economic growth, employment, or industry spillovers. Liu (2022) highlighted the spillover effects of tourism in Thailand, but similar multi-sectoral analyses are missing for Nepal. Research has not evaluated how sectors such as hospitality, transportation, handicrafts, or agriculture benefit from tourism. Moreover, despite the increasing importance of sustainable tourism globally, existing studies lack emphasis on how Nepal's eco-tourism and cultural tourism align with sustainable development goals (SDGs) and their long-term economic effects.

Furthermore, no studies compare Nepal's tourism-led growth trajectory with other developing or Himalayan nations, such as Bhutan, which share similar geographical and cultural contexts. This conflicting evidence underscores the need for further research employing robust econometric techniques, considering a broader range of economic variables and longer time frames, to validate the tourism-growth relationship in Nepal.

Statement of problems

Tourism is often considered a significant driver of economic growth, yet the empirical evidence presents mixed outcomes. Studies conducted in Thailand (Liu, 2022) and Saudi Arabia (Naseem, 2021) highlight the positive long-term impact of tourism on economic growth through increased tourism receipts and expenditures. Similarly, tourism has been shown to stimulate economic growth in the BRICS countries (Rasool et al., 2021) and alleviate poverty in Pakistan (Khan et al., 2020). However, the results are not universally positive. In Sub-Saharan Africa, while tourism receipts contribute positively to growth, tourism expenditures were found to have a negative impact (Nyasha et al., 2020). Furthermore, the tourism-led growth hypothesis has not been confirmed universally across all regions. Bhattarai and Karmacharya (2021) found no significant relationship between tourism receipts and GDP, indicating that tourism might not always be the primary driver of economic growth. This variation in results indicates a gap in understanding the specific conditions under which tourism can stimulate sustainable economic growth and development, especially in developing countries like Nepal. Therefore, the inconsistent findings across regions and periods raise crucial questions about the role of tourism in promoting sustainable economic development. Identifying the factors that highlight the contribution of the tourism sector to economic growth, remained unexplored.

Research questions

- i) What is the present trend of tourist arrival in Nepal?
- ii) How does tourism contribute to the economic growth of Nepal?

Objective of the study

The specific objective of the study is:

- i) to assess the present trend of tourist arrival in Nepal.
- ii) to analyze the contribution of tourism to the economic growth in Nepal.

Limitations

Tourist arrivals and growth in Nepal's tourism industry are highly susceptible to external shocks, such as natural disasters (the 2015 earthquake) and global health crises (COVID-19), as well as internal issues like political instability. These fluctuations limit the reliability of tourism as a stable economic growth driver. This indicates that tourism does not consistently drive sustained economic growth in Nepal. Focusing primarily on increasing tourist numbers without enhancing quality experiences may cap tourism's economic contributions. Structural limitations, such as inadequate infrastructure, service quality, and strategic marketing, may hinder growth. The analysis primarily emphasizes tourism's economic effects, without fully addressing environmental, social, and cultural impacts, which are crucial for a holistic assessment of tourism's role in Nepal's sustainable development.

Research methodology

This study used economic growth as a dependent variable proxied by the gross domestic product (GDP). The independent variables are tourism receipts (TR), gross fixed capital formation (GFCF), government consumption (GC), and trade volume (TV). The inclusion of tourism receipts as the independent variable in this study is based on the study by Bhattarai & Karmacharya (2021), Gautam (2011 & 2014), Paudyal (2012), and Akan et al., (2007). Similarly, the gross fixed capital formation is the proxy for the investment in the nation which affects the economic growth as it is included in the study by Paudyal (2012), Khan et al., (2020), Nyasha et al., (2020). Government consumption and trade volume have been included as independent variables following Bhattarai & Karmacharya (2021). Hence the analytical model is based on the following functional relation:

$$GDP = f(TR, GFCF, GC, TV)$$

All the data are rebased into a common base year i.e. 2010/11. Real data is calculated by dividing nominal data by the GDP deflator. The data are transformed into logarithms so that it would be easier to cope with the econometric problem that may arise during the analysis, and it is easier to analyze the data in logarithm form. The data of the study is based on secondary sources of information which are taken from the Ministry of Finance (MOF), Nepal Rastra Bank (NRB), and Ministry of Culture, Tourism and Civil Aviation (MOCTCA). The time series data covered the period from 1975 to 2021.

1.8.1 Estimation tools

Unit Root Test

This study will use the ADF test to test the existence of unit roots in the variable. The general equations for the ADF test are as follows (Asteriou & Hall, 2007) are:

$$\text{Case I: } \Delta Y_t = \gamma Y_{t-1} + \sum_{i=1}^p \beta_i \Delta Y_{t-i} + \mu_t \dots\dots\dots (i)$$

$$\text{Case II: } \Delta Y_t = \alpha_0 + \gamma Y_{t-1} + \sum_{i=1}^p \beta_i \Delta Y_{t-i} + \mu_t \dots\dots\dots (ii)$$

$$\text{Case III: } \Delta Y_t = \alpha_0 + \alpha_2 t + \gamma Y_{t-1} + \sum_{i=1}^p \beta_i \Delta Y_{t-i} + \mu_t \dots\dots\dots (iii)$$

1.8.2 Co-integration: ARDL bounds test

ARDL regression involves two stages: in the first stage the existence of a long-run relationship between the variables is tested and in the second stage the parameters of the long-run and short-run are estimated. In this study, AIC has been used to choose the optimal lag lengths.

The basic model used for the estimation of the determinants of economic growth in the economy of Nepal is specified as:

$$\ln GDP_t = a + b_1 \ln GC_t + b_2 \ln GFCF_t + b_3 \ln TR_t + b_4 \ln TV_t + \varepsilon$$

Where, ln implies the log of GDP, GC, GFCF, TR, and TV variables of the given model.

RESULT AND DISCUSSION/ ANALYSIS

Discussion

The average annual tourist arrival in Nepal has been increasing as seen from the abovementioned table. The average annual tourist arrival in the year 1964-1973 was 32,555 and the number has been increasing since then and it was 721,702 per year for the period 2014-2021.

Similarly, the average annual tourist arrival by air in Nepal has been increasing. In the period 1964-1973, the annual average tourist arrival by air was 26,601 which has increased to 578,181 per year for the period 2014-2021. The same case can be found for the tourist arrival by land; however, the average annual tourist arrival was found to be slightly lower for the period 2014-2021 than 2004-2013. The average length of stay of tourists somehow remained constant for the years 1964 to 2013. However, there has been a slight increase in the length of stay for the study period 2014-2021.

The rate of growth of tourist arrival is found to be fluctuating. The rate of growth of tourist arrival is found to be decreasing from the study period 1964 to 2003. The rate of growth was found to be low for the period 1994-2003. This may be the cause of internal conflict in Nepal. The rate of growth of tourist arrival was found to be increased for the period 2004-2013 as in this period, Nepal experienced the end of internal conflict heading towards peace. However, the rate of growth of tourist arrival for the period 2014-2021 is found to be negative (-7.03 percent). The reason behind this is due to the devastating earthquake in 2015 and the COVID-19 pandemic starting at the end of 2019 which caused the worldwide lockdown and slowdown of the economy.

Table 1: Average inbound tourist arrival and average stay

Year	Annual average Tourist Arrival	Mean Tourist Arrival		Average Stay (in days)	Average Growth Rate (percent)
		by Air	by Land		
1964-1973	32,555	26,601	5,954	NA	26.03
1974-1983	141,453	121,219	20,534	12.06	10.66
1984-1993	251,072	218,199	32,874	11.38	5.60
1994-2003	389,907	331,857	58,050	11.02	2.51
2004-2013	562,135	416,032	146,303	11.90	9.64
2014-2021	721,702	578,181	143,520	13.36	(7.03)

Source: Nepal Rastra Bank, 2023

Table 2 shows that for the period 2011-2015, India ranked in first place from where most of the tourists arrived in Nepal, followed by China, UK, USA and Sri Lanka. Similarly, for the period 2016-2020, India ranked in top followed by China, USA, Sri Lanka and UK. Hence, it can be said

that India, China, UK, USA, and Sri Lanka are the major countries from where most of tourists come to visit Nepal.

Table 2: Top inbound tourists arrival countries

Countries	2011-2015	2016-2020
1	India	India
2	China	China
3	U.K.	U.S.A.
4	U.S.A.	Sri Lanka
5	Sri Lanka	U.K.

Source: Nepal Rastra Bank, 2023

Table 3 shows the foreign exchange earnings from tourism (in Rs. 10 million), its proportion of total foreign earnings and GDP of Nepal from the fiscal years 2074/75 to 2020/21. The average foreign exchange earnings from tourism, its proportion of total foreign earnings and GDP have been calculated for the period 1974/75-1979/80, 1980/81-1989/90, 1990/91-1999/00, 2000/01-2009/10 and 2010/11-2020/21 by averaging the values for the given period of years.

Table 3: Foreign exchange earnings from tourism

Year	Total Foreign Exchange Earnings from Tourism (Rs. In 10 million)	As percent of	
		Total Foreign Exchange Earnings	GDP
1974/75 to 1979/80	36.09	26.58	1.83
1980/81 to 1989/90	140.99	25.39	2.53
1990/91 to 1999/00	839.63	17.45	3.56
2000/01 to 2009/10	1551.63	6.96	2.27
2010/11 to 2020/21	10136.65	4.79	1.87

Source: Nepal Rastra Bank, 2023

2.2 Analysis of tourism in Nepal

The Augmented Dickey-Fuller unit root test indicates that variables such as GDP, GFCF, and TR are stationary at the first difference (I(1)) with a significance level of 1 percent. However, variables GC and TV are stationary at level I(0) with a significance level of percent. Furthermore, the test results demonstrate that none of the variables are stationary at the second difference.

Table 4: Augmented Dickey-Fuller unit root test

Variables	Includes	p-value
lnGDP	intercept only	0.0009
lnGFCF	intercept only	0.0000
lnTR	None	0.0036
lnGC	intercept only	0.0000
lnTV	trend and intercept	0.0068

Source: Report based on EViews 12

The autoregressive distributed lag (ARDL) model from Eviews 12 is presented in Table 5. Based on the Akaike information criteria, the selected model is denoted as (4, 4, 0, 1, 0), indicating that the dependent variable lnGDP is influenced by the previous four periods of lnGDPs, the previous four periods of lnGCs, and the preceding one period of lnTRs. However, the variable lnGDP is not affected by past periods of lnGFCF and lnTV. The R-squared (R^2) and adjusted R-squared values are both 0.99, indicating that 99 percent of the variability in the dependent variable can be accounted for by the independent variables.

The following model is employed for the analysis

$$\text{Model: } \ln\text{GDP} = f(\ln\text{GC}, \ln\text{GFCF}, \ln\text{TR}, \ln\text{TV})$$

Table 5: Akaike Information Criteria (AIC)

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
lnGDP(-1)	-0.039	0.166	-0.234	0.816
lnGDP(-2)	0.061	0.146	0.421	0.677
lnGDP(-3)	0.314	0.140	2.238	0.033
lnGDP(-4)	0.351	0.154	2.282	0.030
lnGC	0.012	0.036	0.328	0.745
lnGC(-1)	0.161	0.044	3.665	0.001
lnGC(-2)	-0.034	0.046	-0.746	0.462
lnGC(-3)	-0.044	0.044	-1.008	0.322
lnGC(-4)	0.073	0.033	2.205	0.036
lnGFCF	0.073	0.036	2.038	0.051
lnTR	0.020	0.007	2.688	0.012
lnTR(-1)	-0.016	0.011	-1.400	0.172
lnTV	0.024	0.008	2.939	0.006
C	1.092	0.182	5.986	0.000
R-squared	0.999	Mean dependent var		11.486
Adjusted R-squared	0.999	S.D. dependent var		0.555
S.E. of regression	0.015	Akaike info criterion		-5.272
Sum squared resid.	0.007	Schwarz criterion		-4.699
Log likelihood	127.346	Hannan-Quinn criterion		-5.060
F-statistic	4275.846	Durbin-Watson stat		2.029
Prob (F-statistic)	0.000			

Source: Authors' estimation based on EViews 12

In Table 6, the F-statistic is reported as 10.792, surpassing the upper bounds at all three levels of significance. This indicates the presence of a long-run relationship between the dependent variable and independent variables. Therefore, it can be inferred that the variables within the model demonstrate a tendency to move together over time.

Table 6: Level relationship table

Test Statistic	Value	Significance.	I(0)	I(1)
F-statistic	10.792	10percent	2.2	3.09
K	4	5percent	2.56	3.49
		2.50percent	2.88	3.87
		1percent	3.29	4.37

Source: Authors' estimation based on EViews 12

The estimated long-run coefficients for $\ln GC$, $\ln GFCF$, and $\ln TV$ are found to be positive and statistically significant, suggesting a positive relationship between GDP and these independent variables. However, the coefficient of $\ln TR$ is statistically insignificant, indicating no significant long-run relationship between tourism receipts and GDP in the case of Nepal. The coefficient of $\ln GC$ is 0.532, implying that a 1 percent increase in government consumption leads to a 0.532 percent increase in GDP. Likewise, the coefficient of $\ln GFCF$ is 0.235, indicating that a 1 percent increase in gross fixed capital formation results in a 0.235 percent increase in GDP. Similarly, the coefficient of $\ln TV$ is 0.078, suggesting that a 1 percent increase in the ratio of trade volume leads to a 0.078 percent increase in GDP.

Table 7: Long run ARDL estimation

Variable	Coefficient	Std. Error	t-Statistic	Prob.
$\ln GC$	0.532	0.109	4.897	0.000
$\ln GFCF$	0.235	0.102	2.302	0.029
$\ln TR$	0.013	0.037	0.361	0.721
$\ln TV$	0.078	0.025	3.122	0.004
C	3.498	0.179	19.535	0.000

Source: Authors' estimation based on EViews 12

It can be observed in Table 8 that the coefficient of $\text{CointEq}(-1)$ is -0.312, and it is statistically significant at a 1 percent level of significance. This indicates the presence of a co-integrating relationship between the dependent variable, $\ln GDP$, and its set of regressors.

The coefficients associated with the one-period, two-period, and three-period lagged changes in TFP ($d(\ln GDP(-1))$, $d(\ln GDP(-2))$, and $d(\ln GDP(-3))$) are found to be positive and statistically significant. This suggests a strong influence of past period's GDP on the current level of GDP. In terms of the short-term effects, the coefficient for the change in government expenditure ($d\ln GC$) is positive but not statistically significant, indicating a limited immediate impact on economic growth. However, the coefficient of $d(\ln TR)$ is positive and also statistically significant at a value of 0.020. This indicates that tourism receipts have a positive effect on economic growth in the short run.

Table 8: Error correction estimation*ARDL (4, 4, 0, 1, 0) selected based on Akaike Information Criteria (AIC)*

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(lnGDP (-1))	-0.727	0.118	-6.142	0.000
D(lnGDP (-2))	-0.665	0.119	-5.587	0.000
D(lnGDP (-3))	-0.351	0.131	-2.685	0.012
D(lnGC)	0.012	0.026	0.449	0.657
D(lnGC(-1))	0.006	0.030	0.203	0.841
D(lnGC(-2))	-0.028	0.027	-1.058	0.299
D(lnGC(-3))	-0.073	0.026	-2.776	0.010
D(lnTR)	0.020	0.006	3.364	0.002
CointEq(-1)*	-0.312	0.036	-8.713	0.000

Source: Authors' estimation based on EViews 12**Diagnostic tests***Normality Test*

In the normality test, the data is examined to determine whether it follows a normal distribution. Table 9 presents a probability value of 0.632 as mentioned in appendix-10, which indicates that the null hypothesis, stating that the residual series is normally distributed, cannot be rejected. Therefore, based on this result, it can be concluded that the residuals are normally distributed.

Table 9: Normality Test

Jarque-Bera	0.917
Probability	0.632

Source: Authors' estimation based on EViews 12*Heteroscedasticity test*

Table 10 displays a probability value of 0.944 for the Chi-square test. As a result, the null hypothesis cannot be rejected. Consequently, the null hypothesis, which suggests the absence of serial correlation, remains valid, indicating that there is no evidence of serial correlation in the data.

Table 10: Breusch Pagan Godfrey Heteroscedasticity test

F-statistic	0.986	Prob. F(13,29)	0.488
Obs*R-squared	13.182	Prob. Chi-Square(13)	0.434
Scaled explained SS	3.854	Prob. Chi-Square(13)	0.993

Source: Authors' estimation based on EViews 12*Serial correlation LM test*

Table 11 displays a probability value of 0.944 for the Chi-square test. As a result, the null hypothesis cannot be rejected. Consequently, the null hypothesis, which suggests the absence of serial correlation, remains valid, indicating that there is no evidence of serial correlation in the data.

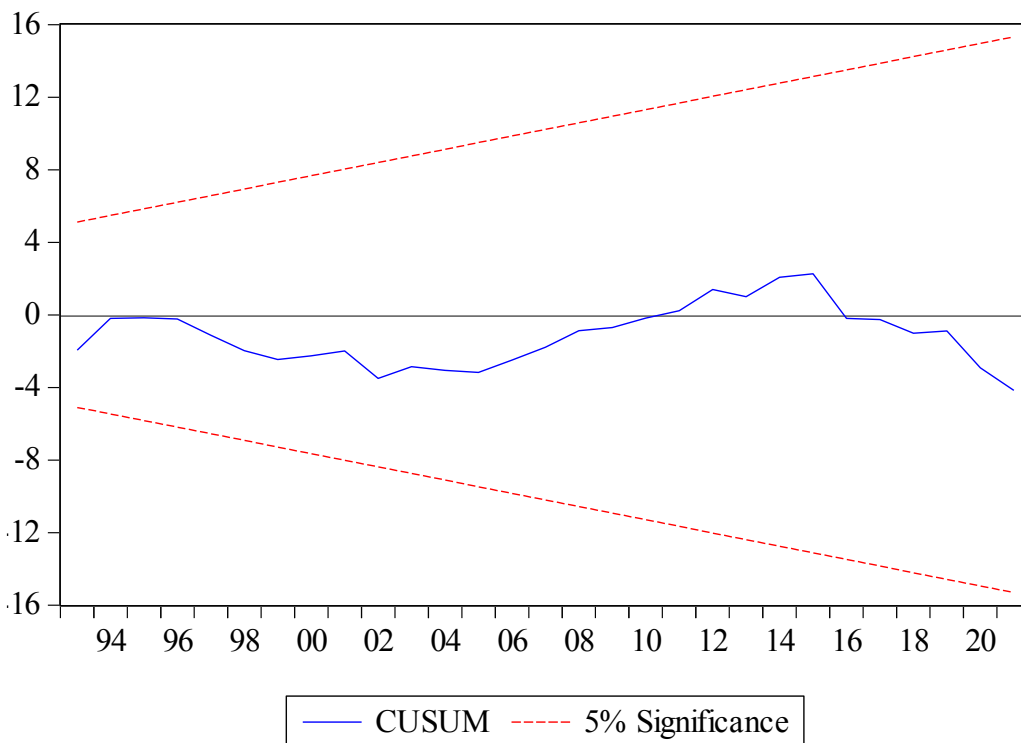
Table 11: Breusch Godfrey serial correlation LM test

F-statistic	0.036	Prob. F(2,27)	0.964
Obs*R-squared	0.116	Prob. Chi-Square(2)	0.944

Source: Authors’ estimation based on EViews

CUSUM test

The following figure illustrates the cumulative sum of recursive residuals and the cumulative sum of squared recursive residuals, respectively. These figures demonstrate that the CUSUM curves remain within the boundaries defined by the 5 percent critical lines. Based on this observation, it can be inferred that the parameter space of the ARDL model of co-integration is stable, and the model is specified.



Results

Tourist arrivals in Nepal, both by air and land, have shown an overall increase over the years. From an annual average of 32,555 tourists between 1964 -1973, this figure rose to 721,702 between 2014-2021. However, the growth rate of tourist arrivals has fluctuated. The average length of stay remained steady from 1964 to 2013, with a slight increase from 2014-2021. The growth rate of tourist arrivals decreased between 1964 -2003 due to internal conflict but rose from 2004-2013 as Nepal moved towards peace. From 2014-2021, the growth rate declined (-7.03%) due to the earthquake and COVID-19 pandemic. Most tourists, aged 31-45, are male, visiting for holiday, mountaineering, and trekking, with major source countries being India, China, the UK, USA, and Sri

Lanka. Popular trekking destinations include Humla, Manaslu, and Mustang, while top conservation areas and parks include Annapurna and Chitwan National Park. Although foreign exchange earnings from tourism have increased, their proportion of total foreign exchange earnings has declined. Long-run coefficients for government consumption, gross fixed capital formation, and trade volume were found to be positive and statistically significant, implying a strong relationship with GDP. Specifically, a 1 percent increase in government consumption raises GDP by 0.532 percent, while gross fixed capital formation and trade volume increase GDP by 0.235 percent and 0.078 percent, respectively. However, tourism receipts had no significant long-term impact on GDP. In the short run, tourism receipts showed a positive and statistically significant relationship with economic growth.

CONCLUSIONS

Tourist arrivals in Nepal have consistently grown over time, although the rate of growth has varied due to internal factors such as civil conflict and external factors like the 2015 earthquake and the COVID-19 pandemic. Despite these challenges, tourism remains a key driver of Nepal's economy, particularly in trekking regions and conservation areas, generating employment and income. However, the share of foreign exchange earnings from tourism relative to total earnings has been decreasing. Government consumption, gross fixed capital formation, and trade volume have played a major role in GDP growth, with government spending and capital investment showing a strong positive impact on GDP. In contrast, tourism receipts have not demonstrated a significant long-term effect on economic growth, although there is a modest positive short-term relationship between tourism and GDP. This suggests that while tourism is important, other factors like government expenditure and trade are more crucial to long-term economic growth in Nepal. It can be concluded that government spending, capital formation, and trade volume positively contribute to economic growth, while tourism receipts show no long-term impact on GDP. Despite tourism's potential, its current contribution is limited by factors such as short tourist stays and low per capita spending. Shifting the focus to quality tourism rather than quantity could enhance its impact on Nepal's economy.

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