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A G D I Working Paper

WP/22/038

Law, Political Stability, Tourism Management and Economic Development in Sub-Saharan Africa

Forthcoming: Current Issues in Tourism

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Law, Political Stability, Tourism Management and Economic Development in Sub-Saharan Africa

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Abstract

This study complements the extant literature by assessing how the rule of law and political stability modulate tourism development dynamics (i.e. tourism receipts and tourism expenditure) to affect economic development in terms of gross domestic product (GDP) per capita. The study focuses on 47 countries in sub-Saharan Africa (SSA) with data for the period 2002 to 2018 and the empirical evidence is based on the Generalized Method of Moments. The study finds that: (i) the rule of law modulates both tourism receipts and tourism expenditure for overall positive effects on economic development and (ii) political stability modulates tourism receipts for an overall positive impact on economic development. Policy implications are discussed.

Keywords: Tourism Management; Economic Growth; Sub-Saharan Africa

JEL Codes: O10, O40, Z3, Z32

1. Introduction

The premise of this study on the relevance of the rule of law and political stability on tourism management for economic development in Sub-Saharan Africa (SSA) is premised on three main strands in the literature, notably: (i) the importance of tourism in economic development in the sub-region; (ii) the critical relevance of the rule of law and political stability in driving economic development outcomes in SSA and (iii) gaps in the attendant literature. The motivational elements are discussed in more detail in subsequent passages following the same chronological order.

First, tourism is a source of economic growth (World Bank, 2011; UNEP, 2011; IDC, 2018; Nyasha, Odhiambo & Asongu, 2021) and poverty alleviation (Folarin & Adeniyi, 2020; Ofori, Dossou & Akadiri, 2021) in Africa in particular and the rest of the world in general (UNCTAD, 2013; WTTC, 2019). In the light of the scholarly and policy evidence on the importance of tourism in economic and human developments, governments across the world have been investing in the tourism sector. The UNCTAD (2013) maintains that the relevance of tourism in driving economic prosperity and mitigating poverty is more likely when many players are taken on board. Accordingly, this is such that nexuses are created between all of the attendant players/sectors in order to engender inclusive and sustainable development prospects. Signe (2018) is consistent with the above narrative in maintaining that such positive externalities are heightened in Africa by the abundance of natural venues such as cultural heritages, wildlife, beaches and opportunities for adventures.

Second, governance has been documented to be fundamental in driving economic development outcomes. Accordingly, the effectiveness of macroeconomic policies is facilitated by domestic good governance. These macroeconomic policies include the measure of boosting tourism. In this regard, there is a growing strand of literature on the importance of governance in driving tourism development (Bramwell & Lane, 2011; Qian, Sasaki, Shivakoti & Zhang, 2016). Unfortunately, despite this strand of scholarly literature, studies are sparse on how political stability and the rule of law modulate tourism for economic development. The importance of governance as a moderating or policy variable is also consistent with: (i) sustainable development goal (SDG) 16 on peace, justice and strong institutions and (ii) Agenda 2063 of the African Union on the imperative of strong institutions for the Africa we want.

Third, the extant literature on the nexus between tourism and economic development is well documented, *inter alia*, Holzner (2011), Pratt(2015), Ma, Qu, Hsiao and Jin (2015), Bojanic and Jo (2016), Sofronov (2017), Songling, Ishtiaq and Thanh (2019) and Nyasha *et*

al. (2021). Among the plethora of studies, two main papers have focused on SSA, notably, Fayissa, Nsiah and Tadasse (2008) which is non-contemporary and Nyasha *et al.* (2021) which is contemporary. Hence, the study closer to this research is Nyasha *et al.* (2021) which has examined the effect of tourism on economic development in SSA. Nyasha *et al.* (2021) have concluded that economic development is negatively affected by tourism expenditure whereas it is positively influenced by tourism receipts.

This study departs from the attendant literature by arguing that it is not enough to simply provide linkages between tourism expenditure/receipt and economic development. Accordingly, policy makers could be more comprehensively informed if they are knowledgeable of policy variables that influence tourism expenditure/receipt for an overall effect on economic development. The tourism dynamics of receipt and expenditure in the real world do not act in isolation to affect economic development because tourism development is also contingent on other factors, *inter alia*, political stability and the respect of the rule of law in domestic economies. This study takes on board governance dynamics of political stability and the rule of law to argue that in the presence of political stability and the rule of law, tourism expenditure and tourism receipt can both positively influence economic development.

The intuition for taking on board political stability and the rule of law as complementary independent variables of interest within an interactive regression framework is simple to follow: (i) in the presence of political stability, tourists are more likely to visit tourists destinations than when such tourist destinations are affected by political instability and violence (Pizam & Mansfeld, 2006; Seabra, Dolnicar, Abrantes, & Kastenholtz, 2013) and (ii) the respect of the rule of law which is a critical element of institutional governance denotes the perspective that citizens and the State respect institutions that govern interactions between them (Ajidé & Raheem, 2016a, 2016b; Ajide, Alimi, Asongu & Raheem, 2022), and by extension, tourists are more likely to prefer destinations with high levels of the rule of law and less perceived risks (Lepp, Gibson, & Lane, 2011; Asongu & Acha-Anyi, 2020).

The rest of the study is organized as follows. The theoretical underpinnings are provided in Section 2, followed with a discourse on the data and methodology in Section 3. The empirical findings and corresponding discussion are provided in Section 4. The study concludes in Section 5 with implications and future research directions.

2. Theoretical underpinnings

Consistent with Cannonier and Burke (2019), despite the plethora of empirical and theoretical studies on the nexus between economic growth and tourism, the corresponding linkages can

largely be elucidated from two principal underpinnings. The first which is the most dominant is the tourism-led growth hypothesis (TLGH) which maintains that economic growth is driven by tourism. As argued by Balaguer and Cantavella-Jorda (2002), the TLGH builds on corresponding studies which have established causality flowing from tourism to economic growth. Some of the findings that have supported the TLGH include: (i) Balaguer and Cantavella-Jorda (2002) using real gross domestic product (RGDP) as an indicator of economic development; (ii) analyses on individual countries done by Gunduz and Hatemi-J(2005) on Turkey and Schubert and Brida (2011) focusing on Barbuda and Antigua; (iii) Fayissa et al. (2008) and Fayissa, Nsiah and Tadasse (2011) concerned with SSA and Latin America, respectively; (iv) Cardenas-Garcia, Sanchez-Rivero and Pulido-Fernandez (2013) focusing on a world sample; (v) Lee and Chang (2008) providing insights into the Organization for Economic Co-operation and Development (OECD) and non-OECD nations; (vi) Gunter, Ceddia, Leonard and Tröster (2018) have targeted the Central American and the Caribbean region and (vii) Beladi, Chao, Ee and Hollas, (2019) who have shown that medical tourism positively affects economic output in non-OECD countries.

The contending hypothesis which is the reverse of the TLGH posits that tourism is the result of economic growth (Cannonier & Burke, 2019). The contending strand argues that fast economic prosperity attracts international tourists because the corresponding economic growth is associated with a plethora of development externalities that are favorable to international tourists' arrivals, *inter alia*: security and safety, better transformation, enhanced infrastructure and more luxury facilities. Oh (2005) and Antonakakis, Dragouni, Eeckels and Filis (2019) have confirmed this opposite of the TLGH.

It is also important to note that there is also a third strand of the literature arguing for a bi-directional nexus. This is broadly also consistent with Sokhanvar (2019) who has established that tourism positively affects economic growth in some countries in Europe while its effect is not significant in others. Moreover, Wu and Wu (2019) have been able to establish the existence of all three strands of the debate in a group of Asian countries.

The present study is more concerned with the TLGH in the light of the motivation provided in the introduction as well as recent findings from a meta-analysis which support the TLGH as the dominant strand (Nunkoo et al., 2020). Moreover, the empirical strategy is tailored such that the opposite of the TLGH is accounted for because the corresponding empirical strategy takes on board the concern of simultaneity or reverse causality by using an instrumentation process. Furthermore, in order to increase room for policy implications, the nexus between tourism and economic growth is moderated with political stability and the rule

of law which, as substantiated in the introduction, are relevant in promoting tourism development for economic prosperity.

3. Data and methodology

3.1. Data

The study examines a panel of 47 countries in SSA using annual data for the period 2002 to 2018 from two main sources, namely: World Development Indicators (WDI) and World Governance Indicators (WGI) of the World Bank¹. The choice of the countries is motivated by constraints in data availability. Accordingly, of the 48 existing countries in SSA, 47 are taken on board because Seychelles is excluded on the premise that it is an outlier or a high-income country. This same justification has been provided by Nyasha et al. (2021) for the exclusion of the country. The data structure is further improved in order to make sure that it is consistent with the empirical strategy. Accordingly, given the importance of the estimation technique to be consistent with data behavior, the dataset is further rearranged to yield data averages within the framework of non-overlapping intervals.

In the light of the above, the study is based on 47 countries (i.e. N) with 17 (or T) years (i.e. 2002 to 2018) in each country and a condition for the application of the Generalized Method of Moments (GMM) is for N to be considerably higher than T. Hence, in accordance with the attendant literature (Asongu, 2020; Asongu & Odhiambo, 2020a, 2020b) pertaining to avoiding instrument proliferation while increasing possibilities for engaging more variables in the conditioning information set (i.e. control variables), the division in terms of three year averages produces 6 data points: 2002-2003, 2004-2006, 2007-2009, 2010-2012, 2013-2015 and 2016-2018. In essence, given the uneven periodicity of 17 years (which is not divisible by 3), the first data point consists of two years while each of the five remaining data points respectively, entails three-year averages.

In accordance with Nyasha et al. (2021), the outcome variable used to proxy for economic development in the study is the logarithm of gross domestic product (GDP) per capita. Still in line with the underlying study, two variables of tourism management are employed, namely: tourism receipts and tourism expenditure. These tourism management variables constitute the independent variables of interest, which are complemented with two

¹ The 47 sampled countries are: “Benin; Burkina Faso; Burundi; Central African Republic; Chad; Congo Democratic Republic; Eritrea; Ethiopia; The Gambia; Guinea; Guinea-Bissau; Liberia; Madagascar; Malawi; Mali; Mozambique; Niger; Rwanda; Sierra Leone; Somalia; South Sudan; Tanzania; Togo; Uganda; Angola; Botswana; Cabo Verde; Cameroon; Comoros; Congo Republic; Cote d'Ivoire; Equatorial Guinea; Eswatini; Gabon; Ghana; Kenya; Lesotho; Mauritania; Mauritius; Namibia; Nigeria; Sao Tome and Principe; Senegal; South Africa; Sudan; Zambia and Zimbabwe”.

policy governance variables of the rule of law and political stability from WGI of the World Bank. It follows that in the study, the outcome, independent variables of interest and control variables are obtained from WDI of the World Bank. As argued in the motivation of the study, the policy governance variables of political stability and the rule of law are anticipated to favorably modulate the adopted tourism management proxies in order to engender an overall positive incidence on economic development.

In order to avoid variable omission bias, four control variables are adopted in the conditioning information set in accordance with the determinants of economic development in the literature, namely: financial development, domestic savings, domestic investment and trade openness (Abu-Bader & Abu-Qarn, 2008; Pradhan, Upadhyay & Upadhyaya, 2008 ; Yartey, 2010; El-Nader and Alraimony, 2013; Niroomand, Hajilee & Al Nasser, 2014; Asongu, 2015). Considering insights from the attendant literature, it is anticipated in the study that all the adopted elements in the conditioning information set would affect economic development positively. The perspectives on expected signs are discussed chronologically below.

First, the premise of financial development in promoting economic growth builds on the perspective that it offers opportunities for economic activities that ultimately engender favorable economic development outcomes. Moreover, compared to the public sector, private domestic credit (i.e. as used in the present study to proxy for financial development) is more likely to contribute towards the efficient allocation of resources (Ang & McKibbin, 2017). It follows that in this study; financial development is expected to positively affect the outcome variable.

Second, with regards to domestic savings (proxied by the ratio of total domestic savings as percentage of GDP), theoretical literature is consistent with the position that savings are fundamental in economic development (Solow, 1956; Romer, 1986). To put this in more perspective, in the light of traditional theories, enhanced savings engender both short-run and long-term economic growth owing to better capital accumulation which is essential in driving productivity (Romer, 1986; Lucas, 1988).

Third, as a corollary to the preceding narrative, when domestic savings are transformed into domestic investment, economic growth normally follows. Economic productivity is theoretically and logically a function of domestic investment or fixed capital formation (Abu-Bader & Abu-Qarn, 2008; Yartey, 2010; El-Nader & Alraimony, 2013). Domestic investment which is proxied in this study by fixed capital formation as a percentage of GDP is expected to positively influence economic development or the outcome variable.

Fourth, while the nexus between openness and economic growth is debatable in the literature, there is some consensus that whereas the effects of financial openness are difficult to establish owing to financial globalisation and attendant financial crises, there is nonetheless some consensus that trade openness contributes more towards economic development, relative to financial openness (Asongu, 2017; Asongu & Minkoua, 2018). This narrative is consistent with the studies establishing a positive relationship between trade openness and economic growth (Ang & McKibbin, 2007; Pradhan *et al.*, 2008; Niroomand *et al.*, 2014). Hence, a positive effect is expected from trade openness which is proxied by the sum of exports and imports as a percentage of GDP.

In the appendix section, the definitions of variables and corresponding sources are provided in Appendix 1 while the summary statistics is disclosed in Appendix 2. The appendix section is completed with Appendix 3 which provides insights into a corresponding correlation matrix.

3.2 Model Specification

Consistent with Nyasha *et al.* (2021) and the narrative in the preceding section, economic development is the outcome variable and is proxied by the logarithm of GDP per capita.

Equation (1) which is a two-way fixed effects model does capture persistence in the outcome variable. Following underpinnings of the standard growth model of Barro, an equation with a lagged outcome variable such as Equation (2) enables such persistence to be captured. It is important to note that Equation (2) is not directly derived from Equation (1) below:

$$y_{it} = \alpha_{it} + \vartheta_i + \rho_t + \gamma(X_{it}) + \varepsilon_{it} \quad (1)$$

where, y is the economic growth dependent variable provided in logarithm; X is a vector of explanatory variables (tourism receipts, tourism expenditure, financial development, domestic savings, domestic investment, trade openness, political stability and the rule of law); γ is a scalar vector of parameters; ε is the error term; the subscripts “ i ” and “ t ” respectively denote time- and country-specific factors, such that $t = 1, \dots, T$; $i = 1, \dots, N$ where denotes the number of observations across time whereas N is the number of individual panel members; and ϑ_i and ρ_t are country- and time-specific effects, respectively.

It is acknowledged from the practical standpoint that not all the explanatory variables exhibit strict exogeneity and by extension, some of the variables in the growth model have endogenous components which could be contingent on past values of the attendant variables.

In order to address the underlying concern, another equation with a lagged dependent variable is considered, in accordance with the economic growth literature (Arellano & Bond, 1991; Fayissa *et al.*, 2008). Equation (2) below includes such a lagged dependent variable:

$$\Delta y_{it} = \alpha' \Delta y_{it-1} + \beta' \Delta X_{it-1} + \gamma' Z_{it} + \mu_i + \varepsilon_{it} \quad (2)$$

where Δy_{it} reflects the first difference of the dependent variable in country i during time t ; Δy_{it-1} is the lagged difference of the outcome variable, ΔX_{it-1} is a vector of lagged level and differenced endogenous explaining variables, Z_{it} is a vector of strictly exogenous variables, and α , β , and γ are parameters to be estimated; μ_i are country-specific effects; ε_{it} is a disturbance term.

The empirical strategy adopted to estimate the stated equations is the Roodman (2009) improvement of Arellano and Bover (1995) which has been documented to have a plethora of advantages, *inter alia*: controls for cross sectional dependence by accounting for time fixed effects and limits the proliferation of instruments (Boateng *et al.*, 2018; Asongu & Odhiambo, 2018, 2019; Tchamyouet *et al.*, 2019a, 2019b). Moreover, other advantages inherent in the GMM approach include the possibility of accounting for some dimensions of endogeneity, notably: (i) reverse causality or simultaneity is addressed through an internal instrumentation process and (ii) the control for cross-sectional dependence by means of time invariant variables also doubles as a control for the unobserved time-invariant heterogeneity which is an aspect of endogeneity.

It is also worthwhile to note that since non-overlapping intervals are used to mitigate instrument proliferation that bias corresponding GMM estimates, there is also an apparent shortcoming in the use of the data averages in GMM because the corresponding estimated coefficients are interpreted as short term nexuses (Asongu, 2013). Moreover, given that the panel dataset employed in this study is not balanced, other empirical strategies within the remit of nonlinear estimation cannot be employed, namely: (i) the Panel Threshold Regression method (Hansen, 1999) and (ii) the Panel Smooth Transition Regression (González, Terasvirta & van Dijk, 2005; González, Terasvirta, van Dijk & Yang, 2017).

3.3 Identification, exclusive restrictions and simultaneity

Consistent with Nyasha *et al.* (2021), in order to properly specify GMM estimation, it is relevant to clarify concerns pertaining to identification, exclusive restrictions and simultaneity. These are discussed in three main strands in the same chronological order.

First, the process of identification entails the choice of three main sets of variables underpinning the specification, notably: (i) the dependent variable: (ii) the endogenous explaining, predetermined and suspected endogenous variables and (iii) the variables that are strictly exogenous. In accordance with Nyasha *et al.* (2021), (i) the outcome variable is real GDP per capita growth; (ii) the endogenous explaining variables are tourism dynamics (tourism receipts and tourism expenditure), political stability, the rule of law and control variables and (iii) the strictly exogenous variables are time fixed effects. The arguments motivating the choice of strictly exogenous variables are consistent with the attendant literature (Roodman, 2009; Tchamyou & Asongu, 2017) in the light of the premise that it is very unlikely for such time fixed effects to be endogenous upon first difference.

Second, with respect to the exclusive restrictions, it is worthwhile to emphasize that it is a means by which to assess if the process of identification discussed in the previous paragraph is robust. In other words, it is designed to assess if the defined strictly exogenous variables influence the dependent variable exclusively through control variables and independent variables of interest (i.e. predetermined or endogenous explaining variables). In the light of attendant GMM-centric literature (Nyasha *et al.*, 2021), the Difference in Hansen Test (DHT) is employed to examine if the assumption of exclusive restriction holds or not. If the null hypothesis of the underlying test is not rejected, the researcher proceeds to confirm that the strictly exogenous variables exhibit strict exogeneity. This attendant process of identification is broadly in accordance with a more traditional instrumental variable (IV) approach that requires that the Sargan/Hansen test should not be valid in order for the identified instruments to affect the outcome variable essentially via the exogenous components of the predetermined variables (Lalountas *et al.*, 2011; Agbloyor *et al.*, 2013; Amavilah *et al.*, 2017).

Third, as concerns simultaneity, the issue of reverse causality is accounted for in this study because forward orthogonal differences are employed instead of first differences in order to enable parallel or orthogonal or equilateral conditions that are indispensable in limiting the nexus between the lagged outcome variable and country-specific incidences which represent an origin of endogeneity. Accordingly, changes of Helmert nature are employed to purge fixed impacts while controlling for simultaneity or reverse causality (Arellano & Bover, 1995; Roodman, 2009).

4. Empirical results

4.1 Presentation of results

The empirical findings are presented in this section in Tables 1-2. Whereas Table 1 focuses on nexuses between tourism dynamics (i.e. tourism receipt and tourism expenditure), the rule of law and economic development, Table 2 is concerned with linkages between tourism dynamics, political stability and economic development. Specifications in the two tables are provided in two categories: (i) one focusing on regressions incorporating tourism receipts and the rule of law and (ii) the other concerned with tourism expenditure and the rule of law. Each category entails four main specifications. The categorical specifications are tailored such that the control variables are increased incrementally, with the first specification having one control variable, the second specification characterized by two control variables, the third specification reflecting three control variables and the last specification engendering four control variables.

In order to examine whether the findings are robust in terms of passing all post-estimation diagnostics tests, four criteria of information are used to assess whether the GMM estimated models are valid or not². Based on these criteria, the specifications are overwhelmingly valid with the exception of two specifications on the right-hand side of the table in which, the null hypothesis of the Hansen test is rejected. It is worth clarifying that in terms of the conflicting criteria of the Hansen test versus the Sargan test, the former is given priority because it is robust, though weakened by issues of instrument proliferation. On the contrary, the Sargan test, though not robust, is not weakened by instrument proliferation. Hence, a means of addressing the conflicting criteria is to adopt the Hansen test and make sure that instrument proliferation is avoided, notably: by ensuring that for each specification, the number of cross sections or countries is higher in numerical magnitude compared on the number of instruments.

² “First, the null hypothesis of the second-order Arellano and Bond autocorrelation test (AR (2)) in difference for the absence of autocorrelation in the residuals should not be rejected. Second the Sargan and Hansen over-identification restrictions (OIR) tests should not be significant because their null hypotheses are the positions that instruments are valid or not correlated with the error terms. In essence, while the Sargan OIR test is not robust but not weakened by instruments, the Hansen OIR is robust but weakened by instruments. In order to restrict identification or limit the proliferation of instruments, we have ensured that instruments are lower than the number of cross-sections in most specifications. Third, the Difference in Hansen Test (DHT) for exogeneity of instruments is also employed to assess the validity of results from the Hansen OIR test. Fourth, a Fisher test for the joint validity of estimated coefficients is also provided” (Asongu & De Moor, 2017, p.200).

Table 1: Tourism management, the rule of law and economic development

	Dependent variable: Economic Development (logGDP per capita)							
	Tourism Receipt and law				Tourism Expenditure and law			
GDP per capita (-1)	1.171*** (0.000)	1.041*** (0.000)	1.049*** (0.000)	0.973*** (0.000)	1.171*** (0.000)	1.043*** (0.000)	1.051*** (0.000)	1.009*** (0.000)
Tourism Receipts (TR)	0.008* (0.050)	0.0001 (0.899)	-0.001 (0.250)	0.001** (0.015)	---	---	---	---
Tourism Expenditure(TE)	---	---	---	---	-0.006 (0.356)	-0.002 (0.689)	0.0007 (0.894)	0.008*** (0.006)
Rule of Law (Law)	-0.074 (0.478)	-0.002 (0.954)	0.002 (0.909)	0.135*** (0.000)	0.029 (0.701)	0.028 (0.651)	-0.014 (0.826)	-0.011 (0.783)
TE× Law	0.010** (0.049)	0.004** (0.014)	0.002* (0.067)	-0.001 (0.150)	---	---	---	---
TE× Law	---	---	---	---	0.008 (0.216)	0.005 (0.309)	0.006 (0.242)	0.010*** (0.002)
Financial Development	-0.004 (0.109)	-0.0009 (0.476)	-0.001 (0.351)	-0.002* (0.051)	-0.004* (0.054)	-0.0009 (0.496)	-0.001 (0.182)	-0.001 (0.219)
Domestic Savings	---	0.001*** (0.000)	0.001*** (0.001)	0.001*** (0.003)	---	0.002*** (0.000)	0.002*** (0.000)	0.001*** (0.002)
Domestic Investment	---	---	0.004** (0.014)	0.002** (0.015)	---	---	0.004** (0.014)	0.003*** (0.004)
Trade Openness	---	---	---	0.0006* (0.067)	---	---	---	0.0002 (0.537)
Time Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Net Effects of TR	0.0005	na	na	na	---	---	---	---
Net Effects of TE	---	---	---	---	na	na	na	0.0005
AR(1)	(0.314)	(0.223)	(0.222)	(0.114)	(0.450)	(0.138)	(0.103)	(0.090)
AR(2)	(0.210)	(0.228)	(0.262)	(0.315)	(0.286)	(0.378)	(0.398)	(0.287)
Sargan OIR	(0.001)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Hansen OIR	(0.643)	(0.208)	(0.404)	(0.349)	(0.197)	(0.105)	(0.160)	(0.101)
DHT for instruments								
(a) Instruments in levels								
H excluding group	(0.389)	(0.319)	(0.309)	(0.441)	(0.313)	(0.520)	(0.571)	(0.545)
Dif(null, H=exogenous)	(0.650)	(0.208)	(0.450)	(0.316)	(0.194)	(0.068)	(0.101)	(0.057)
(b) IV (years, eq(diff))								
H excluding group	(0.742)	(0.122)	(0.295)	(0.293)	(0.119)	(0.057)	(0.145)	(0.060)
Dif(null, H=exogenous)	(0.349)	(0.612)	(0.634)	(0.508)	(0.524)	(0.562)	(0.361)	(0.592)
Fisher	9159.61* **	91857.93* **	645.80***	246845.85 ***	76.33***	198.18***	244217.57 ***	1193.91** *
Instruments	23	27	31	35	23	27	31	35
Countries	42	40	40	40	42	40	40	40
Observations	189	178	178	178	193	182	182	182

***, **, *: significance levels at 1%, 5% and 10% respectively. DHT: Difference in Hansen Test for Exogeneity of Instruments Subsets. Dif: Difference. OIR: Over-identifying Restrictions Test. The significance of bold values is twofold. 1) The significance of estimated coefficients and the Fisher statistics. 2) The failure to reject the null hypotheses of: a) no autocorrelation in the AR(1) & AR(2) tests and; b) the validity of the instruments in the Sargan and Hansen OIR tests. Constants are included in all regressions. na: not applicable because at least one estimated coefficient needed for the computation of net effects is not significant. The mean value of the rule of law is -0.753.

The following findings can be established from Table 1: the rule of law modulates both tourism expenditure and tourism receipts to induce positive net effects on economic development. Moreover, the synergy effect (i.e. owing to both the conditional and unconditional effects being positive) is dampened by the fact that the rule of law proxy is negatively skewed. Accordingly, it is important to note that the term “synergy effect” builds on the fact that both the unconditional effect of tourism dynamics and the interactive or

conditional effects (i.e. from the association between tourism dynamics and the rule of law) are positive (Asongu & Nwachukwu, 2017; Asongu & Acha-Anyi, 2017).

Table 2: Tourism management, political stability and economic development

	Dependent variable: Economic Development (logGDP per capita)							
	Tourism Receipt and political stability				Tourism Expenditure and political stability			
GDP per capita (-1)	0.962 (0.000)	0.984*** (0.000)	1.048*** (0.000)	1.021*** (0.000)	0.899*** (0.000)	1.064*** (0.000)	1.059*** (0.000)	0.970*** (0.000)
Tourism Receipts (TR)	0.0003 (0.574)	0.001 (0.166)	0.0009 (0.184)	0.001** (0.017)	---	---	---	---
Tourism Expenditure(TE)	---	---	---	---	0.0005 (0.916)	-0.012*** (0.002)	-0.007** (0.011)	-0.002 (0.106)
Political Stability (PS)	0.094*** (0.000)	0.070*** (0.003)	0.045* (0.074)	0.069*** (0.002)	0.149*** (0.000)	0.048 (0.122)	0.024 (0.388)	0.097*** (0.003)
TR× PS	-0.003** (0.010)	-0.002 (0.144)	-0.001 (0.118)	-0.002** (0.039)	---	---	---	---
TE× PS	---	---	---	---	-0.004* (0.079)	-0.003 (0.147)	-0.0001 (0.950)	-0.003* (0.055)
Financial Development	0.001* (0.076)	0.001 (0.147)	-0.0005 (0.616)	-0.0004 (0.688)	-0.00002 (0.966)	-0.0002 (0.831)	-0.0005 (0.609)	-0.0007 (0.226)
Domestic Savings	---	0.001*** (0.000)	0.001*** (0.001)	0.001 (0.126)	---	0.003*** (0.000)	0.002*** (0.000)	0.003*** (0.000)
Domestic Investment	---	---	0.005*** (0.001)	0.005*** (0.000)	---	---	0.003*** (0.007)	0.0005 (0.698)
Trade Openness	---	---	---	0.0001 (0.726)	---	---	---	0.001*** (0.001)
Time Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Net Effects of TR	na	na	na	0.0021	---	---	---	---
Net Effects of TE	---	---	---	---	na	nsa	nsa	na
AR(1)	(0.090)	(0.086)	(0.061)	(0.062)	(0.071)	(0.048)	(0.036)	(0.040)
AR(2)	(0.180)	(0.225)	(0.888)	(0.928)	(0.706)	(0.555)	(0.728)	(0.728)
Sargan OIR	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Hansen OIR	(0.143)	(0.151)	(0.385)	(0.309)	(0.265)	(0.039)	(0.090)	(0.343)
DHT for instruments								
(a) Instruments in levels								
H excluding group	(0.236)	(0.423)	(0.530)	(0.707)	(0.193)	(0.614)	(0.650)	(0.614)
Dif(null, H=exogenous)	(0.160)	(0.121)	(0.314)	(0.186)	(0.339)	(0.019)	(0.045)	(0.243)
(b) IV (years, eq(diff))								
H excluding group	(0.119)	(0.241)	(0.704)	(0.775)	(0.227)	(0.219)	(0.304)	(0.201)
Dif(null, H=exogenous)	(0.345)	(0.154)	(0.085)	(0.026)	(0.397)	(0.021)	(0.038)	(0.828)
Fisher	519.35** *	75594.47* **	1896.15** *	2588.35** *	240.66***	192.14***	143612.53 ***	2751.97** *
Instruments	23	27	31	35	23	27	31	35
Countries	41	39	39	39	41	39	39	39
Observations	188	177	177	177	192	181	181	181

***, **, *: significance levels at 1%, 5% and 10% respectively. DHT: Difference in Hansen Test for Exogeneity of Instruments Subsets. Dif: Difference. OIR: Over-identifying Restrictions Test. The significance of bold values is twofold. 1) The significance of estimated coefficients and the Fisher statistics. 2) The failure to reject the null hypotheses of: a) no autocorrelation in the AR(1) & AR(2) tests and; b) the validity of the instruments in the Sargan and Hansen OIR tests. Constants are included in all regressions. na: not applicable because at least one estimated coefficient needed for the computation of net effects is not significant. nsa: not specifically applicable because the model does not pass all post-diagnostics tests. The mean value of political stability is -0.562.

To put this synergy effect in more perspective, it is worthwhile to articulate how the net effects are computed. For instance, in the second column of Table 1, the net effect from the role of the rule of law in modulating tourism receipts to induce an overall incidence on

economic development is 0.0005 ($[0.010 \times -0.753] + [0.008]$). In the computation -0.753 (which is negatively skewed) represents the mean value of the rule of law, 0.008 reflects the unconditional effect of tourism receipts whereas 0.010 is the conditional or interactive effect between tourism receipts and the rule of law.

In the same analytical vein, in the fifth column or fourth specification of Table 2, the net effect of political stability in modulating tourism receipts for economic development is 0.0021 ($[-0.002 \times -0.562] + [0.001]$). In the computation, -0.562 represents the mean value of political stability, 0.001 denotes the unconditional effect of tourism receipts whereas -0.002 is the conditional or interactive effect between tourism receipts and political stability. Most of the significant control variables have the expected positive signs in the light the narrative in the data section on the determinants of economic development.

4.2 Further discussion of results

It is important to also connect the established findings with the attendant literature. Accordingly, the favourable role of the rule of law and political stability in enabling tourism development to positively influence economic development is also a form of macroeconomic tourism management which is broadly consistent with tourism-centric literature on the importance of good governance for tourism development and corresponding favourable externalities (Pizam & Mansfeld, 2006; Lepp *et al.*, 2011; Seabra *et al.*, 2013; Asongu & Acha-Anyi, 2020) and the relevance of tourism development in driving economic prosperity (Dritsakis, 2004; Durbarry, 2004; Ivanov & Webster, 2007; Akan *et al.*, 2007).

Concerning the study that is closest to this research, it is important to note that this study improves our understanding of Nyasha *et al.* (2021) from two main perspectives. On the one hand, while there is a positive nexus between tourism receipts and economic development as apparent in Nyasha *et al.* (2021), this study has shown that a synergy effect is also apparent when policies designed to promote tourism development for economic prosperity are implemented simultaneously with policies designed to promote the rule of law in view of modulating tourism expenditure. It follows that while Nyasha *et al.* (2021) have shown that tourism receipts are important for economic development, this study has shown that such an underlying effect can be more apparent when tourism receipts are complemented with enhanced rule of law. This is essentially because we have shown that tourism receipts and the rule of law are complementary and not substituting. The interpretation extends to the use of political stability as a policy variable with the exception of the fact that while net positive

effects are apparent from the importance of political stability, the moderating effect is substituting and not complementary.

On the other hand, Nyasha *et al.* (2021) have established that tourism expenditure negatively affects economic development in the same sampled countries. This study has improved the findings by showing that, when tourism expenditure is modulated with the rule of law, the overall incidence on economic development is positive and not negative. It follows that when tourism development policies are designed to be accompanied by effective rule of law or when tourism expenditure is managed with stringent respect of the rule of law, overall positive outcomes on economic development dynamics can be expected. Hence, modeling direct linkages between tourism development outcomes may not offer sufficient policy insights unless an interactive regression framework is taken on board to provide an alternative perspective that combining policy initiatives can engender an overall positive prospect for economic development.

5. Conclusion and future research directions

This study has complemented the extant literature by assessing how the rule of law and political stability modulate tourism development dynamics (i.e. tourism receipts and tourism expenditure) to affect economic development in terms of gross domestic product (GDP) per capita. The study focuses on 47 countries in sub-Saharan Africa (SSA) with data for the period 2002 to 2018 and the empirical evidence is based on the Generalized Method of Moments. The study finds that: (i) the rule of law modulates both tourism receipts and tourism expenditure for overall positive effects on economic development and (ii) political stability modulates tourism receipts for an overall positive impact on economic development. The study has implications for tourism management in the light of how governance can be improved in view of facilitating how tourism dynamics are relevant to economic development.

First, this study has shown that the rule of law which is a dimension of institutional governance is critical in ensuring that both tourism expenditure and tourism receipts have an overall positive incidence on economic development. It follows that the respect by citizens and the State of institutions that govern interactions between them is critical in ensuring that on the one hand, tourism receipts are eventually leveraged to increase economic development. On the other, even tourism expenditure that may be considered as a policy syndrome also increases economic development if the attendant expenditure is properly managed. As a main policy implication, in order to ensure that tourism cash flows increase overall economic

development, both citizens and government officials should respect the laws in place that are designed to govern interactions between them.

Second, the study has also established that owing to political stability, tourism receipts can represent an overall positive incidence on economic development. The policy implication of this finding is straight forward. Accordingly, sampled countries should encourage less political strife and violence in order to ensure that economic development follows tourism development.

Future research can focus on assessing how corporate governance measures can be relevant in promoting tourism for economic development. This extension would require involvement of primary data and engagement of tourism resorts and hotels for microeconomic perspectives. Moreover, the analysis could be replicated for other developing regions such as Latin America and Asia. While due to the destructive impact of the COVID-19 pandemic on tourism, it is not worthwhile to extend the periodicity of the data, the present findings are thus contingent on the periodicity used and hence, may not be valid if the pandemic and/or post-pandemic data are taken into account.

Appendices

Appendix 1: Definitions of Variables

Variables	Definitions of variables (Measurements)	Sources
GDP per capita	Logarithm of GDP per capita (constant 2010 US\$)	WDI
Tourism Expenditure	International tourism, expenditures (% of total imports)	WDI
Tourism Receipts	International tourism, receipts (% of total exports)	WDI
Financial Development	Domestic credit to private sector by banks (% of GDP)	WDI
Domestic Savings	Gross domestic savings (% of GDP)	WDI
Domestic Investment	Gross capital formation (% of GDP)	WDI
Trade Openness	Imports plus Exports of goods and services (% of GDP)	WDI
Political Stability	<i>“Political stability/no violence (estimate): measured as the perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional and violent means, including domestic violence and terrorism”</i>	WGI
Rule of Law	<i>“Rule of law (estimate): captures perceptions of the extent to which agents have confidence in and abide by the rules of society and in particular the quality of contract enforcement, property rights, the police, the courts, as well as the likelihood of crime and violence”.</i>	WGI

WDI: World Bank Development Indicators of the World Bank. WGI: World Governance Indicators of the World Bank.

Appendix 2: Summary statistics

	Mean	SD	Minimum	Maximum	Observations
GDP per capita (log)	7.045	1.003	5.297	9.879	271
Tourism Expenditure	6.107	4.124	0.118	21.123	233
Tourism Receipts	13.801	15.066	0.102	72.087	229
Financial Development	18.269	16.979	0.599	102.556	266
Domestic Savings	12.027	22.056	-199.832	-119.832	256
Domestic Investment	22.112	9.296	0.000	56.138	257
Trade Openness	72.219	33.452	20.762	279.333	261
Political Stability	-0.562	0.903	-3.273	1.064	273
Rule of Law	-0.753	0.647	-2.486	1.065	274

S.D: Standard Deviation.

Appendix 3: Correlation matrix (uniform sample: 197)

	GDPpc	Tourism E.	Tourism R.	Finance D.	Domestic S.	Domestic I.	Trade	Political St.	Law
GDPpc	1.000								
Tourism E.	0.090	1.000							
Tourism R.	0.042	0.310	1.000						
Finance D.	0.605	-0.053	0.317	1.000					
Domestic S.	0.446	-0.0005	-0.222	0.090	1.000				
Domestic I.	0.170	-0.160	0.023	0.191	0.329	1.000			
Trade	0.315	-0.238	-0.118	0.211	-0.180	0.267	1.000		
Political St.	0.363	0.066	0.349	0.434	0.064	0.145	0.216	1.000	
Law	0.428	0.067	0.425	0.666	0.062	0.232	0.117	0.765	1.000

GDPpc: logarithm of GDP per capita. Tourism E: Tourism Expenditure. Tourism R: Tourism Receipts. Finance D: Financial Development. Domestic S: Domestic Savings. Domestic I: Domestic Investment. Trade: Trade Openness. Political St: Political Stability. Law: Rule of Law.

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