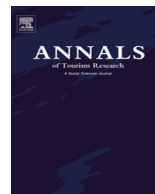




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Is Australian tourism suffering Dutch Disease?

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ABSTRACT

As a result of Australia's boom in exports of minerals to China and Asian economies, its currency has risen substantially against other leading currencies. The higher exchange rate has posed significant problems for traditional export and import competing industries, one of which is tourism. Computable general equilibrium modelling of the impacts of the mining boom on tourism confirms the Dutch Disease effect. The discussion highlights how recent changes in Australian inbound, outbound and domestic tourism can be explained from the perspective of Dutch Disease. Four different policy responses are then discussed, such as improving Australia's competitiveness. The discussion has implications for destinations worldwide that are experiencing export booms in commodities other than tourism.

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Introduction

Australia is currently experiencing a boom in its mining industry with huge demand for its minerals to fuel growth of industry in China and other emerging Asian economies. China's real GDP has increased six-fold since 1990, and its economic development effort has required ever-larger amounts of raw materials for investment in infrastructure and export production. This boom has come about quite quickly, and it has been substantial (Gregory & Sheehan, 2011; Gregory, 2012). Demand for coal and iron ore has grown, and a third commodity, gas, is likely to grow sharply over the next decade. Shipments from Australia of coal and iron ore have risen, but the notable feature of this boom has been that prices have

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risen very rapidly. A major economic outcome has been a strengthening of the Australian dollar. While high commodity prices, high interest rates, and increased financial inflows have played a role in strengthening the Australian dollar, the major influence has been the resources boom. Australia's strong Asian ties and Asia's demand for resources all have helped sustain the rise of the Australian dollar against other leading currencies, which in mid 2012 reached historic highs (TRA, 2012b).

While minerals exports have increased, the mining boom has led to a contraction in other tradable goods and services- the Dutch Disease effect. 'Dutch Disease' is a term coined in the late 1970s after economists identified a link between the discovery of large deposits of natural gas in the Netherlands and the decline of its manufacturing sector. The hypothesis postulates that, due to a resources boom, the domestic currency appreciates due to increased export sales but this adversely affects other, non-resource exporters, making them less competitive. Additionally, a resources boom attracts scarce inputs to production such as labour and capital away from other sectors creating an additional impact. There are several dimensions to this concept (Corden & Neary, 1982; Gregory, 1976). An export boom (eg. natural gas, oil) leads to a rise in real incomes in a country, which give rise to spending effects- thus residents of the country, are able to spend more. The boom leads to increases in exports of the booming commodity, but reduced demand for other exports, and additional imports of goods and services that compete with domestically produced items. Resources are shifted away from the production of the non-booming ('lagging') exports, and into the production of the booming sector's exports, and non-tradable goods and services. Thus, while the mining exports of Australia continue to grow, other sections of the economy have declined. These include agriculture, international education and manufacturing (Corden, 2012).

One export and import competing sector particularly affected by Australia's mining boom is its tourism industry. Tourism, as a tradable service, is affected by the rise in the exchange rate, and the various spending effects resulting from the boom. The question arises as to the extent to which the tourism industry is affected by the mining boom. There has been some discussion of Dutch Disease in the tourism literature, but with one exception that we know of (Tourism Research Australia, 2011a, 2012b), it has been in the context of tourism as the booming sector—not as a sector affected by the boom. Because tourism turns non-tradable goods and services into exportable goods and services, the symptoms of Dutch disease can also result from a *demand* shock of inbound tourism booms as opposed to the traditional Dutch disease *supply* shocks, such as discoveries in natural resources. Copeland (1991) in an earlier theoretical paper, argued that a tourist boom tends to raise the demand for and hence the prices of non-traded goods (i.e. improvements of the so-called secondary terms of trade), expanding their production at the expense of the traded sectors and, in particular, the manufacturing sector. This argument suggests that a tourist boom can lead to de-industrialization, consistent with Dutch Disease. The welfare implications for tourism have since been examined by Chao, Hazari, Laffargue, Sgro, and Yu (2006), Nowak and Sahli (2007), Capó, Font, and Nadal, (2007), and Holzner (2011). These studies support Copeland's view that the main channel through which an increase in domestic or international tourism may alter national welfare is a change in the real exchange rate (or terms of trade) of the host economy. Consistent with this research, computable general equilibrium (CGE) modelling has also shown that an increase in the demand for Australian tourism impacts adversely on other sectors of the Australian economy, traditional exports and import competing industries in particular, but can generate an increase in welfare depending on the size of the terms of trade effect (Adams & Parmenter, 1995; Dwyer, Forsyth, Spurr, & Van Ho, 2003).

While the above studies have focused on the effects of an expanding tourism industry on other economic sectors, the question arises as to the *reverse* situation, that is, where another export sector is booming and having effects on tourism. This issue, where tourism is a 'lagging' rather than booming sector has important analytical and policy implications for destination management. This paper has several aims. First, Australia's Dutch Disease situation is outlined briefly. The way in which tourism is affected by the Dutch Disease is then discussed- the theoretical discussion is matched up with the empirical experience. The paper then shows how recent changes in Australian inbound, outbound and domestic tourism can be explained in terms of the theory of the Dutch Disease. This sets the scene for a discussion of how destination managers should respond to the impacts on tourism of a boom in another export sector. Four different policy responses are then discussed. These involve the attempt to: enhance Australia's destination price competitiveness; promote inbound tourism; promote domestic tourism; improve product offerings to make destination Australia more attractive. The policy

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