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Research Paper

The synergies between human development, economic growth, and tourism within a developing country: An empirical model for ecuador

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ABSTRACT

This study uses a co-integration methodology with an error-correction model to assess the dynamic relationship between human development, economic growth, and tourism in Ecuador. There have been numerous studies explaining how economic growth can affect various dimensions of human development. Further, additional arguments have been generated to indicate that tourism may also be the vehicle with which to impact human development and economic growth. However, the literature on the nexus between human development, economic growth, and tourism is riddled with mixed results. The results from this study suggest the presence of three unique long-run relationships. First, tourism does not promote human development. Instead, it is the degree and measure of human development that promotes tourism by creating a lopsided relationship. Second, a virtuous cycle between human development and economic growth exists. Third, the study found a unidirectional causality supporting the economics-driven tourism growth, meaning that tourism growth is a product of economic growth but not vice versa. The study concludes with implications for tourism development in the case of Ecuador.

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1. Introduction

During the planning process, any development intervention, including tourism, should strive to promote three specific objectives: human development, poverty reduction, and economic growth (Mehrotra & Delamonica, 2007). Adhering to such important aspects of development not only gives salience to the welfare of individuals but also grants individuals their involvement in the productive sector and in society. The underlying rationale for considering the effects of any development strategy towards these specific objectives is that when one is absent, the possibility for achieving the others is minimized and can lead to unsustainable situations that preclude progress and increase the risk of economic and social stagnation. However, despite the growing interest in promoting development, limited attempts have been made to simultaneously investigate the synergies that result from expanding the tourism sector.

The main objective of this study is to simultaneously examine the relationships between tourism expansion and human development, between economic growth and human development, and between tourism and economic growth. The study posits that tourism expansion has a positive impact on human development

and that the latter, in turn, has a positive impact on tourism expansion. At the same time, tourism also has a positive impact on economic growth, and the latter also impacts human development.

Although the expansion of the tourism sector might take place in a variety of forms (e.g. ecotourists, business travelers, or leisure travelers), this study is defining *tourism expansion* as an increase in international tourism arrivals. On the other hand, economic growth is conceptualized by considering gross domestic product (GDP) at the purchaser's price. This is the sum gross value added by all resident producers in the economy including product taxes, but not including any subsidies in the value of the products. As for the conceptualization of human development, it is defined here as the ability to promote and enhance the capabilities of individuals (Mehrotra & Delamonica, 2007).

Capabilities are conceptualized as functional substantive freedoms (e.g. ability to live to old age, engage in economic transactions, or participate in political activities), and are construed in terms of the freedoms people value (Nussbaum, 2003; Sen, 2005). In order to determine the synergy that exists between tourism and human development, this study will employ the Human Development Index (HDI) (Anand & Sen, 1994): an index deemed suitable in judging whether human development has occurred and to what extent. That is, the HDI is a means to measure human capabilities and freedom. Thus, the manner in which tourism could influence the capacity for human development might clearly emerge.

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There are several important implications and motivations for conducting this study. Evidence from the causal effects of tourism expansion on human development may provide a modest contribution regarding the connections between aggregate affluence and social outcomes (Anand & Ravallion, 1993). Human capabilities, or human development, embraces a non-welfarist approach that is based on the work of Nussbaum (2006), Sen (1999). For Sen and Nussbaum, the concept of well-being should be equated with being well, and the 'value of the living standards lie in the living and not in the possessing of commodities' (Sen, 1987, p. 4). Knowing the link between tourism expansion and human development has clear policy implications in terms of demand and marketing promotion, as well as supply investments in a destination. This understating may be significant in a resource-poor environment such as a developing country in search of optimal allocation of scant resources.

According to the non-welfarist approach, well-being is established by objective circumstances within which people live, rather than from their subjective utility, satisfaction, or happiness (Ringen, 1995). The non-welfarist approach is driven by multi-dimensional aspects of well-being. For example, the capabilities approach differs from other non-welfarist approaches such as primary basic needs (Rawls, 1972) in that it pays more attention to structural constraints on the individual. According to Sen (1992), individuals achieving their basic functionings leads to freedom to live well, which is sufficient for not being considered poor or deprived.

The distinct condition of the capabilities approach is its substantial emphasis on the freedom of choice. For example, an individual will not be judged poor or deprived if he does not have to choose not to achieve some functionings, providing of course he would be able to achieve them if he so desired. This unique distinction recognizes the importance of preference and individuality in determining choices. Despite the appeal of the capabilities approach, other propositions, such as income shortfall, consumption thresholds, inequalities, and the incidence of poverty, are also important. This is because they provide a sense of achievement and serve as an instrument for expanding capabilities (Nussbaum, 2006). Nonetheless, this study will defer and refer to the capabilities approach in its attempt to ascertain the nexus between tourism and human development. In the case of tourism, Croes (2012a) has indicated that tourism has the potential for improving quality of life; and a greater understanding of the relationship between human development, economic growth, and tourism in the context of developing countries has warranted attention.

2. Literature review

The literature on classic theories of economic development, seen in the work of Rostow, Lewis, and Dos Santos (Todaro & Smith, 2009), takes no notice of the links between tourism and development, nor mentions it as a contributor to the process. However, this has not stopped tourism researchers from drawing extensively on such theories to ponder tourism's contributions as they relate to development theory, dependency theory, tourism and economic development (Mihalic, 2002), community development and welfare (Hall & Brown, 2006), socio-cultural development, and well-being (Mowforth & Munt, 2015; Sharpely, 2002; Telfer, 2002). Although these studies cover important issues regarding the connections between tourism and development, they are normative in nature and only give directive value judgments about what the potential impacts of tourism on development ought to be.

Economic growth has a strong foundation with two inter-related theories: neoclassical growth theory and endogenous growth theory. The former adheres to promoting free markets,

exports, trade liberalization, and foreign investment in an attempt to spur efficiency and development (Nafziger, 1997). The latter supports an active role of the state for promoting economic development through direct and indirect investment in human capital (Todaro et al., 2009). Within the context of growth, tourism is viewed as a valuable export and its effects on development, as supported by the tourism-led growth hypothesis (e.g. Balaguer & Cantavella-Jorda, 2002; Gunduz & Hatemi-J, 2005), occurs when tourism stimulates the economy in the form of spillovers and externalities.

As a theoretical and developmental framework, exports are considered to promote economic growth and contribute to local economies by benefiting from economies of scale, reducing the foreign exchange constraints, spawning positive externalities for other sectors, and encouraging competitiveness (Durberry, 2004). According to Balassa (1978), the expansion of the trade sector also has a favorable effect on the rate of economic growth. More importantly, export-orientation is considered a superior strategy when compared to policies that support import substitution. The seminal work of Balaguer and Cantavella-Jorda (2002), for example, gave support to the tourism-led growth hypothesis in the case of Spain. By applying co-integration methodology with an error-correction model, their study demonstrated that tourism had a long-run multiplier effect. Their study has provided evidence that the tourism-led growth hypothesis is not only applicable to developing countries but to developed countries as well.

The tourism-led growth hypothesis has also been tested in developing countries. Fayissa, Nsiah and Tadesse (2009) studied the effect of international tourism in Latin America and discovered that a 10% increase in tourism resulted in a .40% increase of GDP per capita. Their study demonstrated that conventional sources of growth, such as investment in health and housing, also contribute to growth. However, the implication for tourism policy in Latin America, based on their findings, is that governments can embark on a path of sustained growth by harnessing tourism together with progressive governance.

Currently, the literature on tourism and economic growth has been devoted to explaining the causal relationship between tourism and growth. The communality among all these studies is that they attempted to answer the questions, does tourism development cause economic growth or does economic growth causes tourism development? According to Lee & Chang (2008), three possibilities can be found in the literature: unidirectional causality between tourism and growth (Chen & Chiou-Wei, 2009; Lanza, Temple, & Urga, 2003; Nowak, Sahli, & Cortés-Jiménez, 2007; Sanchez-Carrera, Brida, & Risso, 2008), unidirectional causality between growth and tourism (Oh, 2005; Tang & Jang, 2009), or bidirectional causality between tourism and growth (Chen & Chiou-Wei, 2009; Cortés-Jiménez & Pulina, 2006; Kim & Chen, 2006).

The mixed results from the literature about the tourism growth nexus make it impossible to make an a priori estimation of the potential or direction of the impact of an increase in tourism receipts on economic growth. Despite the fact that some scholars (Hazari & Ng, 1993; Hazari & Sgro, 1995) have made use of mathematical modeling to investigate whether or not the expansion of the tourism sector improves welfare, the use of aggregate measures of economic growth does not allow identifying the beneficiaries. This suggests that a gap in the literature exists and that exploring whether or not the benefits from tourism trickle down to support development and growth deserves more attention.

Researchers agree that economic growth is an important means for development (Dreze & Sen, 1991; Easterly, 2001). Dollar and Kraay (2002) found that a one percent increase in the average income of society translates one-for-one into a one percent increase of the poorest 20% of the population, indicating a clear

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