

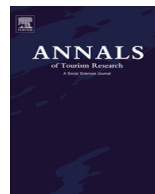


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Tourism and regional income inequality: Evidence from China



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ABSTRACT

This study examines the role of tourism development in reducing regional income inequality in China. First, the theoretical foundation for how tourism affects regional income inequality is discussed. Second, based on the conditional convergence framework, this study proposes a spatiotemporal autoregressive model to capture spatial and temporal dependence as well as spatial heterogeneity. Tourism development is introduced as a conditional convergence factor in an attempt to examine whether the convergence speed is accelerated by regional tourism development. Third, the effects of international and domestic tourism in narrowing regional inequality are compared both globally and locally. The empirical results indicate that tourism development contributes significantly to the reduction of regional inequality, with domestic tourism making a greater contribution than international tourism.

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Introduction

Travel and tourism continues to be one of the world's largest industries and fastest growing sectors (WTTC, 2011). Sinclair (1998) highlights the important role that the tourism sector plays in creating jobs and generating revenue for a destination's residents and government. Furthermore, the tourism benefits that spill over to influence many other economic activities strengthen the positive effects of tourism on economic growth (Proenca & Soukiazis, 2008). As such, tourism development is widely recognized as a positive instrument for promoting economic growth (Chou, 2013). Overall, the literature focuses almost exclusively on traditional metrics of growth such as income and employment (Deller, 2010), and distributional issues such as poverty rates or changes in regional inequality have been neglected.

According to Williams and Shaw (1991), tourism distributes development from economic centers to less developed areas. Thus, tourism development tends to be used as an instrument to narrow regional gaps. In fact, the tourism industry in China (The 12th Five-year Tourism Development Plan, 2011) and the European Union (Wanhill, 1997) serves as a growth pole for less developed and rural areas to promote economic growth. However, some scholars question the quality of growth generated by tourism and recreation (Parrilla, Font, & Nadal, 2007), which may lead to a widening regional gap. Krakover (2004) concludes that tourism's influence over regional development, particularly regarding the regional gap issue, is one of today's most intricate research topics.

Severe and increasing regional inequality still exists in numerous countries worldwide (Deller, 2010). In China, there are huge regional gaps that reflect gradual reductions in development levels from eastern to western regions and from coastal to inland regions in terms of the real GDP *per capita* and *per capita* consumption expenditures of the Chinese provinces (Wen & Sinha, 2009). This polarized development has become a serious threat to China's social stability, prompting other instances of inequality in areas such as medical and educational opportunities. China is seeking ways to narrow the continually widening regional gaps, and whether tourism development is a viable and effective way to achieve this goal must be empirically tested.

The aim of this study is to establish a theoretical link between tourism development and narrowing regional income inequality, and provide empirical evidence based on a case with 30 Chinese provinces. It makes four contributions to the literature. First, it provides a theoretical foundation for and a statistical analysis of tourism development's effect on regional income inequality. Second, it examines both international and domestic tourism to assess which is a more effective factor in reducing regional inequality. To the best of our knowledge, this is the first attempt to compare the regional effects of domestic and international tourism within a theoretical framework of conditional convergence. Third, this study is the first attempt to apply a spatiotemporal model in tourism accounting for both spatial and temporal dependence. In addition, the use of panel data allows for local estimation of spatial models at a province or country level, which is not possible using cross-sectional data due to a limited sample size. Moreover, a dynamic panel model is able to capture the heterogeneity across cases and over time, as well as the heterogeneity in the regression coefficients. Fourth, this study contributes to the general literature by extending the local estimation to a dynamic spatial panel context. It is demonstrated that local spatial analysis is a useful tool to examine economic convergence. Particularly, at a regional level with a small number of cases, the local dynamic spatial panel is an effective method. Based on the more advanced methodology, this study sheds new light on the contribution of tourism development on reducing income inequality with cross-regional spillover effects being taken into account. Specifically, it provides insight into each region's unique situation of tourism-led economic growth, and therefore enhances our knowledge about the regional tourism development in China.

Literature review

Tourism development and regional inequality: a theoretical foundation

Tourism is closely related to a number of other economic sectors such as agriculture, construction and retailing, and thus its development has potential to generate positive externalities on the rest of

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