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The impacts of immigrants and institutions on bilateral tourism flows

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HIGHLIGHTS

- The immigration and tourism nexus has been studied from developed to developing markets.
- Immigrants have significant effect to inbound tourism however; the effect is different across regions.
- Institutional quality is important for the visitors that would decide the destination country.

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ABSTRACT

In this paper, we use data on recent bilateral tourism flow from 34 Organisation for Economic Co-operation and Development (OECD) countries to 52 middle-to low-income countries for the period 1995–2010 to determine whether immigration, trade and institutional quality play a role in driving OECD nationals to visit immigrant-source countries. Except for the African countries, the results show that immigrants residing in OECD countries have a positive advertising effect for their home country, inducing tourism flows from OECD countries. We also find that the quality of institutions, along with freedom and civil liberty indices, are important in selecting tourism destinations. A massive 8% of the variation in tourism flows can be accounted for by these factors. These results hold for the subsample and the whole sample with two exceptions: European and African destinations. We posit that this feature of the data exists because European (African) countries are so similar to each other, and small differences in the indexes do not matter at the top (bottom) of the distribution. By controlling for gravity and macroeconomic stability variables, we also show that the trade flows between countries, among other factors, play a crucial and stable role on tourism flows. Dynamic panel data estimation is used to account for the influence of repeat visits and support our findings.

1. Introduction

The growth in international tourism has taken place around various activities over the years: leisure, business, medical, cultural, adventure, wellness, sports, religious, wildlife and ecotourism. The United Nations has reported that this growth has surpassed the US $1 trillion mark, thereby making tourism an engine of development for many small economies and a viable sector for developed economies. The literature has, without a doubt, captured the different facets of the growing importance of the tourism industry. Studies by Crouch (1994); Lim (1997); Witt and Witt (1995) have summarized advances in the field that span the period 1960–2000, while Song and Li (2008) have produced a more detailed account of the different contributions that took place in the post-2000 era by classifying the studies in terms of topics of interests, methodological approaches, data sources, regional coverage and main findings.

A prominent feature of the development of tourism is the role that marketing has played in promoting tourist destinations directly or indirectly. Direct marketing often takes the form of TV advertisements; the publication of brochures, pamphlets and catalogues; sponsoring events and/or awarding prizes to induce people to physically move across borders. Implicit or indirect marketing, however, comes in the form of positive externalities from the export of music, movies, TV shows, soap operas, bilateral agreements and visa waivers. The basic idea is whether people are

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enticed to visit a foreign destination by virtue of being exposed to the arts of that culture or the incentives created by foreign government policies. Notable contributions under this strand of the literature include the works of Beeton (2005); Butler (1990); Cornell (2012); Croy (2010); Edensor (2001); Kim and Richardson (2003); Macionis and Sparks (2009); Mordue (2009); Portegies (2010); Riley, Baker, and Van Doren (1998); Urry (1994). The most recent piece is the work of Balli, Balli, and Cebeci (2013), which documents the effects of Turkish soap opera TV shows exported to Eastern Europe and the Middle East on tourism inflows to Turkey. Using both static and dynamic panel data analyses, they find statistical evidence that these TV programs influence viewers to visit Turkey and are, by and large, contributors to the boost in tourism that Turkey has experienced lately.

What we have learnt from these studies is that international tourism is partly driven by the satisfaction individuals derive from watching movies and/or listening to music from other countries. Along this same line, we reason that since immigrants live alongside nationals in the same country, nationals have had opportunities to hear firsthand about the immigrants' place of origin, be invited to their festivities, taste their foods, listen to their music and become immersed in their culture, and even get invited to their motherland. A natural question that emerges is whether this conviviality is reason enough for a linkage between tourism and immigration to exist along the same lines as art and tourism.

On both the theoretical and the empirical fronts, there have been some attempts at explaining the tourism-immigration nexus. Jackson (1990) provides the first study, on the relationship between international tourism and population movements (mostly immigrant patterns) for selected developed countries whilst Williams and Hall (2001) later produced the theoretical model. Subsequent to Jackson (1990), a number of remarkable studies appear in the literature. King (1994), Seetaram (2012a), (2012b) consider the linkage between immigrants flow and inbound and outbound tourism for Australia and find statistically significant ties. For New Zealand, Feng and Page (2000) and Genç (2013) also find significant effects of immigrants on inbound tourism demand. Along the same vein, Massidda, Etzo, and Piras (2014); Mechinda, Sirivan, and Nak (2009); Leitão and Shahbaz (2012) have documented similar results for Thailand, Italy, and Portugal, respectively. All these studies have one thing in common; they are all based on country-case studies. As we do know, it is an incorrect reasoning or logical fallacy to believe what is true for the part is necessarily true for the whole or a group. In this vein, our paper makes this valuable contribution to the existing literature; it provides the most comprehensive assessment of the linkage between immigration and tourism that encompasses 34 developed and 53 developing countries. Above and beyond the usual economic variables, we take our analysis one step further by investigating the role that the quality of institutions in the home country of immigrants residing in developed countries play when nationals of these countries make travel decisions.

We also conjecture that the linkage between immigration and tourism may be quite superficial if trade and the quality of institutions in the immigrant-source country are not taken into consideration, among other relevant variables documented in the literature. For example, for nationals of country i to have the opportunity to taste the local food and other specificities of country j, trade must exist between them; again, if country j is not stable, travel advisories from country i would, without a doubt, hamper the flow of tourists to country j. While our investigation into the association between immigration and tourism is novel, to the best of our knowledge of the literature, several notable contributions are in order when it comes to assessing the ties between trade, investment, immigration and institutions.

The pioneer work of Gould (1994) has shown that immigrant links have historically been important in increasing bilateral trade flows between immigrants' home and host countries. Studies by Head and Ries (1998) for Canada, Girma and Yu (2002) for the Commonwealth countries, and Partridge and Furtan (2008) for the Canadian provinces have all corroborated the findings of Gould. More recently, Foad (2011) tested the effect of immigrants on bilateral investment destinations and found that the immigrant population of a country plays a crucial role in the destination of the portfolio investments and domestic investors tend to be biased towards countries with a relatively larger representation of immigrants within their own country. These studies did not put emphasis on the relationship between institutional quality and international trade. However, estimating a gravity model, Anderson and Marcouiller (2002) did; they show that bilateral trade volumes are significantly affected by trading countries' relative institutional quality, with better institutions being conducive to larger trade volumes. In other words, when trade is supported by an effective rule of law and a government is transparent enough, country partners generate more trade due to stability and lower risk. Ranjan and Lee (2003) find that bilateral trade volumes are more affected by institutional quality in sectors that they classify as more institutionally intensive. These findings seem to anchor in Rodrik's (2000) contention that the globalisation of markets carries the seed of producing contracts that are difficult to enforce across jurisdictional boundaries. As a result, countries with comparable governance quality levels generally trade more with each other (De Groot, Linders, Rietveld, & Subramanian, 2004). As the pioneering work by Alfaro, Kalemli-Ozcan, and Volosovych (2008) shows, capital flows more between rich countries than from rich to poor countries, mainly due to weak institutions in poor countries.

Therefore, what the literature has clearly established thus far is that the quality of institutions matters; it is more so when we consider that tourists, like typical economic agents, are risk-averse, though curious and adventurous; they like to feel secure in the places where they choose to go on vacation. Taking this into consideration, we make use of different measurements of the institutional quality variable: one is the corruption perception index extracted from www.transparency.org, while the others are the freedom index and the civil rights index that come from www.FreedomHouse.org.

Our baseline model is based on a panel dataset of 34 immigrant-receiving countries (country i; tourist origin) and 52 immigrant-sending countries (country j; tourist destination) for the period of 1995–2010. In estimating this model with the static panel data technique, we find that gravity equation variables matter for tourism flows. In addition, macroeconomic variables, such as inflation and exchange rate volatilities of the destination countries and the gross domestic product (GDP) per capita of the origin countries, are all statistically significant with the expected signs. Controlling for immigration, we find that immigrants from country j living in country i have a positive effect on tourism flows to country j. However, our cross-continent analysis also reveals that immigrants from Africa and Europe do not have any effect on tourism flows back to their countries of origin. The institutional quality variables are all statistically significant in explaining tourism flows for countries in Asia–Pacific and Latin America. By contrast, we observe that tourists do not consider the relative quality of institutions when they fly to either Europe or Africa. These two continents lie on the two extremes of the institutional quality continuum: tourists do not care much for the slight differences in institutional quality in the highly developed countries of Europe; for Africa, we have the totally opposite situation, where institutional quality is so low that it makes no difference as to which country a tourist visits, and other drivers motivate such trips.