



Research note

Transforming competitiveness into economic benefits: Does tourism stimulate economic growth in more competitive destinations?

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H I G H L I G H T S

- Growth decomposition methodology is used to measure tourism's impact on economic growth.
- The impact of destination competitiveness is investigated in 131 countries for the period 2000–2010.
- Competitiveness is modelled by the World Economic Forum's Travel and Tourism Competitiveness Index.
- Destination competitiveness does not influence tourism's impact on economic growth.

A R T I C L E I N F O

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A B S T R A C T

This research note investigates the impact of a destination's competitiveness upon tourism's contribution to economic growth using a cross-section with 131 countries. Destination competitiveness is measured with the World Economic Forum's Travel and Tourism Competitiveness Index, while tourism's contribution to economic growth is measured with the growth decomposition methodology. Results reveal that destination competitiveness has no statistically significant impact on tourism's contribution to economic growth. Tourism policy implications and directions for future research are also discussed.

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1. Introduction

Tourism is frequently viewed as an important engine for the economic growth and development of countries (Brida & Rizzo, 2009; Tang & Tan, 2013), helping to increase the economic welfare of local populations. This perspective justifies the allocation of public resources into attracting more visitors to destinations by increasing their competitive position in relation to other destinations. The importance of destination competitiveness to attracting visitors and its determinants have been widely recognised (Botti et al., 2009; Crouch & Ritchie, 1999; Dwyer & Kim, 2003; Dwyer, Mellor, Livaic, Edwards, & Kim, 2004; Gomezelj & Mihalić, 2008; Ritchie & Crouch, 2005) and some discussion has also addressed its measurement (Hall, 2007; Mazanec & Ring, 2011). Ritchie and

Crouch (2005: 2) pinpoint that “what makes a tourism destination truly competitive is its ability to increase tourism expenditure, to increasingly attract visitors, while providing them with satisfying, memorable experiences, and to do so in a profitable way, while enhancing the well-being of destination residents and preserving the natural capital of the destination for future generations.” Furthermore, Dwyer and Kim (2003: 372) emphasise that the ultimate goal of a destination's competitiveness is “to maintain and increase the real income of its citizens, usually reflected in the standard of living of the country.” Therefore, the explicit assumption in the destination competitiveness literature is that more competitive destinations will attract more visitors; the visitors will spend more money in the destination, which leads to increased GDP and economic growth in the destination, which means higher the economic welfare of the local population. However, this is not necessarily the case in reality – more visitors in the destination do not always mean more money spent by them, nor that more money spent by visitors in the destination will generate economic growth leading to economic development. The tourism economic impact literature has long recognised that tourism-related leakages from

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the local economy (Ivanov, 2005b; Lejarraga & Walkenhorst, 2010; Stabler, Papatheodorou, & Sinclair, 2010: 206–207) in the form of imports to serve visitors, repatriation of incomes by foreign workers in the local tourism industry to their home countries, repatriation of profits by foreign investors, or selling tourist products at dumping prices (to name just few examples) could even lead to a decrease of the economic benefits of tourism development for the local population (Ivanov, 2005a, 2005b). Therefore, in competitive destinations with high tourism-related leakages, the increase in the number of visitors and their spending might not lead to higher GDP and economic growth, because a significant portion of visitors' expenses may pay for imports.

In light of the above discussion, this research note empirically investigates whether in reality destination competitiveness contributes positively to the economic welfare of local populations. In particular, it answers the question whether tourism stimulates economic growth in more competitive destinations.

2. Methodology

In order to measure the impact of competitiveness on tourism's contribution to economic growth we apply a cross-section analysis with 131 countries. The concepts, variables and sources of data used in the analysis are summarised in Table 1. Tourism's contribution to economic growth is calculated with the growth decomposition methodology (Brida & Aguirre, 2010; Ivanov, 2005a; Ivanov & Webster, 2007, 2010, 2013a, 2013b; Xie, Lacher, & Nepal, 2011):

$$g_r^t = \frac{\frac{Y_{q_1(p_o)}^t}{N_1} - \frac{Y_{q_0(p_o)}^t}{N_0}}{\frac{Y_{q_0(p_o)}^t}{N_0}} \cdot 100 \quad (1)$$

where $Y_{q_1(p_o)}^t$ is the tourism GDP in the current period in constant base year prices, $Y_{q_0(p_o)}^t$ and $Y_{q_0(p_o)}^t$ are the total and the tourism GDP in base year at market prices, respectively, N is the average size of the population, and indexes 0 and 1 denote base and current

period. The variable g_r^t reflects the direct impact of tourism on economic growth, i.e. how many percentage points of the real per capita economic growth in the country is attributable to tourism (Ivanov & Webster, 2007, 2010).

A country's tourism competitiveness is measured using the World Economic Forum's (hereafter "WEF") Travel and Tourism Competitiveness Index (TTCI) (WEF, 2011), an index used in previous studies (see Kayar & Kozak, 2010; Mazanec & Ring, 2011). The WEF measures the travel and tourism competitiveness of destinations with one overall index based upon three different sub-indices – a travel and tourism regulatory framework sub-index, a travel and tourism business environment and infrastructure sub-index, and a travel and tourism human, cultural, and natural resource sub-index (see Appendix 1). The sub-indices reflect 14 pillars of travel and tourism competitiveness (to use WEF terminology), such as "safety and security" and "tourism infrastructure," that are in turn composed of various indicators. The WEF measures the tourism competitiveness of 139 countries. For 2011, the country with the highest value of the overall index is Switzerland (5.68) while the lowest value is Chad (2.56).

$$g_r^t = b_0 + b_1 \cdot TTCI + b_2 \cdot \ln PPL + b_3 \cdot \ln GDP + b_4 \cdot \ln TourGDP + b_5 \cdot \ln GDPcapita + b_6 \cdot TourShare + b_7 \cdot EU + b_8 \cdot AF + b_9 \cdot AS + b_{10} \cdot LA + b_{11} \cdot NA + b_{12} \cdot OC + b_{13} \cdot LDC + b_{14} \cdot OECD \quad (2)$$

The analysis uses a number of control variables (see Equation (2)). Population size, economy size, tourism GDP and per capita GDP are in natural logarithm form to avoid favouring countries with large populations (China, India), economies (USA, Japan, China), tourism industries (USA, France, Spain, Italy) or per capita GDP (Luxembourg, Norway, Iceland, Qatar). The same variables are calculated as average annual values from 2000 to 2010 (or 1999 to 2009 depending on data availability) in order to eliminate short-term fluctuations caused by force majeure events like 9/11, SARS, swine and bird flu outbreaks, the 2004 tsunami in South-East Asia. Dummy variables are used to signify regions of the world and

Table 1
Concepts, variables and primary data sources.

Concept	Variable	Abbreviation	Primary data source
<i>Dependent variable</i>			
Tourism's contribution to economic growth	Average tourism contribution to real per capita economic growth (2000–2010)	g_r^t	Authors' calculation
<i>Independent variables</i>			
Travel and Tourism Competitiveness	Travel and Tourism Competitiveness Index 2011	TTCI	World Economic Forum
Population size	Log average population (2000–2010) – both sexes combined, as of 1st July of the respective year	$\ln PPL$	United Nations
Economy size	Log average GDP (1999–2009) in USD in 2011 prices	$\ln GDP$	United Nations
Tourism GDP	Log average Travel and tourism GDP (2000–2010) in USD in 2011 prices	$\ln TourGDP$	World Travel and Tourism Council
Economic wealth of local population	Log average per capita GDP (1999–2009) in USD in 2011 prices	$\ln GDPcapita$	Authors' calculations
Tourism share in country GDP	Average share of tourism GDP (1999–2009)	$TourShare$	Authors' calculations
Geographic region	Dummy variables for geographic regions	EU, AF, AS, LA, NA, OC	Breakdown of world regions and sub-regions adopted from United Nations' classifications
Least developed country	Dummy variable	LDC	United Nations
OECD member state	Dummy variable	OECD	OECD

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