



# International competitive advantages in tourism: An eclectic view



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## ABSTRACT

This study investigates the determinants of competitive advantages in tourism services for the EU-28 countries over the period 2000–2013. After having extended the Balassa methodology to measure competitive advantages, a dynamic panel data model is implemented to explain their drivers. The econometric analysis indicates that specific factor-proportions variables, as well as variables related to the new trade theory, contribute significantly to the explanation of international competitive advantages in tourism. At the same time, factors related to the new trade theory help strengthening these advantages. Particularly interesting seems to be our finding about the negative statistical association between competitive advantages in tourism and the overall efficiency of the country, measured by per capita GDP. Some policy and managerial implications conclude the work.

## 1. Introduction

Over the past decades international tourism has experienced continued expansion, becoming one of the largest and fastest-growing economic sectors worldwide. Despite the uncertain global economic outlook and terrorism risks, the number of international tourists has shown a virtually uninterrupted growth from 25 million arrivals in 1950 to 528 million in 1995, reaching a total of 1,235 million in 2016 (UNWTO, 2017). In the ranking by total arrivals at tourist accommodation establishments, Europe leads the growth in absolute terms and the Mediterranean countries<sup>1</sup> as a whole cover the highest share of the European market.

In this context, the present study provides a comprehensive analysis of competitive advantages in tourism and their determinants for the EU-28 countries given their role as top tourist destinations. A country has a competitive advantage in tourism services when it is able to produce them at a lower opportunity cost than other countries. This advantage can be due to the relative abundance of a destination's factor endowments (natural, historical and cultural resources), different countries' technologies and productivities, or other factors. The presence of a competitive advantage gives a country the ability to sell tourism services on international markets at a lower price than its competitors and realize stronger revenues. When countries specialize according to their competitive advantages they can compete successfully in international export markets, raise profits and support job creation.

Understanding the determinants of competitive advantages in

tourism is, hence, of key importance for both advanced and developing economies, since it would allow them to have a more comprehensive overview of the sources of tourism performances, enabling policy makers to design better strategies to enhance those activities exhibiting such potential and improve performance. From a managerial point of view, it would permit to monitor tourism progress over time, identify emerging risks for firms operating in the sector and track relative performances against key competitors over time.

The present study contributes to the existing literature in different ways.

First, it offers an extensive investigation of competitive advantages and their drivers. As it has been highlighted by Webster, Fletcher, Hardwick, and Morakabati (2007), while much of the empirical research on tourism has focused on tourist flows (e.g. Algieri & Kanellou, 2009; Bobirca, 2007; Crouch, 2010; Crouch & Ritchie, 1999; Dwyer, Forsyth, & Rao, 2000; Enright & Newton, 2005; Gooroochurn & Sugiyarto, 2005; Mazanec, Wober, & Zins, 2007), also from an environmental or a sustainable tourism perspective (e.g. Evans, 2016; Ritchie & Crouch, 2003), few studies have focused on competitive advantages in tourism. The present study tries to fill this gap by specifically addressing the nature and the triggers of competitive advantages in the EU-28 countries. There is a subtle distinction between comparative and competitive advantage. Porter (1990a, 1990b) and Crouch and Ritchie (1999) indicate that competitive advantage depends on the efficiency and effectiveness of resource deployment over the long-term. Destinations that are factor disadvantaged are often

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<sup>1</sup> Croatia, Cyprus, France, Greece, Italy, Malta, Portugal, Slovenia and Spain.

stimulated “... to find innovative ways of overcoming their comparative weakness by developing competitive strengths” (Porter, 1990a, 1990b, p.83). Therefore, “... a destination is competitive if it can attract and satisfy potential tourists and this competitiveness is determined both by tourism-specific factors and by a much wider range of factors that influence the tourism service providers” (Enright & Newton, 2004, p. 778).

Comparative advantage is a potential advantage, i.e. a country is potentially better suited for production of one good or service than another good or service, but it should exploit its advantage to become competitive. If countries specialize according to their competitive advantages, then they grow in competitiveness and gain from trade. Comparative and competitive advantages hence coincide only when competitive advantages are fully exploited. Conversely, it is possible that a country has a potential comparative advantage, but it is not exploited because either infrastructure deficiencies or skill shortages or other policy choices make the sector overlooked. Similarly, competitive advantages can be created or, at the very least, raised significantly without having comparative advantages. This is the case of Las Vegas that overcame the natural and environmental obstacles of desert and has ranked among the top tourist destinations.

Second, from a methodological point of view, we develop an extended version of the Balassa index to account for tourism specificities. The Balassa index is a traditional measure of comparative or competitive advantages computed using export flows; we extend it to account for the total trade flows in tourism, i.e. both tourism exports and imports. The use of the extended Balassa index seems to be preferable to the traditional index both on theoretical grounds, since it takes into account both exports and imports (Balassa & Noland, 1989) and on empirical ones, since it turned out to perform significantly better in terms of explicative power of the model in the econometric analysis.

Third, we propose an econometric dynamic panel data model, which reflects an eclectic view of theoretical foundations of competitive advantages, going from the classical factor-proportions theory, to the new trade theory, to the management theory insights put forward by Porter. A similar study that applies a panel data approach to explain the drivers of comparative advantages has been carried out by Zhang and Jensen (2007), but our study differs from their contribution for at least two important aspects. First, while Zhang and Jensen use the ‘number of arrivals’ as proxy for comparative advantages in tourism, we employ a specific measure of competitive advantage, obtained extending the classical Balassa methodology. Additionally, while Zhang and Jensen implemented a static panel analysis, we adopt a dynamic System-GMM framework to explicitly account for endogeneity problem and persistency in trade structure. To the best of our knowledge, our study is the first to estimate a dynamic model of competitive advantages in tourism.

The remainder of the study is organized as follows. Section 2 revises the literature on comparative and competitive advantages. Section 3 presents the linkages between comparative and competitive advantages. Section 4 discusses the adopted competitive advantage indicators. Section 5 shows the empirical results of the traditional and extended competitive advantage indices. Sections 6 and 7 present the econometric analysis of competitive advantages' drivers and discuss the empirical findings. Section 8 concludes.

## 2. Literature review

The theory of comparative advantages is one of the most important theories for explaining international specialization in goods and services, but applications to the analysis of tourism have been quite scarce. Its main conceptualization goes back to David Ricardo (1817) and his seminal work ‘On the Principles of Political Economy and Taxation’. According to Ricardo, comparative advantages and disadvantages stem from international differences in opportunity costs of products. If each country specializes in goods and services with a lower opportunity cost there could be an increase in global economic welfare. Comparative

advantages are never absent, even if one country is more efficient in the production of all goods than another, as long as there are international differences in products efficiency.

More than one century after Ricardo, two Swedish economists, Eli Heckscher and Bertil Ohlin (H-O), highlighted that comparative advantages can be triggered by different relative factor endowments across countries combined with dissimilar relative factor intensities across products; therefore, even when countries have the same technology, it is possible for them to benefit from international specialization. Explicitly, a nation will export the commodities whose production requires a relatively more intensive use of the nation's relatively abundant factor, and import the commodities whose production requires a relatively more intensive use of the nation's relatively scarce factor. Relative factor abundance and relative factor intensities drive comparative advantages and international specialization.

With respect to the generality of the principle of comparative advantage, two views can be distinguished in the literature (Siggel, 2007). The first is that the sources of comparative advantages are confined to Ricardian and Heckscher-Ohlin-type trade and are not related to other factors. The second is a more general interpretation of the principle. It suggests that a country has a competitive advantage in a product if its production costs in terms of equilibrium factor prices are lower than those of an international competitor, regardless of the sources of the cost advantage. The source of this advantage can be different technologies (Ricardo), the relative abundance of some factors (Heckscher-Ohlin) or other drivers identified by the new trade theory, such as innovations (Posner, 1961; Vernon, 1966), scale economies internal to the firm (Krugman, 1979), external scale economies stemming from the agglomeration of industry clusters (Ottaviano & Puga, 1998) or the role of multinational companies (Ethier, 1986; Markusen, 1995). For instance, with increasing returns to scale, specialization will occur even between countries with identical tastes, technology and factor endowments (e.g. Helpman, 1981; Krugman, 1979; Lancaster, 1980). Similarly, the presence of industry clusters can be generators of long-term competitiveness through provision of virtuous circles of superior learning, thick factor markets, infrastructural improvements and hence better technologies (Ottaviano & Puga, 1998; Porter, 1990a, 1990b).

Here we share the more general and eclectic interpretation, by including several different sources of competitive advantages in our empirical analysis.

As mentioned above, while the comparative or competitive advantage approach has been adopted in various studies that focus on manufacturing specialization and exports, few researches have been devoted to the analysis of the tourism sector. They generally examine comparative or competitive advantages in tourism focusing only on small or developing countries and most of them consist in a descriptive analysis.

More specifically, a first branch of literature focuses on tourism specialization based on revealed comparative advantages indices. Algieri (2006) shows that ‘small’ countries well-endowed with high-quality natural attractions tend to specialize in tourism. These economies could grow at a non-decreasing rate and promote sustainable economic development if manufacturing and tourism are distant substitutes, i.e. the elasticity of substitution between tourism and manufacturing is less than 1. Seyoum (2007) uses revealed comparative advantage indices to measure developing countries' comparative advantages in selected services for the period 1998–2003. Strong comparative advantages exist for many developing countries in transport and travel services, while weaknesses are registered in financial and business services. Webster et al. (2007) provide an analysis of international tourism using comparative advantage indices and intra-industry trade measures. Their evidence suggests that many countries do specialize as both ‘exporters’ and ‘importers’ of international tourism and the determinants of such patterns of specialization may have common ground with those described by international trade theory. In addition, the dominant pattern of international exchange in tourism

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