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Economic policy, tourism trade and productive diversification ☆, ☆☆

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Over the past two decades, tourism exports have been a major driver of economic growth in many emerging and developing countries. Yet, increased tourism revenues do not automatically translate into structural transformation and broad-based economic development. Drawing on cross-sectional data, this paper gauges the extent to which tourism has contributed to economic diversification in a large sample of developing countries. An econometric model is used to assess the relative importance of a country's natural endowments, level of development, institutional maturity, business environment, and trade regulations in explaining cross-country differences in linkages between tourism and the general economy. The central findings contain encouraging lessons for developing countries: domains that are more amenable to policy interventions in the short term, such as the business environment or trade regulations, matter most in fostering productive linkages between tourism and the general economy. In contrast, fixed factors, such as land availability, or longer-terms goals, such as advances in the level of development, have less influence.

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☆☆ The opinions expressed and arguments employed herein are those of the authors and do not necessarily reflect the official views of the OECD or of the governments of its member countries.

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1. Introduction

The economics literature has uncovered the notion that productive diversification goes hand-in-hand with the process of economic growth and development. Imbs and Wacziarg (2003) show that a U-shaped empirical relationship exists between diversification and per capita income. At early stages of development, countries tend to be highly specialized in a few economic sectors. Subsequently, they diversify their productive capabilities as they get richer, before specializing again after a certain threshold of GDP per capita is reached. These findings have subsequently been confirmed by Xiang (2007), who finds that countries travel across diversification cones, with middle-income economies showing temporarily a higher degree of diversification. Similarly, Cadot et al. (2011) find a hump-shaped pattern of export diversification, resembling the earlier results that Imbs and Wacziarg had obtained for production. This set of empirical evidence suggests that low income countries might want to pursue policies that facilitate the shift towards a broader range of economic activities in order to achieve their development objectives.

Tourism appears to be particularly well suited to be part of developing countries' diversification strategies, because many low income countries have favorable natural endowments and a large workforce willing to work in personal service jobs at modest wages. Also, tourism consists of a cluster of inter-related activities that encompasses economic undertakings spanning the agricultural, manufacturing, and services sectors—including food and beverages, furniture and textiles, jewelry and handicraft, and transportation and communication services (Gilbert, 1990; Sinclair and Stabler, 1997; Nowak et al., 2010). Hence, expanding tourism does not add just one commodity to the production and export basket, but a composite bundle of heterogeneous activities that could potentially bring equally broad benefits to the economy. As a result of this appeal, many developing countries have tried to turn to the tourism industry as a means to shift resources away from goods that have lost competitiveness in world markets and diversify their economies.

Yet, the relationship between tourism and economic growth is ambiguous. In a respective survey of the economics literature, Sinclair (1998) lists a number of studies that report a positive impact of tourism on economic development, while also pointing to a range of findings that reveal adverse environmental and social consequences and do not suggest any conclusive evidence on the tourism and growth nexus. This ambiguity has over the past decade spawned a large and growing literature that uses increasingly sophisticated panel data techniques (Seetaram and Petit, 2012), but without conclusively answering the underlying research question. For example, Eugenio-Martin et al. (2004) use panel data on tourist arrivals in Latin America to establish a positive relationship between tourism activity and growth. Similarly, Sequeira and Nunes (2008a) and Adamou and Clerides (2010) each analyze large panel data sets and reach the conclusion that tourism development in low income countries does contribute to economic growth. At the individual country level, Nowak et al. (2007) show through a multivariate Granger framework that tourism exports in Spain finance imports of capital goods, which in turn enhance the growth of the economy. Yet, the same authors conclude from a follow-up study on Tunisia using a similar approach that while tourism exports have contributed towards financing capital goods imports, they have not been a significant engine of long-term growth Nowak et al. (2011). In the same vein, Sequeira and Campos (2007)and Figini and Vici (2010) in their cross-country, time-series analysis do not find robust evidence linking tourism specialization with higher growth rates.

In parallel, the literature on pro-poor tourism has stressed that the cluster of activities that constitutes tourism can be very different across countries, and the outcome of tourism development in terms of broader economic and social advancement of countries depends on the extent to which linkages can be established between tourism activities and the broader local economy, notably by providing employment opportunities for unskilled workers and business for small and medium-sized enterprises (Ashley and Roe, 2002; Meyer, 2006). For example, Croes and Vanegas (2008) find a one-way Granger-causal relation between tourism development and poverty reduction in their study of the Nicaraguan economy. Yet, the strength and direction of these links seem to be very country and context-specific. In particular, Wattanakuljarus and Coxhead (2008) do not find evidence on pro-poor tourism impacts in their applied general equilibrium analysis of the Thai economy and, indeed, show that tourism development has adverse effects on income distribution. Similarly, Blake (2008) finds