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Is tourism an engine for economic recovery? Theory and empirical evidence

Tarik Dogru [a, *], Umit Bulut [b]

[a] Boston University, School of Hospitality Administration, 928 Commonwealth Avenue, Boston, MA 02215, USA
[b] Ahi Evran University, Faculty of Economics and Administrative Sciences, Department of Economics, 40100 Kirsehir, Turkey

HIGHLIGHTS

- Major European countries have experienced negative average economic growth.
- Tourism has surpassed economic growth in European countries.
- Tourism is a significant component of economic activities in these countries.
- Economic growth and tourism development are strongly dependent.
- Tourism development can help these countries to recover from economic crisis.

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ABSTRACT

The purpose of this study is to examine the causal relationships between tourism development and economic growth. For this purpose, the Dumitrescu and Hurlin (2012) technique was employed to analyze the casual link between tourism development and economic growth in seven European countries. The results showed that there is bidirectional causality between growth in tourism receipts and economic growth, suggesting that economic growth and tourism development are interdependent and that tourism development stimulates economic growth and vice versa in these countries. Theoretical and practical implications are discussed within the realms of growth, conservation, feedback, and neutrality hypotheses.

1. Introduction

Major countries in Europe have been struggling with economic difficulties since the most recent global financial crisis in 2007–2008. Greece, for instance, was one of the countries in the world that experienced significant adverse impacts of the most recent global financial crisis, *2007–2008* (Gibson, Hall, & Tavlas, 2012). Although the global financial crisis happened almost a decade ago, Greece has not yet recovered from the severe economic downturn (Smith, 2016). Similarly, countries like Croatia, Italy, and Spain are still in a period of economic recession. The economic hurdles have further caused notable political outcomes in the European Union (EU), one of which has led to a referendum in the United Kingdom (UK), the so-called Brexit, where the UK voted to leave the EU (Bourne, 2016). Indeed, most countries in Europe were not immune to the severe effects of global financial crisis and were affected by the crisis (Stylidis & Terzidou, 2014). Nevertheless, the impacts were relatively lower in most countries, and some have already recovered.

The economic downturn has been encountered in all sectors of the economy, including tourism. Interestingly, however, the tourism industry showed a remarkable recovery after the economic downturn and resilient growth in the past two decades in major European countries that have a coastline in the Mediterranean Basin. Fig. 1 presents the average percentage growth of overall economy in terms of real gross domestic product (GDP) and the average percentage growth of tourism industry in terms of tourism receipts between 2007 and 2014.

This figure clearly shows that the average growth rate in tourism receipts is greater than the average economic growth rate in all

* Corresponding author.
E-mail addresses: tdogru@bu.edu (T. Dogru), ubulut@ahievran.edu.tr (U. Bulut).

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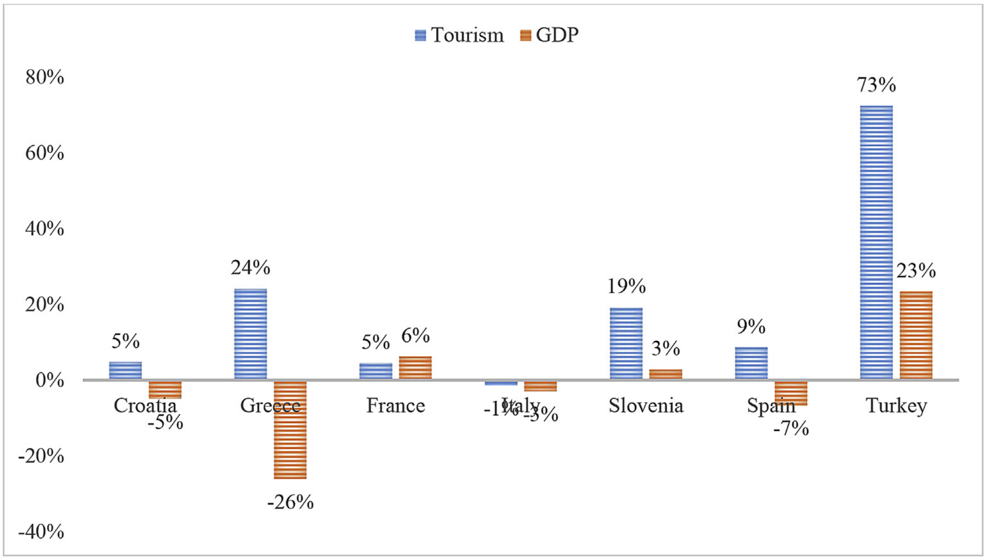

Fig. 1. Tourism and GDP growth rates 2007–2014.

countries with the exception of France, in which GDP growth was marginally higher relative to growth in the tourism industry (i.e., 5% vs. 6%). More strikingly, Croatia, Greece, and Spain have experienced negative average economic growth, whereas the tourism industry has grown 5%, 24%, and 9% in these countries, respectively. Despite the better performance of the tourism industry compared to overall economic growth, Italy has not yet recovered from the most recent global crisis. The slower growth of the tourism industry in Italy could be due to major structural problems, such as regulations, bureaucracy, and corruption (Das, 2016). Nevertheless, the tourism industry shows more robust growth relative to the overall economy in Croatia, Greece, Spain, and Italy.

The current overall economic conditions in these countries show a promise of revitalization of the economy, especially in the long-run, considering the weight of tourism in overall economic activities. Fig. 2 depicts the weight of the tourism industry in the overall economy of these countries in 2014.

Accordingly, the tourism industry accounts for up to 18% of the economic activities. Undeniably, tourism has been a safe harbor industry for both developing and developed countries in terms of economic growth, as tourism development creates new direct and indirect jobs, reduces current account deficit, and increases tax revenues (Dogru & Sirakaya-Turk, 2017). Therefore, the question becomes whether tourism can help these countries to overcome economic difficulties and achieve sustainable economic growth.

The purpose of this study is to examine the causal relationships between tourism development and economic growth in seven European countries that have coastline along the Mediterranean Basin, namely Croatia, Greece, France, Italy, Slovenia, Spain, and Turkey. In its methodology, the study used the Dumitrescu and Hurlin (2012) panel causality test, which deals with two stationary series and considers the heterogeneity of causal relationships. Thus, this contemporary causality model provides more robust estimates of the causal relationships between economic growth

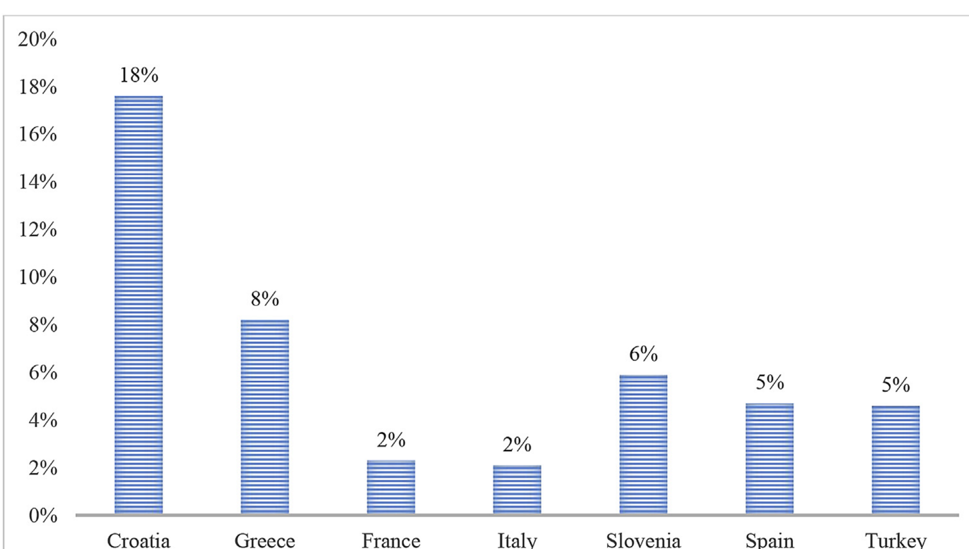

Fig. 2. Tourism's weight in overall economy in 2014.

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