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Connecting quality of life, tourism specialization, and economic growth in small island destinations: The case of Malta



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HIGHLIGHTS

- The relationship between tourism specialization and economic growth is not self-evident in Malta.
- Tourism specialization does not have a significant direct impact on economic growth.
- The interaction between tourism specialization and investment is negative.
- The interaction between tourism specialization and quality of life is negative.
- Tourism specialization suggests signs of diminishing returns over time with economic growth.

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ABSTRACT

This study assesses the relationship between quality of life (QOL), tourism specialization, and economic growth as applied to small island destinations. The study is grounded on a QOL model and translog production function and employs the limited information maximum likelihood estimator to investigate the nature of this relationship in Malta. Results indicate that the relationship between tourism specialization and both QOL and economic growth is only partial. Tourism specialization improves the residents QOL but, only on the short term. The study enhances the existing empirical evidence of the literature that examines the relationship between tourism specialization and residents' QOL in the medium- and long-term in that it controls for endogeneity. The translog production function methodology is novel as it allows for examining tourism returns and the factors that shape tourism preferences. This permits supply and demand variables to be combined into a production and consumption system.

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1. Introduction

The purpose of this study is to examine the relationship between quality of life (QOL), tourism specialization, and economic growth in the context of small island destinations. While researchers have studied the relationship between tourism specialization and economic growth in specific countries (Brau, Lanza, & Pigliaru, 2007; Balaguer & Cantavella-Jordá, 2002; Croes, 2011; Eugenio-Martin, Martin, & Scarpa, 2004; Lanza & Pigliaru, 2003; Neves & Maças, 2008), and while study results have generally indicated this relationship to be positive, the manner in which increased income derived from tourism specialization affects

residents' QOL is unclear. That is, while tourism specialization may spur more income in households, businesses, government, and the economy at large, the manner in which income affects residents' QOL is imprecise. Moreover, more income may benefit a few at the expense of others. Consequently, *a priori* assessment becomes inconceivable as to whether income effects, induced by tourism specialization, will have positive effects on residents' QOL.

Quality of life can be defined as a person's life satisfaction or dissatisfaction, happiness or unhappiness, or sense of psychological or subjective well-being (Dolnicar, Lazarevski, & Yanamadram, 2013; Kim, Woo, & Uysal, 2015). Thus, QOL is a multidimensional concept referring to objective conditions, such as health, education, and income, as well as subjective assessment of those objective conditions revealed in a person's life experience. Quality of life for the purpose of this study is defined as the material and non-material aspects of life based on utility measurements and anchored in Sen's capabilities approach (Sen, 1999). Derived from

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the investigation of [Ranis et al., \(2000\)](#), this study identifies two distinct causal chains that could characterize the nexus between tourism specialization and QOL. The first pertains to the freedom of people to choose the course of their own well-being. That is, enlarging people's choices should be seen as the central objective of human activity ([Sen, 1999](#)) because this process fosters creativity and productivity, which are among the main determinants that give rise to output and exports' growth. The second is in the recognition that tourism specialization may spawn the resources needed to sustain QOL, such as jobs, opportunities, improved infrastructure, and social services.

The tourism literature identifies QOL as the ultimate goal of tourism development, according to [Croes \(2012a, 2012b\)](#), [Chancellor, Yu, and Cole \(2011\)](#), and [Ritchie and Crouch \(2003\)](#) echoing the development literature ([Easterly, 1999](#); [Krugman, 1991](#)). This view characterizes QOL as a passive agent of tourism development. However, recent studies have shown that this is not necessarily the case in an environment where residents' QOL can also affect tourism and economic development ([Ridderstaat, Croes, & Nijkamp, 2016](#)). Residents have a vested interest in any economical tool, including tourism development, which can improve their QOL, even if they are not directly employed in the tourism industry ([Chancellor et al., 2011](#); [Kim, Uysal, & Sirgy, 2013](#)).

There is vast literature regarding tourism and the QOL connection. The majority of the studies can be categorized into two groups. The first entertains a narrow focus on QOL by equating it to income. This group's underlying premise is that wealth is correlated with QOL ([Croes & Rivera, 2010](#); [Kenny, 2005](#)). [Sen \(1999\)](#) and others have contested the uni-dimensional conception of QOL, positing that QOL is about enlarging peoples' available choices to pursue the lifestyle they value. The second group pertains to studies that survey residents' perception of tourism's impact on various QOL domains within their own or community life, and is mainly grounded in social exchange theory ([Andereck & Nyaupane, 2011](#); [Andereck, Valentine, Vogt, & Knopf, 2007](#); [Ap, 1992](#); [Figini & Vici, 2010](#); [Perdue, Long, & Gutske, 1991](#)).

Two main concerns may be articulated against the second group. Core domains of the subjective approach have been incommensurate with individuals' consistent choices and learning experience, and seem more related to circumstances and the satisfaction of others rather than revealing their life preferences ([Kahneman & Krueger, 2006](#)). That is, as people adapt to the circumstances of their life experiences and situations, they may reason that their condition is agreeable ([Ridderstaat et al., 2016](#); [Sen, 1999](#)). Moreover, the focus of these studies targets only one point in time thereby not considering medium- and long-term impacts of tourism on QOL.

This study will only focus on the objective domains of QOL (not on its subjective domains). Specifically, QOL is measured by the Human Development Index (HDI), which measures QOL through three dimensions: long and healthy life, education, and income, and thus captures more information than the one-dimensional, standard income measures. Despite the relevance of QOL in understanding development, this topic has been neglected in small island destination studies. This study answers two interrelated questions: (1) Does tourism specialization positively influence residents' QOL in small island destinations? (2) Can tourism specialization sustain residents' QOL? These questions will be addressed in the context of Malta, a Southern European island country comprising an archipelago of a few Mediterranean Sea islands. Thus, this study is anchored in a case study approach. Case study approaches are applied when a social phenomenon is explored and when studies aim at providing theoretical propositions rather than engaging in statistical generalizations ([Ying, 2009](#)).

This paper's contribution is fourfold. First, it adds empirical

evidence to the literature that examines the relationship between tourism specialization and residents' QOL in the context of small islands. Second, the applied methodology is novel in that it allows for examining the nature of tourism returns, as well as the interaction of factors that shape tourism preferences. Thus, the methodology combines supply and demand variables in a comprehensive production and consumption system that connects to human well-being, following Sen's capability approach. In other words, the production and consumption system is assessed in terms of the opportunities it creates for people to live valuable lives. Enhancement of human well-being thus relies on the resource base of economic activity which consists of production, the use of that production (consumption), and the effect of that consumption.

Third, the study provides new insights into the dynamics of tourism specialization as it impacts QOL, and the concomitant public policy options available to small island destinations. And fourth, the study provides a constructive replication of the study by [Holzner \(2011\)](#) by decomposing the variables into a trend (long-term) and cycle (short-term) components and assesses the replicability of the findings. Constructive replications are key for establishing the external validity of the findings of a study and are vital to the accumulation of scientific knowledge ([Colquitt & Zapata-Phelan, 2007](#)).

2. Literature review

Given increased competitiveness between countries and regions, tourism specialization has become vital toward identifying each area's unique characteristics and assets, and in highlighting their competitive advantages ([Pérez-Dacal, Pena-Boquete, & Fernández, 2014](#)). [Neves and Maças \(2008\)](#) indicated that more researchers were focusing on the relationship between tourism specialization and economic growth, and that tourism specialization had a positive and significant effect in many economic areas: for example, GDP, labor conditions, and education levels ([Fernández, Pena-Boquete, & Pereira, 2009](#); [Urtasun & Gutiérrez, 2006](#); [Yang, 2012](#)). The tourism-led growth literature claims that tourism specialization spawns economic growth ([Algieri, 2006](#); [Arezki, Cherif, & Piotrowski, 2009](#); [Pérez-Dacal et al., 2014](#); [Ridderstaat et al., 2016](#)). This literature strand posits that small countries and small islands have a comparative tourism advantage, and that tourism through trade enlarges the small market through increased demand for international tourism ([Algieri, 2006](#)). The growth potential of tourism is revealed through increased terms of trade (ToT). The empirical evidence corroborates these theoretical propositions because small islands, despite the pessimistic predictions of the endogenous growth theory, were able to grow ([Brau et al., 2007](#); [Croes, 2011, 2013](#); [Holzner, 2011](#); [Lanza & Pigliaru, 2003](#); [Narayan, Narayan, Prasad, & Prasad, 2010](#); [Seetanah, 2011](#)).

Small islands seem particularly prone to engage in tourism specialization because they entertain a smaller opportunity cost of specialization ([Croes, 2011](#)); and it is convenient for smaller sized islands to specialize in tourism ([Algieri, 2006](#)). Additionally, the combination of two elasticity phenomena (high income elasticity and price elasticity ambiguity) contribute to relatively stable export earnings of tourism products compared to commodity groups benefiting the ToT of destinations specializing in tourism. While tourism demand studies have played a prominent role in identifying the determinants of tourism flows, these studies have not provided sufficient empirical evidence regarding the sustainability of tourism specialization and its impact on residents' QOL in small island destinations. Tourism development may be a temporary occurrence and its development may not be sustainable, or tourism impact may change over time based on tourism's developmental stages ([Kim et al., 2013](#)), or demand elasticities may fluctuate over

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