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***Carla Massidda***
*Department of Economics and Business, University of Cagliari*

# THE ROLE OF TOURISM FOR ECONOMIC GROWTH AND DEVELOPMENT: AN OVERVIEW

Many studies seem to testify the importance of tourism as a driver for growth and, therefore, they give confidence that tourism can stimulate social transformation and economic development. On this point, however, a contrasting point of view raises several doubts and leaves open a very interesting debate. Two main issues are under the attention of researchers. They concern the need to understand the mechanisms that lead from tourism development to growth and the potential of tourism to become a tool that spurs socioeconomic development.

International tourism organizations often claim that tourism has the potential to generate economic growth and stimulate the mechanisms (black box) that transform growth into development. This assertion raises two main issues: the first regards the ability of tourism growth to generate economic growth; the second concerns the ability of tourism growth to generate development.

From a theoretical point of view, the role of tourism on growth derives from the Export-Led Growth Hypothesis (ELGH) postulated by Balassa according to which economic growth depends not only on the amount of labor and capital, but also on exports [1]. On the one hand, exports stimulate a more efficient allocation of the factors of production by stimulating international competition between companies, promoting the diffusion of technical progress, exploiting economies of scale. On the other hand, exports relief the foreign exchange constraint and lead to imports of capital and intermediate goods and voluntary domestic savings as well as investment [2]. Within this theoretical framework, Balaguer and Cantavella-Jorda are the first that discuss the channels of influence of tourism on growth in terms of Tourism Led Growth Hypothesis (TLGH). In particular, they stress the ability of tourism to:

- contribute to currency revenues that can be used to subsidize imports of capital goods;
- stimulate investments in infrastructures that can increase the competitiveness of the destinations;

- stimulate other economic industries through direct, indirect and induced channels; — generate employment and income;
- create positive conditions for domestic firms to exploit economies of scale;
- stimulate the accumulation of human capital, the investment in R&D and the diffusion of knowledge [3].

Despite the many arguments in favor of the role of tourism on growth, the literature still offers relatively few theoretical models on this subject. Moreover, among the existing ones, often the focus is on specific aspects. Anyway, two main theoretical approaches can be identified [2]. On the one hand, there are the Keynesian-type models that develop the demand side where tourism is an exogenous variable. These propose a static framework in which only short-term equilibrium can be analyzed and that are useful for studying the effects of demand shocks on real GDP.

On the other hand, there are the models based on theneoclassical production function in which, besides standard inputs (labor and physical capital), tourism compares as a non-standard form of export . On the empirical side, it was not until the contribution of Balaguer and Cantavella-Jorda that researchers started to work on this issue [3]. After that, the debate on TLGH has become very stimulating and rich of empirical evidence. The empirical relationship between tourism and growth has been mainly discussed in terms of the causal relationship between an income variable (mainly GDP) and a tourism variable (mainly arrivals, nights, tourist revenue). In this regard, the literature identifies three types of short- and long-run causality directions (Granger causality): a causal relationship running from tourism to GDP that corresponds to the TLGH (greater openness to tourism stimulates virtuous growth paths for the economy as a whole); a causal relations running from GDP to tourism (a positive performance of the economy as a whole stimulates the growth of tourism); bidirectional causality between tourism and GDP (economic and tourism growth are mutually reinforcing).

On this argument, Brida et al. provide a review of the main empirical findings based on the analysis of 100 papers [2]. They show that, with few exceptions, these studies confirm TLGH. In this respect, however, the authors are very cautious in generalizing this conclusion because the sample of countries is limited and it is unbalanced towards those for which tourism is already an important economic reality. Moreover, the authors highlight a number of issues that remain open. We believe that among these issues, the existence of non-linearities in the relationship between tourism and growth is worth of a great attention.

The recent paper published by Yi-Bin Chiu and Lung-Tai Yeh offers an interesting contribution on this issue [4]. These authors argue that, being tourism a “labor intensive” economic area with low labor productivity, there is the risk that moving resources from manufacturing to tourism could damage an economy rather than favor it. The authors investigate this issue on a sample of 84 countries. At first glance, they observe that countries, such as USA, Germany, UK and Russia, are among the top tourism destinations, but show departures greater than arrivals and a low ratio between tourism revenue and GDP. From these data they infer that the relationship between tourism and growth could depend on the degree of tourism specialization. Therefore, the relationship between tourism and growth could be non-linear. The intuition is that tourism is able to influence positively growth only when the destination is characterized by a significant degree of tourism specialization (threshold level). Actually, their empirical analysis highlights two regimes: a positive relationship between tourism growth and economic growth when the destination is above the threshold level; a negative or nonexistent relationship when the destination is under the threshold level. The authors explain these results in terms of Ricardo's comparative advantage which suggests that a country tends to specialize in the production of the asset on which it has a comparative advantage. Therefore, according to this study, only for countries well endowed of tourism resources tourism can become a driver of generalized growth. Accordingly, they divide countries into three groups:

- comparative advantage: countries with a surplus in international trade in tourism services, tourism growth stimulates economic growth;
- comparative disadvantage: countries that have high tourist revenues, but also high expenditures, could obtain comparative advantages by specializing in other industries;
- absolute disadvantage: countries with low tourist revenues and a serious trade deficit, should shift resources from tourism to other more productive sectors.

As regarding the relationship between tourism growth and development, on the one side, an optimistic point of view recognizes the potential of tourism as a tool to lead a process of socioeconomic development (TLDH: Tourism Led Development Hypothesis). The possibility for tourism to influence the level of development, first of all, lies on its ability to generate growth, then on its positive influence over the economic and cultural progress of society, the well-being of the population and the environment: "...the real importance of tourism lies not only in the fact that it contributes to the growth of the economy, in general, but also in the fact that this tourism growth can, given the right circumstances in its structural foundations, influence the economic and cultural progress of society, improving the welfare of the resident population" [5].

What seems to emerge from this view is that "...tourism growth, with the ultimate goal of increasing the socioeconomic level, is a chronological process that requires a certain amount of time before the desired results begin to be observed" [5]. This double role of tourism growth is conceivable as long as it is implemented according to proper policies and consequent actions.

In a critical position with respect to this optimistic view there is a research line that raises several doubts on the potential of tourism to promote and sustain development. Accordingly it is stated that for some countries (especially the less developed) an unconditionally tourism growth might imply, among other consequences, the loss of control over local resources, a reduced ability to stimulate the economy and significant leakage effects. Honestly, we believe that at this stage of the debate it is difficult to take a definite position especially because, as previously said, there are still very few empirical contributions that try to shed some lights on the tourism-development relationship. One of the main drawbacks is given by the difficulty of finding a measure for the level of development. Whereas economic growth is an almost one-dimensional concept (it is univocally linked to the level of production) the same cannot be said for the concept of development, especially when it is to measure the degree of improvement or deterioration of the social conditions [5]. The aforementioned work of Cardenas-Garcia et al. provides an interesting contribution to this debate [5]. They consider a sample of 144 countries and a composite index of development calculated with HDI and other indicators provided by the United Nations (Life Expectancy at Birth; Literacy Rate of Adults; Enrolment Ratio, gross combined, for primary, secondary, secondary and tertiary education; per capita GDP; Probability at Birth of Not Surviving to a Special Age).

Whether in the short-run tourism is able to create net-economic benefits, these benefits turns into economic growth (TLGH) only for countries where tourism specialization stands above a threshold level. At the same time, it seems that development can arise from tourism (TLDH) only for countries that have already reached a certain level of development. Putting these findings together, if development chronologically follows the process of growth, it should be that tourism can generate development only for countries where it generates growth. In this case, development is led by tourism only in countries where a certain level of development has been already reached.

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