

## Chapter 5

### Conclusion

#### 5.1 Summary of the Study

This dissertation contributes to the three separate branches of the literature that together create the context of tourism. The first study sheds light on the heterogeneous causal relationships between tourism specialization and economic growth. The main aim of this study is to verify whether tourism specialization has actually caused identically positive impacts on economic growth across economies with different levels of tourism development. To address this question, this study has utilized the panel threshold regression model of Hansen (Hansen, 1999) as an application to selected cross-country panel data covering 131 countries over the period 1991-2009.

The importance of tourism as a significant growth-enhancing factor has received considerable interest from previous empirical studies of growth. Although there is general agreement on the association between tourism and economic growth, active debate among researchers still precludes a general consensus as to the direction, size, and significance of a precise causal link between them. In other words, evidence regarding whether tourism actually causes economic growth remains contentious and inconclusive. Having reviewed an exhaustive literature on the tourism - economic growth relationship, I found several studies that empirically examined the “aggregate relationship” between tourism and economic

growth, with the implicit assumption that tourism uniformly promotes economic growth.

As far as going beyond the empirical investigation of the linear relationship between these two variables, it is worth considering whether there are differences in the contingent effect in the tourism-economic growth linkage across countries. Specifically, the relationship between tourism and economic growth is contingent in nature; it involves nonlinearity and threshold effects. It is highly probable that the tourism-economic growth relationship involves heterogeneity. If a nonlinear relationship exists between tourism and economic growth, then it should be possible to estimate the threshold values, or the endogenous cutting points, at which the sign of the relationship between two variables would probably be significantly different across the various splitting subsamples.

The findings from the first study strongly affirm the existence of nonlinearity and threshold effects within the tourism specialization- economic growth relationship. On the basis of the panel threshold model, tourism does not cause identical impacts on each subsample classified by the degree of tourism specialization, defined as the share of T&T economy GDP to national GDP and used as a threshold variable in the model. The empirical results from threshold estimation indicate that the entire sample should be divided into three regimes. A positive and significant relationship between economic growth and tourism is found only in two regimes, the regime with the degree of tourism specialization lower than 14.97% (regime 1) and the regime with the degree of tourism specialization between 14.97% and 17.50% (regime 2), while an insignificant relationship between economic growth and tourism is found in regime 3, in which the degree of tourism specialization is greater than 17.50%.

The conclusion derived from these results is that tourism significantly promotes economic growth only when the country's share of T&T economy GDP to the national GDP is low or moderate. Meanwhile, in some countries which already have a heavy dependence on tourism, further relative growth in the tourism sector could either make insignificant contributions to the economy or turn out to constitute an important restriction on the economic growth.

One implication regarding this issue is that tourism specialization evidently offers an avenue for economic growth through influx of foreign exchange earnings. Nonetheless the overall contribution of tourism to the economy may potentially be reduced by many factors. One in particular is an insufficiency of domestic financial resources for investment in tourism expansion. The other is the inability to meet tourism requirements from domestic production. As a result, the contribution of tourism to GDP tends to be less than expected.

With regard to the threshold effect in the relationship between tourism and economic growth, further analysis should be carried out on the conditioning factors, other than the degree of tourism specialization noted above, that make the effects of tourism on economic growth differ across countries. With the second study I searched for the existence of thresholds in this relation by applying the technique introduced by Hansen (1999). In addition, as far as the presence of potential endogeneity associated with the purported contribution of tourism to economic growth is mostly concerned, the correction for statistical bias that arises from the endogeneity problem in economic growth models must be handled. The instrumental variable estimation method, introduced by Caner and Hansen (Caner & Hansen, 2004), was used to accommodate this potentially serious problem.

Within this econometric context, the main aim of the second study was to examine the above issue with an emphasis on detecting a threshold level of three macroeconomic variables highly related to international tourism policies which differentially filter and modify the direct effects of tourism specialization. These three conditioning variables are the degree of trade openness, the aggregate investment share in GDP, and government consumption expenditures as a percent of GDP. Taking into account three variables as the possible threshold variables, the findings are very useful to see how each threshold variable divides the whole samples into respective regimes. It potentially could help guide policymakers to set the appropriate level in order to ensure the favorable impacts of tourism specialization on economic growth. Well, they have to monitor them for many other reasons as well; and will often face conflicting needs to increase or decrease the savings-investment rate, for instance.

The results obtained strong support the threshold effects in the relationship between tourism specialization and economic growth under different degree of trade openness regimes, investment share to GDP regimes, and government consumption expenditure share to GDP regimes. Trade openness and investment share to GDP provide evidence of the positive impact on economic growth, while government consumption share to GDP has a negative impact. The estimated results obtained in this study suggest that for countries which have already attained a higher level of trade openness, investment share to GDP, and government consumption share to GDP are likely to cause lower impacts of tourism specialization on economic growth. The conclusion derived from the results is that the threshold effects do indeed exist in the relationship between tourism specialization and economic growth. This implies that

changes in degree of trade openness, investment share to GDP, and the government consumption expenditure as a percent of GDP contribute to one of the factors that cause a structural change in the relationship between tourism specialization and economic growth. Therefore, in terms of taking into account of the role of degree of trade openness, investment share to GDP and the government consumption expenditure as a percent of GDP in such relationship, there is a need to derive concrete macroeconomic policy implications to ensure that the implementation of such a policy will not be detrimental to economic growth.

The third and final study analyzed variations in tourism demand, specifically the conditional variance, or volatility, that is essential for investigating the effects of shocks in tourism demand models, in the four leading destinations in ASEAN, namely Indonesia, Malaysia, Singapore and Thailand. Analysis was also done on the presence of interdependent effects in the conditional variances between those four leading countries through several recently developed models of multivariate conditional volatility.

The results provide evidence of cross-country dependence in most country pairs. In addition, the results indicated that interdependent effects occur only between Thailand and Singapore. However, in the conditional variance between the different countries, there is no evidence of volatility spillovers between Thailand and Indonesia. This is an important result as it emphasizes interdependencies between international tourism demand in major tourism destination countries in ASEAN, as well as the asymmetric effects of positive and negative shocks in tourism demand. In addition, the estimated CCC matrices for the four models are not substantially different from each other, which confirm the robustness of the estimates to alternative



specifications of the multivariate conditional variance. The lowest estimated constant conditional correlation is found between Malaysia and Thailand, while the highest is found between Singapore and Thailand. This suggests that the standardized shocks in the log of the monthly tourist arrival rate for both countries are moving in the same direction.

## 5.2 Suggestions for Further Study

As mentioned earlier, tourism is one of the largest and dynamically developing sectors of external economic activities, which also include international trade and foreign direct investment. In addition, tourism is closely dependent on these two other areas of external economic activities through forward and backward linkages. Its high growth and development rates, considerable volumes of foreign currency inflows, infrastructure development, and introduction of new management and educational experience actively affect various sectors of the economy, which may positively contribute to income generation, job creation, income equalization, environmental preservation and other dimensions of the overall social and economic development of the country.

Tourism development has been lauded by governments and other industrial sectors as a factor in stimulating economic growth and opportunities for developing countries. But even in this positive light, the industry itself has spilled over to the negative side in eroding the social environment. While it is hailed as an economically and savior with other industries tourism has also raised some doubts on whether or not it is the right approach for sustainable development in developing countries. Depending on the issue, certain aspects of growth in tourism growth could lead to a

positive and negative impact to the recipients. With the situation at hand, the study calls for a more in-depth assessment on the impact of tourism through Social accounting matrices, computable general equilibrium models, multi-market models and other non-parametric tools that allow the measurement of income distributional, employment, environmental, and value-added multipliers. The objective would be on devising policies and regulations that optimize the benefits while reducing or preventing any serious problems that might occur in the long run.

The three aspects identified that can have some potential impact of tourism on the hosting nation are economic, environmental and social impact. From an economic perspective, tourism can provide a strong increase in growth to the country's GNP. Tourism opens the door for international business owners and corporations to make a foreign investment in a developing country that is in need of capital. In return these foreign investors will likely stimulate a demand for certain items to accommodate their lifestyle; these items can be food, clothing, and/or entertainment. Again, we really need a conceptual diagram here. With foreign investment employment opportunities are also created. Moreover, tourism could bring about knowledge and technology transfer to the destination region/country. While the positive economic impacts are well recognized, tourism can also become notorious for doing some damage to the economic growth of the developing nation. In one case, tourism can generate dependence on a seasonal activity (income flow is sporadic and vulnerable). Institutions or companies that are heavily dependent on tourism can lose a lot of revenue if there are a small number of tourist arrivals. The worst case scenario could be a shut down of operation as overhead costs exceed the revenues gained from a scarce number of tourists visiting that specific location.

Sometimes the industry itself underestimates the number of actual interest on the part of tourists. This underestimation drives the impulse to construct the infrastructures and projects with some outrageous financial investment. Once the capital has been invested it can sometimes be hard to recover in the short run when the number of tourists is small in demand for paying for such a service or product. By its nature, tourism is based on the appreciation and enjoyment of natural and cultural assets; and/or on the available of services (medical, sexual, recreational) at a fraction of their price in the home country. To the extent that it relies on the former, tourism can create more motivation to protect the country's natural heritage and cultural resources. Tourism revenue is then partially spent for conserving those resources instead of exploiting them. On the other hand, tourism can be the culprit in damaging the ecosystems. Certain areas that are critically considered to be conserved by the government can be exploited upon to reap the returns in the most efficient and quickest manner. This easily leads to environmental conflicts with local inhabitants or other industries.

The issue of tourism specialization, regardless of the developmental status of a nation, seems always to present itself as a solution as well as a challenge in economic growth. While there are those who gain from the impact of tourism there are also those who become victims from its bearing. The positive light shed from the impact of tourism can be on creating everlasting cultural relationship between people, importing social/political innovation towards economic growth, stimulating opportunities to make foreign investments thus leading to new business initiative and employment for individuals with specialized skills, and a mission on the part of the community to conserve their national heritage so that tourists from all over the world



can enraptured at its marvel. Local entrepreneurs or small business owners can take the advantage on the dynamic needs and demands of the tourists and the tourist industry by providing a service niche which acts as a proponent in meeting with the stipulation of tourism. Such niche can be in the service area of information, health care, repairmen of a particular item, social comfort/support, or specialized meal.

On the other hand, tourism can lead to some negative social impacts. An influx of tourism can sometimes cause traffic pollution as local transportation operators compete for the time and service to bring their travelers to a certain destination. Natural scenery and exotic flora can become unattractive as small merchants assemble their equipment to cater for the whimsical behavior of tourists. Provisionary items, which are deemed as perishable, become wasted and detrimental to the environment when they don't meet with the requirements of tourism.

The inextricable advantages and disadvantages of tourism specialization pose a challenge on exploring for the right approach to obtain the greatest amount of benefit while simultaneously reducing the costs in the most efficient manner. Most often, supporters of tourism are searching for ways to tear down the barriers that impede economic progress. They state their case on how tourism can provide opportunities for all industrial and local sectors of the economy (Mowforth & Munt, 1998). Opponents of tourism do not exactly oppose the idea of allowing tourism to play the major role of stimulating economic growth. Instead, they want to implement safeguard barriers that aim on protecting the local habitat, human dignity, and the ecosystem (Boyd, 2000; Bramwell & Lane, 1993; Butler, 1999; C. Michael Hall, 2000; C. Michael Hall & Lew, 1998; Mowforth & Munt, 1998; Timothy, 1998). What is most desirable is for tourism to act as the supporting role in providing the local

population with an opportunity to obtain the benefits from what is offered. From a holistic view, it is best that the ecological issues are incorporated in the scheme of tourism rather than squeezing it like a lemon until there is no more citrus left to extract of. Perhaps it is time to shift the economic paradigm of such a research on tourism and focus over the topics that are considered as non-income generating and more life-generating. Such researches are based on an analysis that deals with how tourism affects the health, mind, spirit, and lifestyle of the local people.

There should be a call for an analysis that incorporates the field of social science, ecology, health, and political administration. These disciplines will serve as a moral/philosophical guideline for major stakeholders of the tourism industry to implement a policy that will enhance sustainability and eliminate any notion of exploitation. The next challenge is to conduct a study where stakeholders of the tourism industry are able to meet their needs while being obliged to uphold the mantra of sustainable development. With sustainability tourism will be able to contain as it ensures that the benefits are easily spread out to the recipients while minimizing the role of being a burden to other people. Like clean water, sustainability can be represented as the ideology that aims to provide a nourishing life as well as a way for a healthy living. Such an idea supports the rationale for every strategy designed and decisions made. Sustainable tourism development is envisaged as leading to management of all resources in such a way that it can fulfill economic, social and aesthetic needs while maintaining cultural integrity, essential ecological process, and biological diversity and life support systems (UNWTO, 1993).

Tourism can be represented as the principal antidote for eliminating poverty in the long term. With this notion, there should be an encouragement to explore on the

empirical works that deal with analyzing how tourism draws people out of the poverty hole. Such works can emphasize on the impact where tourism uplifts the mental health, produces vocational breakthrough for the local community, or inspires hope for individuals who adhere by an honest and fair living. Such a study can focus on the amount of impact that tourism has in the economy. However, it is highly critical to update the meaning of poverty and apply a critical assessment on how much or little effect that tourism has on the local population

Assessing the significant impacts of tourism on the livelihoods of many of the world's poor will provide the real-world problem recognition of how tourism development potentially enhance the benefits for the poor and minimize costs on behalf of the poor.

It is not possible to determine whether tourism is or is not a pro-poor<sup>1</sup> strategy. Only the situation at hand can determine the exact facts. Therefore, a case by case assessment basis needs to be executed before tourism can be considered as the rationale method for eradicating poverty. The victims of tourism are those individuals who become vulnerable to the main negative impacts, such as being in conflict with having to compete for natural resources, being duped into illicit operation under intimidating circumstances, or submissive to labor exploitation because of dire living conditions. These unfortunate individuals sadly become expendable items as they face social mockery and heavy criticism for giving tourism a black eye to economic development.

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<sup>1</sup> Pro-poor tourism aims to expand opportunities, and places net benefits to the poor as a goal in itself, to which environmental concerns should contribute.

Not everyone is able to obtain a fair share of the economic pie in tourism. The work suggests an in-depth investigation on the income disparity of developing countries. There is a need to assess the distribution of income within that developing country for the purpose of implementing a strong and sound economic policy that will enhance the livelihood of the population as a whole. Such a policy will face a minimal amount of risk when having to address the welfare of those individuals who are having a difficult time gaining the benefits of the tourism wave. The issue on the rise of income inequality has been constantly receiving great interest as of late. Income inequality, which is measured by the Gini coefficient, has risen constantly from several significant developmental factors. The cause of an uneven distribution of income among different regions can be explained through the development of tourism. Exploring through the structure and system of how tourism develops, and then sustains or declines can bring about a great understanding of how vital it is for creating a policy for economic growth. Understanding the impacts of tourism on income distribution as well as focusing on the reliance on tourism as an economic mainstay of economy has relevance in planning a strong economic development policy. As tourism development takes place in a particular region, the community structure is probably altered and the social class is affected by both the generation of wealth and its distribution.

It is informative to have a closer look at one interesting issue in this regard. High priority must be given to examining whether or not tourism development has the potential to eliminate poverty in different samples and conditioned to different threshold variables. Different impacts of tourism development on income distribution are obviously depended on that country's circumstances (the level of development,

openness, poverty incidence, political conditions, etc.) and are likely to vary when a certain level of threshold value is reached. Therefore, there should be an attempt to verify whether the relationship between tourism development and income distribution is linear, non-linear, casual or non-existent by applying threshold regression analysis.

In summary, the challenge for planning public policy with respect to tourism is to shift the focus away from the traditional goals that seems to have a lack of vision in balanced development. The impacts of tourism development should be thoroughly assessed to ensure the opportunities for employment. Income and improved local well-being are generated while all development decisions reflect the full value of the natural and cultural environment. There is clearly a need for further research to meet this challenge by doing the following:

First, there is a need for more creative theoretical justification in the role of other socioeconomic variables used as a threshold variable in affecting the relationship between tourism development and economic growth, and for research that more clearly specifies the types of tourism characterizing different roles of tourism in affecting economic growth.

In the second study, I investigated the tourism-economic growth relationship, by paying special attention to three different possible channels (through three macroeconomic variables) whereby tourism specialization may affect economic growth differently. The estimations are established separately and the corresponding policy conclusions are independently drawn. However, one needs to address the relationship between them through more additional channels, which enables us to view the effects of these three variables simultaneously. In other words, it is feasible to capture the complementary and canceling effects of trade, investment, government



spending and economic growth through the types of combined-scenario modeling, for instance, with a bilinear interaction effect model, polynomial interaction effect model, and threshold-interaction effect model.

With the third part of the study, there is a need for better specifying one more tourism variable used in the model of tourism and economic growth. It is important to consider the ratio of tourist arrivals to tourist departures as one of tourism specialization variables. The incorporation of such a significant variable can allow for a more sensible, efficient outcome to be generated.

In the fourth part, there is a continued need for further research into sustainable, community-oriented, and pro-poor tourism where environmental, social, cultural, and economic concerns are in consideration. The study can be undertaken while opportunities for the poor are expanded and local communities or individual's involvement is enhanced at the same time. Focusing in the effects on such a range of strategies can develop a more complete understanding of the implications of tourism on economy. This allows the knowledge to unfold on a local and national scale, while the incorporation of stakeholder involvement in the planning process is also in a great concern.

The final suggestion that has to be mentioned is in regard to the third study.

The focus should be a the study on tourism demand interdependency among the highly tourism-dependent islands in the Caribbean; where tourism has becomes a major industry and a key driver of economic growth during the past decades (Figini & Vici, 2010). In these islands, the global economic crisis has significant impacts on their economies due to their special economic and institutional characteristics as well as their vulnerability to exogenous economic and financial shocks (Seetanah, 2010).

As these islands can be regarded as either complementary or substitute destinations for world tourism, it is very interesting to estimate the conditional variance, or volatility, of monthly international tourist arrivals to these island destinations.



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