Chapter 16
International Tourism: A Linkage of Developing and Developed Economies

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ABSTRACT

This chapter will make use of existing theory to better analyze and discuss how international tourism can actually be a development source, or at least a link for development for economies in transition. Its first section faces the tourism as an exported item, linking it to the international trade theory, showing how a country might benefit from it. The second one, focus on international tourism as an investment both for governments and companies in the sector, with the special feature of international diversification, taking into account that foreign tourists bring foreign currency with them. The third section approaches the potential economic policy tool that can be seen in tourism, given its uniqueness as a market, and its contribution for the economy.

INTRODUCTION

More and more, tourism has been turning into an interesting object of study in many scientific disciplines, both in the academic (Di Benedetto & Bojanic, 1993) and in the institutional framework, where even the United Nations (1998) performs analysis on tourism and its relationship with developing countries. One observes that not only extensions of existing theory are applied to tourism, but also even tourism-specific theory is developed: Butler (1980) arises with the Tourism Area Life Cycle, in the geographical scope, describing how the number of tourists varies with the evolution of a touristic area through time, in some phases, classified by the author. Then, the scientific community already started to build on the top of these tourism-specific scientific advances (Haywood, 1986).

The above-mentioned is to motivate that tourism can be approached by various scientific fields, including by the economic one, which has a strong role to play in theory and practice of touristic activities. In addition, financial relationships that arise from this activity are the objects of study.

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Thus, the chapter is intended to take a view on the economic impact of tourism flows as a result of the international trade. The study of the financial theory is applied in the context of diversification of both the tourists flows and the currencies involved, and also the use of international tourism as an economic policy tool.

All of the three frameworks will show the importance of this activity for the economic development, and also the way it bridges developing and developed economies.

BACKGROUND

International tourism is indeed a bridge between economies in different development stages: cultural exchange that arises when a foreigner visits a new country or awareness raised in the touristic population about the living standards in the visited country. Also, the tourists’ expenditure in the host country is an important inflow, causing some touristic regions to be dependent on the touristic activity, and being affected by seasonal patterns that may arise from there.

It can be argued that such dependence makes growth and development unsustainable, or that the benefits of international tourism may not occur under some circumstances of unequal development.

In fact, let us consider the touristic environment that could be seen in Cuba, in the 1990s. On the one hand, the Cubans did not take all the benefits from all the tourism they exported, although they had a quite diversified pool of tourists: the USA, Canada, and Europe. Of course, part of it was absorbed by institutional issues, but additionally, the inequalities between the consumption pattern of natives and tourists caused the benefits to revert in an unbalanced way to the tourism sector. The latter continued to develop in contrast to the overall development of the country, being apart from existing potential. On the other hand, all the Cubans involved in the tourism-related activities had a more open access to the revenues in foreign currencies (i.e., US dollar) that facilitated a significant improvement of their life quality, due to the weight that tips had in their income. For empirical results on this case, see Perry, Steagall, and Woods (1997).

There are benefits in development of tourism, as it is linked with development of the world economy and can establish a bridge between these two types of development, through engagement of communities, involving them in all types of tourism activities, and taking positive externalities that arise from a contact with more genuine and traditional glimpses of local culture, providing a big picture, that improves tourist experience.

To do so, a continuous activity throughout the year is important, so that tourism-related activities enter the daily routine of communities, being extremely important to diversify, attracting tourists from many countries, where holidays take place in different times within the year. It implies that different currencies enter the host country, and means that it is extremely exposed to fluctuations of interest rate. However, if diversification is an aim, it makes the interest rate idiosyncratic risk vanish.

These factors make international tourism an important economic policy tool, through which the government is able to improve living standards of national communities, to achieve a more genuine and culturally rich tourism attraction, to ease the exposure to interest rate fluctuation, and to mitigate tourism seasonality. In fact, a tax and subsidy in the tourism market may create goodwill in such a way that the whole market experiences an improvement in terms of welfare of tourists, government, local community, and providers of touristic services.
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