Curing the 'Beach Disease': Corruption and the Potential of Tourism-led Transformation for Developing Countries and Transitional Economies

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Abstract

The continuous global growth of the tourism sector over the last decades has highlighted its potential as a developmental strategy for developing countries and transitional economies. The attractiveness of a tourism-led economic transformation lies in the capability of attracting foreign investment and generating significant income even when subjected to unfavorable infrastructural-, business-, economic- and social-conditions. Empirically, nonetheless, tourism competitiveness, potential and transformational success greatly varies between country-cases. This paper explores and discusses a number of potential factors (Regulatory framework- and Safety/Security-related) suggested in tourism literature as responsible for such outcome variations. Following the quantitative/statistical analysis of multi-source combined secondary data, there is inadequate quantitative support for the factors suggested. To account for the resulting theoretical (or explanatory) gap, the role of corruption is proposed as a latent and under-researched factor for a better understanding, exploration and implementation of tourism-led economic growth.

Key words: Tourism, Economy, Development, Transformation, Corruption
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1. Introduction: Potential of Tourism for Developing Economies

Despite recurring economic crises, political unrest over the last years, tourism remains a rapidly growing sector. The 2015 Edition of UNWTO's Tourism Highlights (World Tourism Organisation, 2015) highlights tourism as key driver of development, prosperity and well-being. Despite occasional shocks, tourism has shown virtually uninterrupted growth. International tourist arrivals have increased from 25 million globally in 1950, to 278 million in 1980, 527 million in 1995, and 1133 million in 2014 (World Tourism Organisation, 2015:02). Particularly for non-industrialized, developing countries, tourism development carries the hope of fueling economic growth. Particularly, weak economies, characterized by income inequalities, semi-functional public authorities and poor infrastructure, investment in the development of their tourism sector is seen as a driver of economic development. Yet, those very characteristics can be seen as potential obstacles to tourism development. To what extent and under what preconditions can a developing economy benefit from tourism? Can natural and cultural resources compensate for poor infrastructure, safety/security risks resulting from semi-effective public sectors and social inequality?

2. Determinants of Tourism Competitiveness

At the end of the day, is tourism the way out from poverty? Does tourism development pay-off and if yes, under what conditions?

Does Tourism pay-off? Exploring the Relationship between Tourism-Investment and Tourist-Spending

According to the World Travel & Tourism Council's 2014 data (WTTC, 2015) on tourism performance for 173 countries, the global investment[1] of USD 941.233 Billion has generated USD 8.047,110 Billion in tourist-spending. This can be translated to USD 8.55 in tourism-income for every dollar invested.

H1: There is a positive relation between tourism investment and tourism income (referred to as 'Tourist-Spending' further on)

Subjecting the complete data set (173 countries) to correlation testing[2] resulted to a significant (i.e. Alpha coefficient less than 1%) Pearson correlation value of 98.6%. This result means that there is not sufficient evidence to reject the hypothesis stating a strong relationship between tourism investment and corresponding income; high / low investment in tourism corresponds to high / low tourist-spending (or income). The implied causality between what is invested and the income produced requires further exploration though. The factor of competition needs to be accounted for.

In a study of global tourism competitiveness, Cirstea (2014) analyzed data from the Travel & Tourism Competitiveness Report, annually issued by the World Economic Forum. The indicators (independent variables considered were grouped into three categories, including: 'Regulatory Framework', 'Business Environment' and 'Human, Cultural and Natural Resources'. At this point it is worth considering and questioning the role of the variable: 'Regulatory Framework'. One would be tempted to assume that this would be due to the structural effectiveness of attracting foreign investment via an investor-friendly regulatory framework, operated and implemented by an effective public administration. Empirical research somewhat contests this assumption. Steiner (2010), examined the relationship between stability and foreign direct investment in tourism. The author concluded that their effects has been overestimated in the past. Arguably, Egypt, Turkey and Greece are prominent examples in the respect, featuring a considerable growth in tourism performance in the last decade.

Looking at Cristea's (2014) variable-categories more closely, casts even more doubt on the aforementioned assumption. In terms of the 'Regulatory Framework' category, the variables (or measures) on 'health and hygiene' strongly correlated with travel tourism competitiveness index values, whilst 'political rules and regulations', 'environmental sustainability', 'safety and security' and 'prioritization of tourism' showed moderate correlations. With regard to the remaining variable categories, 'air transportation', 'tourism infrastructure' and 'cultural and natural resources' were the most significant. 'Ground transportation', 'human resources', ICT infrastructure' and 'price competitiveness' appeared to be rather insignificant (i.e. weak influence). Simply-stated, the data here suggests that travel and tourism competitiveness does not necessarily need to reflect the developmental stage of the overall economy (i.e. infrastructural state, general attractiveness of foreign investment). This assertion is somewhat compatible with the findings of Pablo-Romero & Molina (2013), who identify a country's degree of specialization in tourism as a key factor to the sectors' growth and economic contribution. Countries specializing in tourism and for which tourism represents a key economic sector and is thus actively supported, are presumably more competitive and benefit more from tourism, than those where tourism represents a secondary and / or marginal aspect of their economic activities.

Does Safety and Security Make a Difference? Exploring the Relationship between Criminality and Tourist-Spending

Regulatory frameworks and functional public administration seem to be instrumental in terms fostering 'health and hygiene', and 'safety and security' (Cristea, 2014), greatly contributing at

[1] This includes both private investment and government spending on tourism on tourism-related assets and infrastructure

[2] With SPSS 17.0 (Statistical analysis software)

destination competitiveness. Concurrently, they seem to play a rather insignificant role in attracting 'foreign investment in tourism' (Steiner, 2010). The question here is: if not imperative for foreign investment, how does effective public administration improve the competitiveness of tourism? The simple answer here is: Tourist-spending (international and domestic). If visitors feel safe, they are more likely to leave the safety of all-inclusive resorts and consume the services and products available in the wider area. This spending could range from eating in local restaurants (refer to 'health and hygiene') to excursions and exploration local markets and shopping centers for goods and services (refer to 'safety & security').

H2: Safety and security is positively-related to tourism-related spending

Based on the United Nations Office on Drugs and Crime (UNODC, 2015) statistics on various categories of crime (incidents per 100,000 inhabitants during 2014) for 128 countries. Crime incidents measured included: Rape, Assault, Theft, Robbery, Child Abuse and Homicide. Testing the correlation between the UNODC crime incident data and the WTTC's (2015) indicators for 2014 on tourist-spending (both domestic and international) is illustrated in Table 1. The correlation tests between different forms of crime and tourism-spending indicators (Table 1), mainly resulted to low (i.e. less than 0.2) and non-significant (i.e. Alpha over 0.05 threshold) Pearson correlation values.

Table no. 1: Correlation-Testing Crime Incident Rates and Tourism Spending

		Tourism Contribution to GDP	**Domestic Travel & Tourism Spending**	**International Tourism Spending**
Rape	Pearson Correlation	,088	,101	,085
	Sig. (2-tailed)	,350	,287	,369
	N	114	114	114
Child Abuse	Pearson Correlation	-,026	-,007	-,030
	Sig. (2-tailed)	,804	,949	,777
	N	93	93	93
Assault	Pearson Correlation	,065	,069	,070
	Sig. (2-tailed)	,485	,464	,454
	N	116	116	116
Homicide	Pearson Correlation	-,079	-,065	-,086
	Sig. (2-tailed)	,409	,497	,369
	N	111	111	111
Robbery	Pearson Correlation	,059	,055	,056
	Sig. (2-tailed)	,531	,558	,555
	N	115	115	115
Theft	Pearson Correlation	,195*	,200*	,207*
	Sig. (2-tailed)	,037	,032	,026
	N	115	115	115

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Source Data: WTTC (2015) and UNODC (2015)

The one exception here was 'theft', which was positively-related to tourist-spending. The predominantly positive correlation values suggest that the high-crime rates are positively-related to higher tourist-spending and vice versa. In order to not reject the stated hypothesis, those correlations would require negative values and significance at the 0.05 level or below. Since neither of those conditions are met, the H2 hypothesis must be rejected. In fact, the very proliferation of positive correlation values implies that higher tourism-spending (and hence also tourist volumes), the higher the criminality. This contention is compatible with the findings of various researchers (e.g. Chesney & Lind, 1986; Ryan, 1993; Harambopulos & Pizam, 1996; Barker et al, 2002; Boakye, 2010; Harris, 2012). On the basis of the above, it would seem that criminality and / or safety and security issues do not notably affect tourist-spending, but are rather facilitated by it.

Based on our data analysis, tourism-development seems indeed a viable option for developing economies. Poor infrastructure and semi-functional public sectors do not appear to be an issue where tourism-investment is concerned. Moreover, safety and security deficits do not appear to significantly affect tourists' spending (Brunt, 2000; Larsen et al, 2009).

3. Revisiting the Potential of Tourism for Developing Economies: The 'Corruption Virus' and the 'Beach Disease'

In other words, the very challenges potentially restricting the overall economic development of a particular country have less of a detrimental effect when it comes to tourism. Focusing on tourism seems indeed 'forgiving to the potential ails' of a developing economy and justifiable as an economic development strategy!

The 'Beach Disease': Application of the 'Dutch Disease' Model in Tourism

Despite the potential benefits of tourism for transition- and developing- economies, the 'promise' of long-term economic prosperity often fails to materialize (Che Chou, 2013; Inchausti-Sintes, 2015). An explanation for this is provided by the so-called 'Dutch Disease' hypothesis, which addresses the risks of de-industrialization and the adverse effects of the growth of a particular sector at the expense of others in an economy. Amongst others, Holzner (2011) researched the applicability of this model in tourism, referring to it as 'Beach Disease'. The main premise of the 'Beach disease' can be summarized as follows: Tourism growth carries the risk of increasing price-levels and exchange rates negatively, reducing the overall competitivess of an economy. The approach adopted for the public financing of tourism development, its taxation and the allocation of resulting tax income is also plays a significant role here (Seghir et al, 2015, Chen, 2016). Nevertheless, empirical evidence regarding the relevance and applicability of the 'Dutch Disease' model for tourism are inconclusive (Holzner, 2011; Che Chou, 2013) and necessitates a per-case consideration.

Thus, it can be argued that the 'Beach Disease' discussion proposes an additional precondition for the materialization of tourism's economic growth promise in developing / transitional economies; Namely, functional and aligned tourism investment and taxation policies. Simply-stated, capital intended for tourism development needs to flow where it is supposed to and tourist-spending needs to be taxed (as to become tourism-income). 'Leakages' in the taxation of tourist's-spending and misappropriation of tourism investment capital are indeed the true enemy of tourism-led economic development for non-industrialized transition economies. As already-mentioned, tourism can generate income and bring economic growth, in spite of poor infrastructure and / or safety and security issues. Effective taxation policies are however a key pre-condition for this.

Does Corruption Make a Difference? Exploring the Relationship between Corruption and Tourist-Spending

The detrimental effect of 'tax-leakages' leads to the suspicion of a relationship between

corruption, tourism competitiveness and tourist-spending.

H3: Corruption is related to tourism-related spending and tourism destination competitiveness

In order to test the H3 hypothesis the WTTC (2015) tourism performance indicators on tourist spending (domestic and international) were tested for correlations against the Corruption Perception Index (CPI) scores, annually published by Transparency International for 2014 (Table 2).

Table no. 2 Correlation-Testing between Corruption Perception Index Scores and Tourism Performance Indicators

		Tourism Contribution to GDP	**Domestic Tourism Spending**	**International Tourism Spending**
Corruption Perception Index Score	Pearson Correlation	,207*	,225*	,217*
	Sig. (2-tailed)	,031	,019	,023
	N	109	109	109

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Source Data: WTTC (2015), Transparency International (2016)

The Pearson correlation test revealed that the CPI score (i.e. the lower the score, the less corrupt a particular country is perceived to be) positively correlates to: Tourism contribution to GDP, domestic- and international-tourism spending. With Alpha coefficient values below 0,05, the H3 hypothesis cannot be rejected, highlighting corruption as a relevant factor for the main question posed by this paper. Corruption perception seems to be a key factor determining the tourism competitiveness and developmental success of developing countries and / or transitional economies.

Reality vs. Perception: Impact of Safety and Security Concerns and the Role of Corruption

Coming back to the hypothesis-testing result for safety and security (i.e. no significance) issues, a possible explanation for this rather surprising outcome could be that tourists'-spending is more affected by perception than fact. The subjective safety / security risk perceptions may well reveal a lot more than criminality incident statistics per se. Larsen et al. (2009) concluded that actual tourists are less concerned about crime than potential tourists and that their focus is mostly on petty crime (e.g. theft). Moreover, George (2010) found out that despite own safety concerns, tourists are likely to revisit and recommend a holiday destination to others. A key finding underlining the relationship between safety and security perceptions and corruption is offered by Boakye (2010), who observed that tourists' feeling of safety and security did not depend so much on the visibility of uniformed personnel, but mostly on perceptions of order and professionalism in their surroundings. At the end of the day, it is not the mere existence and visibility of safety and security assurance structures and regulations that make the difference. It is about trusting that such structures and regulations will function as they ought to when the need arises. Incidents of crime and the safety risks are regarded as travel-systemic and are thus acceptable for tourists; as long as they feel in a position to react should such risks materialise. Corruption corrodes this trust, fostering insecurity and lack of a safety feeling.

4. Concluding Remarks, Limitations and Further Research

In this paper the question of tourism development as a viable strategy for the economic prosperity of developing / transitional economies has been addressed, explored and discussed. Summarizing, the conclusion here is that, investing and specializing on tourism is indeed a sensible

option for developing economies because its competitiveness is not significantly impeded by an endemic infrastructural poverty and / or safety and security deficits (at least in the longer-term). Nevertheless, even under such 'forgiving' premises, addressing corruption is a key precondition for the tourism potential to materialize. Although, this may well apply to all sectors (i.e. not just for tourism), the very nature of this service sector which is highly dependent on the emotional and experiential consumption of multiple intangible (and also relatively costly) elements, renders it particularly sensitive to breaches of system-related trust. The scope of this paper is limited and arguably not sufficient to fully explore corruption in the tourism development context. It does however, highlight the relevance and importance of further research in the under-researched domain of tourism-related corruption.

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