# Tourism and Economic Globalization: An Emerging Research Agenda*

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Abstract

Globalization characterizes economic, social, political and cultural spheres of the modern world. Tourism has long been claimed as a crucial force shaping globalization, while in turn the developments of the tourism sector are under the influences of growing interdependence across the world. Alongside the process of globalization, destination countries have become more and more susceptible to various events at a distance. By linking existing literature coherently, this study provides a comprehensive review on economic globalization in tourism. It attempts to find out the forces underpinning globalization and the implications on both the supply side and the demand side of the tourism sector. In view of a general lack of quantitative evidence, future directions for empirical research have been suggested to investigate the interdependence of tourism demand and that of tourism productivity.

Keywords: *Globalization, Economic Interdependence, Tourism Demand, Tourism Supply*

*1. Introduction*

Globalization is a buzzword of our time. Since its vague origins in the mid-twentieth century, the concept of globalization has found its vast and expanding presence in today's printed as well as virtual space (Held et al. 1999; Steger 2013). It has been widely used to describe a variety of economic, social, political and cultural changes that have shaped the world, especially over the past 50-odd years (Guttal 2007).

Given the wealth of meanings it embodies, globalization has been accorded multiple definitions from different perspectives. While it is regarded by some strands of thought as a fixed state, globalization is more generally perceived as a process (or a set of processes) that involves the compression of space and time and the intensification of economic, social, political and cultural interdependence on a global scale (Cohen 2012; Cornelissen 2005; Dicken 2011; Steger 2005). By contrasting with localizing, regionalizing and internationalizing, Dicken (2011) argues that the process of globalization entails not only a high level geographical spread of economic activities, but also deep functional integrations of economic activities at local and regional levels. Hence, as opposed to internationalization, globalization highlights the *integration* as well as the *interdependence* among economies (Fletcher and Westlake 2006). In the contemporary context, the integration is understood in terms of collaboration between businesses, irrespective of whether they are competitors (e.g., horizontal integration) or across a supply chain (e.g., vertical integration). The interdependence, often built upon a certain level of integration, refers to the situations characterized by reciprocal effects between economies, such that the developments in each economy are influenced by those in the others (Keohane and Nye Jr 2000; Jovanović 1992). While the interdependence may exist in the form of single reciprocal linkages between two economies, on the *global* scale it should involve multiple reciprocal connections at inter-continental distances (Keohane and Nye Jr 2000).

From an economic perspective, globalization is manifested in international trade, international finance and migration (Abel, Bernanke, and Croushore 2008; McGrew 2011; Stabler, Papatheodorou, and Sinclair 2010; Tribe 2011). One of the most spectacular aspects of the world economy since the second half of the twentieth century has been the almost uninterrupted expansion of international tourism services

and the associated movements of people and flows of money. From 25 million international arrivals in 1950, to 278 million in 1980, 674 million in 2000, and 1,186 million in 2015, international tourism has become one of the largest and fastest-growing sectors in the world (United Nations World Tourism Organization 2016). Table 1 summarizes some key facts of the world tourism sector in 2015.

Table 1 - Tourism in the World: Key Figures in 2015

| | |
|---|---|
| Economic output | 10% of GDP - direct, indirect and induced impact |
| Employment | 1 in 11 jobs |
| Trade | US$ 1.5 trillion in exports<br>7% of the world's exports |
| Movement of people | from 25 million international tourists in 1950 to 1,186 million in 2015<br>1.8 billion international tourists forecast for 2030 |

*Source: Adapted from UNWTO (2016)*

All the three domains where globalization can be observed are deeply embedded within tourism activities. Tourism is seen as a major aspect in the process of globalization, while globalization has given a significant impetus to the global growth of tourism (Azarya 2004; Cohen 2012; Cornelissen 2005). Hence, the spectrum of tourism economics literature would not be complete, had the tourism sector not been investigated in the setting of globalization.

The current study reviews globalization on both the supply side and demand side of the tourism sector. It is the first attempt to provide a comprehensive picture of economic interdependence in tourism and to link existing studies within the interdependence theme coherently. It contributes to the body of knowledge on tourism economics. The understanding of globalization is also relevant to business practitioners, since they are facing an increasingly global business environment. Therefore, the objective of the current study is not only to stimulate theoretical discussions, but also to shed light on future empirical research.

The rest of the paper is structured into following sections. Section 2 presents the driving forces of globalization in contemporary times and three contesting views on how those forces play their roles. Section 3 focuses on the forms of integration in tourism-related sectors. Section 4 elaborates the interdependent relationship of tourism markets from the demand perspective. Section 5 addresses the implications of economic interdependence in relation to business cycles. In Section 6, the paper is concluded with some future research directions.

## *2. Tourism and the Driving Forces of Globalization*

Identifying the engines of globalization in the contemporary context can be difficult, as no coherent and systematic account exists (McGrew 2011). In the general literature, driving forces of globalization mainly fall into four deeply interrelated categories, namely the *technics*, *economics*, *politics*, and *culture* (Dwyer et al. 2009; Fletcher and Westlake 2006; McGrew 2011; Mussa 2000). Given that tourism is an integrated part of the globalization process (Hannam 2002), it is not surprising to see that those driving forces are demonstrated in the tourism sector. As elaborated by Cohen (2012), tourism helped to create the modern global transportation system, through which remote destinations became easily and swiftly accessible and also contributed to such establishments as airports, hotels and resorts; governments increasingly simplified formal procedures to facilitate the processing of growing numbers of tourists. Meanwhile, the globalization of the tourism sector has also led to a fragmentation of tourism production system and the trans-nationalization of ownership structures, marketing arrangements, the outsourcing of services and the transmission of knowledge.

### *2.1 Technics*

Technics is vital to any account of globalization. The developments of modern communication and transport technologies allow time and space to be compressed, so that a shrunken globe can be formed (McGrew 2011). Specifically, the advancements in communication technologies have helped to spread information and knowledge throughout the world at much lower costs, especially since the 1980s (Azarya 2004; McCann 2008). For the tourism sector, information and transport technologies are its lifelines, since it sells products on faith and its service providers are geographically dispersed (Dwyer et al. 2009; Fletcher and Westlake 2006). For example, computerized reservations systems (CRS) are believed to enhance small and medium-sized enterprises' (SMEs) profitability (Fletcher and Westlake 2006). Meanwhile, the improved transportation facilities and services make it more feasible and less costly for physical movements of not only goods (Fayed and Fletcher 2002) but also people across countries (Neumayer 2006). More profoundly, technological changes have driven liberalizations especially in the financial sector, where financial markets

scattered around the world are now connected and transactions are carried out 24/7 on a real-time basis.

*2.2 Economics*

The logic of economics explains globalization from the perspectives of *market dynamics* and *imperatives of capitalism* (McGrew 2011), which are widely discussed in economic geography. Drawing on neoclassical economic theories, the logic of *market dynamics* considers globalization as a direct consequence of market competition. Briefly speaking, free trade allows countries to maximize their welfare based on their comparative advantages, whereas market forces and global competition enable goods and services to be produced efficiently at a minimum cost. Consequently, vertical integration becomes commonplace. Meanwhile, economic convergence ensures key financial indicators such as interest rates become equalized so that the cost of financial leverage will be similar across countries. The logic of *capitalism* follows the Marxist political economy argument that economic globalization is driven by profit seeking. The structural contradictions of capitalism – the tendency for overproduction combined with the relative impoverishment of workers – and the insatiable requirement for capital accumulation result in the expansion of corporations. Therefore, from an economic perspective, globalization is motivated by the continual search for new markets, cheaper labor and new sources of profitability (McGrew 2011). One fine example is the hospitality sector, where a hotel may pursue new markets outside the local area if it achieves the optimum share of a local or national market and is faced with overcapacity (Fletcher and Westlake 2006).

It is worth pointing out that the expansion of economic activities is not without disruptions or backlashes, for example, consumer movements for greater environmental sustainability. One of the counter-trends to globalization is the global economic crisis in recent years. To bring government finances under control, austerity programs were instituted, which were met with severe popular protests around the world, as a growing distrust of and resentment against the leading financial institutions of the prevailing capitalist system (Cohen 2012). In addition, the economic crisis also gave rise to protectionist pressure, such as the slowing pace of trade negotiations and the falling of support for free trade in some countries (Bussière et al. 2011). With regard to production patterns, the economic crisis caused a shift in

global value chain, where the EU as a whole lost some of its shares against extra-EU countries while only Greece and Spain improved their position within the EU's value chain (Ederer and Reschenhofer 2014).

The economic forces are by no means isolated from other forces. They are indeed set in motion alongside such changes in the political and ideological domain as liberalization (Fayed and Fletcher 2002; Stabler, Papatheodorou, and Sinclair 2010; Steger 2005).

*2.3 Politics*

The politics primarily concerns the ideological infrastructure of globalization. As noted by McGrew (2011), almost all accounts of contemporary globalization make reference to the rise and dominance of neoliberal ideology throughout the Organization for Economic Co-operation and Development (OECD) world, along with its associated policies of liberalization, deregulation and privatization (see also Mahon 2010; Scholte 2005). Since the 1970s, the dominant political trend in OECD states has been towards the liberalization of national economies and the easing of restrictions on capital mobility (McGrew 2011). Governments have been instrumental in establishing the necessary national political conditions and policies. Promoted and advocated by a powerful configuration of domestic and transnational coalitions and lobbies, economic globalization is very much a political construction (McGrew 2011). Fayed and Fletcher (2002) place the emphasis on the liberalization in trade and investment, which is embodied by the establishment of the General Agreement on Trade and Tariffs (GATT), the General Agreement on Trade in Services (GATS) and policies promoting free current and capital account transactions by International Monetary Fund (IMF) (see also Scholte 2005). Economic convergence is thus facilitated by the establishment of those political infrastructures (Stabler, Papatheoorou, and Sinclair 2010). Furthermore, McGrew (2011) highlights the hegemonic power and role of the United States in globalization by extending its strategic interests and domestic politics. Nevertheless, globalization also helps developing countries exit the poverty trap (Stabler, Papatheodorou, and Sinclair 2010). Prominent examples include the emerging economies in East Asia and Southeast Asia, and the BRICS countries (i.e., Brazil, Russia, India, China and South Africa).

The ongoing trend of liberalization and deregulation also faces resistance, especially with respect to the mobility of people. Despite some political initiatives (e.g., the right to free movement of the European Union nationals) to facilitate the movement of people, visa restrictions are implemented by governments to deter some unwanted foreigners as well as the influx of immigrants from certain countries (Cohen 2012; Neumayer 2006). There are security reasons behind visa restrictions. Indeed, security and political stability are fundamental preconditions for the prosperity of tourism in any destination (Dwyer et al. 2009). Meanwhile, it is inevitable that a country could experience detrimental impacts of visa restrictions on its trade, investment and tourism (Neumayer 2011; Song, Gartner, and Tasci 2012). In recent years the resistance to free movement of people and to free trade has also been associated with the protectionist pressure, as globalization is perceived to contribute to widening wage inequalities in developed countries (Bussière et al. 2011).

### *2.4 Culture*

Culture also plays a vital role (Fayed and Fletcher 2002) in the process of globalization. The growth in population since World War II has created a demand for all kinds of economic goods, and the fact that population increases have not been evenly spread among countries implies trade opportunities (Fayed and Fletcher 2002). Cultural factors, including cultural exposure (e.g., the demonstration effect through media sources), have led to some degree of homogenization. This is sometimes termed as “McDonaldization”, which according to George Ritzer is the process whereby the principles of the fast-food restaurant are starting to dominate more and more sectors of American society as well as the rest of the world (Pieterse 1996). An ostensible interpretation of the term would immediately center on the primacy of American culture; from films, music and modern art to casual clothing, fast food and sports, alongside the spread of (American) English as an international lingua franca (Lieber and Weisberg 2002; Steger 2013). This American primacy is merely a manifestation of the United States’ hegemonic power in the cultural sphere, and it is bound to evoke resistance, conflicts and even clashes between cultures. To some advocates, it is the cultural difference and the richness of human culture that should be celebrated (Lieber and Weisberg 2002; Pieterse 1996).

As an activity intrinsically involving cultural exchange, tourism can generate the awareness of cultural differences by increasing cross-cultural communication (Pieterse 1996), while cultivating cultural hybridization that allows for the cohabitation and integration of different cultures. Cultural exploration can be regarded as a dimension of visitors' motives to attend festival events (Crompton and McKay 1997), though culture itself is already a key pull factor.

*2.5 Three perspectives on globalization*

While it is generally agreed that the *technics*, *economics*, *politics* and *culture* are the main driving forces for globalization, academics are divided by their perspective on the roles of those forces. As summarized by Held et al. (1999), these academics are *hyperglobalizers (or hyperglobalists)*, the *sceptics (or traditionalists)* and the *transformationalists*.

Both the hyperglobalizers and the sceptics ponder globalization as an *economic*-driven process. Globalization is seen as a particularity, or a singular condition of human society (Munar 2007). Their divergence lies in the beliefs that, for the hyperglobalizers, an increasingly integrated world exists today; whereas in the opinions of the sceptics, the extent of contemporary globalization is wholly exaggerated because the current levels of economic integration have not matched the *ideal* type of globalization in accordance with the law of one price (Held et al. 1999), i.e., no global homogeneous market has been formed yet. In terms of *politics* and *culture*, the hyperglobalizers are more optimistic about the emergence of a global civil society and argue that the state power starts to dismantle; on the contrary, the sceptics take a more conservative view that people are indeed bounded within a nation state due to obstacles to mobility (Cohen 2012) and civilizations are fragmented into several blocs instead of a homogenized global culture (Held et al., 1999). In the context of tourism, the hyperglobalizers perceive tourists as the consumers that bring the culture of consumerism to developing countries and contribute to the rising of a global society; for the sceptics, the national, cultural identity is emphasized, as tourists are homogenized consumers of one country, and national typification applies to them when they are abroad (Munar 2007).

The transformationalists take a more encompassing approach. They argue that globalization intertwines with all key domains of human activities. Globalization is

not seen following a linear logic and linear developmental pathway. Moreover, the nation states have to share their monopolistic power with other political structures at both transnational and local levels. Culturally, *local* and *global* are no longer understood as mutually exclusive. Tourists are considered not only consumers or national representatives of their country of residence, but also global citizens that entail certain rights and duties when they are on the move (Munar 2007).

*3. Integration of Tourism-Related Sectors*

On the tourism supply side, the worldwide tourism sector is dominated by transnational corporations (TNC) of airlines, hotels, tour operators, travel agents and so on. Those firms are characterized by high levels of vertical and horizontal integration (Jafari, Baretje, and Buhalis 2000). To fully account for how the integration progresses between corporations, the line of thinking includes corporate expansion, international division of production and then integration of value chains, throughout which the *economic* driving forces are present (see Section 2.2). Meanwhile, the other driving forces such as *technics*, *politics* and *culture* also play their parts.

In the context of tourism, the key feature of its integration is the recognition of interdependence between members in a supply chain and the generation of strategies that support the efficient integration of various links (Zhang, Song, and Huang 2009). Hjalager (2007) summarizes four stages of globalization, a framework that is compatible with the "ownership-location-internationalization (OLI)" framework reviewed by Stabler, Papatheodorou, and Sinclair (2010).

The four stages correspond to the globalizing process towards a globalized tourism sector. In stage one, companies are set out to attract overseas customers to consume tourism products in the companies' home market (or existing destination). The perishable nature of tourism products dictates that tourism consumption is often confined to a specific place. For example, Disneyland theme parks can only be "consumed" in certain cities. Hjalager (2007) notes the marketing efforts of tourism companies to reach out to overseas customers, in the form of tourism board representation and/or marketing collaboration. On the one hand, placing agents and offices in foreign markets is one of the most commonly used globalization strategies, and has been employed by almost all business sectors. It is believed that a presence in foreign markets helps to bridge cultural and language barriers. Thanks to *technological* innovations such as social media, destination management organizations (DMOs) and tourism companies can establish their presence in the virtual space, with the potential to reach out to customers regardless of their locations. Social media facilitates instant information dissemination, awareness promotion and interactive communication (Hays, Page, and Buhalis 2013; McCann 2008). On the

other hand, joint marketing is observed among companies which supply part(s) of a complex product. This creates the advantages of scale in promotional activities and reduces the complexity facing customers. Notable examples are the major airline alliances Star, SkyTeam and Oneworld (Fletcher and Westlake 2006).

Stage two concerns the integration across borders through investments. While stage one is an initial step for companies to seek expansion through marketing, stage two deals with how companies materialize their presence in an overseas market. As elaborated by Hjalager (2007), this can be achieved via taking ownership of physical facilities (e.g., via mergers and acquisitions), or importing/exporting intangible assets through franchising and licensing. Taking ownership entitles companies to establish overseas branches/subsidiaries, so that they can serve customers directly in an overseas location. Ownership investments also allow companies to gain control over factors of production such as labor, capital and land resources. Moreover, by owning (parts of) a supply chain across different countries, companies may be able to exercise their oligopolistic and oligopsonistic power and achieve dominance in a specialized business field. Lafferty and Van Fossen (2001) note the synergies between hospitality, gambling and entertainment, citing the giant casino-hotels in Nevada, USA as an example (e.g., Caesars World, Circus Circus and Mirage Resorts). In the meantime, investments can be made with companies' intangible assets, such as brands, copyrights and trademarks. Franchising and licensing make an efficient use of these intangible assets to facilitate rapid corporate expansion. Embedded with business concepts and know-how, many franchise and licensing arrangements generate the beneficial side-effect of disseminations of technology and knowledge (Hjalager 2007). All in all, stage two touches one of the core features of globalization, i.e., transnational integration between businesses.

As noted at the beginning of the section, transnational integration takes place both horizontally and vertically. The profitability created by vertical integration constitutes the logic of stage three (Hjalager 2007). This process is also termed the international fragmentation/division of production, and it is tightly linked to the business practices of outsourcing. Nowak, Petit, and Sahli (2010) note that the main forces propelling the increased fragmentation in service sectors are the differences in factors' prices (also noted by Hjalager 2007), investment liberalization and reduced communication and transport costs. Theoretically, the underpinnings of vertical integration can be

traced to the concept of comparative advantage, which denotes a country's overall ability to carry out particular economic activities more efficiently than other activities and thus predicts a country's specialization of production in the global value chain. In tourism, one of the frameworks that are often cited is the the Heckscher-Ohlin (H-O) theorem, which emphasizes the role of a country's endowments of factors of production (i.e., labor, capital and natural resources) in determining its comparative advantage (see Stabler, Papatheodorou, and Sinclair 2010; Zhang and Jensen 2007). All in all, stage three is well in line with the logic of market dynamics, one of the essential perspectives with regard to the *economic* driving forces (see Section 2.2).

Stage two and stage three share many elements found in the "ownership-location-internationalization (OLI)" framework. It is argued that the underlying reason for corporate expansion is to enjoy ownership advantages, which include capital and human resource endowments, intellectual property rights and patents (Stabler, Papatheodorou, and Sinclair 2010). In addition to allowing companies to exercise their oligopolistic and oligopsonistic power, the "O" is also associated with a company's effort to diversify its business risks. The "L" concerns the access to specific foreign country resources and positive business environments such as high-quality/low-cost labor force, adequate infrastructure, tax concessions and government funding. The physical presence in foreign markets assists in overcoming trade barriers and/or other protectionist impediments and to reduce the cognitive and psychological distance. The "I" allows a company to drastically reduce transaction costs in acquiring inputs and to minimize uncertainty by exercising direct control over its intangible assets, such as logos, image and brand names.

While stages one, two and three embody the process of a growing globalization, the global integration does not end within a specific sector. As hypothesized by Hjalager (2007), stage four is perceived as a relatively advanced stage of globalization, where added value is created via integration with other sectors. This stage is characterized by transcending into new value chains. In the context of tourism, it is argued that the division between tourism on the one hand, and knowledge industries, marketing businesses and media on the other, is blurring (Hjalager 2007).

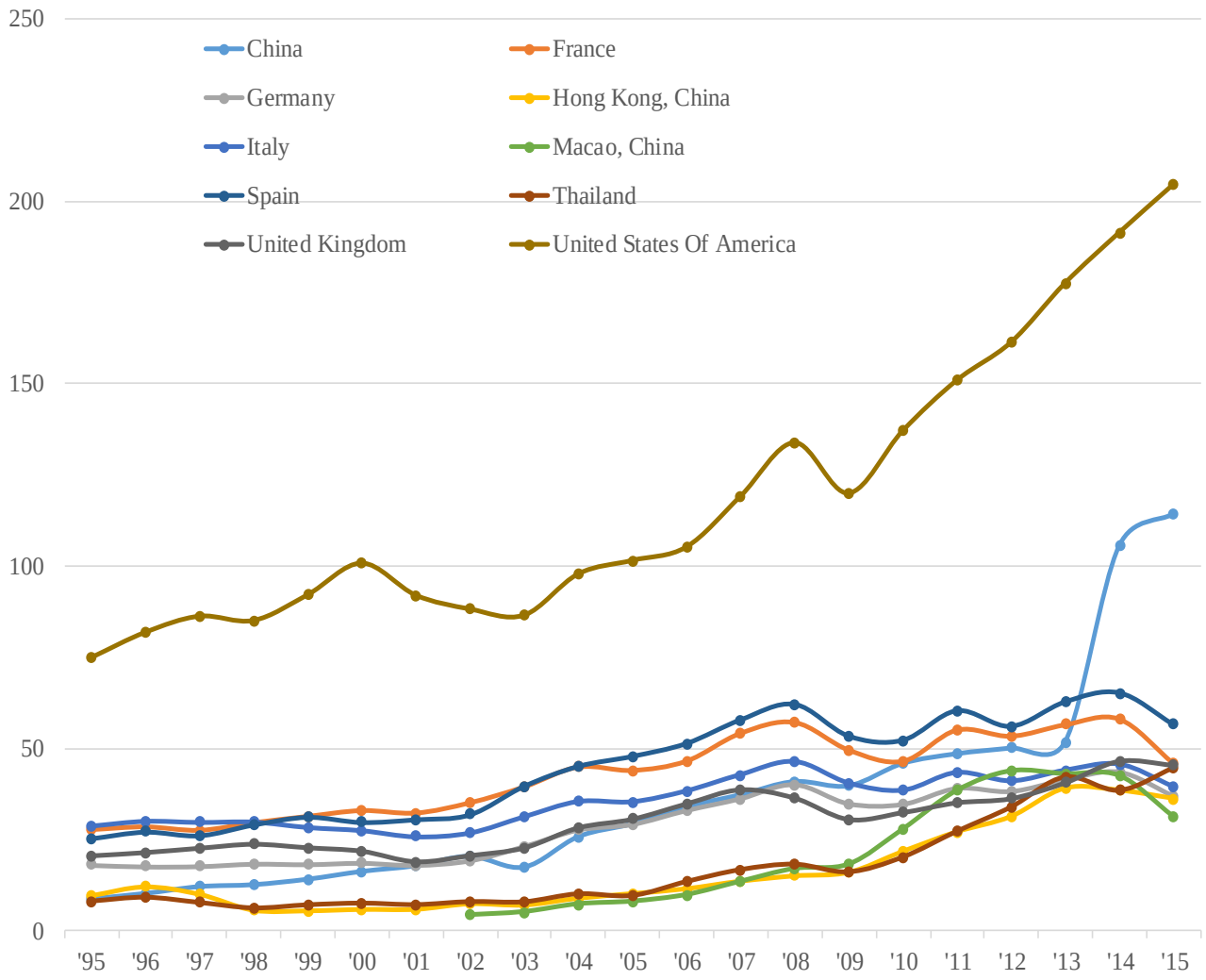
It is worth noting that the four-stage framework represents a linear developmental view of globalization. As defined by Hjalager (2007), the first three stages belong to

the low globalization profile, whereas the fourth is regarded as the high globalization profile. Such distinction inevitably invites the interpretation that in the end globalization will reach an advanced, final and fixed state. Hence, the four-stage framework is close to the hyperglobalist view of globalization. As introduced in Section 2, the hyperglobalizers understand globalization as a singular condition of human society and assert that it is a new époque in human history, which brings about a single global market and a "denationalization" of economies through the establishment of transnational networks of production, trade and finance (Held et al. 1999; Munar 2007). The four-stage framework might be subject to criticism from the commentators with a sceptic view or a transformationalist view. The sceptics argue that globalization is not yet a reality in that the world economy is indeed undergoing regionalization, and at best heightened levels of internationalization; whereas the transformationalists make no claims about the future trajectory of globalization and see globalization as a long-term historical process without specifying a final, fixed state of globalized world (Held et al. 1999).

*4. Economic Interdependence of Tourism Demand*

Globalization exists not only in the supply side of tourism, but it also defines the increasingly interconnected tourism demand around the world. Since a country can receive and generate tourists at the same time, countries are bound by strong economic ties through tourism activities, such that the fluctuations of tourism demand can be transmitted across destinations. Figure 1 shows the co-movements of international tourism receipts across top destinations.

Although the driving forces for globalization tend to be reasoned in relation to the supply side developments, it is not surprising to see that the same forces are in place to foster the interdependence between tourism demand across countries. After all, the mass tourism following World War II with the advent of jet airplanes in the early 1960s has led to, and been facilitated by, the increased involvement of transnational corporations in the supply side of tourism system (Jafari, Baretje, and Buhalis 2000). As asserted in Section 2, the surge of technological developments in transportation means has rendered the possibility of frequent and long distance travel at affordable costs. Moreover, the innovations in communication technologies, especially the internet, give rise to online travel communities where (the consumption of) travel experience is exchanged and the homogenization of lifestyle is 'involuntarily' encouraged. With the expanding and globalizing tourism sector, the Western consumerist ethos spread into ever more remote parts of the non-Western world (Cohen 2012; Smeral 1998).




*Source: Adapted from UNWTO (2016)*

Figure 1 – International Tourism Receipts of Top Destinations (US$ billion)

The foregoing forces alone are not sufficient to account for the shared pattern of tourism demand around the world (Figure 1). To explain the interdependence of the worldwide tourism sector, other economic factors that affect the demand side have to be examined as well. Apart from the lowering of transportation costs, the growing affluence and the emergence of new middle classes around the world contributed to the conspicuous consumption of tourist facilities and services (Azarya 2004; Cohen 2012). As such, tourism demand across destinations fluctuates alongside tourists' disposable income level. The consequence, as manifested in the wake of the recession since 2008, is that the prosperity of a country's tourism market hinges on how well it coordinates with its external world.

*The balance between inbound tourism and outbound tourism*

From the standpoint of a specific country, its economic interdependence on the rest of the world can be delineated with regard to how much the country *depends on* and *is depended on by* other countries. The balance between inbound tourism demand and outbound tourism demand indicates a country's position against the others in an interconnected world. Consequently, the pattern that developed countries are more likely to register trade deficit on the travel account, while developing countries tend to see trade surplus on the same account, pronounces the particular significance of the tourism sector to developing countries (Jafari, Baretje, and Buhalis 2000; Stabler, Papatheodorou, and Sinclair 2010).

*Inbound tourism and local economy*

For a destination, economic impacts of inbound tourism are primarily understood in terms of income and employment generation. This is often elaborated through the multiplier effect, which denotes the economy-wide final benefits for a destination in comparison to the initial demand by tourists. In short, the expenditure by inbound tourists brings not only direct income to tourism-related businesses, but also indirect as well as induced benefits to the wider economy, through the backward linkages between sectors and the re-spending of tourism-related incomes (Stabler, Papatheodorou, and Sinclair, 2010). Over time, the initial tourism demand exerts knock-on effects on the destination's overall output, stimulating economic growth and elevating the income level of local people.

Transcending the economic impacts, tourism also has profound social benefits. It is a labor-intensive sector. According to WTTC (2015), the tourism sector creates far more jobs worldwide than other sectors such as automotive manufacturing, chemicals industry and banking industry, while it is only behind the retail and agriculture sectors. Hence, as opposed to other export sectors, tourism is highly instrumental in lifting people out of poverty and reducing inequality especially for less developed countries.

Detecting the causal relationship between inbound tourism demand and local economic growth is a recurring topic in tourism economics research. The Tourism-Led-Growth (TLG) hypothesis, which highlights the role of inbound tourism in earning foreign exchange, spurring investments and diffusing technical knowledge

(Schubert, Brida, and Risso 2011), has been tested against empirical evidence (see for example, Balaguer and Cantavella-Jorda, 2002; Belloumi 2010; Katircioglu 2009; Kim, Chen, and Jang 2006; Narayan et al. 2010; Nowak, Sahli, and Cortes-Jimenez 2007; Seetanah 2011). However, the hypothesis has been supported for only certain countries. An explanation is that inbound tourism may have detrimental effects on local economy as well. It has been observed that a tourist boom may lead to the de-industrialization of local economy (Copeland 1991; Holzner 2011; Nowak and Sahli 2007). Because a tourist boom tends to raise the demand for and accordingly the prices of non-tradables such as historical and cultural attractions, restaurants and retailing, expanding their production at the expense of the tradable sectors, especially the manufacturing sector (Chao et al. 2006; Stabler, Papatheodorou, and Sinclair 2010). Furthermore, in cases where supplies of the non-tradables as well as the tradables are relatively inelastic, the demand caused by a tourist boom would inevitably push up the general consumer prices and impose extra costs on local residents. Therefore, in pursuing a tourism-led growth economy or a general export oriented economy, a country needs to weigh up the benefits and detrimental effects of tourism; moreover, the country's endowment of factors of production is also vital.

Given that inbound tourism demand is principally dictated by economic factors in various source countries, a country's tourism sector and even the country's overall economic performance are susceptible to its external economic climate. The world economic climate is indeed shaped by the synchronization of business cycles across countries (see Section 5), an intrinsic feature of globalization. As such, a destination country inevitably faces a collective external force that affects both its tourism sector and its local economy.

*Spillovers via outbound tourism*

For a source country, outbound tourism is a channel through which the country's economic fluctuations are spilled over to foreign countries. It follows that the spending of outbound tourists is largely determined by their income level, which is closely linked to the economic situation in their home countries. For example, a temporary adverse shock (i.e., an unexpected event) to the source country's gross domestic output (GDP), or unusual turbulences in the foreign exchange market, may lead to a contraction of tourist outflows. As a result, the destination countries will feel the shock that originally takes place in the source country because less tourism

income will be registered. The welfare-decreasing effect of a temporary demand shock (recession) abroad has been theoretically studied by Schubert and Brida (2009) under a dynamic general equilibrium setting.

The spillovers from a source country can affect a particular destination directly; they can also affect other countries in an indirect manner. On the one hand the effect of the spillovers on a particular destination will be commensurate with the market share of the source country; on the other hand, the spillovers can be transmitted to other countries further afield through the highly integrated supply chain of the tourism sector (see Section 3) and through resident re-spending. As such, if globalization renders all the countries within an integrated ecosystem, then a source country can exert some influence onto many other countries either directly or indirectly.

It is worth mentioning that the effect of spillovers on foreign countries should not be overstated. A shock to a small economy may not create catastrophic impacts worldwide, unless it affects other major economies that have more weight in the world. Even though it is difficult to define a "small economy", many countries fit well into this category in the sense that they possess some of the common characteristics of small economies such as limited diversification, openness, and access to external capital (Commonwealth Secretariat 2000).

*Complementary and substitutive relations between destination countries*

While the interdependent nature of tourism demand is mainly governed by underlying general economic situations, it is also the product of the complementary and substitutive relations between destinations.

Destinations are perceived to be complement if the drop of tourism prices in one destination results in an increase in tourism demand for other destination(s). One explanation for such complements is that some countries can be visited on a single trip because they are bundled in a holiday package. For example, the holiday package of Singapore, Malaysia and Thailand has been very popular with Chinese tourists. Another explanation is that some countries adopt a common visa policy and abolish border control at their common borders, hence enabling a cross-country trip during a single visit. The Schengen Area that comprises 26 European countries is a notable example. In contrast to the complements, the interrelation of some other destinations contains elements of competition because they are perceived as substitutes. For

example, the Spanish islands (Balearic, Canary, etc.) and the Greek islands (Crete, Corfu, etc.) are both alluring places for summer holidays, while during the winter Austria, France and Switzerland are all major destinations for skiing. Tourists may well choose a destination after a price hike in the alternative ones. The complementary and substitutive relations between destinations are associated with a wider range of underpinnings such as climate, geographical proximity, cultural similarity, destination attractions/facilities and political reasons (e.g., visa policy).

Empirical studies capture the interrelations between destinations through the concept of cross-price elasticity. Generally, among a set of alternative destinations, the value of cross-price elasticity varies from one source country to another, and the elasticity changes over time (see Li et al. 2006; Song, Witt, and Li 2003; Peng et al. 2015). This reflects that the perception of destination interrelation is rather country-specific and time-specific. Some other studies take a particular look at the substitutive relation (for example, Dwyer, Forsyth, and Dwyer, 2010; Li et al. 2013; Mangion, Durbarry, and Sinclair 2005), since the cross-price elasticity signifies how keen the competition between destinations can be and contains essential information for formulating pricing strategy, which in turn helps to enhance a destination's competitiveness.

*5. Business cycles, global crises and tourism*

Interdependence between countries results in co-movements of economic activities on the global scale. As Panić (2003, 8) notes, "*When international economic interdependence reaches a certain level, what happens in one group of economies may have a major impact on another group – even when the volume of direct trade between the two is small – through the effect on a third group with which both these groups trade heavily.*" A regional economic crisis may well develop into a global event, as has been seen in recent years.

*5.1 Business cycle synchronization*

In theory, a business cycle refers to the periodic fluctuations of aggregate economic activities in terms of GDP, employment and so on (Mankiw 2006). It comprises periods of expansions, recessions and revivals in the level of output around the economy's long-term growth trend (Abel, Bernanke, and Croushore 2008; Sørensen and Whitta-Jacobsen 2010). In practice, the duration of business cycles can range from 6 quarters to 43 quarters with an average of slightly below 25 quarters, according to Everts (2006)'s analysis on America's National Bureau of Economic Research (NBER) data (see Everts 2006 for more discussions).

In the era of increasing economic integration, the conventional wisdom is that cross-country interdependence leads to synchronization of business cycles. However, an alternative view suggests that there are also asynchronous output fluctuations because the production of goods is highly specialized and country-specific (Canova, and Ciccarelli 2012). An explanation for the different views is that production cycles could be completely idiosyncratic since they are linked to relatively long-term supply-side factors (e.g., capital accumulation, technological catch-up and demographics), while consumption cycles are highly correlated since they are linked more to shorter-term demand-side factors (Canova and Ciccarelli 2012; Derviş 2012).

Many studies can be found under the labels of business cycle synchronization, international transmission mechanism, decoupling and recoupling and international contagion (e.g., Artis, Fidrmuc, and Scharler 2008; Canova and Ciccarelli 2012; Hamori 2000; Sayek and Selover 2002). Based on a sample of 106 countries over the period of 1960-2008, Kose, Otrok, and Prasad (2012) find that there is a substantial convergence of business cycles *among industrial economies* and *among emerging*

*market economies*, but there is also a concomitant divergence (or decoupling) of business cycles *between* these two groups.

To explain the mechanism behind the synchronization of business cycles (i.e., the trigger and the path of transmission), two main hypotheses have been put forth: *locomotive hypothesis* and *common shocks* (Bagliano and Morana 2010; Sayek and Selover 2002; Selover 1999). The locomotive hypothesis assumes that idiosyncratic business cycles are transmitted across countries via trade flows, capital movements, labor migration and technological transfer. The shocks that have been examined are usually on income, price and interest rate (Sayek and Selover 2002). The common shocks hypothesis concerns the shocks that affect a majority of countries, such as technological advancement and commodity supply shocks (e.g., oil crises in the 1970s). Regardless of the hypothesis, a shock to any economic variable in a particular country may have far-reaching impacts on other variables of both the local economy and foreign countries.

In the context of tourism, studies relevant to the business cycles of tourism demand have been very limited, even though the earliest dates back to the late 1970s, by Schulmeister (1979). The general logic of existing studies has been that a specific country's tourism demand follows the wider economic fluctuations (e.g., Frechtling 1982; Guizzardi and Mazzocchi 2010), or that tourism demand elasticities evolve across different phases of a business cycle (e.g., Smeral 2012). However, few studies have considered the interdependence between countries. Under the presence of shocks, economic interdependence means that a country's international tourism sector is highly sensitive to idiosyncratic shocks in other countries and/or global common shocks. As Held et al. (1999, 15) comment, "…*and the growing extensity, intensity and velocity of global interactions may also be associated with a deepening enmeshment of the local and global such that the impact of distant events is magnified while even the most local developments may come to have enormous global consequences. In this sense, the boundaries between domestic matters and global affairs may be blurred.*" For example, World Travel and Tourism Council (WTTC 2011) summarizes some unprecedented global events that have disrupted the world tourism sector throughout 2011. These include economic instability in the wake of the financial crisis since 2008, natural disasters such as the nuclear accident in Japan after a devastating tsunami and the earthquake in Christchurch in New Zealand, and socio-

political upheaval seen in North Africa and the Middle East. Both tourism consumption and tourism production around the world have been severely deterred.

*5.2 Impacts of the recent global economic crisis*

The recent global economic crisis, ignited by the subprime mortgage crisis in the USA in 2008, is an example of the counter-trends to globalization. Moreover, it demonstrates that country-specific shocks can have global implications.

As a non-necessary consumer product and an industry that penetrates many other sectors in an economy, international tourism was hit by the economic slump in an all-encompassing manner. The UNWTO data show that international tourism started to decline during the second quarter of 2008, and even plummeted by 8% in terms of arrivals between January and April 2009 (Papatheodorou, Rosselló, and Xiao 2010; Smeral 2010). The International Air Transport Association (IATA) confirmed the slump by finding an 8% decline in worldwide passenger traffic between January and May 2009; hotel performance between January and April 2009 registered a similar drop, with revenue per available room falling by double-digit rates (Smeral 2010). The contraction of tourism activities was alleviated from 2010, but still subject to adverse economic climates.

In reviewing the performance of world tourism in 2011, which was believed to be the toughest year since the outbreak of the economic crisis, WTTC (2011) summarizes a combination of factors that contributed to the challenging global macroeconomic environment: uncertainty over the future of eurozone, weakening global businesses and investor confidence, sluggish performance of the United States' economy, slowdown in the main emerging economies and high levels of public debts, borrowing and increasing government austerity. On the finance front, the financial activity and credit growth remained subdued in many economies, restricting the expansion capacity of tourism companies (Papatheodorou, Rosselló, and Xiao 2010). In addition, the recession also led to a downturn in the world labor market. The International Labour Organization (ILO) highlighted that the world unemployment rate, one of government's management targets, could reach between 6.5% and 7.4% in 2009 (Papatheodorou, Rosselló, and Xiao 2010).

Table 2 - International Tourist Arrivals (million)

| | 1990 | | 1995 | | 2000 | | 2005 | | 2010 | | 2015 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| World | 435 | | 527 | | 674 | | 809 | | 950 | | 1,186 | |
| Advanced economies | 299 | 68.7% | 339 | 64.3% | 424 | 62.9% | 470 | 58.1% | 516 | 54.3% | 653 | 55.0% |
| Emerging economies | 136 | 31.3% | 188 | 35.7% | 250 | 37.1% | 339 | 41.9% | 434 | 45.7% | 533 | 45.0% |
| By UNWTO regions | | | | | | | | | | | | |
| Europe | 261.5 | 60.1% | 304.5 | 57.8% | 386.6 | 57.4% | 453.2 | 56.0% | 489.4 | 51.5% | 607.7 | 51.2% |
| Asia and the Pacific | 55.9 | 12.9% | 82.1 | 15.6% | 110.4 | 16.4% | 154.0 | 19.0% | 205.5 | 21.6% | 279.2 | 23.5% |
| Americas | 92.8 | 21.3% | 108.9 | 20.7% | 128.2 | 19.0% | 133.3 | 16.5% | 150.2 | 15.8% | 192.6 | 16.2% |
| Africa | 14.8 | 3.4% | 18.7 | 3.5% | 26.2 | 3.9% | 34.8 | 4.3% | 50.4 | 5.3% | 53.5 | 4.5% |
| Middle East | 9.6 | 2.2% | 12.7 | 2.4% | 22.4 | 3.3% | 33.7 | 4.2% | 54.7 | 5.8% | 53.3 | 4.5% |

*Source: Adapted from UNWTO (2016)*

One emerging trend from the recession is that developing economies are playing an increasingly important role in the world economy. Structurally, international tourism used to be dominated by developed countries, in that most international tourists originated in and traveled to developed countries, while tourism in developing countries was dominated by tourists from developed countries. Hence, economic policies and economic situations in the developed countries have great impacts on destinations (Jafari, Baretje, and Buhalis 2000). However, it is now formally recognized by the G7 countries that major developing countries are important pillars of the world's financial system (Papatheodorou, Rosselló, and Xiao 2010). On the one hand, the market share of emerging economies in terms of inbound tourism arrivals increases from 30% in 1980 to 45% in 2015, and is expected to reach 57% by 2030 (UNWTO 2016). This is further evidenced by the contrast of evolution between market share of Europe and that of Asia Pacific. As shown in Table 2, the share of Europe declined from 60.1% in 1990 to 51.2% in 2015, while that of Asia Pacific significantly increased from 12.9% to 23.5% during the same period. On the other hand, outbound tourism from developing countries can help to restore reciprocity and stability of international trade. Over the last two decades China has shown the fastest growth in terms of expenditure on international tourism, thanks to its rising disposable income, a relaxation of restrictions on foreign travel and an appreciating currency (UNWTO 2015). In 2009, when the world economy was severely hit by the economic

crisis, China's tourism expenditure registered a whopping 21% increase, whereas other top spenders saw near zero or even negative growth (UNWTO 2010). In fact, although China ranked seventh in international tourism expenditure in 2005, it had since overtaken Italy, Japan, France, the UK, the USA and Germany to become the world's top spender in 2012 (UNWTO 2013). Another impressive emerging top spender is Russia. It climbed one place in 2013 to become the fourth largest outbound market, following a 25% increase of tourism expenditure (UNWTO 2014 2015). Such up-rise of developing countries is bound to affect not only the pattern of international trade, but furthermore the exchange rate regime. Although it is premature to argue that the Chinese yuan will eventually mount to a global dominance, it is clear that the US dollar is less exclusively relied on for international business transactions, including tourism (Papatheodorou, Rosselló, and Xiao 2010). A strong contender, the euro, which was expected to challenge the US dollar, is however mired in the debt crisis of its member states. All in all, the dynamic contrast between currencies will certainly change the landscape of world tourism markets on both the demand side and supply side.

*6. Concluding Remarks and Opportunities for Future Research*

Developments of globalization have been a spectacular phenomenon over the past few decades. A sector that has immediate linkages with international trade, finance and mobility of people, tourism is a crucial area where globalization is nurtured and strengthened. From the above discussions on the supply side and demand side of the tourism sector, it is obvious that the interconnections across countries have rendered some new research directions.

While globalization as a topic has already attracted a rich body of literature across various disciplines, it is still relatively under-researched within tourism. Generally, studies of globalization in the context of tourism are conceptual and rely on descriptive facts and/or discrete examples. Since globalization operates on an ideological dimension, studies are often filled with a variety of contesting norms, claims, beliefs, and narratives by different authors. Quantitative methods are seldom used. As a result, convincing evidence is often lacking in discussions.

The current study provides a coherent framework to understand the interdependent nature of the tourism sector across countries. Future empirical research may explore the implications of globalization on tourism with more quantitative evidence. This may require econometric models to deal with endogeneity issues among variables and to capture the spatial spillover effects across countries. To this end, vector autoregressive (VAR) types of models such as global VAR (GVAR) and panel VAR (see Canova and Ciccarelli 2013 for a review), spatial-temporal regression types of models (e.g., Marrocu and Paci 2013; Yang and Wong 2012), and a combination of VAR and spatial analysis (see Beenstock and Felsenstein 2007 for an introduction to spatial VAR model) are particularly relevant.

With regard to research directions, closely related to the economic interdependence discussed in Sections 4 and 5.1, the first direction can be the synchronization of business cycles of tourism demand. This means measuring the correlations or co-movements of tourism demand across countries, for example, using indicators such as an elasticity. From a theoretical point of view, measuring the business cycle synchronization helps to understand the intensity of global interconnectedness. On the practical front, quantifying the scale of co-movements helps tourism businesses gauge

the changes of their native market performance in the face of external economic changes.

The second direction concerns the productivity of tourism and its sub-sectors with regard to the convergence of productivity across countries. Studies can use cross-country panel data and focus on finding out the reasons for discrepancies in productivity and the changes of productivity resulting from mergers and acquisitions. As explained in Section 3, integration of tourism businesses takes a few stages. No matter whether it is horizontal or vertical, cross-country integration facilitates the diffusion of knowledge, technology and management expertise. As a result, over the long run there is a catch-up process for less developed countries and an improvement of productivity across the supply chain. At the micro level, productivity can be explored in relation to such factors as seasonality, firm size and inhomogeneity of demand. Although it is not an entirely new concept, productivity convergence has not been rigorously investigated in the context of tourism and its related sectors such as hotels and airlines.

The third direction concerns the impact of shocks or special events on either the demand side or supply side. An example evidenced in Section 5.2, the recent economic crisis has huge implications on the landscape of the tourism sector around the world. Future research can attempt to quantify the impacts of other types of events, for example terrorist attacks, which change tourists' risk perception of a destination and the security of tourism attractions. From a theoretical point of view, the size of the impact of a distant event manifests the degree of globalization.

A fourth direction can be elicited with regard to policies enhancing destination competitiveness. Measuring the interdependence of tourism demand and that of tourism productivity across countries is an initial step to evaluate the economic performance of a destination against other destinations. For policy makers, a further question is how to maintain and improve their destination's economic performance in the face of external changes. The driving forces of the global changes listed in Section 2 are a good starting point for investigation. Policies may be formulated around reacting to and making use of the different forces.

A fifth direction looks into the counter-globalization movements since the economic crisis of 2008 (e.g., increased *protectionist pressure* and *anti-immigrant sentiment*

seen in some parts of the world, as discussed in Section 2), reacting to the uneven development of globalization. Such research requires transcending econometric methods, and seeking theories and perspectives from disciplines such as politics and geography. The transdisciplinary nature of globalization research echoes the multi-faceted nature of globalization. It would be interesting to find out whether or not the movements have led the world towards further regionalization, rendering tourism businesses, tourists and local residents regional-focused.

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