On the relationship between tourism and growth in Latin America

Stefania Lionetti[§] and Oscar Gonzalez

University of Lugano – Switzerland

draft

Abstract

In many countries tourism is used as a strategy to achieve greater economic performance. The potential economic benefits are: increased income, both directly and as a result of the multiplier effects of tourism revenues (particularly the informal sector), earnings of foreign exchange , new employment opportunities, access to foreign direct investment, and economic diversification (Markandya, Taylor and Pedroso, WB 2005) (Nowak and Sahli 2007). Among the costs that investment in tourism may arise we find: inflationary pressure due to tourist demand, costs of infrastructure development, and leakages to international investors or corporations. In particular, tourism specialization can help to explain the observed high growth rates of small islands economies. While there is little literature that focus on the relationship between tourism and economic growth, and the associated evidence is conflicting, in the economics literature the causal relationship between trade and growth is well established. Openness foster growth through a number of channels, including improved resources allocation, higher degree of competition, rapid acquisition of knowledge and innovation, and lower levels of rent-seeking and corruption(Winters 2005).

Thus, this paper investigates the relationship between tourism and trade in order to determining the contribution of the tourism sector to the economic growth of Latin America and the Caribbean. Specifically, it uses cointegration and vector autoregressive techniques for testing the short/long run relationship between tourism and trade. Due to the lack of systematic data in the area, three Countries have been selected and analyzed: specifically, Argentina, Dominican Republic and Mexico.

[§] Contact author: Stefania.Lionetti@usi.ch, Ph: +41 (0)58 666 4790