

Abstract

The significant impact of international tourism in stimulating economic growth is especially important from a policy perspective. For this reason, the relationship between international tourism and economic growth would seem to be an interesting and topical empirical issue. The purpose of this paper is to investigate whether tourism specialization is important for economic development in 159 countries over the period 1989-2008. The results from panel threshold regressions show a positive relationship between economic growth and tourism. Instrumental variable estimation of a threshold regression is used to quantify the contributions of tourism specialization to economic growth, while correcting for endogeneity between the regressors and error term. The significant impact of tourism specialization on economic growth in most regressions is robust to different specifications of tourism specialization, as well as to differences in real GDP measurement. However, the coefficients of the tourism specialization variables in the two regimes are significantly different, with a higher impact of tourism on economic growth found in the low regime. These findings do not change with changes in the threshold variables. The empirical results suggest that tourism growth does not always lead to substantial economic growth.

Keywords: International tourism, economic development, tourism specialization, threshold regression, instrumental variables, panel data, cross-sectional data.

JEL Classifications: C33, L83, O10, O40, O57.