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國際學碩士學位論文

# **Determinants of Tourism Demand in Latin America and the Caribbean:**

**Focusing on Political and Economic Factors**

중남미 관광 수요 결정 요인:  
정치, 경제적 요인을 중심으로

2015 年 2月

서울대학교 國際大學院

國際學科 國際地域學 專攻

全 주 람

# **Determinants of Tourism Demand in Latin America and the Caribbean:**

**Focusing on Political and Economic Factors**

A Thesis Presented

By

**Juram Jun**

to

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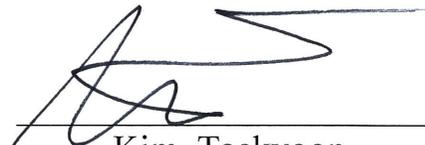
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### **Focusing on Political and Economic Factors**

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## **Abstract**

# **Determinants of Tourism Demand in Latin America and the Caribbean: Focusing on Political and Economic Factors**

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Tourism, as one of the fastest growing industries, is recognized as a major source for poverty alleviation through its receipts, job creation, investment, and other related effects. Because of its contribution to regional development, more developing and less developed countries are exerting efforts to tourism development. For the period 2005 to 2013, LAC has shown the slowest growth among emerging regions and the most of the tourists are from the Americas itself; however, contribution of tourism to the LAC regions' social and economic development is relatively higher than in other regions. Throughout the research, this paper seeks to answer the following questions

by focusing on the political and economic factors as obstacles of tourism development: “What are the obstacles for tourism development in LAC?” and “In order to attract tourists from different regions, which factors should be considered?”

In this paper, two comparative studies were conducted: (1) a comparison of determinants between tourism in all countries and LAC; and (2) a comparison of determinants of tourism in LAC by the tourists’ origin. Panel data for 133 countries and 24 LAC countries over the period 2003 to 2012 were used and country fixed-effect panel regression was employed.

As a result, it was found that tourists to LAC -who are more sensitive to economic factors than political factors- show different trend from the world’s general trends. Tourists to LAC have different consumption patterns based on their origin. European tourists prefer politically stable countries with less terrorism threats and corruption, more trade liberalization, and more FDI. American tourists tend to choose democratized countries and are affected by increasing trade activities. Lastly, tourists from Asia and the Pacific prefer countries which receive a large amount of foreign investment. Based on the results of comparative studies, some policy implications for tourists from distinct origins were proposed.

**Keywords:** Latin American and the Caribbean, Tourism, Fixed-Effects Panel Regression, Political Factors, Economic Factors, Region of Origin, Tourism Development

**Student Number:** 2013-22074

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# 1. Introduction

## 1.1 Motivation and Background

Tourism, as one of the fastest growing industries, has contributed to socio-economic development of destinations. In 1990, the total contribution of tourism to GDP<sup>1</sup> captured 5.5% of worldwide total GDP and it has grown rapidly, capturing 9.5% of total GDP (US \$6,990.3 billion)<sup>2</sup> in 2013. Its total contribution to employment was 8.9% of total employment, creating 265,855,000 jobs. Particularly, increase in the investment for tourism industry can be observed and it captured 5.4% of total investment in 2013.<sup>3</sup> Therefore, due to its impacts on GDP, job creation, investment and other related effects, tourism is recognized as a key driver of regional progress.<sup>4</sup> [Figure 1] demonstrates the growing importance of tourism in world economy.

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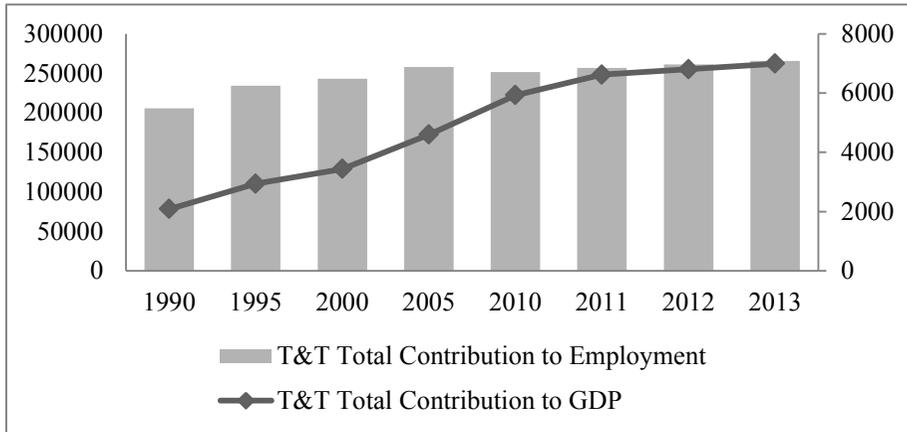
<sup>1</sup> Total contribution includes direct, indirect and induced contribution of travel and tourism to GDP. Direct contribution is direct spending on tourism industry, indirect contribution is caused by direct activities on tourism. Lastly, induced contribution is about GDP and jobs created by direct and indirect employment in tourism industry. (WTTC, 2014a), p. 3

<sup>2</sup> World Travel & Tourism Council(WTTC), Economic Data Search Tool, <http://www.wttc.org/focus/research-for-action/economic-data-search-tool/>

<sup>3</sup> WTTC (2014a), "Travel & Tourism Economic Impact 2014 World", London: WTTC, pp.2-5

<sup>4</sup> UN World Tourism Organization (UNWTO) (2014b), "UNWTO Tourism Highlights, 2014 Edition", Madrid: WTO, p.2

**[Figure 1] Contribution of Travel and Tourism to World Economy**



Data: WTTC<sup>5</sup>

\* Right axis is for T&T Total Contribution to GDP.

A number of definitions of tourism exist; however, The United Nations World Tourism Organization (UNWTO), the most authoritative organization, defines concepts of tourism as presented in [Table 1].

**[Table 1] Definition of Tourism<sup>6</sup>**

*“Tourism is a social, cultural and economic phenomenon which entails the movement of people to countries or places outside their usual environment for personal or business/professional purposes. These people are called visitors (which may be either tourists or excursionists; residents or non-residents) and tourism has to do with their activities, some of which imply tourism expenditure.”*

<sup>5</sup> WTTC Economic Data Search Tool

<sup>6</sup> UNWTO, Understanding Tourism: Basic Glossary, <http://media.unwto.org/en/content/understanding-tourism-basic-glossary> (Accessed January 22, 2015)

*“International tourism comprises inbound tourism plus outbound tourism, that is to say, the activities of resident visitors outside the country of reference, either as part of domestic or outbound tourism trips and the activities of non-resident visitors within the country of reference on inbound tourism trips.”*

*“Inbound tourism comprises the activities of a non-resident visitor within the country of reference on an inbound tourism trip.”*

(UNWTO, Understanding Tourism: Basic Glossary)

The subject of this paper is inbound tourism of international tourism; however, in order to understand the data used, another definition should be mentioned. For the statistical purpose on tourism, a new definition was prescribed in the WTO Ottawa Conference in 1991.

*“Tourism is the activities of persons traveling to and staying in places outside their usual environment for not more than one consecutive year for leisure, business and other purposes.”<sup>7</sup> (WTO Ottawa Conference on Travel and Tourism Statistics, 1991)*

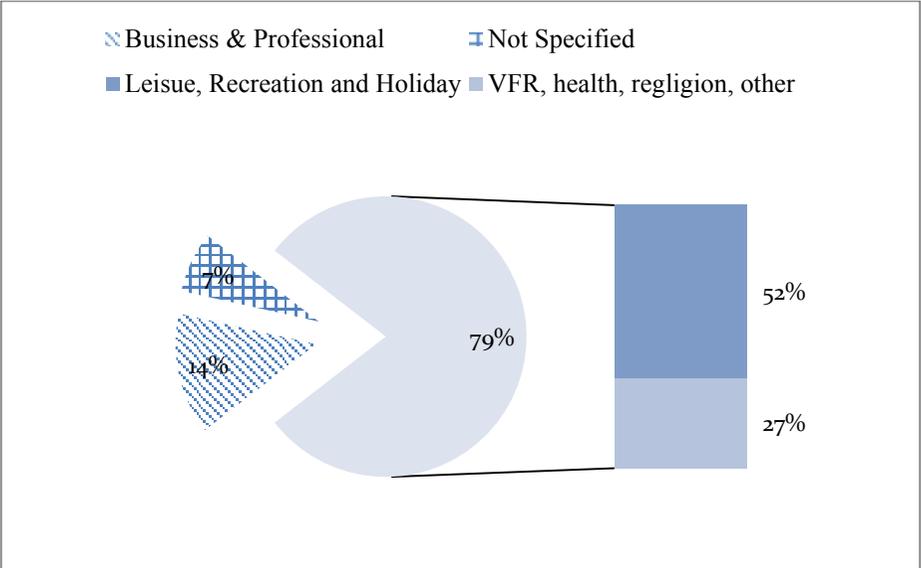
The definition indicates that “tourism data” includes not only tourism for

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<sup>7</sup> UNWTO (1995), "UNWTO technical manual: Collection of Tourism Expenditure Statistics", Retrieved 26 March 2009, p. 1

leisure or holiday which is tourism as a common perception but also tourism for other purposes like business and professional. According to the annual report of UNWTO, in 2013, about 80% of inbound tourists traveled for personal purposes and about 15% for business and professional purposes.<sup>8</sup>

**[Figure 2] Inbound Tourism by Purpose of Visit, 2013 (Share)**



Source: UNWTO<sup>9</sup>

Tourism is recognized as a major source for poverty alleviation through its receipts, job creation, investment, and other related effects. Since tourism is low-skilled labor-intensive industry, a wide range of people including poor, female, young and indigenous people can benefit from opportunities of employment and income generation. In addition, they may have opportunities to be trained for jobs and this may promote social progress

<sup>8</sup> UNWTO (2014b), p.5

<sup>9</sup> Ibid. Edited by author

of the person as well as the region.<sup>10</sup> The opportunity costs of developing tourism are relatively smaller than those of other industries. If the countries have abundant labors and natural and historical resources, they have comparative advantages in developing tourism.<sup>11</sup> As the importance and status of several emerging countries are increasing, the physical distance towards those countries can be regarded closer psychologically.<sup>12</sup> Thus, based on all these possibilities, more developing and less developed countries are exerting efforts to tourism development.

The demands for tourism all around the world have been increasing. In the past, the developed economies played the leading roles in tourism markets, receiving the most of arrivals. However, today, other regions such as Asia and the Pacific and Africa, are chasing the traditional tourism countries, showing remarkable growth rates in the market. [Figure 3] demonstrates the increase in number of arrivals and the reduced gap of preferences between advanced economies and emerging economies. In 1990, the differences between the regions were more than double; however, in 2013, they showed almost the same level.<sup>13</sup> For the period 2005 to 2013, tourism in Asia and the Pacific and Africa has annually grown at more than 6 % level while Latin America and the Caribbean has shown 3.9 % of growth which is the slowest among emerging economies as shown in [Table 2].

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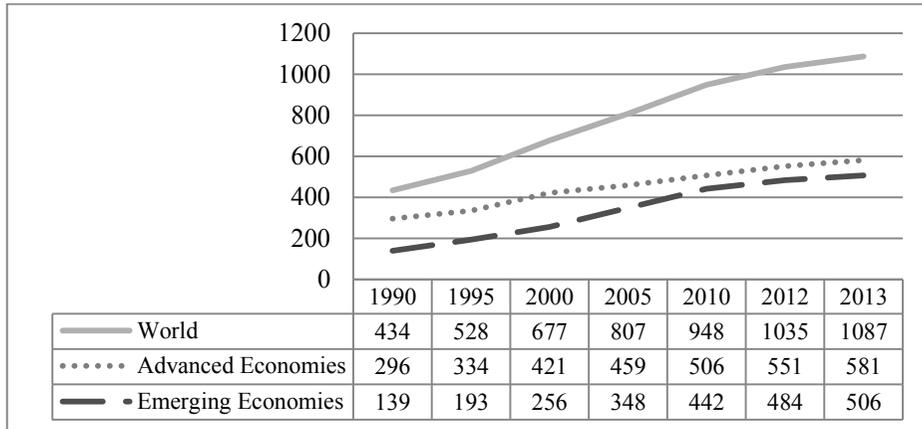
<sup>10</sup> Ernie Heath (2002), "Towards a model to enhance Africa's sustainable tourism competitiveness", *Journal of Public Administration: New Partnership for Africa's Development: Special Issue 1*, 37, 327-353, pp.333-334

<sup>11</sup> Habibullah Khan and Chua Chun Lin (2002), "International trade and tourism: Evidence from cointegration and causality tests by using Singapore Data", Paper presented at the The 33rd Annual Conference of Travel and Tourism Association (TTRA), pp. 1-2

<sup>12</sup> Geoffrey I. Crouch, & J. R. Brent Ritchie (1999), "Tourism, competitiveness, and societal prosperity", *Journal of business research*, 44(3), 137-152, pp. 149-150

<sup>13</sup> UNWTO (2014b), pp. 4-6

**[Figure 3] International Tourist Arrivals (Million)**



Source: UNWTO (2014)<sup>14</sup>

**[Table 2] Growth of International Tourist Arrivals**

	International tourist arrivals							Change (%)		Average Annual Growth (%)
	1990	1995	2000	2005	2010	2012	2013	12/11	13/12	05-13
<b>Europe</b>	261.1	304	388.2	448.9	484.8	534.4	563.4	3.6	5.4	2.9
<b>Asia/Pacific</b>	55.8	82	110.1	153.5	204.9	233.5	248.1	6.9	6.2	6.2
<b>North America</b>	71.8	80.7	91.5	89.9	99.5	106.4	110.1	4.2	3.5	2.6
<b>LAC<sup>15</sup></b>	21	28.3	36.7	43.4	51	56.3	57.8	5.1	2.9	<b>3.9</b>
<b>Africa</b>	14.7	18.7	26.2	34.8	49.9	52.9	55.8	6.6	5.4	6.1
<b>Middle East</b>	9.6	13.7	24.1	36.3	58.2	51.7	51.6	-5.4	-0.2	4.5

Source: UNWTO (2014)<sup>16</sup>

<sup>14</sup> Ibid. Edited by author

<sup>15</sup> Average of South America, Central America and the Caribbean

<sup>16</sup> UNWTO (2014b), pp. 4-6

## **1.2 Tourism in Latin America and the Caribbean**

Even though the growth of tourism in Latin America and the Caribbean is slower than that of other emerging economies, this industry is crucial for its regional development. The total contribution of tourism to GDP of South and Central America was US\$387.6 billion which was 8.8% of its total GDP and 8.0% of total employment was directly and indirectly related to tourism.<sup>17</sup> In case of the Caribbean, the contribution of tourism to GDP was US\$49.0 billion (14% of GDP) and tourism was supporting 11.3% of total employment.<sup>18</sup> Caribbean was the most dependent region on tourism in GDP and third in employment. Furthermore, South and Central America was also considerably dependent as shown in [Table 3].

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<sup>17</sup> WTTC (2014b), "Travel & Tourism Economic Impact 2014 Latin America", pp. 2-4

<sup>18</sup> WTTC (2014c), "Travel & Tourism Economic Impact 2014 Caribbean", pp. 2-4

[Table 3] Relative Contribution of Tourism in 2013 (Share)

Travel & Tourism's Total Contribution to GDP		2013 Share (%)	Travel & Tourism's Total Contribution to Employment		2013 Share (%)
1	<b>Caribbean</b>	14	1	Oceania	12.5
2	South East Asia	12.3	2	North Africa	11.6
3	North Africa	12.1	<b>3</b>	<b>Caribbean</b>	<b>11.3</b>
4	Oceania	10.8	4	North America	10.5
5	European Union	9	5	European Union	10
<b>6</b>	<b>Latin America</b>	<b>8.8</b>	6	South East Asia	9.7
7	North East Asia	8.6	7	North East Asia	8.3
8	North America	8.4	<b>8</b>	<b>Latin America</b>	<b>8</b>
9	Other Europe	7.5	9	South Asia	7.1
10	Sub Saharan Africa	6.9	10	Other Europe	6.5
11	Middle East	6.5	11	Middle East	6.5
12	South Asia	6.4	12	Sub Saharan Africa	5.8

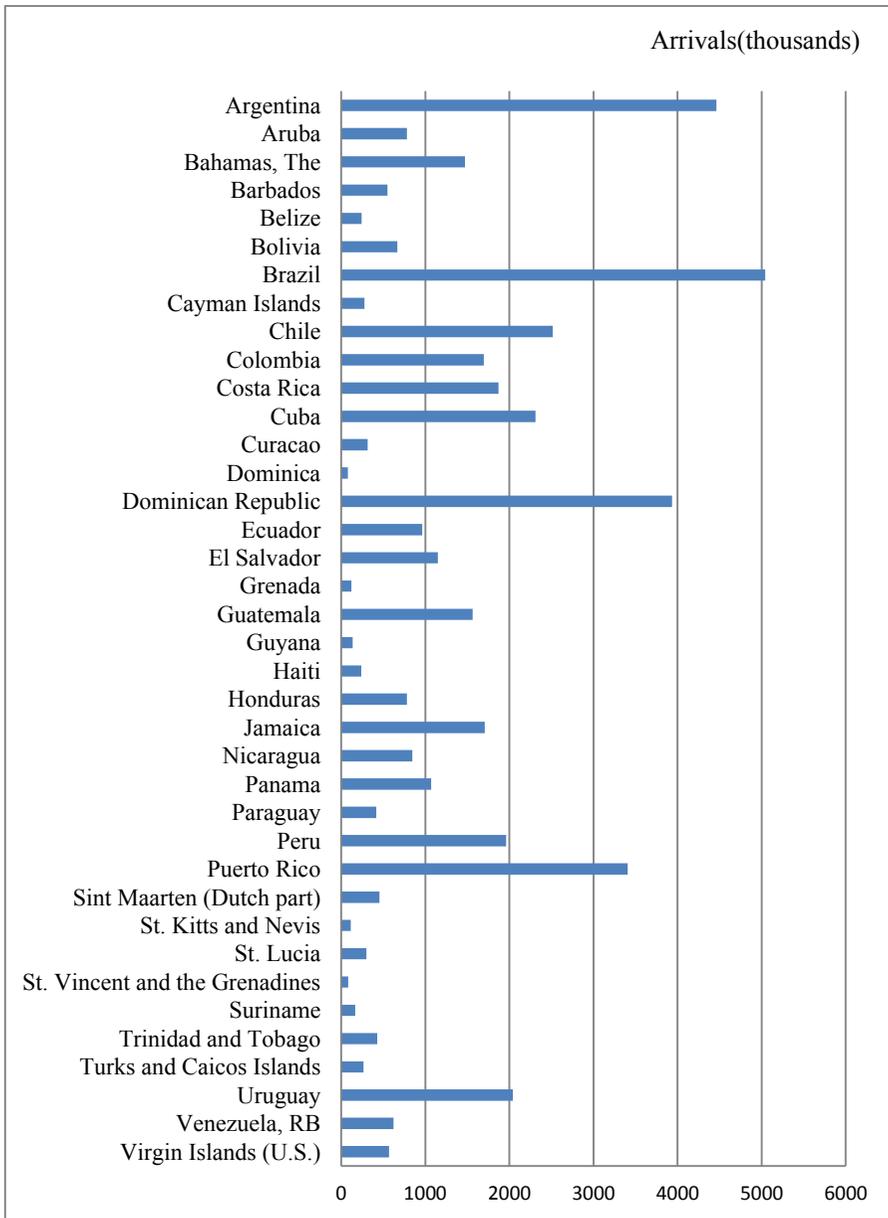
Source: WTTC<sup>19</sup>

Most of the tourists to LAC are from the Americas (80%), including the US and Canada, followed by tourists from Europe (15%) and few tourists from Asia and the Pacific and Middle East.<sup>20</sup> The most famous destination in the region is Mexico where more than 20 million tourists visited annually for the period 2003 to 2012. Besides Mexico, Brazil, Argentina, Dominican Republic, Puerto Rico are the most important destinations in LAC.

<sup>19</sup> WTTC (2014b), p. 8, Edited by author

<sup>20</sup> UNWTO (2014a), "Compendium of Tourism Statistics, Data 2008 – 2012, 2014 Edition", pp. 3-446 Calculated by author, Appendix 1

**[Figure 4] Tourist Arrivals to LAC (Annual Average, 2003-2012, except Mexico)**

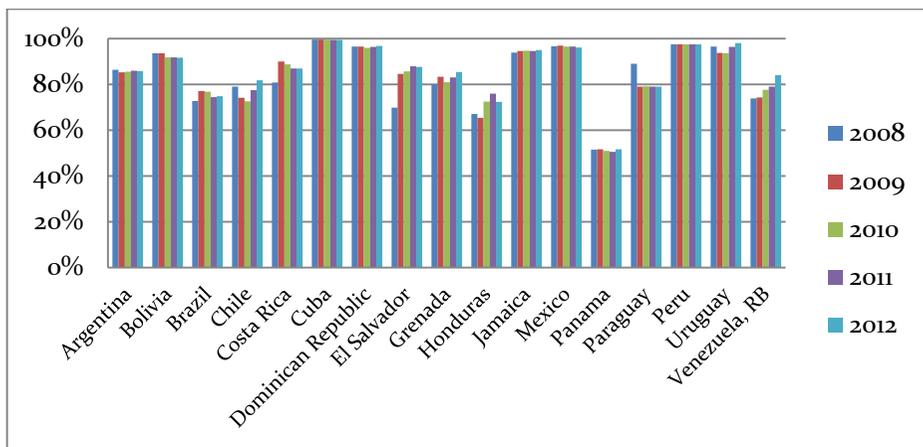


Source: World Bank<sup>21</sup>

<sup>21</sup> World Bank, World Development Indicators (WDI),

Most of the visitors to LAC come for personal purposes, such as leisure and holiday. [Figure 5] demonstrates the ratio of arrivals in LAC for personal purposes. In most of the cases, tourists for personal purposes capture more than 80% of total tourists.

**[Figure 5] Ratio of Arrivals in LAC for Personal Purposes (2008-2012, Share)**



Source: UNWTO<sup>22</sup>

The abundant tourist resources are the main drivers for arrivals. As tourists look for a new destination, the number of tourists to Third World destinations has been increasing. Yap and Saha (2013) found that politically stable and less corrupt countries tend to have slower tourism growth than that of unstable and corrupt countries.<sup>23</sup> In the case of LAC, Mexico and Brazil have a number of attractors, 32 and 19 attractors respectively, and they are the most preferred destinations. Nevertheless, there are exceptions like Dominican Republic (1) and Costa Rica (4) which attract tourists with few

<http://databank.worldbank.org/data/views/variableSelection/selectvariables.aspx?source=world-development-indicators>

<sup>22</sup> UNWTO (2014a), pp. 3-446

<sup>23</sup> Ghaiyal Yap and Shrabani Saha (2013), "Do political instability, terrorism, and corruption have deterring effects on tourism development even in the presence of UNESCO heritage? A cross-country panel estimate". *Tourism Analysis*, 18(5), 587-599, p. 588

resources. In case of Bolivia (7) and Peru (12) were less developed in spite of their possibilities. Furthermore, Africa and Middle East which have fewer resources are growing faster than LAC in tourism industry. This is shown in [Table 4] and [Table 5]. Therefore, it seems some other factors are present either to promote or disturb the choices of tourists.

**[Table 4] List of UNESCO World Heritage by Region**

<b>Region</b>	<b>WH</b>
Africa	89
Arab States	77
Asia and the Pacific	231
Europe and North America	479
<b>Latin America and the Caribbean</b>	<b>131</b>

**[Table 5] List of UNESCO World Heritage in LAC**

<b>Country</b>	<b>WH</b>	<b>Country</b>	<b>WH</b>
Argentina	9	Guatemala	3
Barbados	1	Haiti	1
Belize	1	Honduras	2
Bolivia	7	<b>Mexico</b>	<b>32</b>
<b>Brazil</b>	<b>19</b>	Nicaragua	2
Chile	6	Panama	5
Colombia	8	Paraguay	1
Costa Rica	4	Peru	12
Cuba	9	Saint Kitts and Nevis	1
Dominica	1	Saint Lucia	1
Dominican Republic	1	Suriname	2
Ecuador	5	Uruguay	1
El Salvador	1	Venezuela	3

Source: World Heritage List, UNESCO<sup>24</sup>

<sup>24</sup> UNESCO World Heritage Centre, <http://whc.unesco.org/en/list> (accessed January 6, 2015)

### **1.3 Research Question**

According to the information above, tourism industry is critical for Latin America and the Caribbean region for social and economic progress. However, the industry is growing slower than other emerging countries. This is partially because of the endowed tourist resources; yet, there are some parts that cannot be explained by that. Also, most of the tourists are from the Americas itself. These situations provide reasons to study the obstacles of tourism development of LAC and strategies to attract more tourists from other regions.

Based on the awareness of the situation, the research questions for this paper is as below:

- What are the obstacles for tourism development in LAC?
- In order to attract tourists from different regions, which factors should be considered?

## **2. Literature Review**

A number of researches on demand for tourism have addressed the increasing importance of tourism. These researches seek to find competitiveness of the destination which cannot be substituted and to apply the results to effective tourism policy making. They may be categorized into two types; one is about modeling of indicators to measure tourism competitiveness and the other is analyzing the relative importance of each indicator in a specific region. They are interdependent, so that researchers use indicators in the model to analyze destination determinants and these indicators again can be included in a different model.

### **2.1 Modeling of Tourism Competitiveness**

Researches for creating model of destination competitiveness have advanced in virtue of several prominent scholars. Crouch has developed his research on this area for more than 30 years and his studies became references for other studies.

Heath (2002)<sup>25</sup> developed the previous studies on destination competitiveness by emphasizing the roles of people as a key driver of successful tourism development and the “vital linkages” for communication

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<sup>25</sup> Heath (2002), pp. 337-350

and information sharing which may develop inclusive framework of “sustainable destination competitiveness”. He made the model on the basis of indicators which were suggested in the previous studies.

He built the house-formed model of four levels, like building a real house; “(1) the foundation, (2) the cement, (3) the building blocks and (4) the roof”. The foundations are the base of competitiveness including attractive resources, security and safety of the destination, tourism facilities and infrastructure. The cement works for connecting the relevant competitiveness by managing information and communication channels. The building blocks are necessary to actually build the house. In other words, building blocks help tourism to actually happen in the destination through appropriate policies and marketing strategies. Lastly, the roof makes the completion of the house in which the roles of stakeholders are emphasized.

Dwyer and Kim (2003)<sup>26</sup> created a model of destination competitiveness in order to investigate key factors and a way to find out factors to win in destination competitions. This model was established based on the research of Crouch and Ritchie and modified several aspects. The integrative model is composed of four categories; “(1) resources, (2) situational conditions, (3) destination management and (4) demand conditions”. Resources category is divided into two facets which are endowed resources and created resources. They represent tourist attractors, facilities

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<sup>26</sup> Larry Dwyer and Chulwon Kim (2003), “Destination competitiveness: determinants and indicators”, *Current issues in tourism*, 6(5), 369-414

and infrastructure in the destination. Situational conditions include micro and macro environment of the destination, like economic and political conditions, security and tourism business environment of the destination. Destination management involves factors related to management of tourism industry like marketing and policies. Demand factors consist of awareness, perception and preferences of destination. These factors build destination competitiveness which is the intermediate goal towards socio-economic prosperity of the region.

Based on these researches World Economic Forum has published Travel and Tourism Competitiveness Index (TTCI) Report since 2007. This has distinct characteristics from the previous mentioned studies in terms of the aim of the study. The previous studies focused on demand sides. In other words, they built model of tourism competitiveness to attract more arrivals. However, TTCI Report aims to give information on environment of tourism business, so that the competitiveness indicates that the possibility of success in tourism business on the destination.<sup>27</sup> TTCI is composed of three sub-indexes; “(1) the T&T regulatory framework, (2) the T&T business environment and infrastructure, (3) the T&T human, cultural, and natural resources”. These sub-indexes contain 14 pillars.<sup>28</sup>

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<sup>27</sup> Jennifer Blanke and Thea Chiesa, ed. (2011), “The Travel & Tourism Competitiveness Report 2011: Beyond the Downturn”, Geneva: World Economic Forum(WEF), pp. 3-9

<sup>28</sup> Appendix 2

## 2.2 Analysis of Tourism Determinants

In most of the researches on tourism determinants, scholars use proxy variables to represent indicators of each sector among the indicators included in competitiveness models and find out which indicator is relatively more important for a particular destination.

Naudé and Saayman (2005)<sup>29</sup> analyzed the determinants of tourist arrivals in 43 African countries employing a panel data regression for the period 1996 to 2000. As dependent variables which represent the tourism demands of the region, they used data for tourists arrivals to Africa by region of origin; tourists from Europe, the Americas and Africa itself. Independent variables represent characteristics of the destination: adjusted CPI of a destination for price competitiveness, number of internet users for tourism marketing, relative number of hotel rooms for tourism infrastructure and so on.<sup>30</sup> The researchers have found that while tourists have different consumption patterns by their nationality, general characteristics for tourism in Africa are also observed. The tourists are not affected by price competitiveness, yet by political and social stability and marketing.

Bolaky (2009)<sup>31</sup> made an econometric study of tourism

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<sup>29</sup> Wim Naudé and Andrea Saayman (2005), “Determinants of tourist arrivals in Africa: a panel data regression analysis”. Published in: *Tourism Economics*, Vol. Tourism, No. 3 : pp. 365-391

<sup>30</sup> Naudé & Saayman (2005), pp.13-15

<sup>31</sup> Bineswaree Bolaky (2009), “An Econometric Study of the Determinants of Tourism Competitiveness in the Caribbean”, Santiago: Economic Commission for Latin America and

competitiveness in the Caribbean for the period of 1995 to 2006 by applying the competitiveness model of Dwyer and Kim (2003) and Tourism Competitiveness Index (TCI) of WTTC. Dependent variables are the share of tourists from the UK, the US, and Canada to Caribbean destination countries in total outbound tourism of the three countries. Each independent variable represents one of the sectors: namely, price competitiveness, infrastructure, environment, technology, industrial and social aspects, and others. For example, real exchange rate as the ratio of the price level in the tourists' origin is used for price competitiveness, population density for environment, and domestic credit to private sector as share of GDP for industrial organizational factors.<sup>32</sup> Bolaky concluded that more tourists to the Caribbean from the UK, the US and Canada tend to visit the region when the destination has price competitiveness, improved social and technological environment, increase in investment and credit to private sector, reduction of trade and problems of health and natural disasters.

While a number of researches so far were conducted by using various variables of different sectors, Neumayer (2004)<sup>33</sup> focused on political factors which affect decision of destinations. He intended to make his study be the first quantitative study which comprehensively explains the impact of

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the Caribbean (ECLAC), Available at SSRN 1527345

<sup>32</sup> Bolaky (2009), pp. 8-14

<sup>33</sup> Eric Neumayer (2004), "The impact of political violence on tourism dynamic cross-national estimation", *Journal of Conflict Resolution*, 48(2), 259-281

political violence on tourism ranging from terrorism to revolution at the global level for the period 1977 to 2000. He argued that violation of human rights, political violent events would decrease the tourist arrivals.

As mentioned above, contribution of tourism to the LAC regions' social and economic development is relatively higher than other regions and the dependency on tourism in LAC is considerably high. However, only few researches have been conducted on tourism demands for countries in LAC as a whole. Some researches on the region deal with narrower regions like focusing on a country. For instance, Kevin Harriott (2009)<sup>34</sup> studied about Jamaican tourism competitiveness by finding the main indicators which influence tourism industry and measuring the relative importance of the indicators. This way they sought to suggest how to increase the revenues from tourism industry. Ritchie and Crouch (2010)<sup>35</sup> made research on tourism competitiveness in Brazil by adopting their previous studies on tourism competitiveness to the context of Brazil. Crist Inman et al. (2002)<sup>36</sup> analyzed tourism in Costa Rica from the perspective of tourism cluster with comparative advantages and emphasized that tourism development focused on eco-tourism.

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<sup>34</sup> Kevin Harriott (2009), "Identifying the Drivers of Competitiveness in the Jamaican Tourism Industry", Fair Trading Commission, Kingston, Jamaica

<sup>35</sup> Geoffrey I. Crouch, & J. R. Brent Ritchie (2010), "A model of destination competitiveness/sustainability: Brazilian perspectives", *Revista de Administração Pública*, 44(5), 1049-1066

<sup>36</sup> Crist Inman et al. (2002), "Tourism in Costa Rica: The Challenge of Competitiveness", Centro Latinoamerica para la Competividad y el Desarrollo Sostenible (CLACDS), INCAE Business School

Tourism in a LAC country can lead to tourism in neighboring countries. Therefore, by discovering the characteristics of the whole LAC tourism, it would be possible to establish more effective strategies to attract more arrivals to the region. This paper recognizes that demands for tourism are affected by direct factors such as tourist resources but also indirect factors. According to the TTCI result for LAC countries, they lag behind in the sector of regulatory framework which is related to policies. Hence, studying the obstacles of tourism industry development focusing on political and economic factors can be meaningful.

**[Table 6] TTCI Rankings for LAC (2011)**

<b>Countries</b>	<b>Regulatory Framework</b>	<b>Business Environment and Infrastructures</b>	<b>Human, Cultural, and Natural resources</b>
Argentina	72	70	35
Bolivia	133	111	67
Brazil	80	75	11
Chile	48	56	62
Colombia	102	92	39
Costa Rica	47	58	33
Dominican Republic	63	69	89
Ecuador	93	93	64
El Salvador	84	79	124
Guatemala	103	81	58
Honduras	90	80	77
Jamaica	55	59	87
Mexico	74	61	13
Nicaragua	105	104	84
Panama	52	52	57
Paraguay	107	122	130
Peru	87	82	34
Trinidad & Tobago	100	51	111
Uruguay	30	71	60
Venezuela, RB	120	96	99
<b>Average</b>	<b>82.25</b>	78.1	66.7

Source: TTCI<sup>37</sup>

<sup>37</sup> Blanke & Chiesa (2011), p. xvii Edited by author

### **3. Analytical Framework**

In this paper, two comparative studies were conducted: (1) a comparison of determinants between tourism in all countries and LAC; and (2) a comparison of determinants of tourism in LAC by the tourists' origin. Based on the literature review, this paper focuses on political and economic factors as obstacles of tourism development in LAC which have been rarely studied in the past.

#### **3.1 Methodology**

##### **3.1.1 Data and Variables**

The total number of international tourist arrivals is used to represent the demand for tourism. The approach of Naudé and Saayman (2005) for African countries was adopted for LAC countries by categorizing tourists to LAC into three groups: tourists from Europe, the Americas and Asia and the Pacific. For two comparative studies total five dependent variables were used: tourist arrivals to 133 countries, arrivals to 24 LAC countries, and three groups of tourists to LAC countries. Due to the lack of data, some countries were excluded.

Independent variables for political and economic factors indicators suggested in competitiveness models such as researches of Dywer and Kim

(2003) and TTCI were brought together. Crouch and Ritchie (1999) emphasized situational conditions as qualifiers which strengthen and reduce the tourism competitiveness. Situational conditions include location, dependence with other destinations, security, cost, and others.<sup>38</sup> Dwyer and Kim (2003) included “political stability, legal/regulatory environment, level of visitor safety in destination, the global business context, investment environment for tourism development and value for money in destination tourism”.<sup>39</sup> TTCI includes pillars of “policy rules and regulations, environmental sustainability, safety and security, health and hygiene, prioritization of T&T” for regulatory framework and “price competitiveness in the T&T industry” is included in business environment and infrastructure sub-index.<sup>40</sup> These pillars represent the roles of FDI in the country’s business, corruption rates, trade regulations and others.<sup>41</sup>

Among a number of indicators included in the above models, regime types, scale of terrorism, control of corruption, FDI share of GDP, trade openness, gross capital formation of GDP were used as proxy variables for situational conditions. Neumayar (2004) used regime types and political terrorism scale in order to investigate the impact of political stability and

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<sup>38</sup> Crouch & Ritchie (1999), pp. 149-150

<sup>39</sup> Dwyer & Kim (2003), p. 403

<sup>40</sup> Jennifer Blanke and Thea Chiesa, ed. (2013), “The Travel & Tourism Competitiveness Report 2013: Reducing Barriers to Economic Growth and Job Creation”, WEF, p.8

<sup>41</sup> Jennifer Blanke, Thea Chiesa, and Roberto Crotti (2013), “The Travel & Tourism Competitiveness Index 2013: Contributing to National Growth and Employment”, in Travel and & Tourism Competitiveness Report 2013: Reducing Barriers to Economic Growth and Job Creation, ed. Jennifer Blanke and Thea Chiesa, WEF, pp. 27-33

violence on tourism. Data for regime types is sourced from Freedom House (FH) and coded by Aarhus Universitet and it is available for the period 1972 to 2012. This was used to test whether the rate of democratization affects tourism demand. It categorizes the regime types into six groups: liberal democracies, polyarchies, electoral democracies, minimalist democracies, multi-party autocracies, and closed autocracies. This deals with the possibility of party politics and fair elections.<sup>42</sup> Each type is given score in the research, where liberal democracies 6 and closed autocracies 0<sup>43</sup>.

Global Terrorism Database (GTD) offers data for terrorism for the period 1970 to 2013. It contains information for each terrorism events; however, it is hard to test whether the region is in danger at which level. Data from Political Terror Scale (PTS) categorized the countries into five levels where level 5 is for countries where terrorism threat is prevalent nationwide and 1 for countries under a secure rule of law. This is estimated by Amnesty International and the US State Department Country Reports on Human Rights Practices<sup>44</sup> and an average of two data are used in this paper.

Mekinc, Kociper and Dobovšek (2013) discovered that corruption directly influences on sustainable tourism development.<sup>45</sup> Transparency

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<sup>42</sup> Neumayer (2004), p. 18

<sup>43</sup> Institut for Statskundskab, Aarhus Universitet, <http://ps.au.dk/forskning/forskningsprojekter/dedere/datasets/> (accessed January 26. 2015)

<sup>44</sup> Political Terror Scale, <http://www.politicalterrorscale.org/about.php> (accessed January 26. 2015)

<sup>45</sup> Janez Mekinc, Tina Kociper and Bojan Dobovšek (2013) "The Impact of Corruption and Organized Crime on the Development of Sustainable Tourism", *Journal of Criminal Justice and Security*(2), 218-239

International publishes Corruption Perception Index (CPI) every year. However, the manner of estimation was changed in 2012 and it cannot be used as time-series data. Data of Control of Corruption from Worldwide Governance Indicators (WGI) of World bank were used as an alternative. The range of the estimates is from -2.5 to 2.5 where the larger the number is, the lesser corrupted countries are.

FDI is one of the most effective sources for developing tourism by fostering infrastructure and international tourism marketing; however, it causes some problems at the same time, such as increasing dependence and destruction of the ecosystem. Therefore, FDI inflows are the critical variables for tourism industry.<sup>46</sup> Trade of goods and services enhances tourism development and also the growth of tourism promotes more countries to open for international trade. Bolaky (2009) used degree of trade openness to represent industrial organization advantages and found that in the case of Caribbean countries, trade openness has negative effects on tourism demand while a number of researches stated that trade liberalization is a vehicle of tourism development. For price competitiveness, real exchange rate (Bolaky 2009, Neumayer 2004) and CPI (consumer price index) (Naudé and Saayman 2005) are mostly used. However, inflation of the destination is more appropriate to show direct and present value for money in destination. Data for economic factors are all from World Development Indicator in World Bank.

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<sup>46</sup> UN Conference on Trade and Development (UNCTAD) (2007), "FDI in Tourism: The Development Dimension", New York and Geneva: United Nations, pp. 6-7

### 3.1.2 Basic Regression Equation

A panel data used in this paper include 133 countries worldwide and 24 LAC countries over the period 2003-2012. Using panel data models is more advantageous than using cross-section or time-series models because the panel data contain more dynamic information and can control problems of heterogeneity. Panel Data are today available in developing countries as well as developed countries.<sup>47</sup> Fixed-effect model is preferred to pooled OLS regression because some unobservable variables may be correlated with independent variables. Especially, since the countries in LAC have different characteristics, such as locations, economies, climates, it is needed to control those factors.<sup>48</sup> Therefore, in order to control the country specific effects, County Fixed-Effect Model was employed. [Table 7] and [Table 8] show the regression equations and variables used in this paper.

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<sup>47</sup> Hsiao, Cheng (2003) "Analysis of panel data", Vol. 34, Cambridge University Press, pp.1-4

<sup>48</sup> Juan Luis Eugenio-Martín, Noelia Martín Morales and Riccardo Scarpa (2004), "Tourism and Economic Growth in Latin American Countries: A Panel Data Approach", Fondazione Eni Enrico Mattei, pp.6-7

[Table 7] Basic Regression Equations

Comparative study 1: determinants of tourism in all countries and LAC	
$Lnarr_{it} = \alpha + \beta_1 Regime_{it} + \beta_2 Terror_{it} + \beta_3 CoC_{it} + \beta_4 Inflation_{it} + \beta_5 FDI_{it} + \beta_6 Openness_{it} + \varepsilon$	
Comparative study 2: determinants of tourism in LAC by the origin of tourist	
$Lneu_{it} = \alpha + \beta_1 Regime_{it} + \beta_2 Terror_{it} + \beta_3 CoC_{it} + \beta_4 Inflation_{it} + \beta_5 FDI_{it} + \beta_6 Openness_{it} + \varepsilon$	
$Lname_{it} = \alpha + \beta_1 Regime_{it} + \beta_2 Terror_{it} + \beta_3 CoC_{it} + \beta_4 Inflation_{it} + \beta_5 FDI_{it} + \beta_6 Openness_{it} + \varepsilon$	
$Lnasi_{it} = \alpha + \beta_1 Regime_{it} + \beta_2 Terror_{it} + \beta_3 CoC_{it} + \beta_4 Inflation_{it} + \beta_5 FDI_{it} + \beta_6 Openness_{it} + \varepsilon$	

[Table 8] Dependent and Independent Variables

Dependent variables (Log)		Data Source
Total tourist arrivals to all countries (133 countries)		UNWTO
Total tourist arrivals to LAC (24 countries)		
Tourist arrivals to LAC from EU		
Tourist arrivals to LAC from the Americas		
Tourist arrivals to LAC from Asia and the Pacific		
Independent variables		
Political Factors	<b>Regime:</b> Regime Score (1- 6)	Freedom House
	<b>Terror:</b> Political Terror Scale Levels (1 - 5)	PTS
	<b>CoC:</b> Estimates of Control of corruption (-2.5 - 2.5)	WB (WGI)
Economic Factors	<b>Inflation:</b> Inflation, consumer prices (annual %)	WB (WDI)
	<b>FDI:</b> Foreign direct investment, net inflows (% of GDP)	WB (WDI)
	<b>Openness:</b> Trade (% of GDP)	WB (WDI)

## 3.2 Hypothesis

Through two comparative studies, four hypotheses are analyzed. One is for study 1 which is a comparison of determinants between tourists to 133 countries and 24 LAC countries. The rest three are for study 2 and one hypothesis for one group of tourist arrivals to LAC.

- H1. Tourist arrivals to LAC are sensitive to political stability more than arrivals to all countries.
- H2. Corruption negatively affects tourism demands of LAC region, especially for the European tourists.
- H3. The tourists from the Americas would more likely be affected by trade openness than those from other regions.
- H4. Tourists from Asia and the Pacific would be more positively affected by FDI inflows than those from other regions.

Developing countries or less developed countries are more likely to be exposed to political violence. When the purpose of tourism is relaxation or other personal purposes, tourists may choose alternative destinations where their safety is guaranteed.<sup>49</sup> As mentioned above, the main purposes to visit LAC is for leisure and holidays and only few cases for business and

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<sup>49</sup> Neumayer (2004), p.5

professional purposes. LAC historically has been at the center of violence such as guerrilla, coups d'état, terrorism which are related to political instability. The instability or frequent changes of regimes can cause serious violence in the region. In the case of Central America which is one of the most violent regions, it was negatively affected by transition of regimes from authoritarian to democracies.<sup>50</sup> Therefore, tourists to LAC are possibly affected by political factors more than economic factors. This may be different from the general trends of tourists to all countries since the developed economies take large share of total tourism demand.

The corruption which is one factor of the political instability may negatively affect the tourism demands for LAC countries, especially tourists from Europe may be affected more than tourists from other regions. When a country is politically corrupt it possibly can be a source of public turmoil due to the conflicts between corrupt politicians and the citizens of the country.<sup>51</sup> The corrupt destination may require extra payments for bribery. This money is probably used to expedite the visa issuance procedure. As a result, the tourists from advanced countries who are not familiar with corrupt behavior would choose an alternative region under secure rule and law.<sup>52</sup>

Trade and tourism are in the relationship of interdependence. When

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<sup>50</sup> Joaquín Villalobos (2012), "Violence in Central America", in "Rethinking the "War on Drugs" Through the US-Mexico Prism", ed. Ernesto Zedillo and Haynie Wheeler, Yale Center for the Study of Globalization at Yale University in New Haven, p. 67

<sup>51</sup> Yap & Saha (2013), p.588

<sup>52</sup> Marie Poprawe (forthcoming), "A Panel Data Analysis of the Effect of Corruption on Tourism", Applied Economics, p.4

the economies are open to other markets, it is easier to lead to tourism development. On the other way, when tourism is developed, more trade would be needed in order to satisfy the demands for tourism commodities.<sup>53</sup> Latin America and the Caribbean made the most amount of trade through intra-regional trade in the Americas.<sup>54</sup>

**[Table 9] Inter- and Intra- Regional Merchandise Trade of LAC**

		Destination					
		North America	South/Central America	Europe	Africa	Middle East	Asia
South/Central America	2012 <sup>55</sup>	<u>24.9</u>	<u>26.9</u>	17.0	2.8	2.3	23.0
	2013 <sup>56</sup>	<u>24.2</u>	<u>26.6</u>	16.4	2.7	2.5	24.1

Source: WTO

South-South cooperation in tourism development has been increasing. Especially, transnational corporations (TNCs) are the major sources for tourism development. For example, UNCTAD made a list of the top 100 non-financial TNCs from developing and transition economies in 2012 which was ranked by foreign assets. About five Asian TNCs included in the list are related to tourism industry. Malaysian corporation, Genting Bhd, ranked 28 and is operating business for consumer services such as casinos, resorts and

<sup>53</sup> Khan & Lin (2002), p. 2

<sup>54</sup> World Trade Organization (WTO) (2014), "International Trade Statistics 2014", Geneva: WTO, p. 23

<sup>55</sup> WTO (2013), "International Trade Statistics 2013", p.21 Edited by author

<sup>56</sup> WTO (2014), p. 23 Edited by author

other tourist complex.<sup>57</sup> Other corporations of Hong Kong, India, and Singapore also foster tourism industry in the world.<sup>58</sup>

Asia and the Pacific and LAC are in complementary relationships in order to enhance their abilities and reduce the dependence on developed countries. FDI flows between two regions have grown since 2004.<sup>59</sup> Though the main sector of Asian investment to LAC is metal and auto OEM<sup>60</sup>, the increase in FDI between two regions would increase the tourism business. Since only a number of Asian tourists visit LAC, there are more possibilities for them to travel for more official reasons. Thus, the hypothesis supposes that increase in FDI regardless of the sectors would positively affect destination decision of tourists from Asia and the Pacific.

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<sup>57</sup> Genting Group, Group Profile, <http://www.genting.com/groupprofile/gent.htm> (accessed January 26, 2015)

<sup>58</sup> Topforeignstocks.com, The Top 100 Non-Financial TNCs from Developing and Transition Economies Ranked by Foreign Assets, posted by David on 9 September 2014, 3:27am, <http://topforeignstocks.com/2014/09/09/the-top-100-non-financial-tncs-from-developing-and-transition-economies-ranked-by-foreign-assets/> (accessed January 26, 2015)

<sup>59</sup> Asian Development Bank (ADB), Inter-American Development Bank (IDB) and Asian Development Bank Institute (ADBI) (2012), "Shaping the Future of the Asia and the Pacific-Latin America and the Caribbean Relationship", p.79

<sup>60</sup> ADB et al. (2012), p.87

## 4. Regression Results and Interpretations

### 4.1 Comparative study: Determinants of Tourism in all countries and LAC

#### 4.1.1 Empirical Result

[Table 10] The Result of the Regression for Comparative Study 1

	Arrivals to all countries	Arrivals to LAC
<b>Regime</b>	0.057** (2.15)	-0.005 (-0.10)
<b>Terror</b>	-0.043* (-1.82)	-0.114*** (-2.66)
<b>CoC</b>	0.077 (1.21)	0.131 (0.93)
<b>Inflation</b>	-0.002 (-0.92)	<b>-0.017***</b> <b>(-4.72)</b>
<b>FDI</b>	0.002 (1.36)	<b>0.006**</b> <b>(2.17)</b>
<b>Openness</b>	0.004*** (4.88)	0.006*** (2.92)
<b>Obs.</b>	1123	186
<b>R-sq.</b>	0.0413	0.2259

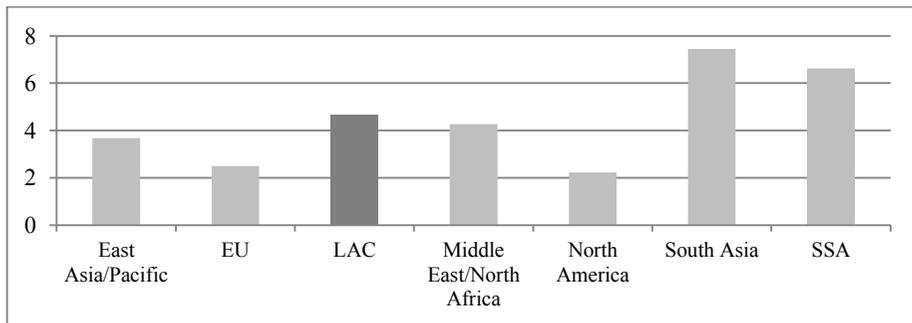
The result indicates that tourist arrivals to 133 countries are sensitive to regime type, terrorism threat and trade openness. Arrivals to LAC are sensitive to terrorism, inflation, FDI, and trade openness. Even though terrorism is the most significant factors for LAC's tourism, generally economic factors have influence on tourism destination choice to LAC. It

indicates that the high inflation rate deters tourism while high FDI and trade openness rate increase the tourism demands.

### 4.1.2 Interpretations

This may be due to the high inflation rate of LAC comparing with other regions. Europe and North America are the traditional tourism destinations and East Asia and the Pacific are the most emerging tourism destination. Inflation rate of Latin America and the Caribbean is higher than those regions, following Sub-Saharan Africa and South Asia.

**[Figure 6] Inflation by region (2003-2012, Annual %)**



Source: World Bank (WDI)

The amount and percentage of FDI inflows to LAC is in increasing trends while investment inflows to advanced economies, like EU and the US, are in decreasing trends.<sup>61</sup>

<sup>61</sup> ECLAC (2014), “Foreign Direct Investment in Latin America and the Caribbean, 2013”, (LC/G.2613-P), Santiago: ECLAC, pp.20-21

**[Table 11] FDI inflows by region (Billions of Dollars)**

	<b>2005-2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
EU	623	359	379	473	207	286
US	216	144	198	227	168	159
<b>LAC</b>	<b>102</b>	<b>84</b>	<b>129</b>	<b>170</b>	<b>177</b>	<b>188</b>
Africa	44	53	44	46	53	56
Developing Asia	321	325	401	439	409	406

Source: ECLAC(ECLAC, 2014)<sup>62</sup>

In 2013, services sector received about 38% of the total FDI, followed by manufacturing (36%) and natural resources (26%).<sup>63</sup> In terms of investment flows, FDI to tourism in services sector takes smaller share than other sectors like finance and telecommunications.<sup>64</sup> However, it has great impacts on employment in LAC by creating numerous jobs in the sector of tourism. In services sector, tourism-related activities, such as transport and personal services, create the second most employment, following commerce activities.<sup>65</sup>

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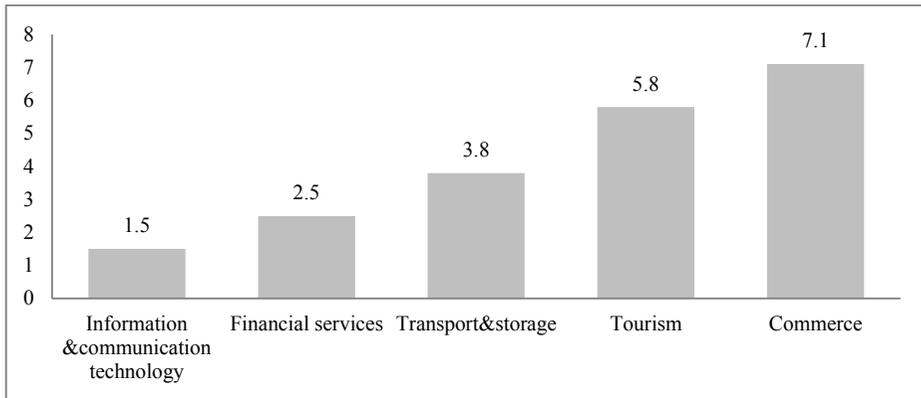
<sup>62</sup> Ibid. ECLAC on the basis of official figures; United Nations Conference on Trade and Development (UNCTAD), World Investment Report 2013; Global Value Chains: Investment and Trade for Development (UNCTAD/WIR/2013), Geneva, June 2013; and Global Investment trends Monitor, No. 15, Geneva, 2014, Edited by author

<sup>63</sup> ECLAC (2014), p. 25

<sup>64</sup> ECLAC (2014), pp.25-28

<sup>65</sup> ECLAC (2014), p.126

**[Figure 7] Job Creation Associated with FDI in Services Sector**



Source: ECLAC<sup>66</sup>

<sup>66</sup> Ibid. ECLAC on the basis of “fDi Markets”, Financial Time, Edited by author

## 4.2 Comparative study: Determinants of Tourism in LAC by the Origin of Tourist

### 4.2.1 Empirical Result

[Table 12] The Result of the Regression for Comparative Study 2

	Total arrivals	Arrivals from Europe	Arrivals from Americas	Arrivals from Asia/Pacific
<b>Regime</b>	-0.005 (-0.10)	<b>-0.107**</b> <b>(-2.10)</b>	<b>0.131*</b> <b>(1.83)</b>	0.083 (1.11)
<b>Terror</b>	-0.114*** (-2.66)	<b>-0.147***</b> <b>(-3.04)</b>	-0.042 (-0.61)	-0.061 (-0.89)
<b>CoC</b>	0.131 (0.93)	0.146 (0.93)	0.046 (0.20)	-0.083 (-0.38)
<b>Inflation</b>	-0.017*** (-4.72)	-0.019*** (-4.57)	-0.021*** (-3.36)	-0.021*** (-3.33)
<b>FDI</b>	0.006** (2.17)	<b>0.007**</b> <b>(2.02)</b>	0.005 (1.00)	<b>0.011**</b> <b>(2.43)</b>
<b>Openness</b>	0.006*** (2.92)	<b>0.009***</b> <b>(3.04)</b>	<b>0.010**</b> <b>(2.38)</b>	0.004 (0.97)
<b>Obs.</b>	186	179	182	170
<b>R-sq.</b>	0.2259	0.2456	0.1357	0.1331

The result indicates that tourists to LAC have different consumption patterns depending upon the tourists' nationalities. Regime type is significant determinants of tourist arrivals from Europe and America (at 5% and 10% level respectively) while the signs are different. For European tourists, high regime score works as a deterrent to tourism; yet, for American tourists, it works as a promoter. Only European tourists are sensitive to terrorism threat

while control of corruption does not have any effects on tourism demand for tourists from all groups.

The economic factors seem to have more significant impacts on tourism competitiveness. Higher inflation rate of the destination is found to depress demands for tourism in the region while FDI and trade openness foster tourism competitiveness. Increase in FDI inflows to LAC would attract more tourists from Europe and Asia and the Pacific. When the destination markets are open, it has positive impacts on tourists from Europe and the Americas.

## **4.2.2 Interpretations**

### *Regime Type*

The different impacts of regime type between tourists from Europe and the Americas may be attributed to the different preference of destination between the two regions. [Table 13] shows that while European tourists prefer Cuba and Venezuela as destinations which are non-democratic countries, tourists from the Americas relatively prefer more democratic countries.

[Table 13] Ranking of Tourist Arrivals

	Arrivals from Europe (10years Average)			Arrivals from the Americas (10years Average)		
	Country	Arrivals	Regime	Country	Arrivals	Regime
1	Brazil	1787600	4.8	Mexico	19796800	4
2	Mexico	1277889	4	Argentina	3592400	5
3	Dominican Republic	1251200	4.8	Brazil	2689300	4.8
4	<b>Cuba</b>	<b>940200</b>	<b>1</b>	Dominican Republic	2088200	4.8
5	Argentina	671700	5	Chile	1978300	6
6	Peru	396800	4	Uruguay	1681900	6
7	Chile	379700	6	Costa Rica	1580900	5.9
8	<b>Venezuela, RB</b>	<b>274166.7</b>	<b>2.5</b>	Jamaica	1441600	4
9	Costa Rica	262400	5.9	Peru	1431900	4
10	Jamaica	255700	4	<b>Cuba</b>	<b>1378700</b>	<b>1</b>

Source: UNWTO

This trend is partially affected by the discrimination for tourists from the US in some LAC countries since the US tourists capture the large share of the LAC tourism. For example, the US broke off diplomatic relations with Cuba in 1961 and the tourism of US people to Cuba was banned until 2011 when the US announced changes in regulations to increase purposeful travel. Today, the tourism between two countries is possible; nevertheless, still more rigid constraints are applied for the US tourists than tourists from other countries.<sup>67</sup> Several LAC countries impose more rigid regulation for the US tourists to visit their countries by requiring visa, charging more costs for visa and reducing the possible length of stay. [Table 14] shows the example of discrimination on tourism regulation for the US tourists in Bolivia.

<sup>67</sup> Bureau of Western Hemisphere Affairs, US Relations With Cuba, 2013, <http://www.state.gov/r/pa/ei/bgn/2886.htm> (accessed January 26, 2015)

[Table 14] Visa Requirements to Enter Bolivia<sup>68</sup>

	Passport required	Return ticket required	Visa required	Visa costs
Australian	Yes	Yes	No	-
British	Yes	Yes	No	-
Canadian	Yes	Yes	No	-
Europe	Yes	Yes	No*	Free*
USA	Yes	Yes	Yes	Tourist visa: US\$ 160 Specific purpose visa: US\$85

\* Bulgaria, Cyprus, Malta and Romania require a visa to enter Bolivia.

### *Terror*

LAC has been historically exposed to terrorism threats by participating and supporting terrorism activities. According to the data from PTS, Colombia, Brazil, Mexico, Jamaica, and Dominican Republic are the top five threatened countries in the region. Those countries are preferred by tourists from both Europe and the Americas; however, the regression result indicates that only European tourists are sensitive towards terrorism threats. It may be attributed to European tourists' destination preference to terrorism supporting countries, Cuba and Venezuela. Cuba has supported revolutionary movements in Latin America and Africa, hosted members of foreign terrorist organizations and worked as a safe haven to members of violent groups, such as the Basque Fatherland and Liberty (ETA) and the Revolutionary Armed Forces of Colombia (FARC). In addition to supporting terrorism, the country

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<sup>68</sup> World Travel Guide, <http://www.worldtravelguide.net/bolivia/passport-visa> (accessed January 26, 2015)

has been threatened by terrorist events. For example, bombing events in a tourist area in Havana caused casualties which included an Italian man.<sup>69</sup> Venezuela also has supported guerrilla groups and made relationships with Iran.<sup>70</sup> Therefore, European tourists who prefer those two countries tend to be easily affected by the increase in terrorism threat.

On the other hand, tourists from the Americas have better knowledge on the terrorism risks in the destination countries of the same region. As countries in the same region, the countries in the Americas tend to recognize the reality more easily than tourists from a long way. The US has been playing the leading role in reducing the terror attacks and casualties. For example, it listed some LAC countries including Cuba and Venezuela as countries uncooperative in US antiterrorism efforts.<sup>71</sup> In addition, US Passport & International Travel gives information about warning and alerts<sup>72</sup> on countries in danger, including some LAC countries.

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<sup>69</sup> Mark P. Sullivan and June S. Beittel (2014), "Latin America: Terrorism Issues", CRS Report, RS21049, pp. 8-11

<sup>70</sup> Sullivan & June, 2014, pp. 13-15

<sup>71</sup> Sullivan & June (2014), pp. 8, 13

<sup>72</sup> "Travel Warnings" is used for seriously dangerous conditions of destination and "Travel Alerts" is for less dangerous than "Travel Warnings" but people should consider the situation when planning the travel to a destination.(U.S. Passports & International Travel, Alerts and Warnings, <http://travel.state.gov/content/passports/english/alertswarnings.html>) (accessed January 26, 2015)

[Table 15] Alerts and Warnings on Destinations<sup>73</sup>

Type	Date	Country	Reason
Warning	December 24, 2014	Mexico	Security and safety
Warning	December 11, 2014	Venezuela	Security situation
Warning	December 4, 2014	Haiti	Lack of medical facilities, the security environment
Warning	November 21, 2014	El Salvador	Crime and violence
Warning	November 14, 2014	Colombia	Security situation
Warning	June 24, 2014	Honduras	Crime and violence

The tourists from the Americas consider the security of destinations more than the Europeans do and can realize the situation more accurately. Therefore, tourists from the Americas are less affected by terrorism threat with abundant knowledge and awareness of the situation in the region and also with the different destination preferences from those of European tourists.

### *Control of Corruption*

No significant influence of corruption on European tourists and from other regions was examined. Neumayer (2004) employed GMM in his research in order to analyze the lagged effects of political violence on tourism demands and Poprawe (forthcoming) included corruption variable with a lag.<sup>74</sup> This is largely due to tourists' tendency to pre-book tourism services and it takes time for the events to be widely recognized to finally affect

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<sup>73</sup> US Passport & International Travel (2014), Venezuela Travel Warning, <http://travel.state.gov/content/passports/english/alertswarnings/venezuela-travel-warning.html> (accessed January 26, 2015)

<sup>74</sup> Poprawe (forthcoming), p.9

tourism demands.<sup>75</sup> Therefore, Hypothesis 2-1 was formulated using the lag variable for corruption of destination.

- **H2-1. Corruption may have lagged effects to the tourism demand of LAC region**

[Table 16] shows the result of a regression with the lag variable of Control of Corruption. It illustrates that corruption has lagged effects on European tourists which proves the hypothesis 2-1 to be valid.

**[Table 16] Result of Regression with Lag Variable for Corruption**

	<b>Total arrivals</b>	<b>Arrivals from Europe</b>	<b>Arrivals from Americas</b>	<b>Arrivals from Asia/Pacific</b>
<b>Regime</b>	-0.012 (-0.26)	-0.079 (-1.37)	0.173** (2.09)	-0.035 (-0.40)
<b>Terror</b>	-0.079* (-1.86)	-0.139*** (-2.82)	-0.032 (-0.44)	-0.063 (-0.92)
<b>Lag_CoC</b>	<b>0.416***</b> <b>(2.95)</b>	<b>0.396**</b> <b>(2.42)</b>	0.074 (0.31)	-0.106 (-0.46)
<b>Inflation</b>	-0.023*** (-3.13)	-0.012** (-2.50)	-0.017** (-2.47)	-0.007 (-1.05)
<b>FDI</b>	0.002 (0.61)	0.002 (0.57)	0.003 (0.55)	0.009* (1.91)
<b>Openness</b>	0.004* (1.86)	0.005 (1.66)	0.005 (1.11)	-0.002 (-0.47)
<b>Obs.</b>	168	161	164	154
<b>R-sq.</b>	0.1889	0.1867	0.0927	0.0455

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<sup>75</sup> Neumayer (2004), p.5

## *FDI*

FDI is significant for tourists from Europe and Asia and the Pacific (at 5% level). FDI to LAC started to increase in earnest since 1990s with the privatization and trade liberalization. In 1990s the main sources were European countries and the US; however, today Asian countries, like China and Japan, are emerging as investors to LAC.<sup>76</sup> Overall, the number of investment projects from Asia and the Pacific to LAC has increased.<sup>77</sup> Even though investment to tourism is scarce, the result demonstrates that the absolute amount of investment regardless of sectors, positively affects tourism demands for the region.

Europe is still the largest investor to LAC. European countries are intervening tourism industry of LAC as a form of neo-colonialism. A number of Caribbean countries are dependent on investment from European countries, like Spain the previous colony of the region.<sup>78</sup> The countries which receive larger amount of investment also receive more tourist arrivals.

Consumption patterns of the tourists from the two regions provide additional explanation. The ratio of spending on business tourism is much

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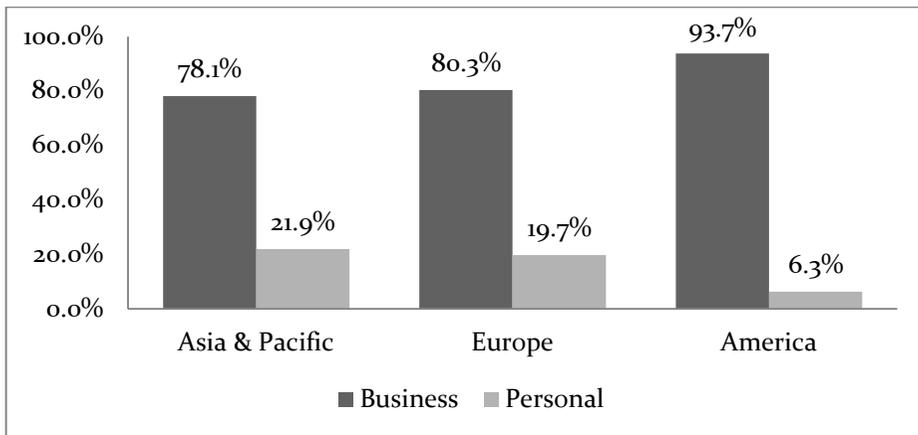
<sup>76</sup> Michael Penfold (2014), "Institutional and Foreign Direct Investment in Latin America: A New Emerging Reality", LAC Working Papers in Political Economy No 3, University of Oxford, p. 2

<sup>77</sup> ADB et al. (2012), pp. 79-82

<sup>78</sup> Tammy Ronique Williams (2012), "Tourism as a Neo-colonial Phenomenon: Examining the Works of Pattullo & Mullings", Caribbean Quilt, 2, <http://jps.library.utoronto.ca/index.php/cquilt/article/view/19313>, pp.191-193 (accessed January 26, 2015)

higher for tourists from Asia and the Pacific and Europe than tourists from the Americas. Therefore, FDI and business people who visit the region for investment in other sectors may contribute to the development of tourism industry.

**[Figure 8] Expenditure by Main Purpose of the Trip (Average 2008-2012)**



Source: UNWTO<sup>79</sup>

### *Trade Openness*

Lastly, trade openness is positively significant for both tourists from Europe and the Americas (at 1% and 5% level respectively) which may be attributable to FTA with LAC countries. Trade liberalization in the goods sector as well as services sector can drive the growth of tourism sector. FTA would increase the number of tourists for business purposes by promoting trades. It is also related to issues of tariff and costs for trade. Therefore, by

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<sup>79</sup> UNWTO (2014a), pp. 3-446 Edited by author

opening the trade, the countries can build closer trade relationships which would lead to an establishment of tourism linkages.<sup>80</sup> The European and American countries including the US have entered into a number of FTAs with LAC.

**[Table 17] Trade Agreement of LAC**

	<b>Country</b>	<b>Year of Entry into Force</b>
Europe	Chile	2003
	Colombia	2013
	Costa Rica	2014
	Mexico	2000
	Panama	2014
	Peru	2013
The US	Chile	2004
	Colombia	2012
	Costa Rica	2009
	Dominican Republic	2007
	El Salvador	2006
	Guatemala	2005
	Honduras	2006
	Mexico	1994
	Nicaragua	2006
	Panama	2012
Peru	2009	
Customs Unions in LAC	Andean Community of Nations (CAN)	1969
	Caribbean Community (CARICOM)	1973
	Central American Common Market (CACM)	1961
	MERCOSUR	1991

Source: SICE<sup>81</sup>

<sup>80</sup> Iza Lejárraga and Peter Walkenhorst (2013), “Economic policy, tourism trade and productive diversification”, Research and Expertise on the World Economy (CEPII), WP No 2013-07, p. 18

<sup>81</sup> Foreign Trade Information System, [http://www.sice.oas.org/agreements\\_e.asp](http://www.sice.oas.org/agreements_e.asp) (accessed January 26, 2015)

## 5. Policy Implication

The contribution of tourism to the regional development is large and dependency on tourism in LAC is significantly high. Nonetheless, the growth of the industry in LAC lags behind other emerging regions, especially Asia and the Pacific. Moreover, the most of the tourist arrivals who visit the region are from the Americas itself, capturing about 80% of total arrivals. Therefore, in order to develop the industry and attract more arrivals from other regions, the appropriate policies should be established.

Throughout the research, it has been revealed that tourists to LAC have different preferences depending on their nationality. This result may give implications for tourism policy makers of the Latin America and the Caribbean. The policy makers can establish distinct strategies for attracting more arrivals based on the tourists' origin.

European tourists are not sensitive to the regime type, showing preferences to Cuba and Venezuela. These countries are destinations where the US people are reluctant to visit. Therefore, considering this characteristic, less democratized countries in LAC may target the European tourists. Making special tourism image or program can be of great value. For example, Cuba is emerging as a destination for medical tourism<sup>82</sup> as the people of developed

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<sup>82</sup> Milica Z. Bookman and Karla R. Bookman (2007), "Medical Tourism In Developing Countries", PALGRAVE MACMILLAN™, pp.2-3

countries visit developing countries for cheap and sophisticated skills.<sup>83</sup> Cuba is expanding this area of tourism by training medical staffs, doctors and nurses from other LAC countries, like Venezuela.<sup>84</sup>

Even though European tourists are not affected by regime types, they are sensitive to political events. Lag variable of corruption has a significant effect on tourism. In order to prevent the reduction of tourists after the political events, back-up strategies and follow-up actions should be prepared. It would be more possibly adopted by using the characteristics of lagged effects on political events.

The American tourists relatively prefer democratic countries in comparison to the tourists from Europe and they also like the countries which actively participate in trade activities. Thus, LAC countries can increase the tourism demands by establishing trade relationships with the neighboring countries. In particular, less democratized countries can close the gap caused by ideological differences as well as attract more tourists by actively participating in intra-regional trade. Trade and tourism are in complementary relationships: trade in goods and services including tourism services would be beneficial for attracting more intra-regional tourists.

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<sup>83</sup> Neil Lunt et al. (2011) "Medical Tourism: Treatments, Markets and Health System Implications: A scoping", OECD, Directorate for Employment, Labour and Social Affairs, p.6

<sup>84</sup> Bookman & Bookman (2007), p.104

Lastly, tourists from Asia and the Pacific are affected by FDI inflows to LAC. The data for bilateral FDI inflows between Asia and the Pacific and LAC exhibit that the investment in tourist sector is scarce whereas investment in metal and auto OEM demonstrates the largest share of total investment.<sup>85</sup> Despite the minimal investment in tourism, the result shows that tourists from Asia and the Pacific are sensitive towards FDI inflows to LAC. This means that business trip is the most frequent cases for Asian tourists to LAC. Therefore, relating the business trip to the holiday and leisure trip would be beneficial to increase the investment on the region and attract more tourists from Asia and the Pacific.

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<sup>85</sup> ADB et al., (2012), p.87

## 6. Conclusion

To sum up the results, hypothesis 1 was rejected. Tourists are sensitive to not only tourist resources and infrastructures but also situational conditions of destinations, such as political and economic factors. Tourists to LAC -who are more sensitive to economic factors than political factors- show different trend from the world's general trends.

Tourists to LAC have different consumer patterns based on their origin. European tourists prefer politically stable countries with less terrorism threats and corruption. The corruption of governments has influence on tourism demands of European tourists on condition of lagged effects of corruption variable proving the hypothesis 2-1. These tourists tend to choose countries with trade liberalization, and more FDI. American tourists are sensitive to regime type, which means that the more the destination is democratized, the more tourists from the Americas will visit. Also, tourists would increase with increase in trade activities. Lastly, tourists from Asia and the Pacific prefer countries which receive a large amount of investment. Therefore, the hypothesis 3 and 4 can be said to be valid; yet, not precisely, because the differences of coefficients with other regions were insignificant. Not only American tourists but also European tourists are sensitive towards trade openness and tourists from both Europe and Asia and the Pacific are influenced by FDI inflows.

Now answering the research questions became possible. First, ‘What are the obstacles of the tourism development in Latin America and the Caribbean?’ The tourist arrivals to LAC are affected by economic stability of the destination more so than arrivals to all countries. Second, ‘In order to attract tourists from different regions, which factors should be considered?’ It was revealed that tourists are deterred by different factors based on the region of origin. The simple political implications were suggested focusing on the differences among tourists.

This research focuses on the situational condition of the destination which is the weakest index among three T&T competitiveness indexes. Particularly, this research explains the indirect impacts of political and economic factors on tourism demands, while the previous researches focused on the direct impacts of various factors. The subject of the research was 24 LAC countries. It is meaningful, considering that there have been few studies focusing on LAC countries as a whole by using panel data analysis. By distinguishing the tourist arrivals by region of origin, it is possible to see the different characteristics of the tourism demand by their origin. Ultimately, the study contributes in making the strategic development plans for the tourism industry in LAC.

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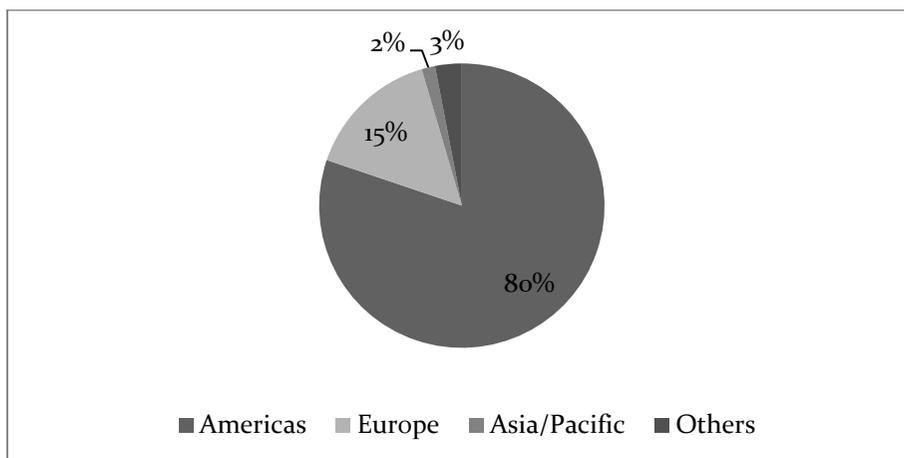
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## Appendix

### [Appendix 1] Tourist Arrivals to LAC by Region of Origin

(Annual Average, 2003-2012)



Source: UNWTO<sup>86</sup>

### [Appendix 2] Travel and Tourism Competitiveness Index (TTCI)

T&T regulatory frameworks	T&T business environment and infrastructure	T&T human, cultural, and natural resources
Policy rules and regulations	Air transport infrastructure	Human resources
Environmental sustainability	Ground transport infrastructure	Affinity for T&T
Safety and security	Tourism infrastructure	Natural resources
Health and hygiene	ICT infrastructure	Cultural resources
Prioritization of T&T	Price competitiveness in the T&T industry	

Source: WEF, TTCI<sup>87</sup>

<sup>86</sup> UNWTO (2014a), pp. 3-446 Calculated by author

<sup>87</sup> Blanke & Chiesa (2013), p.8

### [Appendix 3] List of Subject Countries

All countries	Albania, Algeria, Angola, Argentina, Armenia, Australia, Austria, Azerbaijan, Bahrain, Bangladesh, Belarus, Belgium, Benin, Bhutan, Bolivia, Bosnia and Herzegovina, Botswana, Brazil, Bulgaria, Burkina Faso, Cambodia, Canada, Chile, China, Colombia, Costa Rica, Croatia, Cuba, Cyprus, Czech Republic, Denmark, Dominican Republic, Ecuador, Egypt, Arab Rep., El Salvador, Estonia, Ethiopia, Fiji, Finland, France, Gambia, The, Georgia, Germany, Ghana, Greece, Grenada, Guatemala, Haiti, Honduras, Hungary, Iceland, India, Indonesia, Ireland, Israel, Italy, Jamaica, Japan, Jordan, Kazakhstan, Kenya, Korea, Rep., Kuwait, Latvia, Lebanon, Lithuania, Luxembourg, Madagascar, Malawi, Malaysia, Maldives, Mali, Malta, Mauritius, Mexico, Moldova, Mongolia, Montenegro, Morocco, Mozambique, Namibia, Nepal, Netherlands, New Zealand, Nicaragua, Niger, Nigeria, Norway, Oman, Pakistan, Panama, Papua New Guinea, Paraguay, Peru, Philippines, Poland, Portugal, Qatar, Romania, Russian Federation, Saudi Arabia, Seychelles, Sierra Leone, Singapore, Slovak Republic, Slovenia, Solomon Islands, South Africa, Spain, Sri Lanka, Sudan, Suriname, Swaziland, Sweden, Switzerland, Syrian Arab Republic, Tanzania, Thailand, Togo, Trinidad and Tobago, Tunisia, Turkey, Uganda, Ukraine, United Kingdom, United States, Uruguay, Uzbekistan, Venezuela, RB, Vietnam, Yemen, Rep., Zambia, Zimbabwe
LAC	Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Suriname, Trinidad and Tobago, Uruguay, Venezuela, RB

## 국 문 초 록

관광은 가장 빠르게 성장하는 산업 중 하나로, 관광 수익, 일자리 창출, 투자 촉진 등을 통해 지역 개발 및 빈곤 퇴치의 주요 수단으로 인정 받고 있다. 이에 따라 많은 개발도상국과 저개발국이 관광 개발에 참여하고 있다. 중남미 지역은 지역 개발에 있어, 관광 산업에 의존하는 정도가 타(他) 지역에 비해 높았음에도 불구하고, 2005년에서 2013년의 기간 동안 중남미 지역의 관광은 다른 개발도상국에 비해 저조한 성장을 보였다. 더욱이, 대부분의 관광객이 미주 지역 출신이라는 특징을 보였다.

이에 따라 본 연구에서는 중남미 관광을 저해하는 요인이 무엇인지, 그리고 다른 지역으로부터의 관광객 유입을 확대하기 위해 고려해야 할 부분은 무엇인지를 살펴보고자 한다. 특별히 본 연구에서는 기존의 연구에서 잘 다뤄지지 않았던 정치, 경제적 측면에 초점을 맞춰 중남미 지역의 관광을 분석하였다.

크게 두 가지의 비교 연구가 실행되었는데, 먼저, 전 세계의 관광객과 중남미를 찾는 관광객의 관광지 결정 요인을 비교 한 후, 중남미 관광객을 그 출신지 별로 나누어 출신지에 따른 소비 성향의 차이점을 살펴보았다. 이를 위해 2003년에서 2012년까지 전 세

계 133개국과 중남미 24개국을 포함하는 패널 데이터를 사용하였으며, 국가의 특수성을 통제하기 위하여 국가 고정 효과 모형 회귀 분석을 실시하였다.

결론적으로, 관광객들은 관광 자원이나 관광 기반 시설 외에 관광지의 정치적, 경제적 상황에도 영향을 받으며, 중남미 관광객들은 정치적 측면보다는 경제적 측면의 영향을 더 많이 받은 것으로 나타났다. 반면, 전 세계 일반적인 관광객들은 정치적 요인에 더 민감하게 반응하는 것으로 나타나 전 세계 관광객과 중남미 관광객들의 소비 성향 차이를 확인할 수 있었다. 또한 중남미를 찾는 관광객들은 그 출신지에 따라 관광지 선택에 있어 다른 선호도를 보였다. 유럽 출신 관광객의 경우, 목적지의 테러 위협 정도와 정치 부패 등 정치 불안정에 민감했으며, 무역이 활발하고, 해외 투자가 많이 유입되는 국가를 선호하는 경향을 보였다. 미주 출신 관광객은 목적지의 민주화 및 무역 자유화가 많이 진행 된 국가를 선호했다. 마지막으로, 아시아·태평양 출신 관광객들은 해외 투자가 많이 유입 되는 국가를 선택하는 경향을 보였다. 이러한 차이점을 바탕으로 정책 제안에서는 관광객의 출신지에 따른 차별화된 관광객 유치 전략을 제안하였다.

**주요어:** 중남미, 관광, 고정 효과 모형, 정치적 측면, 경제적 측면,  
관광객 출신지, 관광 개발

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