

THE IMPACT OF TOURISM SPECIALIZATION ON TRANSITION ECONOMIES



Eastern European countries are adopting economic strategies more similar to those in the West.

What is the relationship between tourism specialization, economic growth, and human development in transition economies? That's the question behind a new study led by Rosen Professor Robertico Croes and Assistant Professor Jorge Ridderstaat. Using Poland as a case study, the research looks at the role of tourism in economic and human development since communism fell in the 1990s and the country transitioned from a centrally-driven to a market-led economy.

The fall in 1989 of the Berlin Wall—the symbol of the ideological and economic split between communism and capitalism—began a process of transition that has since seen Eastern European countries align their economies more closely to the West. The process has moved faster in some countries than others, but the direction is convergence and, for some, accession to the European Union.

Like their economies, the borders of former Eastern bloc transition economies have also opened up, enabling international tourism to become a significant development strategy and accelerate convergence.

In a new study published in the journal *Tourism Management*, Professor Robertico Croes and Assistant Professor Jorge Ridderstaat of UCF Rosen College of Hospitality Management examine the relationship between tourism specialization, economic growth, and human development in transition economies, using Poland as a case study.

THEORETICAL BACKGROUND

Croes and Ridderstaat conceptualize tourism specialization (TS) as an economic model that 'includes tourists engaging in consumption activities according to attractive physical capital (hotels, restaurants, heritage, etc.), natural (beaches, mountains, etc.), and human capital.'

The focus on consumption derives from comparative advantage theory. As proposed by the 19th-century economist David Ricardo, comparative advantage refers to an economy's ability to maximise output and consumption and produce goods or services at a lower cost than other providers.

The study also follows the human development (HD) theory developed by the 20th century philosopher and economist Amartya Sen, who argues that HD goes beyond improvement in an individual's economic position and includes the 'expansion of free choices and opportunities as well as valuable life options and conditions.'

Croes and Ridderstaat argue, however, that comparative advantage theory does not adequately address the nature of TS, or the issues faced by transition economies. Taking a more dynamic view, they conceive of TS as 'a process of integrating resources and assets.' As they explain: 'The process involves the organization and coordination of several agents in creating and managing a

unique experience, and understanding what determines the demand for that experience.'

In this way, the process of TS is directly linked to economic growth through the increase in demand for services such as accommodation, transportation, hospitality, and leisure activities. This translates into profits for businesses, wages for households, and taxes for the government. Indirect economic benefits can also be achieved through 'productivity spillover', for example, international businesses may be attracted to a tourist destination bringing new skills and ideas, influencing local providers.

The links that Croes and Ridderstaat identify between TS and HD are similarly direct and indirect. TS can have a direct impact on HD because it can provide the economic resources on which HD depends. Indirectly, having a healthier and more educated workforce as a result of HD can lead to increased productivity.

POLAND CASE STUDY

Croes and Ridderstaat use Poland as a case study to examine this theoretical background.

Poland was one of the first of Eastern Europe's transition economies, moving from a centrally planned economy to a market economy. Tourism has been an important source of foreign exchange since Poland became a democracy in 1989. Within ten years, the country had become the eighth most visited in Europe, leading the World Tourism Association (WTO) to refer to it as Eastern Europe's 'tourist tiger.'

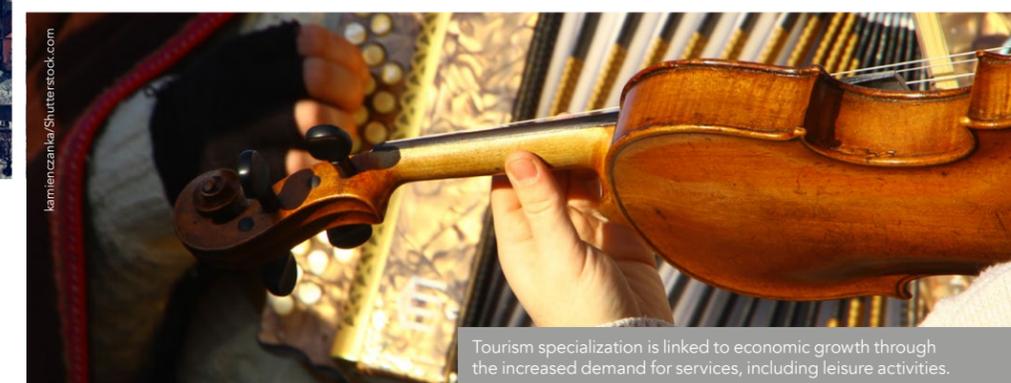
By 2018 the World Travel and Tourism Council (WTTTC) estimated that tourism represented 737,000 jobs, or 4.5% of Poland's workforce, and US\$26.3 billion or 4.5% of its total economy. Tourism growth has been uneven over time: initially significant, diminishing in the 1990s, and then growing by around 4.2% a year from 1995. Most international visitors come from Germany and the Baltic States.

Before the collapse of communism, tourism in Poland was mostly domestic. The development of international tourism was spearheaded by small private sector providers such as family-run accommodation facilities. International tourists were attracted by the country's rich cultural heritage and folklore traditions, as well as the natural beauty of its countryside.

METHODOLOGY

Croes and Ridderstaat formulated four hypotheses to investigate the relationship between TS, economic and human development. These were:

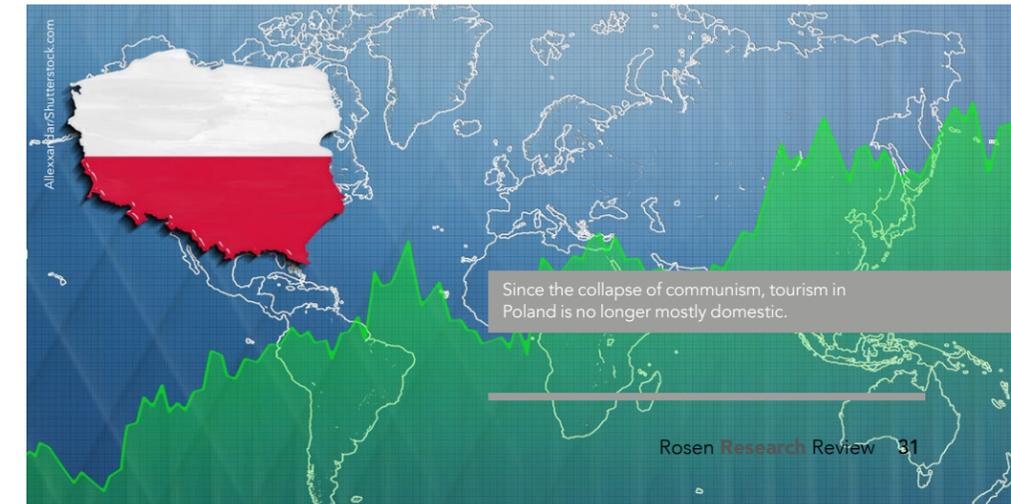
...COMPARATIVE ADVANTAGE THEORY DOES NOT ADEQUATELY ADDRESS THE NATURE OF TS, OR THE ISSUES FACED BY TRANSITION ECONOMIES.



Tourism specialization is linked to economic growth through the increased demand for services, including leisure activities.



International tourists are attracted to cultural heritage and traditions, as well as natural beauty.



Since the collapse of communism, tourism in Poland is no longer mostly domestic.



Tourism specialization (TS) is an economic model that 'includes tourists engaging in consumption activities.'



International businesses are attracted to tourist destinations, influencing local providers with new skills or ideas.



Although the study is based on Poland, the implications apply to other transition economies.

1. TS has a non-linear effect on economic development;
2. TS has a non-linear effect on human development;
3. Economic development has a positive effect on human development;
4. Human development has a nonlinear effect on economic development.

The links between TS and economic growth were determined using a translog production function to analyse the relationships between tourism inputs and outputs. The translog production function is used in econometrics as a way of expressing the relationship between

Bank, International Monetary Fund, World Travel, and Tourism Council, and the United Nations Development Program. Croes and Ridderstaat used data from the United Nation's Human Development Index as a proxy to measure HD.

FINDINGS AND IMPLICATIONS

Croes and Ridderstaat's research has four essential conclusions.

They found that the link between tourism specialization (TS) and economic growth is not self-evident, and TS has only a short-term effect on economic growth. In addition,

Croes and Ridderstaat argue that the study's findings have theoretical implications and practical implications for developmental policy.

Two testable theoretical propositions are that 'capability expansion (HD) occurs directly through TS,' or that 'capability expansion only happens indirectly through TS by way of economic growth.'

In addition, Croes and Ridderstaat identify two options to extend capabilities in Poland: a 'strong policy emphasis on tourism development'; and improved hospitality education. Refreshing tourism development policy should lead to an increase in international tourism and tourist spend, which in turn should lead to a positive impact on the economy and HD. Renewed emphasis on hospitality education should address the 'skills mismatches' the industry has experienced as young and highly educated Polish workers left to work abroad, creating labor market gaps at home.

Croes and Ridderstaat explain that the second option would entail identifying 'the proper balance' between TS as a source of jobs and personal incomes and as a trigger for the increase in public spending on public services such as health and education. This option is in line with the study's theoretical background regarding human development as being about much more than a growth in household income.

While Croes and Ridderstaat's study is based on Poland, they argue that its implications are relevant to other transition economies such as Hungary, Bulgaria, and Romania. Its testable propositions could also be applied to other categories of countries, such as small islands and developing and developed countries.

REFRESHING TOURISM DEVELOPMENT POLICY SHOULD LEAD TO AN INCREASE IN INTERNATIONAL TOURISM AND TOURIST SPEND.

two or more inputs, for example, physical capital or human labor, and the output that can be produced. Croes and Ridderstaat adapted the equation from Holzner's model to include a nonlinear approach, thus allowing for scenarios that could explain how economic development shapes HD.

Four proxies were used to measure TS: tourism receipts to GDP ratio, the total contribution of travel and tourism to GDP, tourism receipts as export percentages, and tourism arrivals as a percentage of the total population. Data sources were the World

human capital and investments and their interaction with TS has a negative effect on economic growth.

The third finding is that human capital's relationship with economic growth is U-shaped—an upturn follows a decline in economic growth, and the same pattern is reflected in the relationship between human capital and HD. Finally, there is only an indirect link between TS and HD, with economic growth appearing to be responsible for the expansion of HD with significant short- and long-term positive effects.

RESEARCHERS IN FOCUS

RESEARCH OBJECTIVES

Dr. Robertico Croes and Dr. Jorge Ridderstaat investigate transition economies and how tourism specialization, economic growth, and human development are interlinked.

CO-AUTHORS

Dr. Monika Bak, University of Gdansk, Poland. old-en.ug.edu.pl/pracownik/303/monika_bak

Dr. Piotr Zientara, University of Gdansk, Poland. old-en.ug.edu.pl/pracownik/3348/piotr_zientara

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PERSONAL RESPONSE

Your research was conducted before the war in Ukraine. Is there anything that Poland and other transition economies in Eastern Europe can do to mitigate its effects on tourism?

While the message should be that Poland is a safe destination to visit and to enjoy your vacation, unfortunately geopolitics seems to be a danger at this moment for tourism promotion. The geopolitical risk most probably will affect tourism consumption and the economic performance of the destination. Destination managers should design aggressive recovery marketing strategies to stress the safety and attractiveness of the destination. Crisis management plans are essential during these trying times.

Dr. Robertico Croes



Dr. Robertico Croes is a Professor of Tourism Economics and Management at the UCF Rosen College of Hospitality Management. He is the editor of the *Rosen Research Review*. His research interests are in Tourism Economics, Human Development, Poverty, and Tourism Management with a special interest in small and developing economies.

E: Robertico.Croes@ucf.edu
W: hospitality.ucf.edu/person/robertico-croes/
T: +1 407.903.8028

Dr. Jorge Ridderstaat



Dr. Jorge Ridderstaat is currently an Assistant Professor at the UCF Rosen College of Hospitality Management. Previously, he worked as an economist for some 20 years at the Central Bank of Aruba (CBA). His primary research interest focuses on investigating novel factors that impact tourists' demand for goods and services.

E: Jorge.Ridderstaat@ucf.edu
W: hospitality.ucf.edu/person/jorge-ridderstaat/
T: +1 407.903.8057



HD goes beyond economic position, and includes the expansion of valuable life options.