Blessing or Curse?

The Rise of Tourism-Led Growth in Europe's Southern Periphery

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Abstract

Despite being one of the world's major internationally traded services, tourism remains neglected within debates on European integration and growth models. We highlight the rise of tourism-led growth in Southern Europe. We argue that the process of European integration has been a double-edged sword, simultaneously incentivizing and forcing Southern European economies to reap their comparative advantage in tourism. While European integration has created the preconditions for the expansion of intra-European tourism, monetary integration preempts macroeconomic management. Since the Eurozone crisis, internal devaluation and fiscal austerity have suppressed domestic growth drivers, inducing these governments towards an export-led growth strategy. We document the emergence of unprecedented tourism-related current account surpluses in Southern Europe, driven strongly by tourism imports from the EMU-core countries and the UK. Thus, while different types of export-led growth strategies now coexist in the EMU, Southern Europe's excessive reliance on international tourism for growth comes with severe pitfalls.

Keywords: European Integration; Growth Model; Varieties of Capitalism; Tourism; Southern Europe

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Introduction

Over the last half-century, tourism has grown from an elite pastime into the world's largest service sector industry in international trade (Lew, 2011). Today, tourism is the third-largest economic sector in Europe (European Parliament, 2015) and a significant contributor to economic growth and employment to many national and local economies worldwide (Scott & Gössling, 2015). Within this macro trend, Southern Europe accounts for more than 20 percent of the global tourism market (UNWTO, 2020). Yet, while there is awareness of the importance of the tourism industry among economists and policy-makers (Du, Lew, & Ng, 2016), one can rarely find any mentioning of tourism in the comparative political economy (CPE) and European integration literature. This is remarkable considering Europe's leading role in the sector and, most importantly, tourism's potential for socio-economic integration and political cooperation within Europe (Lijphart, 1963; Russett, 1970).

While the varieties of capitalism (Hall & Soskice, 2001) and the growth models literature (Baccaro & Pontusson, 2016; Hassel & Palier, 2021) have identified different models of capitalism, scholars of European integration continue to debate whether these can coexist within a hard-currency regime like the EMU. The debate is polarized around two contrasting views. Some scholars argue that countries' diversity may be beneficial in a monetary union, enabling mutual insurance mechanisms among its members (Schelkle, 2017). Others, instead, argue that the EMU destroys the governance capabilities (i.e., exchange rate and countercyclical fiscal policies) on which the domestic demand-led countries of Southern Europe have historically relied. Thus, participation in the EMU rewards export-led growth strategies pursued by the EMU-core countries while it precludes domestic demand-led growth strategies of the Southern countries (Hall, 2014). This paper contributes to this ongoing debate (Johnston & Regan, 2016, 2018) by highlighting the rise of tourism-led growth in Southern Europe since the Eurozone crisis.

Despite its richness, this debate has overlooked the growing economic importance of tourism in Europe. While EMU-core countries have long relied on net exports from manufacturing goods (e.g., Germany) or high-end services (e.g., the Netherlands) as drivers of aggregate demand (Hassel & Palier, 2021), growth in Southern Europe was mainly consumption-led and fueled by financial integration and capital flows from EMU-core countries (Fuller, 2018; Jones, 2016; Stockhammer, 2016). Once capital dried up during the Eurozone crisis, fiscal austerity plus internal devaluations forced Southern European countries into export-led growth (Afonso, 2019; Perez & Matsaganis, 2019; Scharpf, 2016). While this is well known, we complement this argument by documenting the emergence of a third variant of export-led growth strategy in the EMU based on internationally traded tourism services, which today account for a substantial and growing part of Southern Europe's exports. By tracing the evolution of current account (CA) balances, we argue that, from 2010 onwards, CA surpluses from international tourism have grown to unprecedented levels, highlighting the increasing reliance on tourism-related surpluses to export their way to growth within the EMU.

Moreover, through the analysis of bilateral CA balances, we also show that Northern and Southern Europe have become increasingly integrated through international tourism transactions. Since the crisis, Southern Europe has substantially expanded its tourism CA surpluses vis-à-vis EMU-core countries and the UK. Although we cannot provide conclusive evidence, we hypothesize that this process has likely been driven by a combination of internal devaluation and governments' industrial policies aimed at upgrading, diversifying, and promoting their domestic tourism industries in the ever-expanding international tourism markets. We posit that the Single European Aviation Market (SEAM) and travel and visa liberalizations have created the preconditions for an unprecedented expansion of intra-European travels. At the same time, EU state-aid prohibitions and a hard currency regime *cum* legal constraints on national budgets pre-empt Southern European countries' previous capacity to pursue growth strategies centered on expansionary fiscal and wage policymaking as well as competitive devaluations. Thus, the process of European integration has created both incentives and constraints, forcing Southern European countries to capitalize on their comparative advantages in international tourism. Tourism-led growth now provides these economies with an option for export-led growth compatible with the requirements of the EMU's hard currency regime and Europe's regulatory state.

This paper contributes to European political economy scholarship both theoretically and empirically. First, we contribute to burgeoning debates on growth models by urging attention to international tourism as a full-fledged growth strategy. For peripheral economies with suitable preconditions (e.g., warm climate, coastlines, cultural heritage), tourism represents a developmental strategy worth studying alongside other growth strategies based on FDI attraction and tax dumping (Ban & Adascalitei, 2020; Bohle & Regan, 2021). Second, we contribute to political economy debates on European integration by highlighting the growing international interdependence of Southern Europe's tourism-led growth strategies with Northern Europe's strategies of export-led growth and privatized Keynesianism in the UK.

The paper proceeds as follows. We first locate tourism within key debates on growth models and European integration. Then, we introduce international tourism as an export-led strategy and briefly discuss how European integration contributed to its expansion. After that, we trace the evolution of Southern Europe's growth models and demonstrate the rise of tourism-led growth. We conclude by discussing the perils of an excessive reliance on tourism and sketching a future research agenda on the comparative political economy of tourism.

The Political Economy of European Economic and Monetary Integration

The process of European economic and monetary integration was premised on the idea that free trade within a European single market would benefit both producers and consumers thanks to firms' economies of scale and countries' greater specialization based on their respective comparative advantages (European Commission, 1985). A single currency was seen as complementary to enhance these gains from trade by reducing transaction costs and guaranteeing macroeconomic stability (European Commission, 1990). While the theory of Optimal Currency Areas portrayed monetary integration as beneficial only for member states with flexible labor markets or synchronized business cycles,

[1] integration proceeded under the assumption that greater competition and economic/financial integration would induce governments to generate the institutional and economic convergence necessary for a common currency to work (Frankel & Rose, 1998).

Yet, three decades after, structural differences among European countries persist (Höpner & Schäfer, 2012). Within the EMU, mounting economic divergence between core countries and Southern peripheral economies has instead ensued (Gambarotto & Solari, 2015). Against this backdrop, scholars of the political economy of European integration debate whether European integration can successfully accommodate different varieties of capitalism or growth models (Höpner & Schäfer, 2010; Johnston & Regan, 2018; Scharpf, 1999; Stockhammer, 2016) without a political union capable of supranational macroeconomic stabilization and social protection (McNamara, Matthijs, & Blyth, 2015; Scharpf, 2014).

Some scholars argue that the diversity of European political economies within the EMU allows for forms of monetary solidarity by providing diverse countries with mechanisms for mutual insurance for income and consumption smoothing (Schelkle, 2017). Others oppose this view on three grounds: (1) the very crisis of the EMU was in the first place due to its members' incompatible growth models joined together within a system of fixed exchange rates which penalizes the previously soft-currency regimes of Southern Europe (Hancké, 2013; Höpner & Lutter, 2018; Johnston & Regan, 2016; Scharpf, 2011); (2) the Euro can now only be saved at the cost of suppressing democracy in Southern Europe (Crum, 2013); (3) since the crisis, the EMU's

[1]As noted by some prominent US economists, these conditions were hardly achieved in Europe at the time (Feldstein, 1997). For an extensive review on EMU and the theory of optimal currency areas see Mongelli (2005).

strengthened economic governance imposes a process of "forced structural convergence" on Southern Economies (Regan, 2017; Scharpf, 2016). Scholars have highlighted how Northern European countries dispose of the institutional complementarities necessary for an export-led growth strategy suitable for economic success within the EMU (Hall, 2014). On the contrary, lacking these institutional prerequisites, Southern Europe's economies that have traditionally relied on domestic demand-led growth strategies find it hard to operate successfully in the EMU without currency devaluations and tools for aggregate demand management (Hassel, 2014; Iversen, Soskice, & Hope, 2016). Therefore, due to fiscal austerity, internal devaluations, and market-enhancing structural reforms, the EMU suppresses domestic growth drivers and forces Southern economies into export-led growth (Scharpf, 2016).

Despite their richness, current debates on the political economy of Europe have so far overlooked the implications of European integration for the steep rise of the international tourism industry and the consequences this development has had for the reconfiguration of Southern Europe's growth models within the EMU. We contribute to these debates by highlighting how European integration has put in place the preconditions for expanding the international tourism industry. We demonstrate that Southern European economies have increasingly exploited their comparative advantage in the tourism industry vis-à-vis Northern Europe's countries to rekindle their export-led growth strategies within Europe's post-crisis constrained governance environment.

International Tourism as an Export-led Growth Strategy

The classic varieties of capitalism literature had identified four different models of capitalism: coordinated market economies (CMEs), liberal market economies (LMEs), mixed market economies (MMEs) (Hall & Soskice, 2001; Molina & Rhodes, 2006), and economies dependent on foreign direct investments (FDI) (Nölke & Vliegenthart, 2009). Instead, the current growth models literature categorizes countries based on an economy's main drivers of aggregate demand formation (Baccaro & Pontusson, 2016). Northern Europe's CMEs consist of export-led growth models with subdued domestic demand and a specialization in manufacturing goods exports (Austria, Belgium, Germany) and "balanced growth models" with extensive exports of ICT-based services and high domestic demand (Nordic countries, the Netherlands). The United Kingdom is an LME that relies on consumption-led growth underpinned by deregulated access to credit and vibrant housing markets – also known as "privatized Keynesianism" (Crouch, 2009). Central and Eastern European economies and Ireland largely rely on lower labor costs and/or favorable tax schemes and incentives to attract FDIs by multinational corporations and generate growth and jobs (Ban & Adascalitei, 2020; Bohle & Regan, 2021; Reurink & Garcia-Bernardo, 2020). Lastly, before the Eurozone crisis, the MMEs of Southern Europe relied on domestic private and public consumption underpinned by easy access to credit and/or generous wage and fiscal policies (Hassel & Palier, 2021).

Along these ideal types identified by the literature, we conceptualize and add a hitherto overlooked export-led growth strategy centered on exporting international tourism services. According to standard classifications, tourism consists of "the activity of visitors taking a trip to a main destination outside the usual environment, for less than a year, for any main purpose, including business, leisure or other personal purposes, other than to be employed by a resident entity in the place visited" (Eurostat, 2014). Three types of tourism activities can be distinguished. *Domestic tourism* consists of within-country tourism by residents. Travels by incoming foreign tourists are *inbound tourism*, and vice versa *outbound tourism*. Even though domestic tourism is a hefty economic sector in many countries and constitutes an essential component of private consumption, to study the importance of tourism as an export-led growth strategy, we will focus only on international tourism, i.e., inbound/outbound tourism.

Today, international tourism is one of the world's major internationally traded services. Its transactions are recorded in the "travel" and "passenger transport" items of the balance of payment's current account. To assess the economic contribution of tourism, we mainly rely on data provided by the World Tourism Organization (UNWTO), which has developed a harmonized system of tourism satellite accounts together with the OECD and Eurostat. Inbound tourism is an export component (X) because foreign visitors travel to the country and acquire locally produced tourism services spending their foreign currency earned in the country of residence. Vice versa, outbound tourism is an import component (M). Given the aggregate demand (AD) equation, where:

$$AD = C + I + G + (X\text{-}M),$$

international tourism's net contribution to aggregate demand[2] is positive when receipts from inbound tourism exceed those from outbound tourism, i.e., when (X-M) > 0.

In multiple ways, international tourism surpluses contribute to economic growth, employment, foreign exchange earnings, and tax income (Clancy, 1999; UNCTAD, 1998). Historically, tourism – in liaison with remittances – has played a vital role in fostering the industrialization of those developing countries that lacked the domestic factors of production (De Kadt, 1984). This is because importing capital goods or raw materials from abroad implies deficits in the current account, which must be financed through exports. Inbound tourism has an essential developmental function because it mitigates the balance of payment constraints by bringing foreign exchange into the country. Foreign currency's availability, in turn, could be exploited to import the capital goods and raw materials needed to kick-start industrialization (McKinnon, 1964). Furthermore, tourism can contribute to development by stimulating governments' investment in physical infrastructures and human capital, thereby increasing productivity and generating positive

[2] Focusing only on the current account likely underestimates the actual contribution of tourism to domestic growth because it does not consider foreign tourists' consumption for goods and services other than travel and transport. Moreover, tourism does not sell one product and decomposing each industry into tourism- and non-tourism-related components is challenging. Some scholars recommend the analysis of backward and forward linkages to fully assess the economic impact of tourism (Cai, Leung, & Mak, 2006), which, however, goes beyond this paper's ambition.

externalities (Blake, Sinclair, & Soria, 2006). It is also an important driver of employment creation, providing income to households that underpins domestic consumption (Lee & Chang, 2008).

However, an excessive reliance on tourism-led growth comes with notable pitfalls. First, critical scholars link tourism to dependency theory and denounce a new form of colonialism whereby foreign multinationals invested in developing countries' touristic destinations deprive the local population of the profits generated through the intensive exploitation of local natural resources (For a review of the dependency literature, see: Bianchi, 2018, pp. 90-91). Second, as a growth strategy dependent on foreign tourists' inflows, an excessive reliance on tourism makes the country highly vulnerable to exogenous shocks such as the recent outbreak of the Covid-19 pandemic (Financial Times, 2021) or terrorism (Fauzel & Seetanah, 2021; Pizam & Smith, 2000). Third, excessive reliance on tourism leads to a restructuring of the economy around low-productivity, low value-added sectors, characterized by seasonal jobs and precarious employment (Eurofound, 2012). Fourth, tourism can have severe adverse effects on environmental and socio-cultural spaces; not only due to the expansion of the airline industry but also the erosion of public infrastructures due to extensive use by foreign tourists, the commodification and overutilization of natural resources, vandalism, and the damage of overcrowded cultural sites (Tisdell, 1987).

At any rate, for lack of better alternatives, international tourism can become a full-fledged strategy for governments to generate growth and employment, particularly for less developed countries unable to compete with advanced economies in high-end manufacturing or the knowledge economy. Yet, for such a growth strategy to be successful, countries need a liberal travel visa regime to minimize transaction costs for foreign tourists and a cheap and competitive passenger transportation system to facilitate travels. By putting these conditions into place, European integration has been key to fostering the rise of the European tourism industry.

How European Integration Has Underpinned the Expansion of Tourism

Tourism is not mentioned in the EU treaties until 1992 when the Maastricht Treaty introduced the possibility for the EU to take "measures in the spheres of energy, civil protection, and tourism." The European Commission has long aimed at expanding its competencies in tourism policy, which it has used strategically to foster the completion of the EU single market (Estol & Font, 2016). However, a full-fledged EU tourism policy remains limited due to the lack of direct competencies and unanimity requirements in the European Council (European Parliament, 2015). Member states have thus jealously protected and advanced their national interests in tourism policy due to its strategic importance for achieving balance of payment parity (Estol & Font, 2016, p. 2). With the Lisbon Treaty, the EU has eventually acquired competencies to encourage and promote cooperation between member states in tourism policy. However, EU competencies remain anchored to the principle of subsidiarity and the EU can only "support, coordinate or supplement" (art. 6, TFEU) member states' actions. Any harmonization of member states' laws and regulations related to tourism is explicitly excluded (art. 195, TFEU). Yet, tourism has indirectly benefitted from the process of European Integration in multiple ways (see Table 1).

First, a liberal visa regime and the rights to free movement have facilitated travels within the EU. Thanks to the Schengen agreements (1985 and 1990), since the mid-1990s, tourists have benefitted from a common visa policy for short stays and the gradual removal of internal barriers, enabling persons to cross borders freely irrespective of their nationality. Visa obligations considerably impact tourism since potential travelers may be deterred from traveling if visa procedures are too costly or burdensome. While European residents travel freely across the EU, more than 70 percent of the world's population needed a visa to travel to Europe in 2012, making it one of the most restrictive regions regarding visa obligations for non-Europeans (Attström et al., 2013). The Maastricht Treaty (1992) has then introduced the concept of EU citizenship and institutionalized the individual right for every EU citizen to move freely across the EU.

Table 1: Defining Moments of European Integration for the Expansion of the Tourism Industry

Agreements and regulations	**Year**	**Relevant institutional changes**	**Effects on the tourism industry**
Schengen Agreements	1985 & 1990	Common visa policy for short stay and removal of internal border controls	Persons' freedom to cross internal borders without border checks, irrespective of nationality
1st legislative package on the liberalization of air transport markets *(Council regulations, directives & decisions)*	1988	European Commission enabled to apply antitrust regulation to airlines; airlines granted greater pricing freedom; partial liberalization of market access by airlines	First step in the creation of the SEAM
2nd legislative package on the liberalization of air transport markets *(Council regulations)*	1990	Deregulation of air traffic limitations; elimination of governments' discrimination against airlines not substantially owned by a European state	Second step in the creation of the SEAM
Maastricht Treaty	1992	Introduction of EU citizenship	Institutionalization of individual right for every EU citizen to move and reside in EU member states
3rd legislative package on the liberalization of air transport markets *(Council regulations)*	1993	Removal of all significant barriers to market entry; regulation of common safety rules and financial requirements; removal of national restrictions on ticket prices; removal of restrictions on routes; deregulation of fares; permitted foreign ownership of airlines	Third and last step in the gradual establishment of the SEAM leading to greater competition in air transport markets, lower ticket fares, increased frequency of flights, large number of routes, emergence of the low-cost airlines

Second, tourism has benefited enormously from the deregulation and liberalization of the European air transport markets. The creation of the Single European Aviation Market (SEAM), the poster child of negative integration in Europe, was pushed forward by the strategic actions of the Commission in alignment with the Dutch and British governments (Dobson, 2010). National air transport markets have been liberalized through three legislative packages by the European Council, which were inspired by the requirements of market competition enshrined in the Treaty of Rome (1957) (Button, 2001). Before the 1990s, Europe's aviation market was regulated by bilateral agreements. Strict national regulations regulated routes, fares, and market access.

Moreover, the market was monopolized by state-owned flag carriers, vigorously protected by state aid (Button & Swann, 1988). This regime was misaligned with EU principles of open markets and free competition. During the late 1980s and early 1990s, the European Council proceeded to deregulate and liberalize the European air markets introducing the freedom for an EU carrier to operate any route within the EU, removing restrictions on their capacity and operations and empowering airlines to set prices by market principles rather than being government-dictated. The liberalization has led to an enormous expansion of the European aviation industry to the benefit of European travelers who have enjoyed more flights, lower fares, a greater number of routes and destinations, not least thanks to the mushrooming of low-cost airlines across Europe (Burghouwt, De Leon, & De Wit, 2015). Thus, by the 2000s, the preconditions had been put in place, which would subsequently pave the way for Southern European countries' growing reliance on international tourism for growth.

The Rise of Tourism-led Growth in Southern Europe After the Crisis

Southern Europe's growing peripheralization

Despite their national differences, Greece, Italy, Portugal, and Spain share some key features that have induced scholars to speak of a distinct model of Southern European capitalism. These countries had large agricultural sectors and developed into industrialized economies with a substantial lag. Late and disorganized industrialization led to idiosyncratic models of capitalism characterized by inconsistencies between the productive system and the institutional and regulatory setting (Fuà, 1980). These structural weaknesses pushed the state into adopting a direct role in the economic governance of markets to compensate for market failures, promote coordination among market actors, and give coherence to the system of capitalist accumulation (Molina & Rhodes, 2006; Schmidt, 2002). Thus, in the aftermath of World War II, the interventionist state played a central role in shaping and directing markets through regulation and active forms of industrial policy such as direct ownership in strategic sectors (Vernon & Aharoni, 2014), active credit policy and various forms of fiscal subsidies (Shonfield, 1965; Thatcher, 2014).

In brief, by the 1980s, Southern European economies developed into a model of capitalism featuring the following characteristics (Amable, 2003): dualized welfare states organized around the central role played by the family and the protection of labor market insiders (Ferrera, 1996); dual labor markets with a divide between highly protected insiders and unprotected outsiders; adversarial industrial relations and a fragmented system of interest representation conducive to inflationary wage-setting; the dominance of small and medium enterprises, often family-owned; a bank-based system of corporate governance, often under political control; rooted forms of political clientelism (Hopkin & Mastropaolo, 2001); little investment in research and development, low public expenditures in education, low enrolment rates in tertiary education and weak vocational training systems. Unsurprisingly, these countries pursued production strategies based on price rather than quality competition and were apt to currency devaluations to compensate for systematic expansionary fiscal and wage policies and structural deficiencies (Hancké, 2013; Scharpf, 2016).

Due to these characteristics, the deepening of European economic and monetary integration and economic globalization have hit Southern European economies disproportionally hard. First, the rise of the European regulatory state has imposed a shift in national economic governance for which Southern Europe's statist models were unfit. European competition policy and state aid regulations have severely reduced the capacity for statist forms of economic governance and have tilted the balance of power in favor of markets and regulatory governance (Majone, 1994). By privatizing state-owned assets and liberalizing core strategic sectors, Southern European states have lost their grip on the economy and their pivotal role in domestic markets.

Second, the Maastricht Treaty and the adoption of the single currency have removed further governance capabilities that had historically been crucial for Southern Europe's states. On the one hand, the loss of exchange rate policy prevents the pursuit of competitive currency devaluations to mitigate structural deficiencies. Conversely, the Stability and Growth Pact constrains countercyclical fiscal policy to pursue aggregate demand management. Finally, a one-size-fits-none supranational monetary policy fostered economic divergence between the high-inflation Southern periphery and the Northern low-inflation core (Enderlein, 2006; Scharpf, 2011).

Taken together, the EMU has forced a hard currency regime into previously soft-currency countries, while the European regulatory state prevents governments from steering domestic markets. Having lost the crucial governance capabilities necessary to run a statist model, Southern Europe's economies found themselves between a rock and a hard place by the turn of the century. On the one hand, their political economies were simultaneously too regulated and expensive to compete on price with the low-cost newly industrialized economies in the developing world and Eastern Europe. On the other hand, their persisting structural weaknesses prevented them from competing upmarket with the high-skilled, high-value-added production systems of Northern

Europe (Simoni, 2020; Burroni, Pavolini, & Regini, 2022). In fact, China's entry into the WTO in 2001 generated an asymmetric shock in the Eurozone. Northern Europe's economies based on the export of high value-added production were well-positioned to reap the benefits of the growing Chinese demand for capital and industrial goods. At the same time, however, Southern European economies were hit hard by low-cost competition in key sectors of their economies by countries with low labor costs and weak labor rights (De Ville & Vermeiren, 2016). All these factors, some scholars have argued, contributed to the "peripheralization" of Southern European economies within the EMU (Celi, Ginzburg, Guarascio, & Simonazzi, 2017; Rhodes, Epstein, & Börzel, 2019) and their deindustrialization (Gambarotto, Rangone, & Solari, 2019).

Before the crisis, Southern European economies within the EMU pursued a growth strategy based on domestic demand expansion and centered in their large, sheltered sectors. On the contrary, EMU-core countries relied on export-led growth strategies based on manufacturing goods (Austria, Belgium, and Germany) or high-end services (the Netherlands) (Hassel & Palier, 2021). These two complementary models were kept together in the EMU thanks to financial integration and capital flows from Germany, France, and the UK to peripheral economies (Blyth, 2013; Jones, 2015; Stockhammer, 2016). However, this "toxic complementarity" (Fuller, 2018) came to a halt when the global financial crisis disrupted financial markets and inter-bank lending froze. Panic and uncertainty generated a sudden stop crisis and the reversal of financial flows toward Northern Europe (Merler & Pisani-Ferry, 2012).

In the adjustment process, Southern European countries were forced into fiscal austerity, internal devaluations, and structural reforms through formal and informal conditionality imposed by European institutions (Braun, Di Carlo, Diessner, & Düsterhöft, 2021; Bulfone & Tassinari, 2020; Hodson & Puetter, 2013). These measures have killed the domestic drivers of aggregate demand, imposing a "flight to exports" (Scharpf, 2016). Since the financial crisis, Southern European countries have been forced to export their way to economic growth or "perish" (Perez & Matsaganis, 2019).

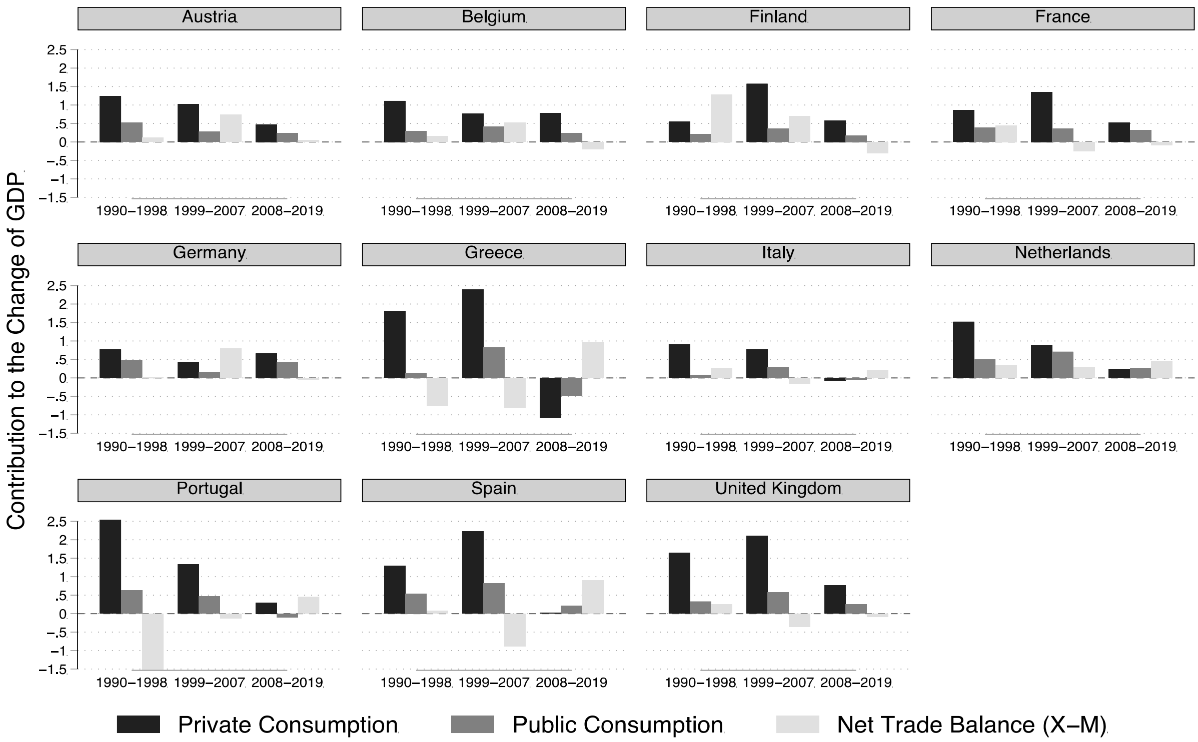
However, as we document below, Southern European economies have increasingly capitalized on their comparative advantage in the tourism industry in their quest for export-led growth. In fact, these countries enjoy a comparative advantage in tourism exports thanks to their climate, geographical location, natural resources, and historical/cultural heritage, as indicated by their high scores in the "Travel and Tourism Competitiveness Index" of the World Economic Forum (2019).

Export or perish? Southern Europe's shift towards tourism-led growth in the aftermath of the Euro crisis

As shown in Figure 1, fiscal austerity and internal devaluation during the last decade depressed domestic demand and have forced Southern European countries into a "flight to exports" (Scharpf, 2016). The slow growth of the post-crisis period has been driven almost exclusively by net exports in Greece, Italy, and Spain. In Portugal, next to net exports, private consumption has also been an important driver of GDP growth.

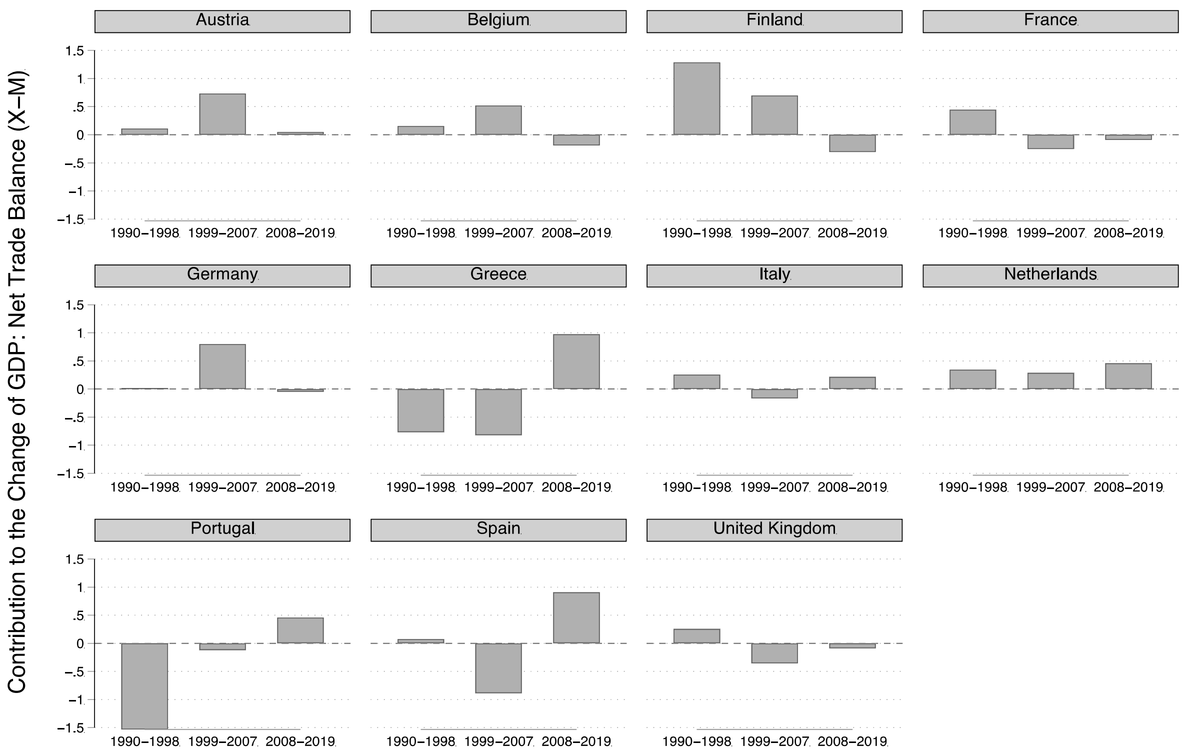
The contribution of net exports to GDP growth has diminished in Northern Europe after the crisis – most notably in Germany but also in Austria, Belgium, and Finland. On the contrary, since the aftermath of the financial crisis, net exports have become the main drivers of GDP growth in Southern Europe, reversing the pre-crisis trend (see Figure 2).

Figure 1: Average Yearly Contribution to the Change of GDP by Aggregate Demand Component



Source: AMECO.

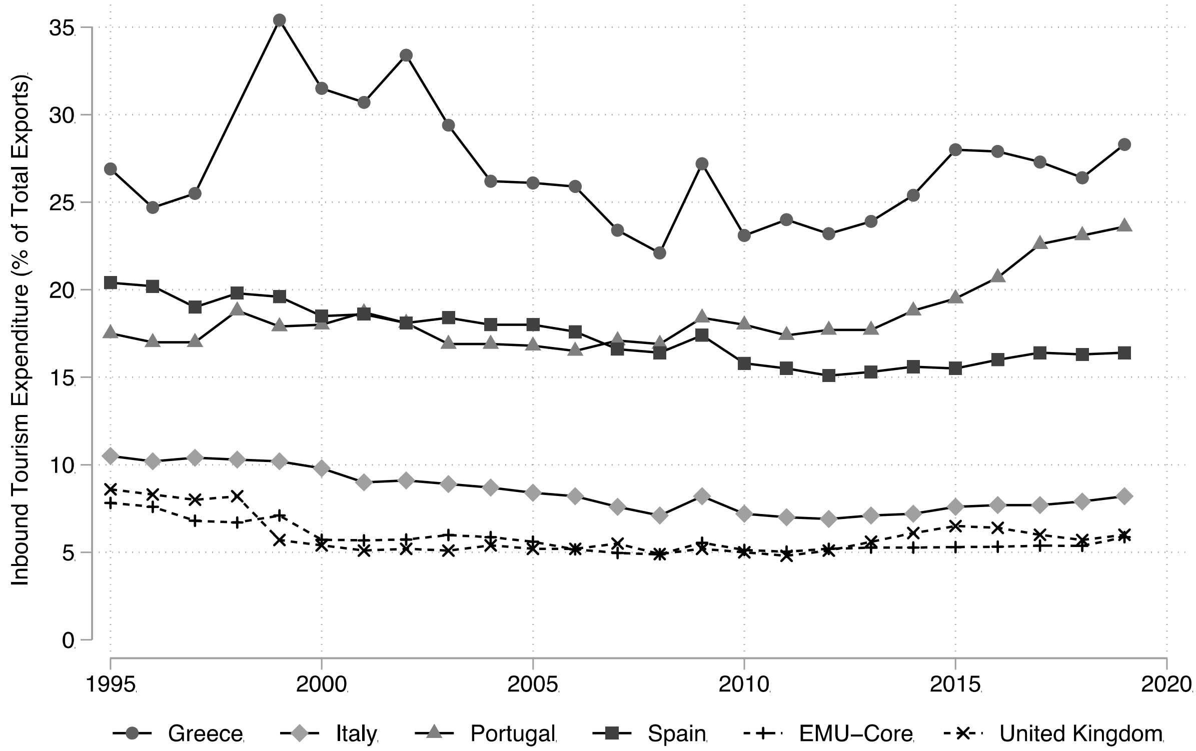
Figure 2: Average Yearly Contribution of Net Exports to the Change of GDP.



Source: AMECO.

However, export-led growth in Southern Europe was driven mainly by exporting tourism services. Figure 3 shows that receipts from international tourism account for around one-fourth of total exports in Greece and Portugal. Here, one should highlight an apparent "country-size effect" regarding the incidence of tourism exports in total exports. Smaller countries with less diversified industrial systems like Portugal and Greece depend heavily on tourism receipts for their export-led growth. Spain is located somewhere between the smaller Southern countries and Italy. Italy, instead, does not differ much from the other countries of the EMU core, with tourism exports accounting for only around eight percent of total exports. While surprising, Italy's low share of tourism exports can be explained partly due to Italy's incapacity to devise coherent developmental policies to keep up with the international competition in tourism markets (OECD, 2011) and due to Italy's larger, more sophisticated, and resilient industrial sector.

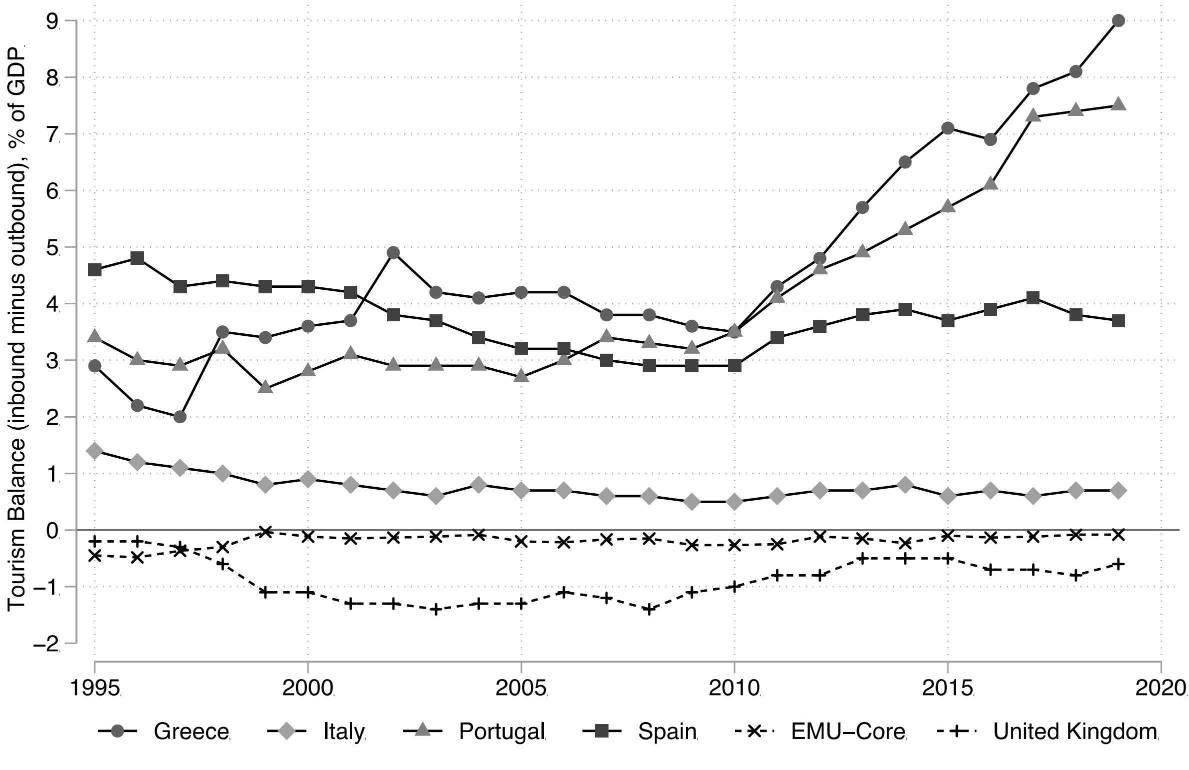
Figure 3: Incidence of Tourism Exports in Total Exports



Notes: EMU-core includes Austria, Belgium, France, Germany, Netherlands, Finland. Tourism includes the travel and passenger transport items (Source: UNWTO).

Southern Europe's increased dependence on international tourism for growth can be gauged through a balance of payment analysis. Figure 4 shows current account balances for international tourism services. While EMU-core countries and the UK record stable deficits, Southern European surpluses have skyrocketed between 2010 and 2019. Italy – the outlier – displays a small and constant surplus of around one percent of GDP while Spain's tourism surplus has increased from three to four percent. However, the small Southern European economies can observe the most spectacular tourism-led growth. As of 2019, Greece runs a nine percent of GDP tourism surplus – a threefold increase vis-à-vis 2010. Over the same period, Portugal's tourism surplus has more than doubled, standing at more than seven percent of GDP. Thus, while EMU-core countries continue to run current account surpluses driven by exports of manufactured goods (e.g., Germany) or high-end services (e.g., Netherlands) (Hassel & Palier, 2021), these imbalances have now been mirrored by Southern Europe's mounting surpluses from international tourism.

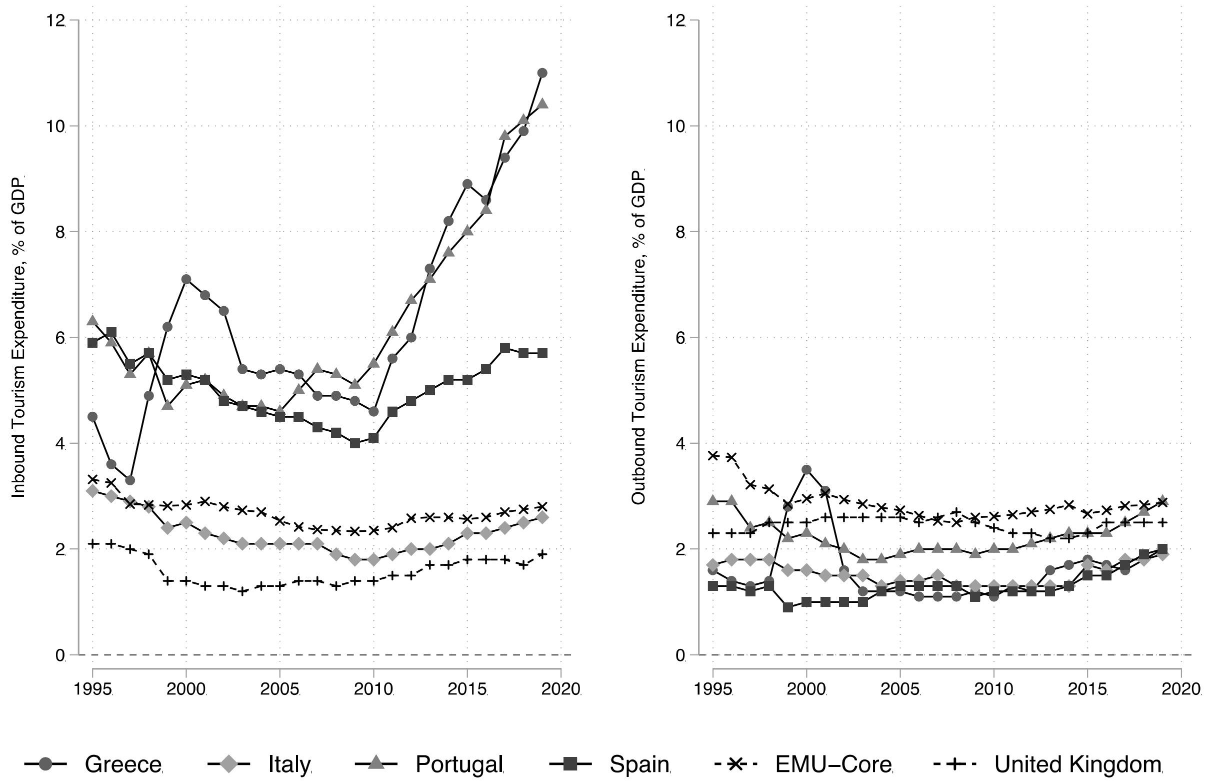
Figure 4: Current Account Balance for International Tourism Services, as a percentage of GDP



Notes: EMU-core includes Austria, Belgium, France, Germany, Netherlands, Finland. Tourism balance includes the travel and passenger transport items (Source: UNWTO).

Figure 5 further indicates that rising tourism surpluses are *not* the result of declining outbound tourism. Outbound tourism (imports) in Southern Europe has remained flat over the last three decades and has even increased slightly since 2015. On the contrary, except for Italy, inbound tourism (exports) in Southern Europe has skyrocketed after 2010. Moreover, the steep rise in inbound tourism in Southern Europe is not mirrored by an equal increase in outbound tourism in EMU-core countries and the UK. However, this does not imply that tourism-led growth in Southern Europe relies increasingly on non-European tourists, but instead that Northern Europeans are more often traveling to Southern Europe than other world regions, pointing to a regional recomposition of tourism patterns.

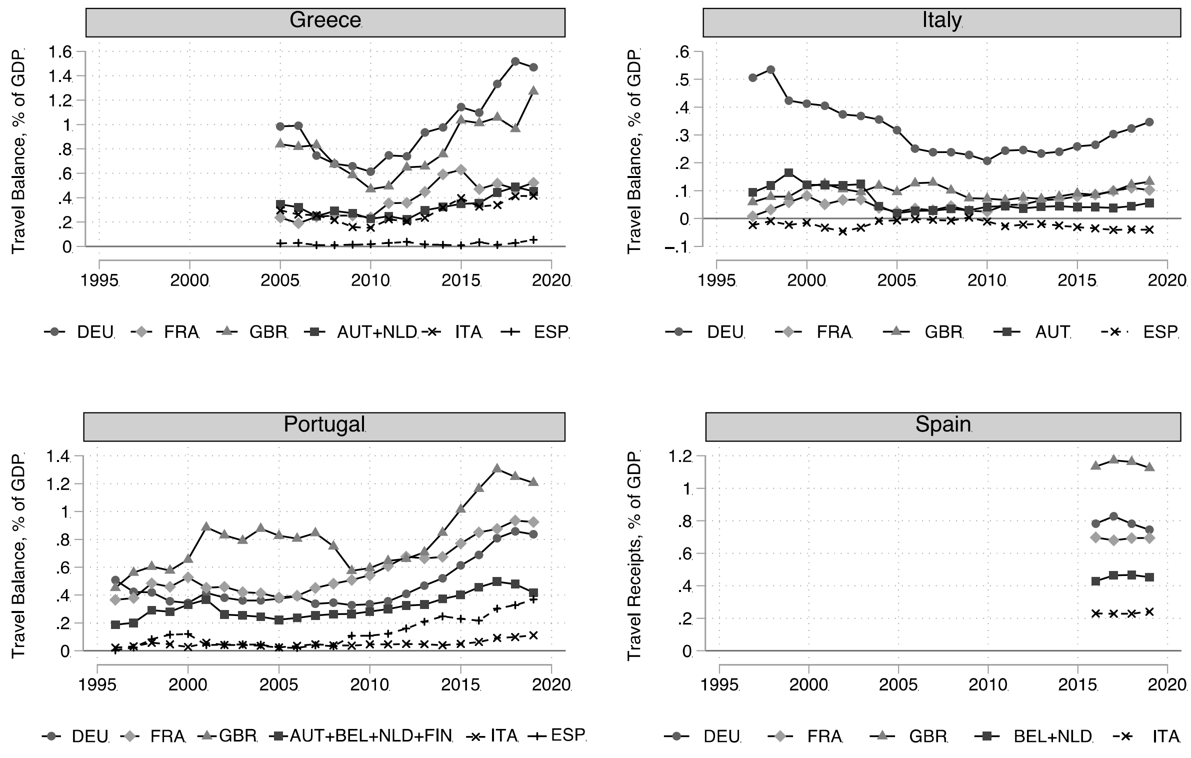
Figure 5: Inbound and Outbound Tourism Expenditure, as a percentage of GDP



Notes: EMU-core includes Austria, Belgium, France, Germany, Netherlands, Finland. Tourism balance includes the travel and passenger transport items (Source: UNWTO).

This regional recomposition is evident in Figure 6, which shows countries' bilateral balances of the travel item of the services' current account. It unequivocally indicates that Northern European and British citizens have substantially expanded their imports of tourism services from Southern Europe after the Eurozone crisis. Thus, Southern Europe has become increasingly economically integrated with Northern Europe and the UK thanks to international tourism. Greece runs surpluses of around 1.4 percent of GDP vis-à-vis both Germany and the UK. These surpluses have more than doubled over the last decade. Greece also runs substantial and increasing surpluses vis-à-vis France, Austria, and the Netherlands. Similarly, Portugal runs a 1.4 percent of GDP travel surplus vis-à-vis the UK, surpluses of around one percent of GDP vis-à-vis both Germany and France, and substantial and increasing surpluses vis-à-vis other EMU-core countries. Data on Spain is scant and bilateral balances are unavailable. Yet, travel receipts as a percent of GDP show inflows of 1.2 percent of GDP from the UK and of 0.8 percent of GDP from both Germany and France. Again, Italy is the outlier with 0.3 percent of GDP travel surpluses from Germany.

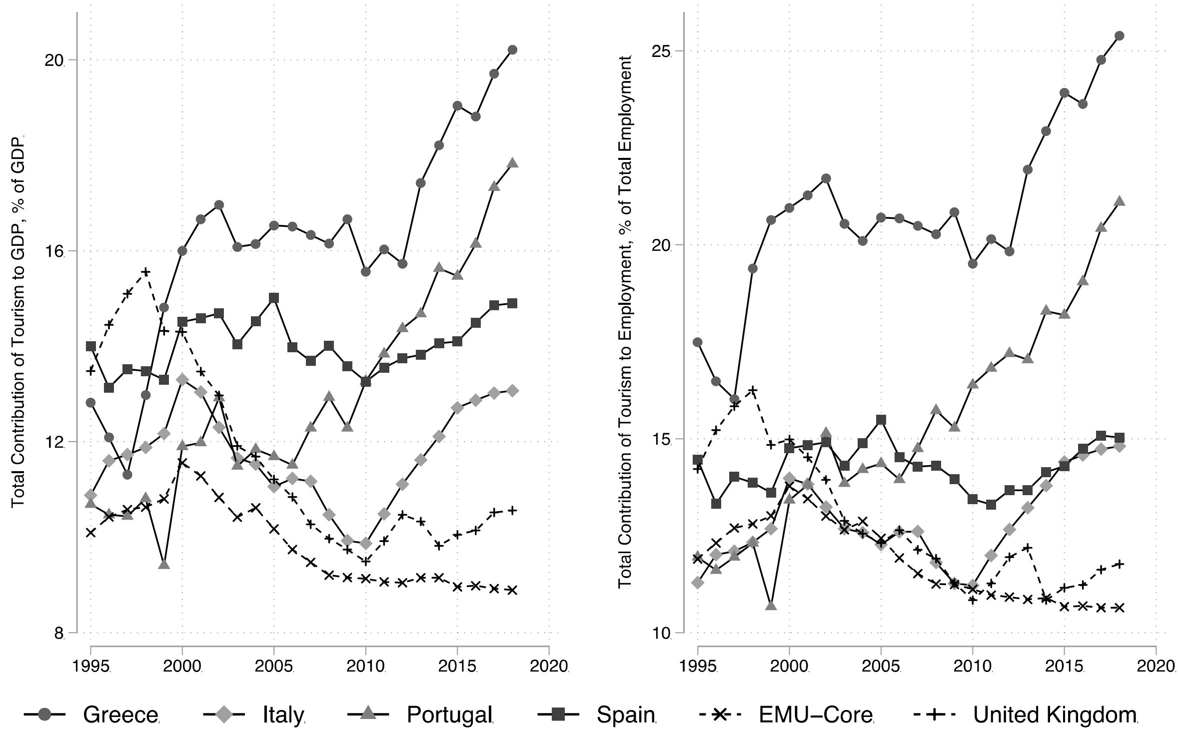
Figure 6: Bilateral Travel Balances or Inbound Receipts, as a percentage of GDP



Notes: Data on bilateral balances for the travel item of the current account is not available in Spain and travel receipts only from 2016 (Sources: Bank of Greece, Bank of Italy, Bank of Portugal, Bank of Spain).

In a nutshell, the analysis of tourism's contribution to economic growth yields unique insights. As highlighted in the literature, the engine of growth in Southern Europe after the crisis has been net exports engineered via fiscal and wage devaluations (Perez & Matsaganis, 2019; Scharpf, 2016). However, what been neglected is the central role of international tourism in this adjustment process. Tourism is a substantial component of these countries' exports and a major engine of growth and employment creation. When considering the direct and indirect impact of tourism on national economies, tourism accounts for roughly 20 percent of GDP in Greece, 17 percent in Portugal, 15 percent in Spain, and 13 percent in Italy (Figure 7 left panel). In terms of employment, one-fourth in Greece and one-fifth in Portugal are employed in a business that directly or indirectly derives its income from tourism activities. In Spain and Italy, around 15 percent work in a tourism-related undertaking (Figure 7 right panel). On the contrary, tourism services' contribution to GDP and employment in EMU-core countries and the UK is low and declining steadily over time.

Figure 7: Total Contribution of Tourism to National GDP (Left Panel) and Employment (Right Panel)



Source: World Travel and Tourism Council (WTTC).

While we do not have the space to provide conclusive evidence, we hypothesize that the rise of tourism-led growth in the South has likely been driven by the combination of a *market-based* and an *agency-based* mechanism.[3]

On the one hand, the expansion of tourism exports has likely been boosted by internal devaluation in Southern Europe after the crisis. Our calculations indicate that tourism exports are significantly price-sensitive in Italy, Greece, and Spain, while Portugal's tourism competitiveness appears less price-sensitive (Tables A1-A4 and Figure A1 in the appendix). This may be due to Portugal being already a much cheaper travel destination than Italy, Spain, and Greece.[4] Since 2008/09, Spain, Greece, and Italy have experienced lower inflation of tourism services' prices relative to the EU average. Thus, Southern Europe's tourism exports have seemingly benefitted from the decline in the relative price of tourism-related services vis-à-vis the rest of the EU.

On the other hand, however, Southern European government have also developed coherent industrial policies to capitalize on their comparative advantage in tourism. Available assessments of industrial policies for tourism development suggest that governments succeed (i) when generous public budgets support comprehensive developmental strategies; (ii) when the governance of tourism policy is centralized or tightly coordinated at the national level to activating synergies and cooperation among the plethora of actors and economic sectors involved in the travel and tourism industry; and (iii) when governments support domestic markets by creating institutional complementarities on which tourism thrives – such as physical (e.g. airports, highways) and digital (e.g. marketing/advertising platforms) infrastructures, vocational training schools to upgrade tourism-specific skills, and the integration of SMEs in the tourism value chains (Haxton, 2015).

[3] This is only partially related to political turmoil in the Middle East and Northern Africa (MENA). Despite a fall in tourist arrivals in 2011, they returned to previous levels and experienced steady tourism growth above the world's average before the COVID-19 pandemic (Hopfinger & Scharfenort, 2020; UNWTO, 2019). However, it played a role in the restructuring of tourism flows, i.e., Northern Europeans traveling more often to Southern Europe, while the MENA countries increasingly rely on non-European tourists.

[4] For instance, measured in terms of average hotel room rates, prices in Portugal were much lower than those in Spain, Greece, and Italy in the early 2010s (Blanke & Chiesa, 2013, p. 440).

In this respect, Greece (2007), Spain (2009), and Portugal (2007) have all implemented successfully "National Strategic Plans" to rebrand, upgrade, diversify and promote their domestic tourism industries internationally. While Greece and Portugal feature a highly centralized governance of tourism, Spain tightly coordinates the autonomous regions' activities at the national level under the aegis of the Ministry of Industry, Tourism and Trade (OECD, 2012, 2014). By the early 2010s, all three countries devoted large budgets to the promotion of tourism; earmarking between six to eight percent of their total budgets to tourism policy (Blanke & Chiesa, 2013, p. 405). Italy – the outlier in our account – has so far not implemented a national developmental plan, let alone formed a coherent institutional setting for tourism governance. This is largely due to the regionally fragmented and uncoordinated governance of tourism policy which resulted from the broader disorganized decentralization to regional governments in the late 1990s (OECD, 2011). As a result, Italy's first strategic tourism plan developed by the government in 2013 has never been implemented. Initially developed to counteract Italy's loss of tourism market shares, the plan failed because the government did not include the regional stakeholders which continue to promote their regional destinations individually (Banca D'Italia, 2018, p. 102). Moreover, Italy spent approximately half (3.6% of total budgets) compared to its Southern European peers on tourism development and promotion (Blanke & Chiesa, 2013, p. 405).

Conclusion: Tourism-led Growth in the European Political Economy

This paper speaks to burgeoning European political economy debates by directing scholars' attention toward a novel and hitherto neglected strategy for export-led growth based on internationally traded tourism services. We aimed to analyze how the process of European economic and monetary integration has provided both opportunities and constraints underpinning Southern Europe's increasing reliance on tourism-centered growth. Through a balance of payment analysis, we have shown that Southern European economies have substantially expanded their current account surpluses in the tourism services and that the main export markets reside in the EMU-core countries and the UK. Especially after the financial crisis, tourism exports have thus been major drivers of growth and employment creation in Southern Europe.

We argue that the process of European economic and monetary integration has been a double-edged sword, simultaneously incentivizing and forcing Southern European governments to reap their comparative advantages in the tourism industry. On the one hand, European integration processes have created the preconditions for a boom of intra-European travels, paving the way for Southern Europe's growing specialization as Europe's tourism destinations. On the other, EU state-aid prohibitions and a hard currency regime *cum* legal constraints on national budgets pre-empt Southern European countries' previous capacity to pursue growth strategies centered on expansionary fiscal and wage policy as well as competitive devaluations. International tourism now provides these economies with an option for export-led growth compatible with the requirements of the EMU's hard currency regime and Europe's regulatory state. Although the EMU as a whole has moved toward a sizeable export-oriented bloc (Scharpf, 2016), different types of export-oriented growth strategies now coexist in Europe. Over the last decade, the persistent surpluses of Northern economies in manufacturing or high-end services have become the mirror image of structural tourism surpluses in Southern Europe.

However, while growing tourism surpluses have partially compensated for the collapse of domestic demand in Southern Europe after the Eurozone crisis, an overreliance on international tourism is highly problematic. First, tourism fosters a restructuring of economic activity centered on low-skilled, low-productivity activities. It leaves Southern Europe structurally dependent on Northern European tourists for growth and likely trapped in a bad equilibrium while Northern core countries increasingly move toward high-skilled, high value-added manufacturing and high-end services. Second, the unstoppable growth of global tourism comes with fierce competition from developing countries which are easily reachable through affordable flights. These countries enjoy comparable natural and cultural resources but have lower prices and labor standards. Unless Southern Europe will upgrade its tourism offer, low-cost price competition for tourist destinations is likely to worsen even further employment and wage conditions in its tourism industry. Third, high CO_2 emissions of the aviation industry and the damage to local natural resources are orthogonal to climate change mitigation and environmental protection. Fourth, a tourism-led growth strategy is highly vulnerable to exogenous shocks. As the world has faced an unprecedented global pandemic, tourism activities have been among the most affected sectors and Southern Europe has been hit disproportionally hard.

Therefore, it is crucial to gain a better understanding of the role of international tourism within today's globalized economies. The recent literature on the political economy of growth focused mainly on the (shrinking) manufacturing, high-end services, or FDI attraction. While this focus remains legitimate, neglecting the tourism industry is no longer possible. For better or worse, tourism has emerged as one of the world's fastest-growing industries and internationally traded services. Too little, if anything, is known in comparative political economy about the determinants of these secular socio-economic transformations and their social, economic, environmental, and political consequences.

We aimed to provide a macro-level analysis of longitudinal and cross-country developments of tourism-led growth in Europe. Building on our findings, future research should investigate the comparative political economy of tourism and uncover the characteristics and the socio-economic drivers of different *varieties* of tourism-led growth strategies in Europe. In fact, the tourism industry has grown highly diversified over time with countries specializing in different types of tourism activities (e.g., educational, medical, cultural, or business tourism). Such specializations differ substantially in terms of the sophistication and the value added of the services provided as well as the *institutional complementarities* and physical infrastructures required to sustain such growth strategies. Hence, future research should analyze the different policy pillars of various tourism-centered strategies: investment in transport infrastructure, systems of skills formation, attraction of tourism-FDI, destination management organizations, and professional services in support of the tourism industry (e.g., insurance, marketing, advertisement). Lastly, future research should investigate the *politics* of tourism-led growth in different countries to uncover the social coalitions underpinning governments' developmental strategies.

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Online Appendix

Table A1: Sensitivity of Tourist Arrivals (in millions) to Changes in CPI Hotel/Restaurant

	Spain	Italy	Portugal	Greece	All
CPI Hotels & Restaurants	-5.91**	-8.16***	0.30	-1.79***	-2.88***
Constant	111.5***	89.83***	9.894***	25.29***	102.8***
Country FE					YES
Observations	23	23	24	23	93
R-Squared	0.28	0.55	0.02	0.46	0.93

Note: † p<0.10, * p<0.05, ** p<0.01, *** p<0.001.
Data: Eurostat (consumer price index for hotels and restaurants), Worldbank (tourist arrivals).

Table A2: Sensitivity of Changes in Tourist Arrivals (in millions) to Changes in REER

	Spain	Italy	Portugal	Greece	All
REER (CPI-based)	-9.41*	-1.74†	0.27	-1.44†	-2.04**
Constant	96.63***	72.44***	10.71***	19.48***	93.78***
Country FE					YES
Observations	24	23	24	24	96
R-Squared	0.18	0.15	0.01	0.16	0.91

Note: † p<0.10, * p<0.05, ** p<0.01, *** p<0.001.
Data: Eurostat (real effective exchange rate), Worldbank (tourist arrivals).

Table A3: Sensitivity of Inbound Tourism Receipts (mil. $) to changes in CPI Hotel/ Restaurant

	Spain	Italy	Portugal	Greece	All
CPI Hotels & Restaurants	n.d.	-5499.7***	-1577.5†	-1530.5***	-1990.9***
Constant		51977.3***	16946.7***	19247.3***	20744.4***
Country FE					YES
Observations		23	24	23	70
R-Squared		0.59	0.14	0.65	0.87

Note: † p<0.10, * p<0.05, ** p<0.01, *** p<0.001.
Data: Eurostat (consumer price index for hotels and restaurants), UNWTO (international tourism receipts, data for Spain not available)

Table A4: Sensitivity of Inbound Tourism Receipts (mil. $) to Changes in REER

	Spain	Italy	Portugal	Greece	All
REER (CPI-based)	n.d.	-1065.0†	-4778.0**	-1152.8*	-1302.0***
Constant		40183.3***	13373.5***	14158.4***	14200.7***
Country FE					YES
Observations		24	24	24	72
R-Squared		0.13	0.39	0.18	0.83

Note: † p<0.10, * p<0.05, ** p<0.01, *** p<0.001.
Data: Eurostat (real effective exchange rate), UNWTO (international tourism receipts, data for Spain not available).

Figure A1: Bivariate correlation between changes in CPI restaurant/hotels and inbound tourism receipts

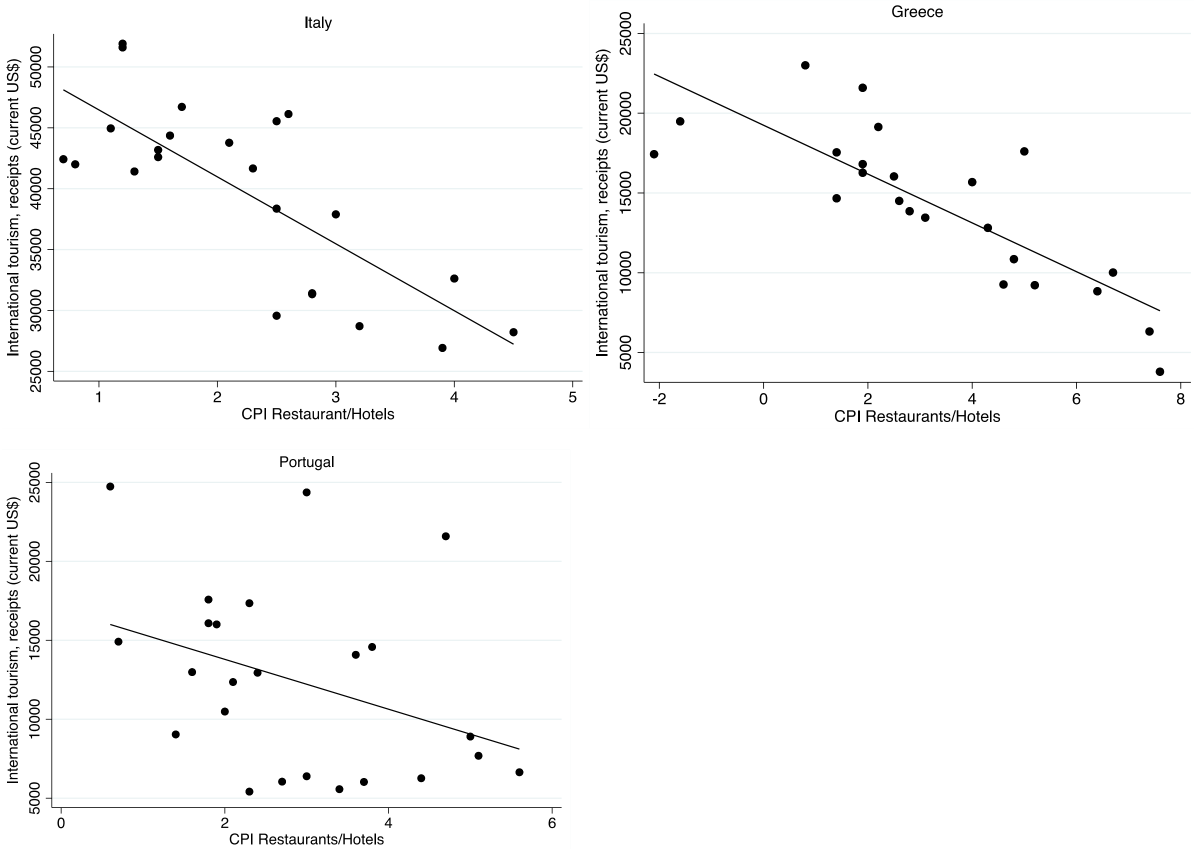

Figure A2: Trend of CPI Hotel and Restaurants (index, 100=2008)